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 2016

The Board is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2016.

HIGHLIGHTS

Compared to the last year consolidated financial results:

- Revenue increased by 12.8% to RMB17,221 million
- Gross profit increased by 16.4% to RMB4,582 million
- Profit for the year increased by 18.2% to RMB1,914 million
- Basic earnings per share was RMB0.62, increased by 19.2%
- The payment of a final dividend of HK15 cents per share is recommended for the year ended 31 December 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	**2016** *RMB'000*	2015 *RMB'000*
REVENUE	*3*	**17,221,052**	15,264,401
Cost of sales		**(12,639,274)**	(11,326,830)
Gross profit		**4,581,778**	3,937,571
Other revenue, income and gains	*3*	**138,021**	119,927
Selling and distribution expenses		**(821,557)**	(697,214)
Administrative expenses		**(758,583)**	(579,132)
Other expenses		**(608,619)**	(630,259)
Finance costs	*4*	**(107,061)**	(87,323)
Share of profit of a joint venture		**813**	1,101
PROFIT BEFORE TAX	*5*	**2,424,792**	2,064,671
Income tax expense	*6*	**(511,088)**	(446,221)
PROFIT FOR THE YEAR		**1,913,704**	1,618,450
OTHER COMPREHENSIVE INCOME/ (EXPENSE)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(113,554)**	(50,973)
Changes in fair value of available-for-sale investments		**24,236**	1,777
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR		**(89,318)**	(49,196)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,824,386**	1,569,254

	Note	2016 RMB'000	2015 RMB'000
Profit attributable to:			
Owners of the Company		**1,922,027**	1,621,117
Non-controlling interests		**(8,323)**	(2,667)
		1,913,704	1,618,450
Total comprehensive income attributable to:			
Owners of the Company		**1,827,904**	1,570,682
Non-controlling interests		**(3,518)**	(1,428)
		1,824,386	1,569,254
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	*8*		
Basic and diluted		**RMB0.62**	RMB0.52

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	**2016** *RMB'000*	2015 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**6,621,953**	6,011,812
Prepaid land lease payments		**1,249,367**	1,157,926
Investment properties		**2,469,488**	318,431
Goodwill		**76,554**	–
Other intangible assets		**183,615**	35,790
Deposits paid for the purchase of land, property, plant and equipment		**549,919**	745,175
Interest in a joint venture		**7,988**	7,175
Available-for-sale investments	*9*	**730,814**	48,363
Held-to-maturity investments	*10*	**59,655**	62,435
Loan receivables	*11*	**63,191**	–
Other long-term receivables		**37,623**	–
Derivative financial instruments		**32,566**	–
Deferred tax assets		**53,869**	29,724
Total non-current assets		**12,136,602**	8,416,831
CURRENT ASSETS			
Inventories	*12*	**2,747,065**	2,206,543
Amounts due from customers for contract work		**163,279**	–
Loan receivables	*11*	**325,764**	83,000
Trade and bills receivables	*13*	**1,517,248**	1,397,797
Prepayments, deposits and other receivables		**1,419,645**	651,408
Cash and bank deposits		**3,885,683**	3,893,544
Total current assets		**10,058,684**	8,232,292

	Note	2016 RMB'000	2015 RMB'000
CURRENT LIABILITIES			
Amounts due to customers for contract work		**40,049**	–
Trade and bills payables	*14*	**3,603,162**	1,681,582
Other payables and accruals		**1,731,570**	1,525,902
Borrowings	*15*	**4,252,154**	1,065,502
Tax payable		**94,957**	104,562
Total current liabilities		**9,721,892**	4,377,548
NET CURRENT ASSETS		**336,792**	3,854,744
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,473,394**	12,271,575
NON-CURRENT LIABILITIES			
Borrowings	*15*	**442,407**	2,175,238
Other long-term payables		**106,439**	–
Deferred tax liabilities		**272,568**	136,653
Deferred income		**114,308**	94,232
Total non-current liabilities		**935,722**	2,406,123
Net assets		**11,537,672**	9,865,452
EQUITY			
Share capital	*16*	**135,344**	135,686
Reserves		**11,096,165**	9,635,199
Equity attributable to owners of the Company		**11,231,509**	9,770,885
Non-controlling interests		**306,163**	94,567
Total equity		**11,537,672**	9,865,452

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 new and revised standards for the first time for the current year's consolidated financial statements.

HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Annual Improvements 2012 – 2014 Cycle	Amendments to a number of HKFRSs

The application of these new and revised standards in the current year has had no material impact on the Group's financial performance and position for the current and prior periods and/or on the disclosures set out in 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 and financial 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 changes in fair value of investment properties, changes in fair value of derivative financial instruments, exchange differences, finance costs, interest income, gain on early redemption of held-to-maturity investments, investment income, share of result of a joint venture and other unallocated income and expenses are excluded from such measurement.

Segment assets exclude interest in a joint venture, 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 the mainland China, special administrative regions of the PRC and foreign countries.

During the years ended 31 December 2016 and 2015, 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 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:										
Sales to external customers	10,082,151	1,561,330	1,712,343	1,064,953	1,052,288	562,002	371,154	535,436	–	16,941,657
Intersegment sales	2,397,464	360,909	441,075	133,941	167,401	109,249	94,902	591,967	(4,296,908)	–
	12,479,615	1,922,239	2,153,418	1,198,894	1,219,689	671,251	466,056	1,127,403	(4,296,908)	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
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:										
Gain on fair value changes of investment properties										31,885
Gain on fair value changes of derivative financial instruments										1,942
Exchange loss										(17,614)
Finance costs										(107,061)
Interest income										61,591
Gain on early redemption of held-to-maturity investments										206
Investment income										5,781
Share of profit 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:										
Depreciation and amortisation	321,449	57,461	64,224	40,383	36,858	37,202	22,249	13,540	–	593,366
Write-down of inventories to net realisable value, net	21,693	365	431	4,361	78	(121)	10,730	12,908	–	50,445
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.

