LESSO 联塑

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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

The Board is pleased to announce the unaudited consolidated financial results of the Group for the six months ended 30 June 2017.

HIGHLIGHTS

Compared to the financial results for the six months ended 30 June 2016:

- Revenue increased by 22.6% to RMB8,977 million
- Gross profit increased by 12.7% to RMB2,461 million
- Profit for the period increased by 4.6% to RMB951 million
- Basic earnings per share was RMB0.31, increased by 6.9%

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*3*	**8,977,047**	7,325,116
Cost of sales		**(6,515,743)**	(5,141,630)
Gross profit		**2,461,304**	2,183,486
Other revenue, income and gains	*3*	**82,504**	42,838
Selling and distribution expenses		**(459,483)**	(376,971)
Administrative expenses		**(442,264)**	(355,760)
Other expenses		**(318,683)**	(268,847)
Finance costs	*4*	**(98,957)**	(41,511)
Share of profit of a joint venture		**253**	385
PROFIT BEFORE TAX	*5*	**1,224,674**	1,183,620
Income tax expense	*6*	**(274,001)**	(275,185)
PROFIT FOR THE PERIOD		**950,673**	908,435
OTHER COMPREHENSIVE INCOME/ (EXPENSE)			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
Changes in fair value		**(158,107)**	442
Reclassification adjustment for gains on disposal		**(1,143)**	–
		(159,250)	442
Exchange differences on translation of foreign operations		**141,335**	(6,956)
OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD		**(17,915)**	(6,514)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**932,758**	901,921

	Note	Six months ended 30 June **2017** **RMB'000** **(Unaudited)**	2016 RMB'000 (Unaudited)
Profit for the period attributable to:			
Owners of the Company		**971,042**	912,380
Non-controlling interests		**(20,369)**	(3,945)
		950,673	908,435
Total comprehensive income for the period attributable to:			
Owners of the Company		**950,248**	903,313
Non-controlling interests		**(17,490)**	(1,392)
		932,758	901,921
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	*8*	**RMB0.31**	RMB0.29

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	**30 June 2017** *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**6,724,500**	6,621,953
Prepaid land lease payments		**1,270,923**	1,249,367
Investment properties		**3,517,351**	2,469,488
Deposits paid for the purchase of land, property, plant and equipment		**805,858**	549,919
Goodwill		**76,554**	76,554
Other intangible assets		**176,496**	183,615
Interest in a joint venture		**8,241**	7,988
Available-for-sale investments	*9*	**1,430,693**	730,814
Held-to-maturity investments	*10*	**–**	59,655
Loan receivables	*11*	**57,799**	63,191
Other long-term receivables		**55,327**	37,623
Derivative financial instruments		**26,699**	32,566
Deferred tax assets		**54,771**	53,869
Total non-current assets		**14,205,212**	12,136,602
CURRENT ASSETS			
Inventories	*12*	**3,058,456**	2,747,065
Amounts due from customers for contract work		**325,102**	163,279
Loan receivables	*11*	**366,329**	325,764
Trade and bills receivables	*13*	**1,468,636**	1,517,248
Prepayments, deposits and other receivables		**1,408,252**	1,419,645
Cash and bank deposits		**4,357,440**	3,885,683
Total current assets		**10,984,215**	10,058,684

	Note	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
CURRENT LIABILITIES			
Amounts due to customers for contract work		**161,509**	40,049
Trade and bills payables	*14*	**3,374,054**	3,603,162
Other payables and accruals		**1,576,954**	1,731,570
Tax payable		**133,113**	94,957
Borrowings	*15*	**2,850,746**	4,252,154
Total current liabilities		**8,096,376**	9,721,892
NET CURRENT ASSETS		**2,887,839**	336,792
TOTAL ASSETS LESS CURRENT LIABILITIES		**17,093,051**	12,473,394
NON-CURRENT LIABILITIES			
Borrowings	*15*	**4,454,590**	442,407
Other long-term payables		**80,276**	106,439
Deferred tax liabilities		**333,078**	272,568
Deferred income		**139,734**	114,308
Total non-current liabilities		**5,007,678**	935,722
Net assets		**12,085,373**	11,537,672
EQUITY			
Share capital	*16*	**135,344**	135,344
Reserves		**11,638,438**	11,096,165
Equity attributable to owners of the Company		**11,773,782**	11,231,509
Non-controlling interests		**311,591**	306,163
Total equity		**12,085,373**	11,537,672

Note:

1.1 BASIS OF PREPARATION

These condensed consolidated financial statements of the Group for the six months ended 30 June 2017 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. 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 condensed consolidated financial statements are presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these condensed consolidated financial statements are the same as those used in the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of the revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) as disclosed in note 1.2 below.

