**CHINA LESSO 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)**

# FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The Board is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2017.

**HIGHLIGHTS**

Compared to the last year consolidated financial results:

- Revenue increased by 18.2% to RMB20,360 million
- Gross profit increased by 16.0% to RMB5,317 million
- Profit for the year increased by 18.4% to RMB2,266 million
- Basic earnings per share was RMB0.74, increased by 19.4%
- The payment of a final dividend of HK18 cents per share is recommended for the year ended 31 December 2017

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*Year ended 31 December 2017*

| | Note | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **REVENUE** | 3 | **20,360,000** | 17,221,052 |
| Cost of sales | | **(15,043,217)** | (12,639,274) |
| Gross profit | | **5,316,783** | 4,581,778 |
| Other revenue, income and gains | 3 | **568,650** | 138,021 |
| Selling and distribution expenses | | **(1,029,222)** | (821,557) |
| Administrative expenses | | **(938,241)** | (758,583) |
| Other expenses | | **(732,914)** | (608,619) |
| Finance costs | 4 | **(229,309)** | (107,061) |
| Share of results of associates | | **(1,404)** | – |
| Share of results of joint ventures | | **243** | 813 |
| **PROFIT BEFORE TAX** | 5 | **2,954,586** | 2,424,792 |
| Income tax expense | 6 | **(688,779)** | (511,088) |
| **PROFIT FOR THE YEAR** | | **2,265,807** | 1,913,704 |
| **OTHER COMPREHENSIVE INCOME/ (EXPENSE)** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Available-for-sale investments: | | | |
| Changes in fair value | | **219,589** | 24,236 |
| Reclassification adjustments for gains included in consolidated statement of profit or loss | | | |
| – gain on disposal | | **(1,050)** | – |
| – gain on early redemption | | **(39,071)** | – |
| | | **179,468** | 24,236 |
| Exchange differences on translation of foreign operations | | **197,143** | (113,554) |
| **OTHER COMPREHENSIVE INCOME/ (EXPENSE) FOR THE YEAR** | | **376,611** | (89,318) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **2,642,418** | 1,824,386 |

| | Note | **2017** | 2016 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Profit attributable to: | | | |
| Owners of the Company | | **2,293,055** | 1,922,027 |
| Non-controlling interests | | **(27,248)** | (8,323) |
| | | **2,265,807** | 1,913,704 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **2,666,410** | 1,827,904 |
| Non-controlling interests | | **(23,992)** | (3,518) |
| | | **2,642,418** | 1,824,386 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY** | *8* | | |
| Basic and diluted | | **RMB0.74** | RMB0.62 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*As at 31 December 2017*

| | Note | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **7,156,134** | 6,621,953 |
| Prepaid land lease payments | | **1,266,216** | 1,249,367 |
| Investment properties | | **4,038,900** | 2,469,488 |
| Deposits paid for the purchase of land, property, plant and equipment | | **1,024,497** | 549,919 |
| Goodwill | | **85,309** | 76,554 |
| Other intangible assets | | **172,332** | 183,615 |
| Interests in associates | | **41,324** | – |
| Interests in joint ventures | | **9,024** | 7,988 |
| Available-for-sale investments | *9* | **1,582,208** | 730,814 |
| Held-to-maturity investments | *10* | **–** | 59,655 |
| Loan receivables | *11* | **228,710** | 63,191 |
| Other non-current assets | | **150,591** | 37,623 |
| Derivative financial instruments | | **–** | 32,566 |
| Deferred tax assets | | **69,908** | 53,869 |
| Total non-current assets | | **15,825,153** | 12,136,602 |
| **CURRENT ASSETS** | | | |
| Inventories | *12* | **3,227,742** | 2,747,065 |
| Amounts due from customers for contract work | | **269,239** | 163,279 |
| Loan receivables | *11* | **561,206** | 325,764 |
| Trade and bills receivables | *13* | **2,024,608** | 1,517,248 |
| Prepayments, deposits and other receivables | | **1,613,307** | 1,419,645 |
| Cash and bank deposits | | **4,452,370** | 3,885,683 |
| Total current assets | | **12,148,472** | 10,058,684 |
| **CURRENT LIABILITIES** | | | |
| Amounts due to customers for contract work | | **101,555** | 40,049 |
| Trade and bills payables | *14* | **3,021,085** | 3,603,162 |
| Other payables and accruals | | **1,892,922** | 1,731,570 |
| Tax payable | | **180,973** | 94,957 |
| Borrowings | *15* | **2,877,256** | 4,252,154 |
| Total current liabilities | | **8,073,791** | 9,721,892 |
| **NET CURRENT ASSETS** | | **4,074,681** | 336,792 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **19,899,834** | 12,473,394 |

| | Note | **2017** | 2016 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **NON-CURRENT LIABILITIES** | | | |
| Borrowings | *15* | **5,442,119** | 442,407 |
| Other long-term payables | | **92,572** | 106,439 |
| Deferred tax liabilities | | **444,640** | 272,568 |
| Deferred income | | **137,012** | 114,308 |
| Total non-current liabilities | | **6,116,343** | 935,722 |
| Net assets | | **13,783,491** | 11,537,672 |
| **EQUITY** | | | |
| Share capital | *16* | **135,344** | 135,344 |
| Reserves | | **13,354,571** | 11,096,165 |
| Equity attributable to owners of the Company | | **13,489,915** | 11,231,509 |
| Non-controlling interests | | **293,576** | 306,163 |
| Total equity | | **13,783,491** | 11,537,672 |

**Note:**

### 1.1 BASIS OF PREPARATION

These consolidated 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, 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, except for investment properties, certain available-for-sale investments and derivative financial instruments which have been measured at fair value. These consolidated financial statements are presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

### 1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's consolidated financial statements.

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014–2016 Cycle | Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12 |

None of the above amendments to HKFRSs has had a significant financial effect on these consolidated financial statements.

### 2. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of building materials and interior decoration products; the provision of renovation and installation works, environmental engineering and other related services, financial services and property rental and other related services. 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:

(i) Southern China, including Guangdong Province, Guangxi Zhuang Autonomous Region, Hunan Province, Fujian Province and Hainan Province;

(ii) Southwestern China, including Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province and Xizang (Tibet) Autonomous Region;

(iii) Central China, including Hubei Province, Jiangxi Province and Henan Province;

(iv) Eastern China, including Shanghai Municipality, Jiangsu Province, Zhejiang Province and Anhui Province;

(v) Northern China, including Beijing Municipality, Tianjin Municipality, Hebei Province, Shandong Province, Inner Mongolia Autonomous Region and Shanxi Province;

(vi) Northwestern China, including Shaanxi Province, Ningxia Hui Autonomous Region, Qinghai Province, Gansu Province and Xinjiang Uygur Autonomous Region;

(vii) Northeastern China, including Liaoning Province, Jilin Province and Heilongjiang Province; and

(viii) 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, changes in fair value of investment properties, changes in fair value of derivative financial instruments, gain on disposal of available-for-sale investments, gain on disposal of held-to-maturity investments, gain on early redemption of available-for-sale investments, gain on early redemption of held-to-maturity investments, investment income, gain on disposal of subsidiaries, exchange differences, finance costs, share of results of associates and joint ventures and other unallocated income and expenses are excluded from such measurement.

Segment assets exclude interests in associates, interests in joint ventures, available-for-sale investments, held-to-maturity investments, derivative financial instruments, deferred tax assets, cash and bank deposits and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

The Group's revenue from external customers is derived from its operations in mainland China, special administrative regions of PRC and foreign countries.

During the years ended 31 December 2017 and 2016, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

## Operating segment information for the year ended 31 December 2017

| | Southern China *RMB'000* | Southwestern China *RMB'000* | Central China *RMB'000* | Eastern China *RMB'000* | Northern China *RMB'000* | Northwestern China *RMB'000* | Northeastern China *RMB'000* | Outside China *RMB'000* | Eliminations *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|---|---|---|---|---|---|
| **Segment revenue:** | | | | | | | | | | |
| Sale of goods | 11,104,426 | 2,104,769 | 2,209,365 | 1,216,465 | 1,335,757 | 738,822 | 459,715 | 691,447 | – | 19,860,766 |
| Contract revenue from renovation and installation works | 206,688 | – | – | – | 4,979 | – | – | – | – | 211,667 |
| Income from environmental engineering and other related services | 142,614 | 10,465 | 16,531 | 7,047 | – | 7,258 | 147 | – | – | 184,062 |
| Financial service income | 41,219 | 294 | 5,010 | 172 | – | 27 | – | – | – | 46,722 |
| Property rental and other related services | 25,692 | – | – | – | – | – | – | 31,091 | – | 56,783 |
| Revenue from external customers | 11,520,639 | 2,115,528 | 2,230,906 | 1,223,684 | 1,340,736 | 746,107 | 459,862 | 722,538 | – | 20,360,000 |
| Intersegment revenue | 3,294,044 | 401,203 | 458,408 | 251,179 | 277,039 | 131,722 | 85,656 | 769,045 | (5,668,296) | – |
| Total | 14,814,683 | 2,516,731 | 2,689,314 | 1,474,863 | 1,617,775 | 877,829 | 545,518 | 1,491,583 | (5,668,296) | 20,360,000 |
| **Segment results** | 3,824,375 | 650,157 | 730,184 | 253,243 | 397,662 | 186,325 | 126,660 | 156,614 | (1,008,437) | 5,316,783 |
| Reconciliations: | | | | | | | | | | |
| Interest income | | | | | | | | | | 90,785 |
| Gain on fair value changes of investment properties | | | | | | | | | | 327,313 |
| Loss on fair value changes of derivative financial instruments | | | | | | | | | | (31,575) |
| Gain on disposal of available-for-sale investments | | | | | | | | | | 1,050 |
| Gain on disposal of held-to-maturity investments | | | | | | | | | | 3,315 |
| Gain on early redemption of available-for-sale investments | | | | | | | | | | 39,071 |
| Investment income | | | | | | | | | | 2,694 |
| Gain on disposal of subsidiaries | | | | | | | | | | 2,141 |
| Exchange gain | | | | | | | | | | 23,483 |
| Finance costs | | | | | | | | | | (229,309) |
| Share of results of associates | | | | | | | | | | (1,404) |
| Share of results of joint ventures | | | | | | | | | | 243 |
| Unallocated income and expenses | | | | | | | | | | (2,590,004) |
| Profit before tax | | | | | | | | | | 2,954,586 |
| **Segment assets** | 11,826,279 | 1,308,387 | 1,292,621 | 1,003,422 | 752,991 | 597,638 | 427,762 | 4,609,691 | – | 21,818,791 |
| Reconciliations: | | | | | | | | | | |
| Interests in associates | | | | | | | | | | 41,324 |
| Interests in joint ventures | | | | | | | | | | 9,024 |
| Available-for-sale investments | | | | | | | | | | 1,582,208 |
| Deferred tax assets | | | | | | | | | | 69,908 |
| Cash and bank deposits | | | | | | | | | | 4,452,370 |
| **Total assets** | | | | | | | | | | 27,973,625 |
| **Other segment information:** | | | | | | | | | | |
| Write-down of inventories to net realisable value, net | 57,066 | (132) | (575) | 2,191 | 185 | 4 | (46) | 3,150 | – | 61,843 |
| Depreciation and amortisation | 365,901 | 62,936 | 62,202 | 46,395 | 40,186 | 34,230 | 19,092 | 15,880 | – | 646,822 |
| Impairment of trade receivables, net | 12,128 | – | (5,551) | 148 | 509 | (923) | 7,286 | 11,671 | – | 25,268 |
| Capital expenditure# | 762,280 | 140,004 | 66,433 | 118,244 | 34,182 | 24,969 | 13,077 | 1,373,463 | (15,487) | 2,517,165 |

# Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments, investment properties and other intangible assets.

**Operating segment information for the year ended 31 December 2016**

| | Southern China *RMB'000* | Southwestern China *RMB'000* | Central China *RMB'000* | Eastern China *RMB'000* | Northern China *RMB'000* | Northwestern China *RMB'000* | Northeastern China *RMB'000* | Outside China *RMB'000* | Eliminations *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|---|---|---|---|---|---|
| **Segment revenue:** | | | | | | | | | | |
| Sale of goods | 10,082,151 | 1,561,330 | 1,712,343 | 1,064,953 | 1,052,288 | 562,002 | 371,154 | 535,436 | – | 16,941,657 |
| Contract revenue from renovation and installation works | 118,180 | – | 881 | – | – | – | 382 | – | – | 119,443 |
| Income from environmental engineering and other related services | 81,161 | 10,779 | 7,941 | 1,728 | 21,991 | 8,922 | 532 | – | – | 133,054 |
| Financial service income | 26,898 | – | – | – | – | – | – | – | – | 26,898 |
| Revenue from external customers | 10,308,390 | 1,572,109 | 1,721,165 | 1,066,681 | 1,074,279 | 570,924 | 372,068 | 535,436 | – | 17,221,052 |
| Intersegment revenue | 2,397,464 | 360,909 | 441,075 | 133,941 | 167,401 | 109,249 | 94,902 | 591,967 | (4,296,908) | – |
| Total | 12,705,854 | 1,933,018 | 2,162,240 | 1,200,622 | 1,241,680 | 680,173 | 466,970 | 1,127,403 | (4,296,908) | 17,221,052 |
| **Segment results** | 3,349,344 | 534,107 | 626,430 | 239,738 | 325,786 | 143,524 | 99,788 | 86,290 | (823,229) | 4,581,778 |
| Reconciliations: | | | | | | | | | | |
| Interest income | | | | | | | | | | 61,591 |
| Gain on fair value changes of investment properties | | | | | | | | | | 31,885 |
| Gain on fair value changes of derivative financial instruments | | | | | | | | | | 1,942 |
| Gain on early redemption of held-to-maturity investments | | | | | | | | | | 206 |
| Investment income | | | | | | | | | | 5,781 |
| Exchange loss | | | | | | | | | | (17,614) |
| Finance costs | | | | | | | | | | (107,061) |
| Share of result of a joint venture | | | | | | | | | | 813 |
| Unallocated income and expenses | | | | | | | | | | (2,134,529) |
| Profit before tax | | | | | | | | | | 2,424,792 |
| **Segment assets** | 9,850,734 | 1,140,737 | 1,048,774 | 867,512 | 726,365 | 581,190 | 420,668 | 2,788,731 | – | 17,424,711 |
| Reconciliations: | | | | | | | | | | |
| Interest in a joint venture | | | | | | | | | | 7,988 |
| Available-for-sale investments | | | | | | | | | | 730,814 |
| Held-to-maturity investments | | | | | | | | | | 59,655 |
| Derivative financial instruments | | | | | | | | | | 32,566 |
| Deferred tax assets | | | | | | | | | | 53,869 |
| Cash and bank deposits | | | | | | | | | | 3,885,683 |
| **Total assets** | | | | | | | | | | 22,195,286 |
| **Other segment information:** | | | | | | | | | | |
| Write-down of inventories to net realisable value, net | 21,693 | 365 | 431 | 4,361 | 78 | (121) | 10,730 | 12,908 | – | 50,445 |
| Depreciation and amortisation | 321,449 | 57,461 | 64,224 | 40,383 | 36,858 | 37,202 | 22,249 | 13,540 | – | 593,366 |
| Impairment of trade receivables, net | 30,087 | – | 274 | – | 1,086 | – | (1,675) | 455 | – | 30,227 |
| Impairment of property, plant and equipment | – | – | – | 15,467 | – | – | – | – | – | 15,467 |
| Capital expenditure[#] | 1,658,042 | 121,701 | 42,506 | 76,731 | 45,807 | 23,588 | 24,642 | 1,597,381 | (20,900) | 3,569,498 |

[#] Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments, investment properties and other intangible assets.

## 3. REVENUE, OTHER REVENUE, INCOME AND GAINS

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Sale of goods | **19,860,766** | 16,941,657 |
| Contract revenue from renovation and installation works | **211,667** | 119,443 |
| Income from environmental engineering and other related services | **184,062** | 133,054 |
| Financial services income | **46,722** | 26,898 |
| Property rental and other related services | **56,783** | – |
| | **20,360,000** | 17,221,052 |
| **Other revenue, income and gains** | | |
| Bank interest income | **82,378** | 55,391 |
| Interest income from available-for-sale investments | **6,822** | – |
| Interest income from held-to-maturity investments | **1,585** | 6,200 |
| Total interest income | **90,785** | 61,591 |
| Government grants and subsidies | **30,173** | 16,118 |
| Gain on fair value changes of investment properties | **327,313** | 31,885 |
| Gain on fair value changes of derivative financial instruments | **–** | 1,942 |
| Gain on disposal of available-for-sale investments | **1,050** | – |
| Gain on disposal of held-to-maturity investments | **3,315** | – |
| Gain on early redemption of available-for-sale investments | **39,071** | – |
| Gain on early redemption of held-to-maturity investments | **–** | 206 |
| Investment income | **2,694** | 5,781 |
| Gain on disposal of subsidiaries | **2,141** | – |
| Exchange gain | **23,483** | – |
| Others | **48,625** | 20,498 |
| | **568,650** | 138,021 |

Government grants and subsidies mainly represent funding received from government authorities to support certain of the Group's research and development activities. There are no unfulfilled conditions or contingencies related to these grants and subsidies.

## 4. FINANCE COSTS

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest expenses on bank and other loans | **231,920** | 108,781 |
| Less: Interest capitalised | **(2,611)** | (1,720) |
| | **229,309** | 107,061 |

## 5. PROFIT BEFORE TAX

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Cost of inventories sold | **14,653,632** | 12,413,090 |
| Direct cost of renovation and installation works | **190,030** | 105,569 |
| Direct cost of environmental engineering and other related services | **108,249** | 70,170 |
| Direct cost of financial services | **2,351** | – |
| Direct cost of property rental and other related services | **27,112** | – |
| Write-down of inventories to net realisable value, net | **61,843** | 50,445 |
| Depreciation | **603,560** | 553,375 |
| Amortisation of prepaid land lease payments | **26,867** | 25,227 |
| Amortisation of other intangible assets | **16,395** | 14,764 |
| Total depreciation and amortisation | **646,822** | 593,366 |
| Research and development costs | **641,354** | 514,024 |
| Loss on disposal of items of other intangible assets and property, plant and equipment | **15,144** | 7,309 |
| Impairment of property, plant and equipment | **–** | 15,467 |
| Changes in fair value of investment properties | **(327,313)** | (31,885) |
| Changes in fair value of derivative financial instruments | **31,575** | (1,942) |
| Gain on disposal of subsidiaries | **(2,141)** | – |
| Impairment of trade receivables, net | **25,268** | 30,227 |
| Net rental income | **(1,407)** | (1,170) |
| Foreign exchange differences, net | **(23,483)** | 17,614 |

## 6. INCOME TAX EXPENSE

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current tax | | |
| PRC | **559,945** | 471,713 |
| Other jurisdictions | **5** | 421 |
| | **559,950** | 472,134 |
| Overprovision in prior years | | |
| PRC | **(27,709)** | (26,641) |
| Deferred tax | **156,538** | 65,595 |
| Total tax charge for the year | **688,779** | 511,088 |

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**

The statutory rate of Hong Kong profits tax was 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax was made as the Group had no assessable profits arising in Hong Kong during the year (2016: Nil).

**PRC corporate income tax**

The Group's income tax provision in respect of its operations in mainland China has been calculated at the applicable tax rates on the taxable profits for both years, based on the existing legislation, interpretations and practices in respect thereof.

Certain of the Group's PRC subsidiaries are qualified as High and New Technology Enterprises and are entitled to a preferential corporate income tax rate of 15% during both years.