Operating segment information for the year ended 31 December 2015

	Southern China *RMB'000*	Southwestern China *RMB'000*	Central China *RMB'000*	Eastern China *RMB'000*	Northern China *RMB'000*	Northwestern China *RMB'000*	Northeastern China *RMB'000*	Outside China *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Segment revenue:										
Sales to external customers	9,046,199	1,386,118	1,576,233	838,664	976,207	601,410	320,496	453,082	–	15,198,409
Intersegment sales	1,899,833	272,862	351,981	87,818	120,655	105,044	80,778	504,905	(3,423,876)	–
	10,946,032	1,658,980	1,928,214	926,482	1,096,862	706,454	401,274	957,987	(3,423,876)	15,198,409
Contract revenue from renovation and installation works	64,497	–	–	–	–	–	–	–	–	64,497
Financial service income	1,495	–	–	–	–	–	–	–	–	1,495
Total	11,012,024	1,658,980	1,928,214	926,482	1,096,862	706,454	401,274	957,987	(3,423,876)	15,264,401
Segment results	2,833,026	419,184	580,776	199,592	269,017	132,559	70,040	72,002	(638,625)	3,937,571
Reconciliations:										
Gain on fair value changes of investment properties										55
Exchange loss										(114,516)
Finance costs										(87,323)
Interest income										82,248
Investment income										2,426
Share of profit of a joint venture										1,101
Unallocated income and expenses										(1,756,891)
Profit before tax										2,064,671
Segment assets	7,317,952	974,045	1,046,339	805,163	634,496	566,085	443,009	820,793	–	12,607,882
Reconciliations:										
Interest in a joint venture										7,175
Available-for-sale investments										48,363
Held-to-maturity investments										62,435
Deferred tax assets										29,724
Cash and bank deposits										3,893,544
Total assets										16,649,123
Other segment information:										
Depreciation and amortisation	267,173	51,828	63,675	29,069	29,453	37,061	15,225	7,631	–	501,115
Write-down of inventories to net realisable value, net	41,208	–	1,161	641	3,961	573	1,601	(581)	–	48,564
Impairment of trade receivables, net	8,194	–	5,456	–	161	923	23,110	5,733	–	43,577
Impairment of property, plant, and equipment	–	–	–	–	–	–	–	379	–	379
Capital expenditure#	763,250	112,167	74,645	230,291	140,617	22,217	2,083	337,051	(24,980)	1,657,341

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

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

	2016	2015
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**16,941,657**	15,198,409
Contract revenue from renovation and installation works	**119,443**	64,497
Income from environmental engineering and other related services	**133,054**	–
Financial service income	**26,898**	1,495
	17,221,052	15,264,401
Other revenue, income and gains		
Bank interest income	**55,391**	72,421
Interest income from held-to-maturity investments	**6,200**	9,827
Total interest income	**61,591**	82,248
Government grants and subsidies	**16,118**	20,110
Gain on fair value changes of investment properties	**31,885**	55
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**	2,426
Others	**20,498**	15,088
	138,021	119,927

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

	2016	2015
	RMB'000	*RMB'000*
Interest expenses on bank and other loans	**108,781**	87,733
Less: Interest capitalised	**(1,720)**	(410)
	107,061	87,323

5. PROFIT BEFORE TAX

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

	2016	2015
	RMB'000	*RMB'000*
Cost of inventories sold	**12,413,090**	11,225,023
Direct cost of renovation and installation works	**105,569**	53,243
Direct cost of environmental engineering and other related services	**70,170**	–
Depreciation	**553,375**	467,004
Amortisation of prepaid land lease payments	**25,227**	22,362
Amortisation of other intangible assets	**14,764**	11,749
Total depreciation and amortisation	**593,366**	501,115
Research and development costs#	**514,024**	447,346
Loss on disposal of items of other intangible assets and property, plant and equipment	**7,309**	12,357
Write-down of inventories to net realisable value, net	**50,445**	48,564
Impairment of trade receivables, net#	**30,227**	43,577
Impairment of property, plant and equipment#	**15,467**	379
Changes in fair value of investment properties	**(31,885)**	(55)
Changes in fair value of derivative financial instruments	**(1,942)**	–
Foreign exchange differences, net#	**17,614**	114,516

These items are included in the "other expenses" in profit or loss.

6. INCOME TAX EXPENSE

	2016	2015
	RMB'000	*RMB'000*
Current tax		
PRC	**471,713**	408,266
Other jurisdiction	**421**	88
	472,134	408,354
Overprovision in prior years		
PRC	**(26,641)**	(14,097)
Deferred tax	**65,595**	51,964
Total tax charge for the year	**511,088**	446,221

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% (2015: 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 (2015: 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

	2016		2015	
	HK$	***HK$'000***	*HK$*	*HK$'000*
	per share		per share	
2015 final dividend paid (2015: 2014 final dividend paid)	**0.13**	**403,314**	0.13	404,333
Equivalent to		**RMB339,228,000**		RMB318,861,000

Subsequent to the end of the reporting period, final dividend of HK15 cents in respect of the year ended 31 December 2016 (2015: final dividend of HK13 cents in respect of the year ended 31 December 2015) 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:

	2016	2015
	RMB'000	*RMB'000*
Earnings		
Profit attributable to owners of the Company used in the basic and diluted earnings per share calculation	**1,922,027**	1,621,117

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares of the Company in issue used in the basic and diluted earnings per share calculation	**3,104,256,632**	3,110,255,400

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2016 includes 3,110,255,400 ordinary shares in issue as at 31 December 2015 (2015: 3,110,255,400 ordinary shares in issue as at 31 December 2014). 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 repurchased during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2016 and 2015.