These condensed consolidated financial statements do not include all information and disclosures required in the Group's annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2016.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual improvements 2014 – 2016 Cycle	Amendments to a number of HKFRSs

The application of these revised standards in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed 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 units 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, gain on disposal of available-for-sale investments and held-to-maturity investments, gain on early redemption of held-to-maturity investments, exchange differences, finance costs, fair value changes of derivative financial instruments, 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 mainland China, special administrative regions of PRC and foreign countries.

During the six months ended 30 June 2017 and 2016, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

	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
Six months ended 30 June 2017										
Segment revenue:										
Sale of goods	5,072,244	857,179	901,923	622,274	580,450	297,364	178,718	310,735	-	8,820,887
Contract revenue from renovation and installation works	72,165	-	-	-	3,164	-	-	-	-	75,329
Income from environmental engineering and other related services	50,587	2,648	4,188	1,479	-	1,901	32	-	-	60,835
Financial service income	19,996	-	-	-	-	-	-	-	-	19,996
Revenue from external customers	5,214,992	859,827	906,111	623,753	583,614	299,265	178,750	310,735	-	8,977,047
Intersegment revenue	1,302,439	188,163	198,783	124,179	121,103	63,985	35,629	333,221	(2,367,502)	-
Total	6,517,431	1,047,990	1,104,894	747,932	704,717	363,250	214,379	643,956	(2,367,502)	8,977,047
Segment results	1,812,618	253,126	295,059	118,238	182,473	77,659	49,985	51,384	(379,238)	2,461,304
Reconciliations:										
Interest income										42,527
Gain on disposal of available-for-sale investments										1,070
Gain on disposal of held-to-maturity investments										3,378
Exchange gain										3,809
Finance costs										(98,957)
Loss on fair value changes of derivative financial instruments										(4,988)
Share of profit of a joint venture										253
Unallocated income and expenses										(1,183,722)
Profit before tax										1,224,674
Other segment information:										
Write-back of inventories to net realisable value, net	-	-	-	-	-	-	-	(1,997)	-	(1,997)
Depreciation and amortisation	173,704	30,982	31,356	23,836	20,202	17,608	9,535	7,145	-	314,368
Impairment of property, plant and equipment	-	-	-	3,848	-	-	-	-	-	3,848
Capital expenditure#	242,968	46,495	28,061	64,208	18,695	9,743	3,684	1,101,230	(15,487)	1,499,597
As at 30 June 2017										
Segment assets	10,390,085	1,199,576	1,156,937	893,010	739,537	576,889	441,457	3,914,092	-	19,311,583

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

	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*
Six months ended 30 June 2016										
Segment revenue:										
Sale of goods	4,339,065	698,108	799,646	405,820	428,658	235,101	112,039	239,399	–	7,257,836
Contract revenue from renovation and installation works	34,552	–	–	–	–	–	–	–	–	34,552
Income from environmental engineering and other related services	21,945	–	–	–	–	–	–	–	–	21,945
Financial service income	10,783	–	–	–	–	–	–	–	–	10,783
Revenue from external customers	4,406,345	698,108	799,646	405,820	428,658	235,101	112,039	239,399	–	7,325,116
Intersegment revenue	1,047,810	166,538	230,538	48,456	71,063	51,683	39,632	286,413	(1,942,133)	–
Total	5,454,155	864,646	1,030,184	454,276	499,721	286,784	151,671	525,812	(1,942,133)	7,325,116
Segment results	**1,693,300**	**230,846**	**307,027**	**100,863**	**128,128**	**61,842**	**22,722**	**53,871**	**(415,113)**	**2,183,486**
Reconciliations:										
Interest income										28,060
Gain on early redemption of held-to-maturity investments										79
Exchange loss										(17,044)
Finance costs										(41,511)
Share of profit of a joint venture										385
Unallocated income and expenses										(969,835)
Profit before tax										1,183,620
Other segment information:										
Write-down of inventories to net realisable value, net	27,088	336	648	4,845	87	(92)	24,357	(875)	–	56,394
Depreciation and amortisation	153,612	27,723	31,956	19,796	17,636	18,885	11,438	5,212	–	286,258
Impairment of trade receivables, net	12,648	–	10,702	54	(201)	–	2,889	(563)	–	25,529
Capital expenditure#	544,271	53,201	35,162	27,512	24,768	7,348	4,626	669,980	(20,900)	1,345,968
As at 31 December 2016										
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