**Income tax for other jurisdictions**

The Group's tax provision in respect of other jurisdictions has been calculated at the applicable tax rates in accordance with the prevailing practices of the jurisdictions in which the Group operates.

## 7. DIVIDENDS

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | ***HK$*** | ***HK$'000*** | *HK$* | *HK$'000* |
| | **per share** | | per share | |
| 2016 final dividend paid (2016: 2015 final dividend paid) | **0.15** | **465,363** | 0.13 | 403,314 |
| Equivalent to | | **RMB411,288,000** | | RMB339,228,000 |

Subsequent to the end of the reporting period, final dividend of HK18 cents in respect of the year ended 31 December 2017 (2016: final dividend of HK15 cents in respect of the year ended 31 December 2016) per ordinary share has been proposed by the directors and is subject to approval by the Shareholders at the forthcoming annual general meeting.

## 8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Profit attributable to owners of the Company used in the basic and diluted earnings per share calculation | **2,293,055** | 1,922,027 |

| | **Number of Shares** | |
|---|---|---|
| | **2017** | 2016 |
| **Shares** | | |
| Weighted average number of ordinary shares of the Company in issue used in the basic and diluted earnings per share calculation | **3,102,418,400** | 3,104,256,632 |

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2017 includes 3,102,418,400 ordinary shares in issue as at 31 December 2016 (2016: 3,110,255,400 ordinary shares in issue as at 31 December 2015). The calculation for the year ended 31 December 2016 has excluded 5,998,768 shares derived from the weighted average number of ordinary shares of 7,837,000 ordinary shares which were repurchased during that year.

The Group has no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016 respectively.

## 9. AVAILABLE-FOR-SALE INVESTMENTS

| | Note | **2017** RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Listed investments: | | | |
| Debt securities listed in Hong Kong | *(i)* | **7,935** | – |
| Equity securities listed in PRC | | **412,318** | 515,777 |
| Equity securities listed in Hong Kong | | **1,095,840** | – |
| Non-cumulative redeemable preference shares listed in Hong Kong | | **33,635** | 44,991 |
| Perpetual capital securities listed in Hong Kong | | **8,403** | 30,597 |
| | | **1,558,131** | 591,365 |
| Unlisted investments: | | | |
| Equity securities | *(ii)* | **24,077** | 15,625 |
| Convertible notes | *(iii)* | **–** | 123,824 |
| | | **24,077** | 139,449 |
| | | **1,582,208** | 730,814 |

Note:

(i) The debt securities carry fixed interest at rates ranging from 6.35% to 7.00% per annum, payable semi-annually in arrears and will mature from January 2020 to March 2020.

(ii) The unlisted equity securities are issued by private entities established in PRC. They are measured at cost less any impairment losses at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably.

(iii) The convertible notes are issued by a private company incorporated in US with an interest rate of not less than 5.00% per annum and will mature in three years from the date of the issuance.

The convertible notes are separated into two components: the debt element and the conversion option element. The Group has classified the debt element and the conversion option element as available-for-sale investments and derivative financial instruments, respectively.

On 22 December 2017, all outstanding convertible notes were early redeemed by the issuer at a cash consideration of RMB149,876,000. The redemption has resulted in a net gain of RMB6,196,000 which was recognised in profit or loss for the year.

(iv) At the end of the reporting period, certain of the Group's available-for-sale investments with an aggregate carrying amount of RMB33,635,000 (2016: RMB36,489,000) were pledged to a bank to secure the banking facility granted. The Group has not utilised this banking facility as at 31 December 2017 (2016: Nil).

## 10. HELD-TO-MATURITY INVESTMENTS

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Debt securities, at amortised cost: | | |
| Listed in Hong Kong | **–** | 59,655 |

The Group reclassified debt securities with amortised cost of RMB33,650,000 from held-to-maturity investments to available-for-sale investments during the year as certain debt securities were disposed by the Group before their maturity dates.

At 31 December 2016, the fair value of the debt securities based on the quoted market price provided by a leading global financial market data provider was RMB64,880,000.

## 11. LOAN RECEIVABLES

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Non-current** | | |
| Finance lease receivables | **228,710** | 63,191 |
| **Current** | | |
| Finance lease receivables | **109,677** | 31,886 |
| Factoring receivables | **321,929** | 173,640 |
| Receivables from supply-chain financing services | **129,600** | 120,238 |
| | **561,206** | 325,764 |
| | **789,916** | 388,955 |

### (A) Finance lease receivables

| | Minimum lease receivables | | Present value of minimum lease receivables | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Not more than 1 year | **117,912** | 36,457 | **109,677** | 31,886 |
| Over 1 year but within 5 years | **272,151** | 66,819 | **228,710** | 63,191 |
| | **390,063** | 103,276 | **338,387** | 95,077 |
| Less: Unearned finance income | **(51,676)** | (8,199) | | |
| Present value of minimum lease receivables | **338,387** | 95,077 | | |

The Group's finance lease receivables are denominated in Renminbi. The effective interest rates of the receivables range from 5.89% to 12.70% (2016: 5.89%) per annum. There are no unguaranteed residual value of assets leased under finance leases and no contingent rent arrangement that need to be recognised in both years.

The following is a credit quality analysis of these finance lease receivables:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Neither past due nor impaired | **338,387** | 95,077 |

The receivables are secured by assets leased under finance leases and cash deposits (where applicable).

Cash deposits from finance lease customers are collected upfront based on certain percentage of the entire value of the lease contracts. When the lease contract expires and all related liabilities and obligations are fulfilled by the customer, the cash deposit will be returned in full. The balance of the cash deposit can also be used to settle any outstanding lease receivables for the corresponding lease contract. The collected cash deposit of RMB22,164,000 (2016: RMB10,000,000) has been included in "other long-term payables" in the consolidated statement of financial position.

### (B) Factoring receivables

The Group's factoring receivables arise from the provision of factoring services to companies located in PRC. The credit period granted to each customer is generally within 365 days.

Factoring receivables are secured by receivables and/or commercial bills originally owned by the customers. These receivables carry interest at rates ranging from 4.50% to 6.00% (2016: 4.50% to 6.00%) per annum.

The maturity profile of the factoring receivables at the end of the reporting period is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| With a residual maturity of: | | |
| Not more than 3 months | **44,700** | 37,640 |
| Over 3 months to 6 months | **125,000** | 36,000 |
| Over 6 months to 12 months | **152,229** | 100,000 |
| | **321,929** | 173,640 |

At the end of the reporting period, none of the Group's factoring receivables was either past due or impaired (2016: Nil).

**(C) Receivables from supply-chain financing services**

The Group's receivables from supply-chain financing services arise from the provision of supply-chain financing services to companies located in PRC. The credit period for each customer is generally within 30 to 180 days.

These receivables carry interest at rates ranging from 5.40% to 7.20% per annum (2016: 5.40% to 7.20%).

Certain receivables from supply-chain financing services, amounting to RMB50,000,000 (2016: RMB49,938,000) are secured by certain interests of companies and personal guarantees.

The maturity profile of the receivables from supply-chain financing services at the end of the reporting period is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| With a residual maturity of: | | |
| Not more than 3 months | **95,600** | 83,238 |
| Over 3 months to 6 months | **34,000** | 37,000 |
| | **129,600** | 120,238 |

At the end of the reporting period, none of the Group's receivables from supply-chain financing services was either past due or impaired (2016: Nil).

The directors believe that no provision for impairment is necessary for loan receivables (2016: Nil) as there has not been any significant change in the credit quality of these customers and these balances are still considered fully recoverable.

## 12. INVENTORIES

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Manufacturing and trading | **3,099,969** | 2,747,065 |
| Property development | **127,773** | – |
| | **3,227,742** | 2,747,065 |

### (A) Manufacturing and trading

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **1,445,320** | 1,170,591 |
| Work in progress | **297,190** | 355,142 |
| Finished goods | **1,357,459** | 1,221,332 |
| | **3,099,969** | 2,747,065 |

### (B) Property development

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Property under development | **127,773** | – |

The property under development is expected to be completed and available for sale in more than twelve months after the end of the reporting period.

## 13. TRADE AND BILLS RECEIVABLES

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | **1,981,994** | 1,254,357 |
| Bills receivable | **187,675** | 383,921 |
| Less: Provision for impairment | **(145,061)** | (121,030) |
| | **2,024,608** | 1,517,248 |

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

Trade and bills receivables are unsecured and interest-free.

An aging analysis of the Group's trade and bills receivables at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Not more than 3 months | **1,063,621** | 786,926 |
| Over 3 months to 6 months | **438,828** | 309,326 |
| Over 6 months to 12 months | **248,608** | 153,734 |
| Over 1 year to 2 years | **173,230** | 218,297 |
| Over 2 years to 3 years | **90,318** | 42,585 |
| Over 3 years | **10,003** | 6,380 |
| | **2,024,608** | 1,517,248 |

## 14. TRADE AND BILLS PAYABLES

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade payables | **918,375** | 784,645 |
| Bills payable | **2,102,710** | 2,818,517 |
| | **3,021,085** | 3,603,162 |

The trade payables are interest-free and are normally settled on terms of 30 to 90 days.