9. AVAILABLE-FOR-SALE INVESTMENTS

	Note	2016 RMB'000	2015 RMB'000
Listed investments:			
Equity securities listed in PRC		**515,777**	–
Non-cumulative redeemable preference shares listed in Hong Kong		**44,991**	43,238
Perpetual capital securities listed in Hong Kong		**30,597**	–
		591,365	43,238
Unlisted investments:			
Equity securities	*(i)*	**15,625**	5,125
Convertible notes	*(ii)*	**123,824**	–
		139,449	5,125
		730,814	48,363

Note:

(i) The unlisted equity securities are issued by private entities established in PRC. They are measured at cost less any impairment 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.

(ii) 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 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 as available-for-sale investments and derivative financial instruments, respectively.

The fair value of the debt element of the convertible notes is determined based on a valuation performed by an independent professionally qualified valuer.

(iii) At the end of the reporting period, certain of the Group's available-for-sale investments with an aggregate net carrying amount of RMB36,489,000 (2015: RMB34,608,000) were pledged to a bank to secure the banking facility granted. The Group has not utilised this banking facility as at 31 December 2016 (2015: Nil).

10. HELD-TO-MATURITY INVESTMENTS

	2016	2015
	RMB'000	*RMB'000*
Debt securities, at amortised cost:		
Listed in Hong Kong	**59,655**	55,784
Listed in Singapore	**–**	6,651
	59,655	62,435

The held-to-maturity investments represent debt securities. These securities carry fixed interest at 8.00% to 12.00% (2015: 8.00% to 12.00%) per annum, payable semi-annually in arrears, and will mature from March 2019 to February 2020 (2015: April 2018 to February 2020).

At the end of the reporting period, 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 (2015:RMB66,762,000).

11. LOAN RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Non-current		
Finance lease receivables	**63,191**	–
Current		
Finance lease receivables	**31,886**	–
Factoring receivables	**173,640**	83,000
Receivables from supply-chain financing services	**120,238**	–
	325,764	83,000
	388,955	83,000

(A) Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**36,457**	–	**31,886**	–
Over 1 year but within 5 years	**66,819**	–	**63,191**	–
	103,276	–	**95,077**	–
Less: Unearned finance income	**(8,199)**	–	**N/A**	**N/A**
Present value of minimum lease payment receivables	**95,077**	–	**95,077**	–

The Group's finance lease receivables are denominated in RMB. The effective interest rate of the receivables is 5.89% (2015: Nil) per annum. There was no unguaranteed residual value of assets leased under finance leases and no contingent rent arrangement that needed to be recognised in both years.

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 a 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 payments for the corresponding lease contract. The collected cash deposit of 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% (2015: 4.35% to 11.00%) per annum.

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

	2016	2015
	RMB'000	*RMB'000*
With a residual maturity of:		
Within 3 months	**37,640**	1,000
4 to 6 months	**36,000**	82,000
7 to 12 months	**100,000**	–
	173,640	83,000

(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 granted to each customer is generally within 60 to 180 days.

These receivables carry interest at rates ranging from 5.40% to 7.20% per annum (2015: Nil).

Certain receivables from supply-chain financing services, amounting to RMB49,938,000, were secured by certain equity interests and personal guarantees.

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

	2016	2015
	RMB'000	*RMB'000*
With a residual maturity of:		
Within 3 months	**83,238**	–
4 to 6 months	**37,000**	–
	120,238	–

12. INVENTORIES

	2016	2015
	RMB'000	*RMB'000*
Raw materials	**1,170,591**	836,788
Work in progress	**355,142**	350,120
Finished goods	**1,221,332**	1,019,635
	2,747,065	2,206,543

13. TRADE AND BILLS RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**1,254,357**	1,186,226
Bills receivable	**383,921**	292,648
Less: Provision for impairment	**(121,030)**	(81,077)
	1,517,248	1,397,797

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

Trade and bills receivables are unsecured and interest-free.

An aged analysis of the 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:

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**786,926**	614,123
4 to 6 months	**309,326**	232,213
7 to 12 months	**153,734**	330,126
1 to 2 years	**218,297**	190,723
2 to 3 years	**42,585**	28,164
Over 3 years	**6,380**	2,448
	1,517,248	1,397,797

14. TRADE AND BILLS PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade payables	**784,645**	550,861
Bills payable	**2,818,517**	1,130,721
	3,603,162	1,681,582

Trade payables are interest-free and are normally settled on terms 30 to 90 days.

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

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**828,384**	646,547
4 to 6 months	**230,293**	681,165
7 to 12 months	**2,495,188**	334,281
1 to 2 years	**6,614**	11,120
2 to 3 years	**14,962**	4,895
Over 3 years	**27,721**	3,574
	3,603,162	1,681,582

15. BORROWINGS

	2016	2015
	RMB'000	*RMB'000*
Current		
Unsecured bank loans	**2,109,925**	927,570
Current portion of long-term unsecured bank loans	**131,479**	70,637
Current portion of long-term unsecured syndicated loans	**2,010,750**	–
Secured other loans	**–**	5,678
Loans from non-controlling interests	**–**	61,617
	4,252,154	1,065,502
Non-current		
Unsecured bank loans	**422,907**	301,338
Unsecured syndicated loans	**–**	1,873,900
Secured bank loans	**7,500**	–
Loans from non-controlling interests	**12,000**	–
	442,407	2,175,238
	4,694,561	3,240,740

	2016	2015
	RMB'000	*RMB'000*
Analysed into borrowings repayable:		
Within one year or on demand	**4,252,154**	1,065,502
In the second year	**422,907**	1,106,809
In the third to fifth years, inclusive	**14,476**	1,068,429
More than five years	**5,024**	–
	4,694,561	3,240,740

Note:

(a) The effective interest rates of the Group's borrowings range from 1.06% to 4.90% (2015: 1.18% to 8.90%) per annum.