\# 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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**8,820,887**	7,257,836
Contract revenue from renovation and installation works	**75,329**	34,552
Income from environmental engineering and other related services	**60,835**	21,945
Financial service income	**19,996**	10,783
	8,977,047	7,325,116
Other revenue, income and gains		
Bank interest income	**36,840**	24,897
Interest income from available-for-sale investments	**4,072**	–
Interest income from held-to-maturity investments	**1,615**	3,163
Total interest income	**42,527**	28,060
Government grants and subsidies	**16,193**	8,062
Gain on disposal of available-for-sale investments	**1,070**	–
Gain on disposal of held-to-maturity investments	**3,378**	–
Gain on early redemption of held-to-maturity investments	**–**	79
Gain on sale of raw materials	**3,274**	2,280
Exchange gain	**3,809**	–
Others	**12,253**	4,357
	82,504	42,838

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

4. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Interest expenses on bank and other loans	**100,241**	42,233
Less: Interest capitalised	**(1,284)**	(722)
	98,957	41,511

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Cost of inventories sold	**6,411,454**	5,049,127
Direct cost of renovation and installation works	**70,109**	24,323
Direct cost of environmental engineering and other related services	**35,669**	11,786
Direct cost of financial services	**508**	–
(Write-back)/write-down of inventories to net realisable value, net	**(1,997)**	56,394
Depreciation	**292,382**	267,462
Amortisation of prepaid land lease payments	**13,226**	12,451
Amortisation of other intangible assets	**8,760**	6,345
Total depreciation and amortisation	**314,368**	286,258
Research and development costs	**294,487**	219,464
Loss on disposal of items of property, plant and equipment	**7,588**	4,070
Impairment of property, plant and equipment	**3,848**	–
Loss on fair value changes of derivative financial instruments	**4,988**	–
Impairment of trade receivables, net	**–**	25,529
Foreign exchange differences, net	**(3,809)**	17,044

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Current tax		
PRC	**239,233**	255,821
Overprovision in prior years		
PRC	**(24,852)**	(22,581)
Other jurisdictions	**–**	(565)
	(24,852)	(23,146)
Deferred tax	**59,620**	42,510
Total tax charge for the period	**274,001**	275,185

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% (six months ended 30 June 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 period (six months ended 30 June 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 periods, 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 periods.

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

	Six months ended 30 June			
	2017		2016	
	HK$ per share	***HK$'000***	*HK$ per share*	*HK$'000*
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

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Earnings		
Profit attributable to owners of the Company used in the basic and diluted earnings per share calculation	**971,042**	912,380

	Number of Shares Six months ended 30 June	
	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**	3,106,115,065

The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 2017 includes 3,102,418,400 ordinary shares in issue as at 31 December 2016 (six months ended 30 June 2016: 3,110,255,400 ordinary shares in issue as at 31 December 2015).

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2017 and 2016 respectively.

9. AVAILABLE-FOR-SALE INVESTMENTS

	Note	**30 June 2017** *RMB'000*	31 December 2016 *RMB'000*
Listed investments:			
Debt securities listed in Hong Kong	*(i)*	**36,169**	–
Equity securities listed in PRC		**460,862**	515,777
Equity securities listed in Hong Kong		**737,400**	–
Non-cumulative redeemable preference shares listed in Hong Kong		**35,632**	44,991
Perpetual capital securities listed in Hong Kong		**8,758**	30,597
		1,278,821	591,365
Unlisted investments:			
Equity securities	*(ii)*	**27,141**	15,625
Convertible notes	*(iii)*	**124,731**	123,824
		151,872	139,449
		1,430,693	730,814

Note:

(i) The debt securities carry fixed interest at rates ranging from 6.35% to 8.00% per annum, payable semi-annually in arrears and will mature from March 2019 to March 2020.

(ii) The unlisted equity securities are issued by private entities established in PRC and in US. 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.

(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 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.

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

(iv) At the end of the reporting period, certain of the Group's available-for-sale investments with an aggregate net carrying amount of RMB35,632,000 (31 December 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 30 June 2017 (31 December 2016: Nil).