An aging analysis of the Group's trade and bills payables at the end of the reporting period, based on the invoice date, is as follows:

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Not more than 3 months | **1,914,118** | 828,384 |
| Over 3 months to 6 months | **357,082** | 230,293 |
| Over 7 months to 12 months | **702,632** | 2,495,188 |
| Over 1 year to 2 years | **20,587** | 6,614 |
| Over 2 years to 3 years | **5,465** | 14,962 |
| Over 3 years | **21,201** | 27,721 |
| | **3,021,085** | 3,603,162 |

## 15. BORROWINGS

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Current** | | |
| Unsecured bank loans | **2,698,795** | 2,109,925 |
| Current portion of long-term unsecured bank loans | **70,624** | 131,479 |
| Current portion of long-term unsecured syndicated loans | **–** | 2,010,750 |
| Secured bank loans | **105,500** | – |
| Secured other loans | **2,337** | – |
| | **2,877,256** | 4,252,154 |
| **Non-current** | | |
| Unsecured bank loans | **422,168** | 422,907 |
| Unsecured syndicated loans | **4,988,151** | – |
| Secured bank loans | **19,800** | 7,500 |
| Loans from non-controlling interests | **12,000** | 12,000 |
| | **5,442,119** | 442,407 |
| | **8,319,375** | 4,694,561 |

| | 2017 | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Analysed into borrowings repayable: | | |
| Within one year or on demand | **2,877,256** | 4,252,154 |
| In the second year | **338,236** | 422,907 |
| In the third to fifth years, inclusive | **5,092,722** | 14,476 |
| More than five years | **11,161** | 5,024 |
| | **8,319,375** | 4,694,561 |

Note:

(a) The effective interest rates of the Group's borrowings range from 1.60% to 6.00% (2016: 1.06% to 4.90%) per annum.

(b) The secured bank loans are secured by: (i) the concession rights of a subsidiary and personal guarantee provided by a shareholder of that subsidiary; (ii) certain commercial bills received by the Group during its provision of factoring services; and (iii) certain receivables from supply-chain financing services.

(c) The loans from non-controlling interests are unsecured, interest-free and will mature in September 2019 (2016: unsecured, interest-free and will mature in September 2019).

(d) At the end of the reporting period, the Group's borrowings are denominated in US dollar, HK dollar, Renminbi, Australian dollar and Canadian dollar are equivalent to RMB5,213,421,000 (2016: RMB3,478,442,000), RMB1,254,263,000 (2016: RMB876,620,000), RMB1,108,835,000 (2016: RMB339,499,000), RMB537,423,000 (2016: Nil) and RMB205,433,000 (2016: Nil), respectively.

## 16. SHARE CAPITAL

| **Shares** | **2017** | 2016 |
|---|---|---|
| **Authorised:** | | |
| 20,000,000,000 (2016: 20,000,000,000) ordinary shares of HK$0.05 each | **HK$1,000,000,000** | HK$1,000,000,000 |
| **Issued and fully paid:** | | |
| 3,102,418,400 (2016: 3,102,418,400) ordinary shares of HK$0.05 each | **HK$155,120,920** | HK$155,120,920 |
| Equivalent to | **RMB135,344,000** | RMB135,344,000 |

The following changes in the Company's issued share capital took place during both years:

| | Number of ordinary shares of HK$0.05 each | Nominal value of ordinary shares | |
|---|---|---|---|
| | | *HK$'000* | *RMB'000* |
| **Issued and fully paid:** | | | |
| At 1 January 2016 | 3,110,255,400 | 155,512 | 135,686 |
| Shares repurchased | (7,837,000) | (391) | (342) |
| At 31 December 2016, 1 January 2017 and 31 December 2017 | **3,102,418,400** | **155,121** | **135,344** |

## 17. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Contracted, but not provided for: | | |
| Land, property, plant and equipment and investment properties | **636,381** | 875,036 |
| Investment in a joint venture | **23,520** | – |
| | **659,901** | 875,036 |

## CHAIRMAN'S STATEMENT

In 2017, China's gross domestic product growth rate accelerated to 6.9%, reversing a slowdown that persisted for the previous seven consecutive years. Signs of stabilising economic growth generated opportunities for development of all types of industries and markets. China started its 13th Five-year Plan in 2016. In 2017, Chinese government continued to introduce various policies in relation to energy and environmental protection in an active manner, and carried out multiple large-scale municipal projects and urban infrastructure construction projects, including the plan of "Sponge City", the "Action Plan for Prevention and Control of Water Pollution" and the "Underground Pipeline Utility Tunnel", in a bid to ensure a secure supply of water and to reduce water pollution. These projects stimulated economic growth and could sustain demand for plastic piping systems. Meanwhile, the Chinese government pressed on with the new mode of urbanisation and regional economic development, which also created a favorable operating environment for the pipe industry.

As a sizeable industrial group producing building materials and interior decoration products, China Lesso actively tapped the stable demand for pipes which resulted from the state's policies on infrastructure during the year. It continued to leverage its leading position in the industry, and to take advantage of its brand strength and economies of scale. During the year, the Group achieved steady and satisfactory increases in sales revenue, market expansion and key performance indicators. The Group's revenue increased by 18.2% to RMB20,360 million in 2017 from RMB17,221 million in 2016. Gross profit rose by 16.0% to RMB5,317 million, and profit attributable to owners of the Company grew by 19.3% to RMB2,293 million. The Board proposed a final dividend of HK18 cents per share for the year ended 31 December 2017.

During the year, the Group continued to reinforce its leading market position in southern China, and proactively strengthened its footholds in other regions, in a bid to drive overall sales. As the newly established production base in Hunan officially commenced operation in the second half of 2017, the Group's business development and penetration of the local markets were enhanced. Overall designed capacity and production efficiency of the Group were also improved as a result. In addition, the Group continued to strive to enhance the facilities at its existing production bases, raise the level of automation and upgrade production technologies and facilities, thereby improving the overall operational efficiency and competitiveness.

China's property market continued to fare well. The urbanisation and stable development of the property market spurred demand for building materials and interior decoration products. The Group grasped the opportunities on the market by providing customers with diverse products. It also continuously improved its product lines. The business of new product lines achieved synergy with the businesses of existing product lines, thus effectively boosting sales revenue.

The Chinese government has introduced and enhanced environmental policies in recent years and has encouraged the development of eco-friendly industries. To capitalise on such government initiatives, the Group actively expanded its environmental protection business during the year under review, and made a breakthrough in the business through acquisitions and cooperation with environmental protection service providers. The Group won contracts to supply to many diverse large-scale environmental protection projects. Such projects will enable the environmental business to achieve synergy with the Group's business of plastic piping systems in the long run. The Group aspires to become a one-stop environmental protection service provider and to enable people to live eco-friendly lives.

In response to China's "Belt and Road Initiative", the Group actively expanded "Lesso Home" business during the year. The Group is committed to assisting China's manufacturers of interior decoration products in product display, sales, storage, logistics and distribution, so that they can building materials and interior decoration products directly to target customers and consumers across the world. This move has laid the groundwork for the Chinese manufactures' business development, brand building and overseas expansion. Presently, the Group has properties reserve in major cities in the US, Canada, Australia, Thailand and United Arab Emirates, thus laying a solid foundation for the expansion of Lesso Home business. In the future, we will strive to develop Lesso Home into the world's leading sales platform for interior decoration products. We also expect Lesso Home to become a new growth driver for the Group in the long term.

Although China's business environment was complicated and overshadowed by numerous uncertainties in 2017, the Group achieved revenue growth that met the capital market's expectations. The achievement was attributable to the Group's success in giving full play to its brand strength and wide distribution network, enriching product portfolio, expanding production capacity and initiating the new Lesso Home business. The Group adopted different strategic plans for its existing and new businesses, and successfully expanded the scope of its business in both domestic and overseas markets. It has also consolidated its brand image and enhanced its reputation, and set targets for growth in revenue and profitability for the long term.

We expect China's economy to maintain momentum of steady growth in 2018 despite the numerous uncertainties in the global market. In order to adapt to frequent changes in the market, the Group will fully grasp the opportunities arising from the Chinese government's initiatives that can benefit the industry, develop its business of building materials and interior decoration products as well as the business of environmental protection, seek to achieve synergies between such businesses and aim for sustainable growth. The Group will actively capitalise on Industry 4.0, and upgrade its existing production bases so as to make them automated and intelligent, thereby enhancing the Group's production capacity and efficiency. In addition, the Group will adopt blue ocean strategy by expanding the scope of applications of piping systems, so as to solidify its leading position.

On behalf of the Board, I would like to express my heartfelt gratitude to our management and all the staff members for their commitment and dedication to the Group. The Group will continue to fulfill its mission of "improving urban quality of life" by providing the market with innovative and high quality building materials and interior decoration products. We will capitalise on China's economic reform and rising consumption demand to drive the Group's business development for the long term. This will enable us to achieve better results and create greater value for customers, investors and shareholders. China Lesso is determined to scale new heights in the future!