(b) The unsecured syndicated loans will mature from May 2017 to January 2018 unless being repaid earlier. During the year, the Group exercised the option to early repay all of the outstanding principal in January 2017.

(c) The secured bank loans are secured by the sewage treatment concession rights of a subsidiary and also guaranteed by its shareholders.

(d) The loans from non-controlling interests are unsecured, interest-free and will mature in September 2019 (2015: unsecured, interest-free and repayable on demand).

(e) At the end of the reporting period, the Group's borrowings are denominated in US dollar, HK dollar, Renminbi and Thai Baht at aggregate amounts of RMB3,478,442,000 (2015: RMB2,570,725,000), RMB876,620,000 (2015: RMB590,635,000), RMB339,499,000 (2015: RMB17,763,000) and Nil (2015: RMB61,617,000), respectively.

16. SHARE CAPITAL

Shares	**2016**	2015
Authorised:		
20,000,000,000 (2015: 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 (2015: 3,110,255,400) ordinary shares of HK$0.05 each	**HK$155,120,920**	HK$155,512,770
Equivalent to	**RMB135,344,000**	RMB135,686,000

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

	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 2015, 31 December 2015 and 1 January 2016	3,110,255,400	155,512	135,686
Shares repurchased	(7,837,000)	(391)	(342)
At 31 December 2016	3,102,418,400	155,121	135,344

Note:

The Company bought back and cancelled a total of 7,837,000 ordinary shares of the Company on the Stock Exchange at a total consideration (including expenses) of HK$32,917,000 (approximately RMB28,052,000).

17. COMMITMENTS

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

	2016	2015
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Land, property, plant and equipment and investment properties	**875,036**	508,625

CHAIRMAN'S STATEMENT

In 2016, China's gross domestic product growth rate decelerated to 6.7%. The economic slowdown weighed on people from different walks of life. In 2016, the Chinese government started its 13th Five-year Plan with the policy of stimulating the economy with investment in national infrastructure projects. During the year, the Chinese government continued to press on with the plan of "Sponge City" and "Action Plan for Prevention and Control of Water Pollution" for better water management to ensure the safety of water supply and reduce water pollution. Meanwhile, the Chinese government accelerated shantytown renovation and redevelopment of dilapidated housing. Such domestic projects would definitely boost the demand for plastic pipes and pipe fittings. Being a sizeable industrial group producing building materials and interior decoration products, China Lesso has taken advantage of its economies of scale and capitalised on the state policies and construction programmes. As a result, the Group achieved remarkable results for the year.

During the year, the Group achieved a steady increase in terms of sales revenue, market expansion and key performance indicators despite the mounting downward pressure on China's economy. The Group's revenue increased by 12.8% to RMB17,221 million in 2016 from RMB15,264 million in 2015. Gross profit rose by 16.4% to RMB4,582 million, and profit attributable to owners of the Company grew by 18.6% to RMB1,922 million. The Board proposed a final dividend of HK15 cents per share for the year ended 31 December 2016.

During the year, the Group continued to solidify its business presence in Southern China, where it derived most of its revenue, and proactively enhanced its market penetration in other regions of the country. Meanwhile, the Group has been pressing on with its plan to accelerate the automation and scale up its production at its production bases to improve overall production efficiency. The newly established production base in Shandong commenced operation in the first half of 2016 and upgraded its existing production facilities so that the Group's total production capacity has been further enhanced.

In the meantime, China Lesso further developed the business of building materials and interior decoration products. During the year, the gradual recovery of domestic property market in mainland China and the central government's urbanisation policy stimulated the demand for building materials and interior decoration products. To capture the opportunity, the Group diversified into new product lines. The synergy between such new businesses and the Group's businesses of existing product lines boosted the sales revenue effectively. To capitalise on the Chinese government's environmental protection initiatives, the Group adopted a strategic plan to enter the environmental protection business through acquisitions and cooperation with environmental protection service providers.

In addition, the Group continued to develop the business of Lesso Mall, a diversified and dedicated e-commerce platform which featured an online-to-offline business model. During the year, the Group refined its strategy for operating Lesso Mall and established strategic partnerships with local distributors and business partners. Meanwhile, the Group has also set up chain stores in the country to expand its domestic sales network. The Group believes that Lesso Mall will evolve into a major growth driver in the future.

In the face of the world's challenging business environment in 2016, the Group was able to achieve steady growth in revenue, meeting the market's expectations. The achievement was attributable to the Group's sustainable business development and progressive expansion of its product lines. By adopting strategic moves in both its existing and new businesses, the Group successfully expanded the scope of its business in both domestic and overseas markets, and consolidated its brand image and reputation. As a result, the Group met the targets for growth in revenue and profit during the year.

In 2017, China's business environment is expected to be complicated and plagued by numerous uncertainties. In order to adapt to the frequent changes in the market, the Group will proactively explore the possibility of diversifying its business further so as to fully capitalise on the government initiatives that can benefit the industry. The Group is determined to expand its production capacity by upgrading its existing production bases in order to enhance its overall efficiency and facility utilisation rate. It will also try to raise efficiency through automation at its production bases. Meanwhile, the Group will continue to upgrade its information system and foster the development of Lesso Mall so that it can extend its footprint in both domestic and overseas markets.

China Lesso celebrated the 30th anniversary of its establishment in 2016, and 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 household building 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 next 30 years!