10. HELD-TO-MATURITY INVESTMENTS

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Debt securities, at amortised cost:		
Listed in Hong Kong	**–**	59,655

The Group reclassified debt securities with amortised cost of RMB34,290,000 from held-to-maturity investments to available-for-sale investments during the period 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

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Non-current		
Finance lease receivables	**57,799**	63,191
Current		
Finance lease receivables	**44,504**	31,886
Factoring receivables	**186,725**	173,640
Receivables from supply-chain financing services	**135,100**	120,238
	366,329	325,764
	424,128	388,955

(A) Finance lease receivables

	Minimum lease receivables		Present value of minimum lease receivables	
	30 June 2017	31 December 2016	**30 June 2017**	31 December 2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Not more than 1 year	**49,425**	36,457	**44,504**	31,886
Over 1 year but within 5 years	**60,012**	66,819	**57,799**	63,191
	109,437	103,276	**102,303**	95,077
Less: Unearned finance income	**(7,134)**	(8,199)		
Present value of minimum lease receivables	**102,303**	95,077		

The Group's finance lease receivables are denominated in Renminbi. The effective interest rates of the receivables range from 5.80% to 10.69% (31 December 2016: 5.89%) per annum. There was no unguaranteed residual value of assets leased under finance leases and no contingent rent arrangement that needed to be recognised (31 December 2016: Nil).

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

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**102,303**	95,077

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

Cash deposits from certain finance lease customers are collected upfront based on a certain percentage of the entire value of the lease contracts. When those lease contracts expire and all related liabilities and obligations are fulfilled by the customers, the cash deposits will be returned in full. The balance of the cash deposits can also be used to settle any outstanding lease receivables for the corresponding lease contracts. The collected cash deposits of RMB11,800,000 are included in "other long-term payables" in the condensed consolidated statement of financial position (31 December 2016: RMB10,000,000).

(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% (31 December 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:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
With a residual maturity of:		
Not more than 3 months	**60,925**	37,640
Over 3 months to 6 months	**120,000**	36,000
Over 6 months to 12 months	**5,800**	100,000
	186,725	173,640

At the end of the reporting period, none of the Group's factoring receivables was either past due or impaired (31 December 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 granted to each customer is generally ranging from 30 to 180 days.

These receivables carry interest at rates ranging from 5.40% to 9.90% (31 December 2016: 5.40% to 7.20%) per annum.

Certain receivables from supply-chain financing services amounting to RMB50,000,000 (31 December 2016: RMB49,938,000) are 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:

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
With a residual maturity of:		
Not more than 3 months	**100,800**	83,238
Over 3 months to 6 months	**34,300**	37,000
	135,100	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 (31 December 2016: Nil).

The directors believed that no provision for impairment was necessary for loan receivables (31 December 2016: Nil) as there had not been any significant changes in the credit quality of these customers and these balances were still considered fully recoverable.

12. INVENTORIES

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Raw materials	**1,303,483**	1,170,591
Work in progress	**315,183**	355,142
Finished goods	**1,439,790**	1,221,332
	3,058,456	2,747,065

13. TRADE AND BILLS RECEIVABLES

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Trade receivables	**1,551,045**	1,254,357
Bills receivable	**38,621**	383,921
Less: Provision for impairment	**(121,030)**	(121,030)
	1,468,636	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 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 provision, is as follows:

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Not more than 3 months	**793,205**	786,926
Over 3 months to 6 months	**195,404**	309,326
Over 6 months to 12 months	**195,583**	153,734
Over 1 year to 2 years	**200,322**	218,297
Over 2 years to 3 years	**53,327**	42,585
Over 3 years	**30,795**	6,380
	1,468,636	1,517,248

14. TRADE AND BILLS PAYABLES

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Trade payables	**802,972**	784,645
Bills payable	**2,571,082**	2,818,517
	3,374,054	3,603,162

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

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

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
Not more than 3 months	**822,869**	828,384
Over 3 months to 6 months	**1,085,039**	230,293
Over 6 months to 12 months	**1,398,520**	2,495,188
Over 1 year to 2 years	**18,847**	6,614
Over 2 years to 3 years	**9,017**	14,962
Over 3 years	**39,762**	27,721
	3,374,054	3,603,162

15. BORROWINGS

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
Current		
Unsecured bank loans	**2,705,748**	2,109,925
Current portion of long term unsecured bank loans	**109,423**	131,479
Current portion of long term unsecured syndicated loans	**–**	2,010,750
Secured bank loans	**35,575**	–
	2,850,746	4,252,154
Non-current		
Unsecured bank loans	**409,939**	422,907
Unsecured syndicated loans	**4,012,851**	–
Secured bank loans	**19,800**	7,500
Loans from non-controlling interests	**12,000**	12,000
	4,454,590	442,407
	7,305,336	4,694,561

Note:

(a) The effective interest rates of the Group's borrowings range from 1.85% to 4.99% (31 December 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 (31 December 2016: unsecured, interest-free and will mature in September 2019).

(d) At the end of the reporting period, the Group's borrowings denominated in US dollar, HK dollar, Canadian dollar, Australian dollar and Renminbi are equivalent to RMB5,081,960,000 (31 December 2016: RMB3,478,442,000), RMB1,282,951,000 (31 December 2016: RMB876,620,000), RMB10,426,000 (31 December 2016: Nil), RMB338,644,000 (31 December 2016: Nil) and RMB591,355,000 (31 December 2016: RMB339,499,000), respectively.