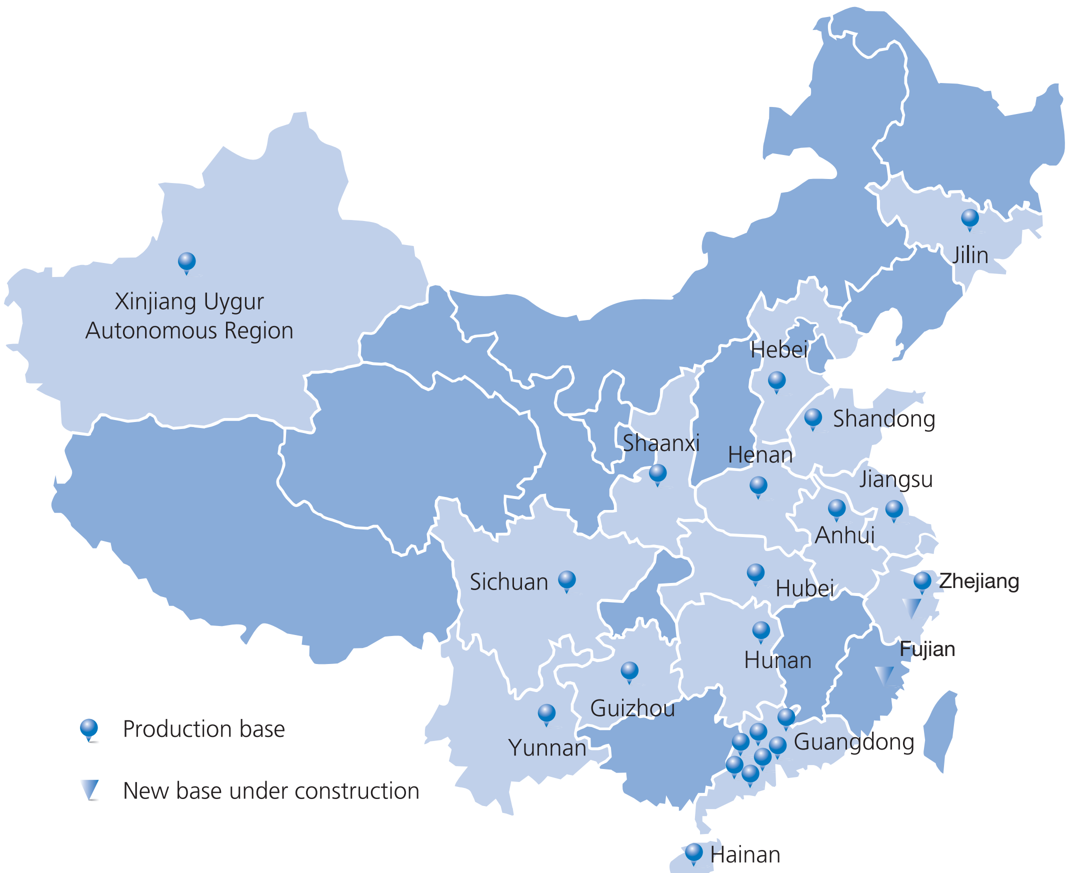
**Wong Luen Hei**
*Chairman*

Hong Kong, 19 March 2018

## MANAGEMENT DISCUSSION AND ANALYSIS

## CORPORATE OVERVIEW

China Lesso is a leading large-scale industrial group which produces building materials and interior decoration products in mainland China. The Group established 22 advanced production bases in 16 regions within China and foreign countries to support a nationwide sales network. The Group strives to refine its strategic planning and sales network, offering a comprehensive range of diverse industrial products and quality sales services.




The Group continued to reinforce its leading position in the Chinese market, especially in southern China, on the strength of its quality products, advanced technologies in research and development and a wide sales network. In recent years, the Group has been actively developing business in other local markets and overseas markets. In addition to the core business of plastic piping systems, the Group kept pace with the trends in the market, and further expanded the business of building materials and interior decoration products, including systems of doors and windows, sanitary ware products and integrated kitchens, thereby providing all-in-one solution that includes cost-effective building materials, interior decoration products and services for its customers.

The brand name LESSO of China Lesso represents the key elements of the Group's corporate culture: "Link, Easiness, Safety, Sharing and Openness", and demonstrates its commitment to "Creating a Relaxing Life for Dwellers". Since its establishment over 30 years ago, China Lesso has been consistently consolidating its strong brand position and reputation, and has received quality accreditations from many national and professional institutions, including "Award for Craftsmanship in China's Interior Decoration Industry for 2017", "China's Top 100 Companies Award", "Award for Benchmark Company in Quality Manufacturing in Foshan", "Most Preferred Brand in China's Green Building for 2016", and "Top 10 Companies Award in China's Light Industry and Plastics Industry". The Group's leading brand position reflects its strong capabilities in product research and development as well as excellent product quality, which have laid a foundation for the Group's solid presence in mainland China and overseas markets, and gave the impetus to the further expansion of China Lesso's sales network.

## MARKET REVIEW

China's economic growth accelerated in 2017 on the back of the continued progress in the restructuring of the supply side. During the year under review, the Chinese government continued to press on with its policies on energy conservation and environmental protection, and carried out multiple large-scale municipal projects and urban infrastructure construction, which drove up the demand for pipes and pipe fittings consistently.

"The Program for Construction of the National Urban Municipal Infrastructure under the 13th Five-Year Plan" set targets for the development of the facilities for national water supply, heating supply, drainage and waterlogging prevention. Under the Program, China plans to add 93,000 km of new pipelines to the water supply network and 95,000 km of new pipelines to the drainage network, replace 23,000 km of old pipelines of the drainage network, add 41,000 km of new pipelines to the centralised heating network, build 137,000 km of new gas pipelines, and construct 112,400 km of urban rainwater pipelines during the period of "The 13th Five-Year Plan". These large-scale infrastructure projects will further promote the new mode of urbanisation and regional economic development, and will generate enormous demand for pipes, thus benefiting the industry.

The Chinese government steadily pressed on with the construction of "Underground Pipeline Utility Tunnel" and the plan for "Sponge City", creating more opportunities for the application of plastic pipes. As at April 2017, 738 km of pipelines have been constructed under the Underground Pipeline Utility Tunnel pilot scheme, with completed investments amounting to about RMB40 billion, and 443 cities in China have planned to construct Underground Pipeline Utility Tunnel for a total length of about 13,000 kilometers. Under the pilot scheme of Sponge City, underground pipeline utility tunnels were already built in an area of 420 square kilometers, with completed investments amounting to about RMB54.4 billion, and 370 cities in China have made special planning for construction of Sponge City.

2017 was a milestone for the implementation of "Action Plan for Prevention and Control of Water Pollution" and was marked by achievement of some targets in certain stages of the plan as the progress was driven by the relevant policies and market demand. The newly-amended Law of the People's Republic of China on Prevention and Control of Water Pollution clarified the responsibilities of governments at each administrative level regarding water environment and water quality, and also called for the fulfillment of these responsibilities. According to data from the Ministry of Environmental Protection, the "Action Plan for Prevention and Control of Water Pollution" will require a total investment of about RMB4.6 trillion, and the increased investment in pollutant treatment is estimated to be able to add about RMB1.9 trillion to the output value of the environmental protection industry.

According to the "Program for Developing National Marine Economy under the 13th Five-Year Plan", China will adjust and optimise the traditional marine industries, promote comprehensive regional development of the marine industries primarily in the form of marine ranch construction, vigorously develop the seawater aquaculture in a healthy manner and support the deep-water, wind- and wave-resistant cage aquaculture, thereby driving sustainable development in the marine fishery industry. This will enlarge the plastic pipe market and present new opportunities for the applications of pipes.

The 5th Plenary Session of the 16th Central Committee announced the "Beautiful Rural Villages Programme" which was aimed at promoting the modernisation of agriculture and construction of a new type of rural villages. Under the programme, rural villages are to be built according to scientific planning so that they can develop sustainably, foster the development of both industries and a civilisation, enable an affluent lifestyle, and are thus good places for living and businesses. The Program entails the improvement of the ecology of the rural villages, environmental protection and pollutant treatment. In the backward rural areas where environmental facilities and infrastructure are lacking, facilities for water supply, power supply, gas supply, drainage ditches, sewage collection network, sewage treatment facilities and other types of infrastructure will be built so that urban and rural areas can become more integrated with the urbanisation progressing in parallel with the development of a new type of rural villages.

In addition, to alleviate the air pollution in Beijing, Tianjin, Hebei and other northern regions of China, the Chinese government is actively implementing its energy policy on conversion from coal to natural gas. The policy stimulated the demand for natural gas pipes. According to the "Action Plan for Prevention and Control of Air Pollution" published and distributed by the State Council, construction of the natural gas pipeline network will be accelerated to pave way for the elimination of coal as a conventional source of energy. According to the "Crucial Action Plan for Comprehensive Treatment of Air Pollution in Autumn and Winter for 2017-2018 in Beijing, Tianjin, Hebei and Nearby Areas", in the "2+26" cities along the passage for the air transmission between Beijing, Tianjin and Hebei, over 3 million households switches from coal to electricity or gas as at the end of October 2017, presenting a huge opportunity for business on the pipe market.

China's natural gas transmission industry has been developing rapidly. The construction of West-East Gas Pipeline Project, Sichuan-East Gas Pipeline Project and other projects of the same type have been in full swing under the state's energy policies. As at 11 December 2017, the annual one-time transmission of natural gas through the pipelines in China reached 100.218 billion cubic meters, of which 48% is domestically produced natural gas, and 40% is imported natural gas. The massive amount of transmission and the extension of the transmission distance gave rise to even higher requirements for the safe operation of pipes. As a result, the market needs pipeline management to be safer, more reliable, more efficient and sustainable. This adds impetus to the construction of smart pipeline networks and fuels the further development of the pipe industry.

The Chinese government continued with its regulation of the real estate industry, with the aim of containing housing price in first-tier and second-tier cities and reducing housing inventory in third-tier and fourth-tier cities. On the back of the further progress in the restructuring of the supply side and the advances in the new mode of urbanisation, the second-hand homes which have been completed for less than five years and the redecoration of other types of homes in core cities will present a new opportunity for the building materials and interior decoration industry.

In the overseas market, China and the countries covered by its Belt and Road Initiative have further explored possibilities of cooperating in infrastructure construction, trade and other areas. On the other hand, the Chinese government is encouraging mainland Chinese companies to step up investment in various industries, gradually making overseas businesses their new growth drivers. Many regions, including the countries covered by the Belt and Road Initiative, are still at the initial stage of urbanisation. This implies huge potential for infrastructure construction, hence massive demand for piping systems, building materials, hard ware and electrical equipment.

**RESULTS AND PERFORMANCE**

For the year ended 31 December 2017, China Lesso's revenue increased by 18.2% to RMB20,360 million (2016: RMB17,221 million), attributable to better macro-economic conditions, strong demand from infrastructure construction, strong brand effect and the Group's steadily rising market share. On the back of the Group's economies of scale, expanded production capacity and effective cost control, the gross profit rose by 16.0% to RMB5,317 million (2016: RMB4,582 million), with gross profit margin standing at a healthy level of 26.1% (2016: 26.6%).