Wong Luen Hei
Chairman

Hong Kong, 6 March 2017

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. In its effort to internationalise its business amid globalisation, the Group has established over 22 advanced production bases in 16 regions within China and such foreign countries as the United States and Canada. 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 southern China market with 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 pipe manufacturing, the Group accelerated the expansion of 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.

Besides, the Group has launched a diversified O2O platform Lesso Mall which has been offering hardware, electrical equipment and building materials since March 2015. Meanwhile, the Group has established strategic cooperation with local partners to expand distribution business and increase market penetration of products by introducing Lesso chain stores in mainland China.

MARKET REVIEW

In 2016, China's economic slowdown abated as the restructuring of the supply side progressed. Since the 13th Five-year Plan began in 2016, there has been continuous growth in the Chinese Government's investment in infrastructure projects. In order to ensure the safety of water supply and reduce water pollution, the Chinese government accelerates the construction of major civil and environmental hydro projects. Meanwhile, the Chinese government enhances the urban functions by various means, namely a new mode of urbanisation, acceleration of shantytown renovation, redevelopment of dilapidated housing, refurbishment of the underground pipeline network and the promotion of "Sponge City". The government policies on such large-scale projects will stimulate the demand for pipes and pipe fittings.

During the year, China pressed on with the plan of "Sponge City"and the construction of "Underground Pipeline Utility Tunnel". In May 2016, the Ministry of Finance, the Ministry of Housing and Urban-Rural Development and the Ministry of Water Resources together designated 14 cities (including Beijing, Tianjin, Dalian and Shanghai, etc.) to carry out the pilot scheme of "Sponge City". Through the redesign of the urban planning and redevelopment, the cities covered by the "Sponge City" scheme will be more efficient in absorbing water, storing water, purifying water and recycling rainwater. It also helps to prevent flood. More than 20 provinces in China had participated in the "Sponge City" scheme, involving thousands of projects. The size of the market for construction is expected to reach RMB2 trillion by 2020. Construction for "Underground Pipeline Utility Tunnel" has been implemented in different parts of China. According to the Ministry of Housing and Urban-Rural Development, as at 20 December 2016, a total of 2,005 km of pipelines have been constructed in 147 cities of 28 provinces under the "Underground Pipeline Utility Tunnel" scheme, presenting a huge business opportunity to the pipe industry.

Meanwhile, the Chinese government accelerates the construction of facilities for sewage treatment and discharging water. In December 2016, the National Development and Reform Commission published the "Program for Construction of the National Urban Wastewater Treatment and Recycling Facilities under the 13th Five-year Plan" and set a new target. It plans to add 134,400 km of new pipelines to the drainage network, repair 42,400 km of old pipelines of the drainage network and rebuild 38,900 km of pipelines to the system that collects and diverts both rainwater and sewage. The programme aims at forming an integrated system that discharges water and treats sewage in the urban areas of the country. The investment program of RMB582.9 billion is expected to further boost the demand for pipes used for water supply and discharge of water in the cities.

In addition, the Ministry of Environmental Protection and the National Development and Reform Commission jointly announced "Assessment of Action Plan for Prevention and Control of Water Pollution (Trial)" in December 2016 with the aim of assessing how well the local governments implement the "Action Plan for Prevention and Control of Water Pollution" and how well they maintain the water quality. The plan can stimulate investment in the water industry so as to solve such problems as pollution from industrial sewage and low efficiency in water usage. According to the Ministry of Environmental Protection, the plan will call for a total investment of more than RMB2 trillion by 2020.

On the other hand, the Chinese government has been actively implementing policy to help reduce the housing inventory during the year. As a result, the country's property market gradually recovered. According to the National Bureau of Statistics, investment in China's property development in 2016 increased by 6.9% to RMB10,258.1 billion. The growth was larger than the percentage increase of 1.0% in 2015. The number of transactions in the residential property market also hit a record high in 2016. The area of residential flats sold in the country increased by 22.5% to 1.57349 billion sq.m. The improvement of the property market and the demand generated by the new mode of urbanisation led to the gradual recovery of the market for building materials and interior decoration products. The Department of Circulation Industry Development and the China Building Materials Circulation Association jointly announced the 2016 national building materials household index (BHI), indicating that the total sales volume at large bazaars for building materials and interior decoration products increased by 9.3% to RMB1,185.28 billion for the year.

The Government was pressing ahead with the "Belt and Road Initiative" in 2016 and achieved good results. More than 100 countries and international organisations showed support for China's initiative and more than 40 countries and international organisations signed cooperation agreements with China. A number of major projects were launched under the initiative and received huge financial support from the Chinese government. The National Development and Reform Commission adopted a mode of cooperation between the Chinese government and private investors, namely the public-private partnerships, in the countries covered by the "Belt and Road Initiative". The commission also encouraged the Chinese enterprises to expand their business into overseas markets. Infrastructure has been a major part of the action plan. During the year, investment in infrastructure projects continued to increase in the countries covered by the "Belt and Road Initiative". The large-scale investment in the projects creates huge demand for products like building materials, hardware, electrical equipment, pipes and pipe fittings.

BUSINESS REVIEW

China Lesso mainly operates three business units, including plastic pipes and pipe fittings, building materials and interior decoration products and its O2O platform Lesso Mall. During the year, the Group further consolidated its business of plastic pipe and pipe fittings and increased the sales volume by supplying to governments' infrastructure projects. Meanwhile, the Group actively developed its businesses of building materials and interior decoration products as well as the Lesso Mall. As a result, the total revenue of the Group grew steadily and rose by 12.8% to RMB17,221 million (2015: RMB15,264 million).