16. SHARE CAPITAL

	30 June 2017	31 December 2016
Authorised:		
20,000,000,000 (31 December 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 (31 December 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

17. COMMITMENTS

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

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Contracted, but not provided for:		
Land, property, plant and equipment and investment properties	**1,035,393**	875,036

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE OVERVIEW

China Lesso is a leading large-scale industrial group that manufactures building materials and interior decoration products in mainland China. The Group has 22 advanced production bases in 16 provinces which support its nationwide sales network. The Group endeavours to enhance its strategic business presence and distribution and sales network, offering a comprehensive range of diverse, quality products and sales services.

Quality products, strong brand influence, advanced technologies in research and development and a wide sales network have reinforced the Group's market leadership in China, especially southern China. In recent years, the Group has been actively developing business in other local markets and overseas markets. In addition to steadily enhancing the core business of pipe manufacturing, the Group has capitalised on the trends of the market by further expanding its new business of building materials and interior decoration products. Such products include systems of doors and windows, sanitary ware products and integrated kitchens. As a result, the Group is able to provide customers with one-stop services, and building materials and interior decoration products with high performance-price ratios.

The five letters of LESSO represent our corporate philosophy of "Link, Easy, Safe, Share, and Open", symbolising the Group's commitment to create a relaxing life for dwellers. Over the years, China Lesso has strengthened its premium brand position and has gained recognition, winning numerous quality certificates from the state and professional institutes as well as such awards as China First-choice Brand of Green Buildings 2016 and Top Ten China Plastic Enterprises of Light Industry. Our leading brand position fully demonstrates the Group's strength in product research and development and excellent product quality, laying a solid foundation for the Group in mainland China and overseas markets for further expansion of China Lesso's sales network.

MARKET OVERVIEW

During the period under review, China's economic growth exceeded expectations. As the country pressed ahead with the supply-side reform, its economic growth has become steadier. The Chinese government continued to commit more support to the country's infrastructure and, as a result, a number of construction projects and major hydraulic engineering projects were started. Specifically, construction of underground pipeline utility tunnel accelerated, and a new type of urbanisation was being pursued, thus boosts the higher demand for plastic pipes and pipe fittings.

To promote the modernisation of agriculture and construction of a new type of rural villages, the plan for "Beautiful Villages" was proposed at the Fifth Plenum of the 16th Central Committee of the Communist Party of China ("CPC") with the aim of constructing sustainable rural villages with scientific planning, advanced production, prosperous life-style, and agreeable living and working environment, and of stepping up its efforts in rural ecological construction, environmental protection, and comprehensive improvement. Included in its efforts was the construction of such infrastructure as water supply, power supply, gas supply, drainage ditch, sewage collection pipe network and sewage treatment so as to advance the integration of urban and rural communities. Strengthening rural infrastructure construction was also prioritized among the tasks of the year in the 2017 Report on the Work of the Government by the State Council, which promised to increase water supply to better ensure access to safe drinking water, intensify efforts to renovate dilapidated houses, improve the rural living environment, and construct beautiful villages. The relevant construction planning has added impetus to the growth in demand for plastic pipes and pipe fittings, thus boding well for the relevant prospect.

During the period under review, the Chinese government steadily implemented the construction of "Underground Pipeline Utility Tunnel" and carried out the scheme of "Sponge City", creating favorable conditions for the application of plastic pipes. As of April 2017, under the pilot project of Underground Pipeline Utility Tunnels, construction of 687 kilometers of the tunnels were started, with 260 kilometers of tunnels constructed and more than RMB40 billion invested. Meanwhile, under the pilot project of Sponge City, the 420 square kilometers of such kind of cities were constructed, with approximately RMB54.4 billion invested. In China, 370 cities have put forward special plans for the construction of Sponge City. In May 2017, the Ministry of Housing and Urban-Rural Development and the National Development and Reform Commission jointly published "13th Five-year Plan for Construction of National Urban Municipal Infrastructure", which aimed at having 2% of the total lengths of urban streets and roads built with underground pipeline utility tunnels by the year 2020; and having 20% of the area of the cities constructed to meet the requirements of Sponge City by the same year. In April 2017, the State Council set up Xiongan New Area which features the Underground Pipeline Utility Tunnel as an example. The market estimated that the budget for the project will reach RMB100 billion.