The table below sets out the breakdown of revenue by business unit for 2017 and 2016:

| | **Revenue** | | | **% of total revenue** | |
|---|---|---|---|---|---|
| | **2017** | 2016 | | **2017** | 2016 |
| | ***RMB million*** | *RMB million* | ***Change*** | | |
| Plastic piping systems | **18,110** | 14,745 | *22.8%* | **88.9%** | 85.6% |
| Building Materials and Interior Decoration Products | **1,356** | 1,011 | *34.0%* | **6.7%** | 5.9% |
| Others# | **894** | 1,465 | *(39.0)%* | **4.4%** | 8.5% |
| Total | **20,360** | 17,221 | *18.2%* | **100.0%** | 100.0% |

# *"Others" include businesses of environmental engineering and other related services, financial services and others.*

The number of the Group's independent and exclusive first-tier distributors nationwide increased to 2,155 (2016: 2,146). Southern China remained the Group's major revenue contributor, and revenue from southern China and those from other regions accounted for 56.6% and 43.4% respectively (2016: 59.9% and 40.1%) of the Group's total revenue.

The table below sets out the breakdown of revenue by region for 2017 and 2016.

| | **Revenue** | | | **% of total revenue** | |
|---|---|---|---|---|---|
| | **2017** | 2016 | | **2017** | 2016 |
| Region# | ***RMB million*** | *RMB million* | ***Change*** | | |
| Southern China | **11,521** | 10,308 | *11.8%* | **56.6%** | 59.9% |
| Southwestern China | **2,115** | 1,572 | *34.6%* | **10.4%** | 9.1% |
| Central China | **2,231** | 1,721 | *29.6%* | **10.9%** | 10.0% |
| Eastern China | **1,224** | 1,067 | *14.7%* | **6.0%** | 6.2% |
| Northern China | **1,341** | 1,074 | *24.8%* | **6.6%** | 6.2% |
| Northwestern China | **746** | 571 | *30.7%* | **3.7%** | 3.3% |
| Northeastern China | **460** | 372 | *23.6%* | **2.3%** | 2.2% |
| Outside China | **722** | 536 | *34.9%* | **3.5%** | 3.1% |
| Total | **20,360** | 17,221 | *18.2%* | **100.0%** | 100.0% |

\# *Details of the scope of coverage of each region are set out in note 2 to this announcement.*

Over the years, the Group reduced the pressure which stemmed from rising raw materials and production costs by means of economies of scale, production automation and by increasing the utilisation rate of production facilities. Meanwhile, the Group actively enhanced operational efficiency, optimised product portfolio and expanded market coverage, which contributed to the sustainable development and profitability of the Group.

The Group's EBITDA increased by 22.6% to RMB3,831 million during the year under review (2016: RMB3,125 million), and the EBITDA ratio was 18.8% (2016: 18.1%). Profit before tax increased by 21.8% to RMB2,955 million (2016: RMB2,425 million). Profit attributable to owners of the Company increased by 19.3% to RMB2,293 million (2016: RMB1,922 million). Basic earnings per share increased by 19.4% to RMB0.74 (2016: RMB0.62). The effective tax rate stayed at 23.3% (2016: 21.1%).

To express gratitude to the Shareholders for their support and to share with them the fruit of the Group's endeavours, the Board proposed payment of a final dividend of HK18 cents per share for the year ended 31 December 2017 (2016: HK15 cents per share).

## BUSINESS REVIEW

### Plastic Piping Systems

The plastic piping systems business is the mainstay operation of the Group. The Chinese government continued to invest massively in municipal projects and infrastructure construction, and carried out many infrastructure projects to propel the economic growth, which stimulated the demand for plastic pipes and pipe fittings. The Group has actively capitalised on the various infrastructure and public projects initiated by the government, and boosted sales volume of plastic pipes and pipe fittings, which drove steady growth in the business.

The table below sets out the breakdown of revenue from plastic piping systems business by product application for 2017 and 2016:

| | **Revenue** | | | **% of revenue** | |
|---|---|---|---|---|---|
| | **2017** | 2016 | | **2017** | 2016 |
| | ***RMB million*** | *RMB million* | ***Change*** | | |
| Water Supply | **6,887** | 5,898 | *16.8%* | **38.0%** | *40.0%* |
| Drainage | **6,965** | 5,612 | *24.1%* | **38.5%** | *38.0%* |
| Power supply and telecommunications | **3,257** | 2,534 | *28.5%* | **18.0%** | *17.2%* |
| Gas Transmission | **412** | 189 | *118.7%* | **2.3%** | *1.3%* |
| Others# | **589** | 512 | *15.0%* | **3.2%** | *3.5%* |
| Total | **18,110** | 14,745 | *22.8%* | **100.0%** | *100.0%* |

# *"Others" include agricultural applications, floor heating and fire services.*

During the year under review, the revenue from the plastic piping systems business increased by 22.8% to RMB18,110 million from last year's RMB14,745 million, and accounted for 88.9% of the Group's total revenue (2016: 85.6%).

The table below sets out the breakdown of revenue from plastic pipping systems by region for 2017 and 2016:

| | Revenue | | | % of revenue | |
|---|---|---|---|---|---|
| | **2017** | 2016 | | **2017** | 2016 |
| Region | ***RMB million*** | *RMB million* | ***Change*** | | |
| Southern China | **10,160** | 8,688 | *16.9%* | **56.1%** | 58.9% |
| Other than Southern China | **7,672** | 5,805 | *32.2%* | **42.4%** | 39.4% |
| Outside China | **278** | 252 | *11.0%* | **1.5%** | 1.7% |
| Total | **18,110** | 14,745 | *22.8%* | **100.0%** | 100.0% |

The Group continued to strive to enhance the facilities at its existing production bases by raising the level of automation and by upgrading production technologies and facilities. The Group put the new production base in Hunan into operation in the second half of 2017, thereby improving the Group's overall designed capacity and production efficiency.

During the year under review, sales volume of the plastic piping systems increased by 17.6%. In terms of product materials, sales volume of PVC products increased by 14.7% to 1,582,697 tonnes (2016: 1,379,844 tonnes), while that of non-PVC products increased by 29.9% to 422,143 tonnes (2016: 325,068 tonnes). Revenue from sales of PVC products increased by 23.4% to RMB11,840 million (2016: RMB9,595 million) while that of non-PVC products increased by 21.8% to RMB6,270 million (2016: RMB5,150 million).

As the average costs of sales increased by 7.0% in 2017, the Group lifted the average selling price of its plastic piping systems by 4.5% to RMB9,033 per tonne (2016: RMB8,648 per tonne). The gross profit margin at this business reached 27.1% (2016: 28.9%). The Group strived to maintain its gross profit margin at a reasonable and stable level by effectively reducing the costs of raw materials and production through economies of scale, massive procurement from raw materials suppliers and other measures.

The table below sets out the breakdown of average selling price, sales volume, and revenue from plastic piping systems business by product material for 2017 and 2016:

| | Average selling price | | | Sales volume | | | Revenue | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | | **2017** | 2016 | | **2017** | 2016 | |
| | ***RMB*** | *RMB* | ***Change*** | ***Tonne*** | *Tonne* | ***Change*** | ***RMB million*** | *RMB million* | ***Change*** |
| PVC products | **7,481** | 6,954 | *7.6%* | **1,582,697** | 1,379,844 | *14.7%* | **11,840** | 9,595 | *23.4%* |
| Non-PVC products# | **14,853** | 15,841 | *(6.2)%* | **422,143** | 325,068 | *29.9%* | **6,270** | 5,150 | *21.8%* |
| Total | **9,033** | 8,648 | *4.5%* | **2,004,840** | 1,704,912 | *17.6%* | **18,110** | 14,745 | *22.8%* |

# "Non-PVC" plastic pipes and pipe fittings mainly refer to those made of PE or PP-R.

**Building Materials and Interior Decoration Products**

China's property market continued to fare well in 2017, and developers saw significant growth in both floor area sold and sales value. The Group has been actively developing the business of building materials and interior decoration products, which mainly provides property developers with various types of integrated building materials and interior decoration products, as well as the solution for their residential property projects, including sanitary ware products, integrated kitchens, systems of doors and windows, and decorative boards, etc. The building materials and interior decoration business has achieved synergy with the businesses of other product lines. Benefiting from China's urbanisation and the stable development of its property market, the business recorded a 34.0% growth in revenue to RMB1,356 million (2016: RMB1,011 million), which accounted for 6.7% of the Group's total revenue.

**Environmental Protection**

To capitalise on the Chinese government's environmental protection initiatives, the Group is actively expanding its environmental protection business. During the year under review, the Group made a breakthrough in the environmental protection business, and won contracts to supply its products to many large-scale projects, including those of municipal sewerage system, river treatment, soil restoration, underground pipeline utility tunnel, sponge city, installation of integrated water purifiers and other fields. The Group strives to become a one-stop environmental protection service provider, and aims to generate synergy between the environmental protection business and the business of plastic piping systems.

**Lesso Home**

Following the Belt and Road Initiatives, the Group decided to launch a new business line, "Lesso Home". Lesso Home is a pioneer in promoting overseas the "One-Stop Specialised Market for Home Furnishing Products" concept, a new retail model. Lesso Home aims to build a multinational platform for Chinese home furnishings and building materials manufacturers to showcase their products and facilitate the distribution and retailing. Lesso Home will also provide ancillary services including marketing and branding.

The Group has 12 sites reserve in the United States, Canada, Australia, Thailand and United Arab Emirates. All of the sites are located within close proximity to major metropolitan areas. The Group aims to develop these sites into the largest one-stop showroom markets specialised for home furnishing products in its respective local market. Tenants will independently operate their own showrooms, and sell their products directly to local traders, retailers and consumers.

**Capital Expenditure**

The Group's capital expenditure for 2017 was approximately RMB2.5 billion, which was partly used for improvement of automated facilities, expansion of the existing production bases, construction of a production base in Hunan and acquisition of properties in foreign countries.

The Group continued to further its progress in automatic production and smart production, and strived for fully mechanised production lines for pipe products, so as to improve overall production capacity, quality and efficiency. The launch of the new production base in Hunan increased the Group's annual designed capacity of plastic pipes and pipe fittings to 2.4 million tonnes at the end of 2017 from 2.2 million tonnes in 2016, enhancing the Group's abilities to respond to market demand.