The table below sets out the breakdown of revenue by business unit for 2016 and 2015:

	Revenue			% of total revenue	
	2016	2015		**2016**	2015
	RMB million	*RMB million*	***Change***		
Plastic Pipes and Pipe Fittings	**14,745**	13,602	*8.4%*	**85.6%**	89.1%
Building Materials and Interior Decoration Products	**1,011**	816	*23.9%*	**5.9%**	5.3%
Lesso Mall	**1,018**	621	*63.9%*	**5.9%**	4.1%
Others[#]	**447**	225	*98.7%*	**2.6%**	1.5%
Total	**17,221**	15,264	*12.8%*	**100.0%**	100.0%

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

As at 31 December 2016, the number of the Group's independent and exclusive tier-one distributors increased to 2,146 all over the country (2015: 2,130). Southern China remained as the Group's major revenue contributor while the Group was actively developing business in other local markets in the country. The Group put its production base in Shandong into operation in first half of 2016. The Group enhanced the facilities at its production bases in Hainan and Guangdong, increasing their capacity and raising their capacity utilisation rates. Meanwhile, the Group continued to raise the level of automation and began to work on the plan to construct the production base in Hunan province. During the year, revenue from southern China and those from other regions accounted for 59.9% and 40.1% respectively (2015: 59.7% and 40.3% respectively) of the Group's total revenue.

The table below sets out the breakdown of revenue by region for 2016 and 2015:

	Revenue			% of total revenue	
	2016	2015		**2016**	2015
Region[#]	***RMB million***	*RMB million*	***Change***		
Southern China	**10,308**	9,112	*13.1%*	**59.9%**	59.7%
Southwestern China	**1,572**	1,386	*13.4%*	**9.1%**	9.1%
Central China	**1,721**	1,576	*9.2%*	**10.0%**	10.3%
Eastern China	**1,067**	839	*27.2%*	**6.2%**	5.5%
Northern China	**1,074**	976	*10.0%*	**6.2%**	6.4%
Northwestern China	**571**	601	*(5.1)%*	**3.3%**	3.9%
Northeastern China	**372**	321	*16.1%*	**2.2%**	2.1%
Outside China	**536**	453	*18.2%*	**3.1%**	3.0%
Total	**17,221**	15,264	*12.8%*	**100.0%**	100.0%

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

PLASTIC PIPES AND PIPE FITTINGS

The plastic pipes and pipe fittings business remains a mainstay operation of China Lesso. The Group offered a comprehensive range of plastic pipes and pipe fittings, which can be applied to water supply, drainage, power supply, communications, gas supply, agriculture and aquaculture, floor heating and fire services. During the year, the sales volume and revenue from the plastic pipes and pipe fittings business grew steadily; the revenue rose by 8.4% and accounted for 85.6% of the Group's total revenue (2015: 89.1%).

The table below sets out the breakdown of revenue from plastic pipes and pipe fittings business by product application for 2016 and 2015:

	Revenue			% of revenue	
	2016	2015		**2016**	2015
	RMB million	*RMB million*	***Change***		
Water Supply	**5,898**	5,453	*8.2%*	**40.0%**	40.1%
Drainage	**5,612**	5,193	*8.1%*	**38.0%**	38.2%
Power supply and telecommunications	**2,534**	2,190	*15.7%*	**17.2%**	16.1%
Gas Transmission	**189**	248	*(23.9)%*	**1.3%**	1.8%
Others#	**512**	518	*(1.1)%*	**3.5%**	3.8%
Total	**14,745**	13,602	*8.4%*	**100.0%**	100.0%

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

The table below sets out the breakdown of average selling price, sales volume, and revenue from plastic pipes and pipe fittings business by product material for 2016 and 2015:

	Average selling price			Sales volume			Revenue		
	2016	2015		**2016**	2015		**2016**	2015	
	RMB	*RMB*	***Change***	***Tonne***	*Tonne*	***Change***	***RMB million***	*RMB million*	***Change***
PVC products	**6,954**	7,112	*(2.2)%*	**1,379,844**	1,240,900	*11.2%*	**9,595**	8,825	*8.7%*
Non-PVC products#	**15,841**	15,868	*(0.2)%*	**325,068**	301,054	*8.0%*	**5,150**	4,777	*7.8%*
Total	**8,648**	8,821	*(2.0)%*	**1,704,912**	1,541,954	*10.6%*	**14,745**	13,602	*8.4%*

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

In recent years, the Chinese government has actively pursued the policy of developing infrastructure for economic growth, and the Group capitalised on the growing demand for plastic pipes and pipe fittings. As a result, both the sales volume and revenue from this business unit increased. In terms of product materials, sales volume of PVC products increased by 11.2% to 1,379,844 tonnes (2015: 1,240,900 tonnes) while that of non-PVC products increased by 8.0% to 325,068 tonnes (2015: 301,054 tonnes). Revenue from sales of PVC products increased by 8.7% to RMB9,595 million (2015: RMB8,825 million) while that of non-PVC products increased by 7.8% to RMB5,150 million (2015: RMB4,777 million).

The Group priced its products on a cost-plus basis. In the second half of 2016, the market price of raw materials increased. However, the Group was able to keep the raw material cost stable and reduced the average selling price of its plastic pipes and pipe fittings slightly, by 2.0%, to RMB8,648 per tonne (2015: RMB8,821 per tonne) during the year as one of the ways to stay competitive. It was able to do so because of its sound procurement strategy and economies of scale. As the Group automated and scaled up its production at its production bases during the year, the gross profit margin of this business unit reached 28.9% (2015: 27.8%). The overall sales volume of the Group's plastic pipes and pipe fittings grew steadily.