“13th Five-year Plan for Construction of National Urban Municipal Infrastructure”also stipulated the national development goals, planning tasks and key projects in respect of infrastructure such as water supply, heat supply and flood control and drainage. Under such plans, 93,000 kilometers of new water supply pipe-networks and 95,000 kilometers of new sewage pipe-networks will be constructed; 23,000 kilometers of old sewage pipe-networks will be renovated; 41,000 kilometers of new centralised heating pipeline network will be built; 137,000 kilometers of pipes for transmission of gas and 112,400 kilometres of urban storm drainage pipe-networks will be constructed. In addition, since June 2017, severe floods have afflicted 12 provinces in China, including Hunan, Jiangxi, Hubei, Sichuan, and Guizhou, and restoration of infrastructure in such disaster-hit areas is underway. The foregoing large infrastructure construction projects will drive both the new type of urbanisation and regional economy, and will satisfy the basic needs of people’s livelihood. They will also generate enormous demand for pipes, which presents opportunities for the pipe industry.

2017 is a critical year for the implementation of the“Action Plan for Prevention and Control of Water Pollution” and the progress in certain phases of the plan as it is driven by policies and market demands. The recently amended Water Pollution Prevention and Control Law of the People’s Republic of China stipulated and urged the fulfillment of the responsibilities of local governments at all levels for ensuring water quality in the environment. Moreover, on 8 June 2017, the Ministry of Environmental Protection issued the List of Pipeline Projects of the Central Government’s Water Pollution Prevention and Control Projects for 2017, which listed over 3,300 specific engineering projects which call for a total investment of approximately RMB300 billion. According to the Ministry of Environmental Protection, it will require a total investment of approximately RMB4.6 trillion to complete the “Action Plan for Prevention and Control of Water Pollution”, and the increase in investment in sewage treatment is estimated to add approximately RMB1.9 trillion of output value for the environmental protection industry.

In the 1H 2017, local governments in China continued with the administrative measures to regulate the real estate industry, subjecting more cities to such measures. The governments of the first- and second-tier cities imposed housing price controls, and those in the third- and fourth-tier cities pressed ahead with the policy of inventory clearance. This resulted in deceleration of growth in property investment. The slowdown in real estate investment led to a sluggish market in building materials and interior decoration products in the first half of the year. However, with the deepening of the supply-side reform and the implementation of the new-type of urbanisation, the decoration of new flats and refurbishment of second-hand flats has created new opportunities for the building materials and interior decoration industry.

During the period under review, China furthered its cooperation with countries covered by its Belt and Road Initiative in infrastructure construction and trade. On top of this, the Chinese government stepped up its efforts to increase investment in various industries so as to facilitate trade. It also strengthened financial cooperation with the relevant countries to facilitate financing. As a result, the overseas businesses have become the growth drivers for Chinese enterprises. Many countries and regions covered by the Belt and Road Initiative are still at the early stage of urbanisation and thus there is still huge potential for infrastructure construction. This will generate substantial demand for plastic pipes and pipe fittings, building materials, hardware, and electrical equipment.

BUSINESS REVIEW

The plastic pipes and pipe fittings business has always been the principal business of China Lesso. During the period under review, the business maintained its robust growth momentum as the Group proactively secured various infrastructure and livelihood projects from the government which boosted sales of plastic pipes and pipe fittings products. Moreover, the Group proactively participated in real estate projects in China to drive the building materials and interior decoration business. As of 30 June 2017, the Group's revenue increased by 22.6% year-on-year to RMB8,977 million (1H 2016: RMB7,325 million).

The table below sets out the breakdown of revenue by business unit for the six months ended 30 June 2017 and 2016:

	Revenue			**% of total revenue**	
	2017	2016		**2017**	2016
	RMB million	*RMB million*	***Change***		
Plastic Pipes and Pipe Fittings	**8,038**	6,605	*21.7%*	**89.5%**	90.2%
Building Materials and Interior Decoration Products	**560**	406	*37.7%*	**6.3%**	5.5%
Others#	**379**	314	*21.0%*	**4.2%**	4.3%
Total	**8,977**	7,325	*22.6%*	**100.0%**	100.0%

"Others" includes businesses of environmental engineering and other related services, financial services and others.

As at 30 June 2017, the number of independent and exclusive first-tier distributors of the Group across China increased to 2,150 (1H 2016: 2,135). While continuing to focus its marketing efforts on southern China, the Group took initiatives to develop other regional markets. In particular, the production base in Hunan which has come close to completion and will commence operation in the 2H 2017, is expected to consolidate the Group's presence in the local market. Furthermore, the Group remained committed to improving the facilities at its production bases, namely by increasing the automation level and upgrading production technology and equipment there. During the period under review, revenue from southern China and those from other regions accounted for 58.1% and 41.9% respectively (1H 2016: 60.2% and 39.8%, respectively) of the Group's total revenue.