During the year under review, the Group's capacity utilisation rate reached about 83.8%, up by 3.8 percentage points from 80.0% in 2016. This resulted from the Group's success in tapping the strong demand, robust sales, the automation of its factories and improvement in production efficiency.

## STRATEGIES FOR THE FUTURE

China maintained momentum of steady economic growth. In 2018, the Chinese economy is poised to grow steadily even though it is overshadowed by uncertainties. The Group remains prudently optimistic about the prospect of its business and will actively capitalise on the government policies which can favor the kind of businesses that it is engaged in, and develop its business of building materials and interior decoration products as well as business of environmental protection. The Group will implement the following measures to achieve sustainable business development in the future.

### Capitalise on Industry 4.0 by Making its Production Automated and Intelligent

Over the years, the Group has strived to make its facilities more computerised and to increase the level of computerisation of its management. In the future, the Group will actively develop intelligent factories, press on with the full automation of production bases, and further improve the mechanical equipment and their auxiliary facilities in existing production bases so as to raise the level of automation, accelerate production, expand production capacity, increase production efficiency and meet market demand.

### Improve Product Quality, Enhance Product Research and Development, and Strengthen Brand

China's pipe and building materials industry is undergoing such profound changes as restructuring and upgrading. Therefore, the Group will vigorously enhance its competitiveness in research and development of products and technologies, accelerate the transformation and upgrading of its business, and develop market networks. The Group has a first-rate team for research and development, and will continue to step up innovation and increase its investment in research and development. It will focus on the research on the technologies in the pipe and building materials industry, so as to maintain a technological leadership in the industry and provide diverse, high-quality products.

### Actively Develop the Environmental Protection Business and Achieve Synergy

The Chinese government will continue to implement a series of environmental protection policies which present many opportunities for the environmental protection industry. The Group will actively grasp such opportunities by forming public-private partnerships, and fostering new growth drivers so as to achieve synergy between its environmental protection business and other businesses, and diversify its source of income.

### Lead the Market and Adopt Blue-Ocean Strategy

China's steady progress in its plan for development has led to robust demand for piping systems in the field of infrastructure construction. As a result, the scope of the application of plastic piping systems has been widened, meaning more business opportunities for the pipe industry. As a market leader, the Group will strive to expand the scope of application of plastic pipes and pipe fittings, thereby maintaining its market leadership. Meanwhile, the Group will develop the "Lesso Home" business, thereby adding impetus to the Group's business. In 2018, the Group plans to open a Lesso Home in New York to serve target buyers and customers in North America.

## FINANCIAL POSITION

The Group continued to adopt prudent financial policies. Finance, fund utilisation and fund raising activities of the Group are subject to effective centralised management and supervision. The Group keeps reasonable gearing level and adequate liquidity.

As at 31 December 2017, the Group had total debts (i.e. total borrowings) of approximately RMB8,319 million, of which 62.7% was denominated in US dollar, 15.1% was denominated in HK dollar, 13.3% was denominated in Renminbi, 6.5% was denominated in Australian dollar and 2.4% was denominated in Canadian dollar. The Group's borrowings are subject to effective interest rates ranging from 1.6% to 6.0% per annum with maturity periods ranging from within one year to more than five years.

As at 31 December 2017, the Group's current assets and current liabilities were approximately RMB12,148 million and RMB8,074 million respectively. The Group's Current Ratio increased to 1.50 from 1.03 as at 31 December 2016, while the Quick Ratio increased to 1.10 from 0.75 as at 31 December 2016. The Group's total equity increased to approximately RMB13,783 million. The Group's Gearing Ratio stood at a healthy level of 37.6%.

With cash and bank deposits, including restricted cash, of approximately RMB4,452 million as well as unutilised banking facilities, the Board considers that the Group has sufficient working capital for its operation and future development.

The Group had no material exposure to foreign exchange fluctuation and no hedging has been arranged during the year.

## CHARGE ON ASSETS

As at 31 December 2017, certain of the Group's available-for-sale investments with an aggregate net carrying amount of approximately RMB34 million were pledged to a bank to secure the banking facility granted and this banking facility has not been utilised.

The secured bank loans are secured by: i) the concession rights of a subsidiary and personal guarantee provided by a shareholder of that subsidiary; ii) certain commercial bills received by the Group during its provision of factoring services; and iii) certain receivables from supply-chain financing services.

## SIGNIFICANT INVESTMENTS

### Long-Term Financial Investments

As at 31 December 2017, the Group held long-term financial investments of approximately RMB1,582 million (31 December 2016: RMB823 million). The investment portfolio comprised of 95.3% listed equity securities (issued by PRC-based home improvement and furnishings shopping malls operating company and PRC-based environmental companies), 0.5% listed debt securities, 2.1% listed non-cumulative redeemable preference shares, 0.6% listed perpetual capital securities and 1.5% private equity and unlisted securities. Each of these investments has a carrying amount accounting for less than 5% of the Group's total assets as at 31 December 2017.

The portfolio movement in the current year is mainly attributable to the purchase of approximately RMB800 million listed equity securities of Red Star Macalline Group Corporation Ltd. (Stock code: 1528.hk) (the "Acquisition"). Details of the Acquisition can be found in the Company's announcement dated 22 March 2017. The Group recognised a net unrealised mark-to-market valuation gain of approximately RMB220 million for the current year, which had no impact on the profit or loss and cash flows of the Group. During the year, the Group's long-term financial investments were reduced due to the redemption of certain of these investments by their respective issuers and the Group's disposals, details of which are set out in notes 9 and 10 to this announcement.

Income from the portfolio amounted to approximately RMB23 million for 2017, of which approximately RMB39 million represented gain on early redemption of available-for-sale investments, approximately RMB32 million represented loss on fair value changes of derivative financial instrument, approximately RMB8 million represented interest income, approximately RMB4 million represented gain on disposal of available-for-sale investments and held-to-maturity investments, and the remainder represented dividend income.

The Group will study the market and information of the prospective investees cautiously before it makes its investment decisions. The Group will also monitor the performance of its investee closely and regularly after purchases and will adjust the investment strategy in a cautious manner to minimise the impact of market volatility on the Group as and when necessary.

**Investment Properties**

As at 31 December 2017, the Group's investment properties were approximately RMB4,000 million. Gains arising from changes in the fair values of investment properties were approximately RMB300 million during the Year.

Among these investment properties, the malls in Toronto, Canada are existing properties, the malls in Long Island, USA and in Auburn district of Sydney, Australia are under refurbishment and the land in Thailand are under development. Other properties are at the planning stage of development.

Save as disclosed above, the Group did not have any significant investments as at 31 December 2017.

## DISPOSAL OF SUBSIDIARIES

On 7 July 2017, Guangdong Lesso Mall, an indirect wholly-owned subsidiary of the Company, entered into the agreement with Lesso Hardware and Foshan Star Excel (the latter being indirectly wholly-owned by Mr. Wong Luen Hei (the chairman of the Company, an executive Director and the controlling Shareholder)), pursuant to which the Guangdong Lesso Mall has agreed to sell and Foshan Star Excel has agreed to acquire (i) the Sale Interest, representing 75% equity interest of Lesso Hardware; and (ii) the Sale Loan, at the aggregate consideration of approximately RMB56 million, out of which the consideration for the Sale Interest is equal to RMB25 million and the consideration for the Sale Loan (as of the calculation date on 30 June 2017) is approximately RMB31 million which is further subject to adjustment. The consideration of the Sale Loan has been adjusted to approximately RMB30 million. Lesso Hardware ceased to be a subsidiary of the Company at the end of reporting period. The disposal of Lesso Hardware is a connected transaction and the principle terms of this disposal have been set out in detail in the Company's announcement dated 7 July 2017.

## CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities.

## HUMAN RESOURCES

As at 31 December 2017, the Group employed a total of approximately 10,600 employees including directors. Total staff costs were RMB876 million during the year. The Group ensures that the remuneration packages for employees are determined based on their work performance, professional experience and the prevailing industry practice. Discretionary year-end bonus may be paid to employees based on individual performance. Other benefits to employees include medical insurance, retirement scheme and training programmes.

## CORPORATE SOCIAL RESPONSIBILITY

### Environment

Environmental protection is always a top priority of China Lesso. The Group has applied the ideas of going green and environmental protection throughout its product design, R&D, production and practical operations, and has adopted a variety of eco-friendly measures to minimise impact on the environment. On top of that, the Group supports the development of environmental protection industry and be committed to water treatment and the construction of Sponge City. In addition, the Group establishes a complete environment management system, continues to improve criteria and measures concerning management of environmental protection and adopt more simplified operating processes and energy-efficient hardware to reduce consumption of energy and water resources, increase benefits from resource consumption, reduce wastes emissions and enhance recycling.

The Group complies with laws and regulations governing air pollution, noise emission, solid waste discharge, and other environmental protection issues in China. The environmental management and compliance department works together with the legal department to ensure the Group will keep abreast of the latest development on environment-related laws and regulations.

### Community Engagement

China Lesso takes an active part in community investment and public welfare and provides care for underprivileged groups in the society, aiming to apply its influence, bring positive changes to the communities where it operates, and maintain sound relations with the communities where it operates. Further, the Group actively supports the development of education in poverty-stricken areas and encourages its employees to serve the community as volunteers.

**Employee**

China Lesso recognises employees as one of its most important assets. In strict compliance with the applicable laws and regulations, the Group protects the legitimate rights and interests of its employees and fixes on its pay system based on the principles of legality, equity, fairness and encouragement so as to ensure an equal access to fair treatment and career opportunities. In addition, the Group has formulated its own health and safety policies, intensifies safety training for employees, carries out routine safety patrols and actively pushes forward with relevant management system building for the purpose of creating a safe working environment for its employees, achieving a work-life balance for its employees through diverse activities.