BUILDING MATERIALS AND INTERIOR DECORATION PRODUCTS

China's property market recovered in 2016, recording a significant increase in both investment and the floor area sold. During the year, 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. The Group also provides diverse products, including sanitary ware products, integrated kitchens, systems of doors and windows and decorative boards, etc. This business unit developed gradually on the back of China's urbanisation, and achieved synergy with the businesses of other existing product lines. Revenue of this business unit increased by 23.9% to RMB1,011 million (2015: RMB816 million), accounting for 5.9% of the Group's total revenue. In the future, the Group will make an effort to widen the range of products of this business unit and will take advantage of Lesso Mall to boost the revenue of this business unit.

LESSO MALL

Since its establishment in March 2015, the Group's e-commerce platform, Lesso Mall, has been selling diverse products and providing various services, through a business model that links online and offline operations. During the year, Lesso Mall was developing its business steadily. In the second half of 2016, the Group has successfully refined its strategy for operating Lesso Mall, and formed strategic business partnerships and cooperated with its local distributors and business partners to expand the sales channels and increase the market penetration of the Group's products. It has introduced several Lesso chain stores which sell products online and offline, and provide supply chain service.

During the year, the business operation of Lesso Mall performed well and recorded an operating revenue of approximately RMB1,018 million, which was encouraging. Its registered member accounts reached 4,902 (2015: 2,032). Lesso Mall will be a growth driver of the Group in the future. In order to prepare for overseas expansion of Lesso Malls, the Group acquired pieces of land in Thailand, Australia, the United States and Canada. As at 31 December 2016, the total investment in the properties amounted to approximately RMB2.5 billion, which was mainly attributable the new lands acquired for Lesso Mall's overseas business.

EQUITY INVESTMENT IN SHANGHAI SAFBON WATER SERVICE CO., LTD. AND ACQUIRED MAJOR STAKES OF GUANGZHOU EP ENVIRONMENTAL ENGINEERING LTD.

To capitalise on the Chinese government's environmental initiatives, the Group diversified into environmental protection business. The Group acquired Guangzhou EP Environmental Engineering Ltd. and its subsidiary ("GZEP") in April 2016. GZEP provides environmental protection services, including project consultation, environmental monitoring, design of environmental protection solutions, construction services and financing for environmental protection projects. Meanwhile, the Group subscribed for the shares of Shanghai Safbon Water Service Co., Ltd ("Safbon Water") in October 2016. The Group has approximately RMB731 million worth of available-for-sale investments, which was mainly due to the equity investment in Safbon Water. Safbon Water is engaged in industrial water treatment, municipal water treatment, seawater desalination, solid waste treatment, natural gas regulator stations and distributed energy and other services. Synergy can be generated between the investment in Safbon Water and the Group's businesses of plastic pipes and pipe fittings as well as its environmental protection. The Group strives to become a one-stop environmental protection service provider.

CAPITAL EXPENDITURE AND CAPACITY EXPANSION

The Group has expanded its annual designed plastic pipes and pipe fittings production capacity to 2.2 million tonnes during the year. (2015: 2.1 million tonnes). The increase was mainly attributable to the production base in Shandong which commenced operation in the first half of 2016.

The capital expenditure for 2016 was approximately RMB3.57 billion, which was mainly used for expansion of the existing production bases, automation of the production bases in Guangdong, construction of a production base in Shandong and the acquisition of pieces of land in foreign countries for the expansion of Lesso Mall's business.

STRATEGIES FOR THE FUTURE

Looking ahead to 2017, enterprises will face more challenges as the prospect of the global economy has become more uncertain. China's economic structure has been improving, showing that the economy has been on the right track to a new normal. The Group remains prudently optimistic about the prospect and it will actively capitalise on the government policies which can favour the kind of businesses that it is engaged in. The Group will implement the following strategies:

Increase Production Capacity

To consolidate its market leadership, the Group will continue to enhance its market penetration in Southern China and other regions. The Group will also further improve the machines and facilities in its existing production bases, continue with the automation and accelerate the production process, thereby expanding production capacity and raising efficiency. The Group is planning the construction of a production base in Hunan at a preliminary stage.

Take Strategic Approach to Environmental Protection Business

China Lesso actively capitalised on China's environmental approach to its economic development, and as such, it plans to expand the business of GZEP. As a strategic approach to the environmental protection business, the Group will seek to achieve synergy between its environmental protection business and its other businesses; and to diversify its source of income through acquisitions, cooperation with sizable environmental protection companies, and participation in public-private partnerships.

Expand Overseas Business of Lesso Mall

Lesso Mall has been achieving promising results in China since it commenced operation in 2015. The Group will further strengthen its O2O businesses in China. It also plans to explore the overseas markets by introducing the Lesso Mall there. It will establish Lesso Home, a global O2O sales service platform for interior decoration products, construction materials and hardware. The Group will proactively seek for forming strategic partnerships and/or cooperate with business partners and distributers worldwide to set up a new business Lesso Home so as to support its sales and distribution business with customer service support in overseas markets. At the initial stage of its overseas expansion plan, the Group plans to open Lesso Home in Sydney in the second half of 2017, in order to capitalise on China's "Belt and Road Initiative". Lesso Home will fulfill such functions as direct-sale, distribution, sales and marketing functions for brands of building materials and interior decoration products from China Lesso and its business partners. The Group believes that there is potential for significant development in this kind of business, which can evolve into a growth driver.

RESULTS PERFORMANCE

For the year ended 31 December 2016, the Group's revenue increased by 12.8% year-on-year to RMB17,221 million (2015: RMB15,264 million). Benefited from the Group's sound procurement strategy and economies of scale, the gross profit rose by 16.4% to RMB4,582 million (2015: RMB3,938 million), with gross profit margin up by 0.8 percentage points to 26.6% (2015: 25.8%).