The table below sets out the breakdown of revenue by region for the six months ended 30 June 2017 and 2016:

	Revenue			**% of total revenue**	
	2017	2016		**2017**	2016
Region#	***RMB million***	*RMB million*	***Change***		
Southern China	**5,215**	4,406	*18.4%*	**58.1%**	60.2%
Southwestern China	**860**	698	*23.2%*	**9.6%**	9.5%
Central China	**906**	800	*13.3%*	**10.1%**	10.9%
Eastern China	**624**	406	*53.7%*	**6.9%**	5.5%
Northern China	**584**	429	*36.1%*	**6.5%**	5.9%
Northwestern China	**299**	235	*27.3%*	**3.3%**	3.2%
Northeastern China	**179**	112	*59.5%*	**2.0%**	1.5%
Outside China	**310**	239	*29.8%*	**3.5%**	3.3%
Total	**8,977**	7,325	*22.6%*	**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 business

The Group offered a comprehensive range of quality plastic pipes and pipe fittings, which can be applied in the fields of water supply, drainage, power supply, communications, gas transmission, agriculture, aquaculture, floor heating and fire services. During the period under review, revenue from the plastic pipes and pipe fittings business increased by 21.7% year on year to RMB8,038 million from RMB6,605 million for the same period last year, accounting for 89.5% of the Group's total revenue (1H 2016: 90.2%).

The table below sets out the breakdown of revenue from plastic pipes and pipe fittings business by product application for the six months ended 30 June 2017 and 2016:

	Revenue			% of total revenue	
	2017	2016		**2017**	2016
	RMB million	*RMB million*	***Change***		
Water supply	**3,087**	2,643	*16.8%*	**38.4%**	40.0%
Drainage	**3,133**	2,541	*23.3%*	**39.0%**	38.5%
Power supply and telecommunications	**1,431**	1,126	*27.0%*	**17.8%**	17.1%
Gas transmission	**135**	75	*81.1%*	**1.7%**	1.1%
Others#	**252**	220	*14.3%*	**3.1%**	3.3%
Total	**8,038**	6,605	*21.7%*	**100.0%**	100.0%

“Others” includes 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 the six months ended 30 June 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	**7,629**	6,991	*9.1%*	**702,115**	626,413	*12.1%*	**5,357**	4,379	*22.3%*
Non-PVC products#	**15,980**	15,654	*2.1%*	**167,766**	142,198	*18.0%*	**2,681**	2,226	*20.4%*
Total	**9,240**	8,593	*7.5%*	**869,881**	768,611	*13.2%*	**8,038**	6,605	*21.7%*

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

In recent years, the Chinese government continued to invest heavily in domestic infrastructures and launched a range of infrastructure projects to stimulate economic growth. This has boosted the demand for plastic pipes and pipe fittings. During the period under review, sales volume of plastic pipes and pipe fittings increased by 13.2% year on year. In terms of product materials, sales volume of PVC products increased by 12.1% year on year to 702,115 tonnes (1H 2016: 626,413 tonnes) while that of non-PVC products increased by 18.0% year on year to 167,766 tonnes (1H 2016: 142,198 tonnes). Revenue from sales of PVC products increased by 22.3% year on year to RMB5,357 million (1H 2016: RMB4,379 million) while that of non-PVC products increased by 20.4% year on year to RMB2,681 million (1H 2016: RMB2,226 million).

The Group has been pricing its products on a cost-plus basis. Due to a year-on-year increase of 10.9% in average cost of raw materials in the 1H 2017, the Group increased the average selling price of plastic pipes and pipe fittings by 7.5% year on year to RMB9,240 per tonne (1H 2016: RMB8,593 per tonne), and the business unit recorded a gross profit margin of 29.1% (1H 2016: 31.3%; full year of 2016: 28.9%). The Group through economies of scale and bulk procurement from suppliers, seeking to maintain a reasonable and stable gross profit margin.

Building materials and interior decoration products

The Group captured the opportunities in the country's new type of urbanisation by actively developing the business of building materials and interior decoration products. Such business provides various types of integrated building materials and interior decoration products as well as the solutions for a diverse range of residential property projects. The products include sanitary ware products, integrated kitchens, systems of doors and windows and decorative boards, etc. Revenue from this business unit increased by 37.7% year on year to RMB560 million (1H 2016: RMB406 million), accounting for 6.3% of the Group's total revenue.

The Group will take effort to widen the product range of this business unit, which is expected to remain as one of the highlights in the Group's sales in the future and will gradually account for a higher proportion of the Group's total revenue.