With great emphasis on career development of its employees, the Group is committed to creating diversified and comprehensive development channels for its employees by offering a series of training programs and regular lectures on safety and health through its own Lesso College.

**Customer and Supplier**

China Lesso has strived to maintain uninterrupted communications with its suppliers for win-win results based on the procurement principles of fairness, openness and impartiality. The Group has put in place a Supplier Management Code and conducts regular performance evaluation of its suppliers. In addition, the Group has formulated a management system, a reporting process and set up a management team against malpractices in an effort to oversee behaviors of all its employees and protect the interests and rights of the Company and its shareholders. In respect of customer services and management, the Group upholds the "market-oriented, customer-centred" principle and with strict control over product quality. The Group is committed to providing its customers with safe, reliable and quality products.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

## AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting policies adopted by the Group and the annual results of the Group for the year ended 31 December 2017.

## CORPORATE GOVERNANCE PRACTICES

China Lesso is always committed to maintaining high standards of corporate governance practices and business ethics of the Group. The Board believes in good corporate governance practices and business ethics which are essential for achieving sustainable development, establishing investors' confidence in the Company and safeguarding and enhancing the interests of the Shareholders.

In pursuit of good and high standards of corporate governance practices, the Board reviews the corporate governance practices of the Company from time to time so as to meet the expectations of the Shareholders for continual improvement, comply with increasingly stringent regulatory requirements and fulfill its commitment of pursuing excellent corporate governance. In the opinion of the directors, the Company complied with all the applicable code provisions of the Code during the year.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code governing securities transactions by directors of the Company. Having made specific enquiry to the directors, all of them confirmed that they have complied with the required standards as set out in the Model Code throughout the year. The Model Code is also applicable to other specific senior management of the Company.

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

None of the directors or substantial shareholder of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group. New Fortune (the "Controlling Shareholder", being a company holding approximately 68.28% of the issued share capital of the Company, and is ultimately held by the trust the founder of which is Mr. Wong Luen Hei, and the beneficiaries of which include Mr. Wong Luen Hei and his family) has entered into a deed of non-competition in favour of the Group with Mr. Wong Luen Hei 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. 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.

## DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

(A) On 3 March 2014, the Company as borrower entered into a facility agreement (the "Facility Agreement I") in relation to a syndicated term loan facility in the amount of US$135 million at an interest rate of LIBOR plus 2.00% per annum with, among others, Taipei Fubon Commercial Bank Co., Ltd. and CTBC Bank Co., Ltd. as mandated lead arrangers, and a syndicate of nine lenders, for the purpose of refinancing the Group's existing financial indebtedness. The loan made thereunder is repayable 36 months after the same has been made.

On 26 June 2014, the Company as borrower entered into a facility agreement (the "Facility Agreement II") in relation to a syndicated term loan facility in the amount of US$155 million at an interest rate of LIBOR plus 2.20% per annum with a syndicate of three lenders, independent licensed banks in Hong Kong, for general corporate requirements (including the refinancing of the Group's existing financial indebtedness). The loan made thereunder is repayable 42 months after the same has been made.

Pursuant to the Facility Agreement I and Facility Agreement II (collectively the "Facility Agreements"), save for additional requirement that Mr. Wong Luen Hei and his family (collectively, the "Wong Family") shall remain to have effective management control over the Company set out in the Facility Agreement I, the Facility Agreements require that the Wong Family shall collectively maintain, directly or indirectly, at least 55% of beneficial shareholding interest in the issued share capital of the Company, carrying at least 55% of the voting rights, free from any security. Otherwise, a lender shall not be obliged to fund the loans made under the Facility Agreements, and the total commitments under the Facility Agreements may be liable to be cancelled and the outstanding loans with interest and all other amounts accrued under the Facility Agreements or other related financial documents may be due and payable to the lenders immediately. The Facility Agreements were settled on 20 January 2017.

(B) On 11 August 2016, the Company as guarantor and its wholly-owned subsidiary as borrower entered into a facility agreement (the "Facility Agreement III") in relation to syndicated term loan facilities in the amount of US$600 million at an interest rate of LIBOR plus 1.85% per annum with syndicate lenders, independent financial institutions, for general corporate requirements (including the refinancing of the Group's existing financial indebtedness). The loan made thereunder is repayable 42 months after the same has been made.

Pursuant to the Facility Agreement III, Mr. Wong Luen Hei and his family (collectively, the "Wong Family") shall collectively maintain, directly or indirectly, at least 51% of beneficial shareholding interest in the issued share capital of the Company, carrying at least 51% of the voting rights, free from any security. Otherwise, a lender shall not be obliged to fund the loan made under the Facility Agreement III, and the total commitments under the Facility Agreement III may be liable to be cancelled and the outstanding loan with interest and all other amounts accrued under the Facility Agreement III or other related financial documents may be due and payable to the lenders immediately.

(C) On 15 August 2017, the Company as Guarantor and its wholly-owned subsidiary as Borrower entered into a facility agreement (the "Facility Agreement IV") in relation to syndicated term loan facilities in the amount of HK$800 million at an interest rate of HIBOR plus 1.55% per annum with syndicate lenders (the "Facility"), for general corporate requirements (including the refinancing of the Group's existing financial indebtedness). The loan made thereunder is repayable 36 months after the same has been made.

On 22 September 2017, the Guarantor and the Borrower entered into a syndication and amendment agreement in relation to the Facility Agreement IV (the "Amendment Agreement"). Pursuant to the Amendment Agreement, the number of syndicate lenders have increased and the total commitment under the Facility has increased to HK$1,350 million. Save for the aforesaid amendment and supplement, all other major terms of the Facility Agreement remain in full force and effect (including the Specific Covenants).

Pursuant to the Facility Agreement IV, Mr. Wong Luen Hei and his family (collectively, the "Wong Family") shall collectively maintain, directly or indirectly, at least 51% of beneficial shareholding interest in the issued share capital of the Company, carrying at least 51% of the voting rights, free from any security. Otherwise, a lender shall not be obliged to fund the loan made under the Facility Agreement IV, and the total commitments under the Facility Agreement IV may be liable to be cancelled and the outstanding loan with interest and all other amounts accrued under the Facility Agreement IV or other related financial documents may be due and payable to the lenders immediately (the "Specific Covenants").

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2017, the Company or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

## PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK18 cents per share for the year ended 31 December 2017 (the "Proposed Final Dividend") to the Shareholders whose names appear on the register of members of the Company on Monday, 4 June 2018, subject to the Shareholders' approval at the forthcoming annual general meeting of the Company to be held on Friday, 25 May 2018 (the "2018 AGM"). It is expected that the Proposed Final Dividend will be paid on Wednesday, 13 June 2018.

## CLOSURE OF REGISTER OF MEMBERS

### (A) For determining the entitlement to attend and vote at the 2018 AGM

The register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018, both dates inclusive, during this period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2018 AGM, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Friday, 18 May 2018.

### (B) For determining the entitlement to the proposed final dividend

The register of members of the Company will be closed from Thursday, 31 May 2018 to Monday, 4 June 2018, both dates inclusive, during this period no transfer of shares of the Company will be registered. In order to be eligible to receive the Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 30 May 2018.

## PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkex.com.hk) and the Company (www.lesso.com). The 2017 annual report will be despatched to the Shareholders and available on the above websites in due course.

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

Hong Kong, 19 March 2018

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

## GLOSSARY

| | |
|---|---|
| "Board" | the board of directors of the Company |
| "BVI" | the British Virgin Islands |
| "China" or "PRC" | the People's Republic of China, for the purpose of this report, excluding Hong Kong, Macau and Taiwan |
| "Code" | the Corporate Governance Code as set out in Appendix 14 to the Listing Rules |
| "Company" or "China Lesso" | China Lesso Group Holdings Limited |
| "Current Ratio" | the ratio of current assets to current liabilities |
| "EBITDA" | earnings before interest, taxes, depreciation and amortisation |
| "Foshan Star Excel" | Foshan Star Excel Property Development Co., Ltd.*, a company indirectly wholly-owned by Mr. Wong Luen Hei and a connected person of the Company as defined under the Listing Rules |
| "Gearing Ratio" | the total debts divided by the sum of total debts and total equity |
| "Group" | the Company and its subsidiaries |
| "Guangdong Lesso Mall" | Guangdong Lesso Mall Co., Ltd.*, an indirect wholly-owned subsidiary of the Company |
| "HK$" | Hong Kong dollar, the lawful currency of Hong Kong |
| "Hong Kong" or "HK" | Hong Kong Special Administrative Region of the PRC |

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| "Lesso Hardware" | Guangdong Lesso Hardware & Building Materials Co., Ltd.*, an indirect non-wholly owned subsidiary of the Company |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Macau" | Macau Special Administrative Region of the PRC |
| "Model Code" | the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |
| "New Fortune" | New Fortune Star Limited, a company incorporated in the BVI |
| "PE" | polyethylene |
| "PP-R" | polypropylene random |
| "PVC" | polyvinyl chloride |
| "Quick Ratio" | the ratio of current assets less inventories to current liabilities |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "Share(s)" | share(s) of a nominal value of HK$0.05 each in the capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) of the Company |
| "sq.m." | square metres |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Taiwan" | the Republic of China |
| "tonne(s)" | a unit measuring weight, equal to 1,000 kilograms |

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| "US" | the United States of America |
| "US$" | US dollar, the lawful currency of US |
| "%" | per cent. |

* The English or Chinese translations in this announcement, where indicated, denote for identification purposes only.

**FORWARD-LOOKING STATEMENTS**

This announcement contains forward-looking statements. These forward-looking statements include, without limitation, statements related to revenue and earnings. The words "believe", "intend", "expect", "anticipate", "forecast", "estimate", "predict", "is confident", "has confidence" and similar expressions are also intended to represent forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of China Lesso about the business, industry and markets in which China Lesso operates.