The Group recruited more staff for business expansion and tapping into new markets. This resulted in a corresponding increase in expenditure, including staff costs, professional fees, marketing and promotion expenses. Nevertheless, the Group effectively managed its overall cost and enhanced operation efficiency through economies of scale and improvement in the utilisation rate of production facilities, so as to respond and reduce the pressure which stemmed from rising costs. These measures have contributed to the sustainable development and healthy profitability of the Group. EBITDA was RMB3,125 million (2015: RMB2,653 million), representing an increase of 17.8% year-on-year and the EBITDA ratio was 18.1% (2015: 17.4%) in 2016.

The Group's effective tax rate was 21.1% during the year under review (2015: 21.6%). Profit before tax increased by 17.4% year-on-year to RMB2,425 million (2015: RMB2,065 million) while profit attributable to the owners of the Company increased by 18.6% to RMB1,922 million (2015: RMB1,621 million). Basic earnings per share increased by 19.2% year-on-year to RMB0.62 (2015: RMB0.52).

As a token of gratitude to the Shareholders for their support in the past year, the Board proposed payment of final dividend of HK15 cents per share for the year ended 31 December 2016 (2015: HK13 cents).

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 2016, the Group had total debts (i.e. total borrowings) of approximately RMB4,695 million, of which 74.1% was denominated in US dollar, 18.7% was denominated in HK dollar and 7.2% was denominated in Renminbi. The Group's borrowings are subject to effective interest rates ranging from 1.06% to 4.90% per annum with maturity periods ranging from within one year to more than five years.

As at 31 December 2016, the Group's current assets and current liabilities were approximately RMB10,059 million and RMB9,722 million respectively. The Group's Current Ratio decreased to 1.03 from 1.88 as at 31 December 2015, while the Quick Ratio decreased to 0.75 from 1.38 as at 31 December 2015. During the year, the Group exercised the option to early repay the syndicated long-term loans of US$290 million in January 2017. Therefore these loans are reclassified to current liabilities in 2016. The Group's total equity increased to approximately RMB11,538 million. The Group's Gearing Ratio stood at a healthy level of 28.9%.

With cash and bank deposits, including restricted cash, of approximately RMB3,886 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 2016, certain of the Group's available-for-sale investments with an aggregate net carrying amount of approximately RMB36 million were pledged to a bank to secure the banking facility granted and this banking facility has not been utilised.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES

As at 31 December 2016, the Group employed a total of approximately 9,100 employees including directors. Total staff costs were RMB688 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. Adhering to the principles of "safe, healthy, energy efficient and non-toxic", the Group has applied the ideas of energy saving and emission reduction throughout its product design, R&D, production and practical operations, and has adopted a variety of eco-friendly measures to minimize impact on the environment. On top of that, the Group 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.

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, 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.

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

Throughout the years, 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.

Community Engagement

China Lesso takes an active part in community investment and public welfare, aiming to apply its influence and bring positive changes to the communities where it operates. Meanwhile, the Group is active in charitable contributions to support local education and underprivileged groups. In addition to donations, the Group also encourages its employees to serve the community as volunteers.

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 2016.

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 standard 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, except that one of the independent non-executive directors was unable to attend the annual general meeting of the Company held on 13 May 2016 (as provided for the Code A.6.7) due to other business engagements.

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 standard as set out in the Model Code throughout the year. The Model Code is also applicable to other specific senior management officers 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

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.

On 11 August 2016, the Company as guarantor and its wholly-owned subsidiary as borrower entered into a facility agreement (the "Facility Agreement") 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, 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, and the total commitments under the Facility Agreement may be liable to be cancelled and the outstanding loan with interest and all other amounts accrued under the Facility Agreement or other related financial documents may be due and payable to the lenders immediately.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2016, save as set out below, the Company or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities:

Trading Date	Number of Shares repurchased	Highest price paid per Share	Lowest price paid per Share	Aggregate consideration paid
		HK$	*HK$*	*HK$*
23 March 2016	3,000,000	4.30	4.21	12,811,959
24 March 2016	2,000,000	4.21	4.13	8,376,820
29 March 2016	337,000	4.05	4.02	1,357,470
30 March 2016	1,700,000	4.09	4.07	6,949,819
31 March 2016	800,000	4.18	4.12	3,319,691
Total	7,837,000			32,815,759

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK15 cents per share for the year ended 31 December 2016 (the "Proposed Final Dividend") to the Shareholders whose names appear on the register of members of the Company on Monday, 29 May 2017, subject to the Shareholders' approval at the forthcoming annual general meeting of the Company to be held on Friday, 19 May 2017 (the "2017 AGM"). It is expected that the Proposed Final Dividend will be paid on Thursday, 8 June 2017.

CLOSURE OF REGISTER OF MEMBERS

(A) For determining the entitlement to attend and vote at the 2017 AGM

The register of members of the Company will be closed from Tuesday, 16 May 2017 to Friday, 19 May 2017, 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 2017 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 Monday, 15 May 2017.

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

The register of members of the Company will be closed from Thursday, 25 May 2017 to Monday, 29 May 2017, 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, 24 May 2017.

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 2016 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
Zuo Manlun
Chief Executive and Director

Hong Kong, 6 March 2017

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 Zhigang.

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 announcement, 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
"Gearing Ratio"	the total debts divided by the sum of total debts and total equity
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong" or "HK"	Hong Kong Special Administrative Region of the PRC
"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

"N/A"	not applicable
"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$0.05 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s) of the Company
"sq.m."	square metres
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Taiwan"	the Republic of China
"tonne(s)"	a unit measuring weight, equal to 1,000 kilograms
"US"	the United States of America
"US$"	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.

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond the Company's control and are difficult to predict. Consequently, actual results could differ materially from those expressed, implied or forecasted in the forward-looking statements.

Reliance should not be placed on these forward-looking statements, which reflect only the views of the directors and management of China Lesso as at the date of this announcement only. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this announcement.