Environmental protection business

To capitalise on the Chinese government's environmental initiatives, the Group diversified into environmental protection business. The Group is operating projects in municipal sewage, river treatment, soil restoration, "Underground Pipeline Utility Tunnel" and "Sponge City" as well as the production and sales of integrated water purification equipment.

As a supplier of plastic pipe and pipe fitting products, the Group can satisfy the demand for plastic pipes and pipe fittings from such projects. Therefore, the environmental protection industry will bring long-term commercial synergy to the Group's plastic pipes and pipe fittings business. The Group is committed to becoming a one-stop environmental service provider so as to contribute to the green life of residents.

Capital expenditure

The capital expenditure for the 1H 2017 was approximately RMB1.50 billion, which was partly used for, among others, automation equipment upgrades, expansion of the existing production bases, construction of a production base in Hunan and acquisition of overseas properties.

The Group continued to promote production automation technologies to make its pipe production fully mechanised. This is aimed at improving the capacity and quality of the production. During the period under review, the Group's annual designed capacity for the production of plastic pipes and pipe fittings increased to 2.24 million tonnes from 2.20 million tonnes in 2016, with a capacity utilisation rate of 80.3%. When the production base in Hunan is put into operation in the 2H 2017, the 2017 total annual designed production capacity is estimated to increase by 100,000 tonnes to 2.30 million tonnes.

STRATEGIES FOR THE FUTURE

In the 1H 2017, China's economy stabilised and showed signs of improvement and this development is expected by the market to gain momentum in the second half of the year. Nevertheless, structural problems accumulated in the country's economy remain pronounced while foreign economies remain unstable and uncertain. As a result, downward pressure on the economy still cannot be underestimated. The Group remains cautiously optimistic about its business prospect and will adopt the following initiatives in actively developing building materials and interior decoration products and environmental businesses while further consolidating its plastic pipes and pipe fittings business. Such initiatives can fuel its sustainable business growth in the future.

Expand production capacity and improve productivity

The Group has been aligning capacity expansion with its development and actual needs to meet market demand. For the existing production bases, the Group will further improve machinery and ancillary equipment, promote automation and accelerate the production process, so as to expand production capacity and improve productivity. Meanwhile, the Group is preparing to put its production base in Hunan into operation which is scheduled for the second half of this year.

Press ahead with R&D to improve product quality

Profound changes have been happening in China's building materials and interior decoration products industry, and the upgrading of the industry is the direction of the development. To adapt itself to this trend, the Group will strive to enhance its competitiveness in the research and development of products and technologies, accelerate the transformation and the upgrading of its businesses, and proactively expand its distribution network and market coverage. With a leading R&D team in place, the Group will step up investment in innovations and R&D, focusing on cutting-edge technologies in the building materials and interior decoration products industry to secure its technological leadership among peers with an aim of offering a diverse range of quality products to the customers.

Develop environmental protection business to achieve synergies

Environmental policies adopted by the Chinese government under the 13th Five-year Plan have presented immense opportunities for the environmental protection industry to tap a vast market with huge potential for growth. The Group will aggressively develop environmental business while continuously improving its operation, technology, qualification and project management practices. The Group will exert itself to foster new growth drivers to pursue cross-segment synergies and income diversification.

Develop "Lesso Home" business

The Group has purchased or leased properties in major cities in the US, Canada, and Australia for developing "Lesso Home" business in future.

RESULTS PERFORMANCE

For the six months ended 30 June 2017, benefited from the strong demand for the plastic pipes and pipe fittings, the Group's revenue increased by 22.6% year-on-year to RMB8,977 million (1H 2016: RMB7,325 million). The gross profit rose by 12.7% to RMB2,461 million (1H 2016: RMB2,183 million), with gross profit margin dropped by 2.4 percentage points to 27.4% (1H 2016: 29.8%).

The Group recruited more staff for business expansion and tapping into new markets. This resulted in a corresponding increase in expenditure, including staff costs, 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 RMB1,638 million (1H 2016: RMB1,511 million), representing an increase of 8.4% year-on-year and the EBITDA ratio was 18.2% (1H 2016: 20.6%; full year of 2016: 18.1%) in the 1H 2017.

The Group's effective tax rate decreased to 22.4% during the period under review (1H 2016: 23.2%). Profit before tax increased by 3.5% year-on-year to RMB1,225 million (1H 2016: RMB1,184 million) while profit attributable to the owners of the Company increased by 6.4% to RMB971 million (1H 2016: RMB912 million). Basic earnings per share increased by 6.9% year-on-year to RMB0.31 (1H 2016: RMB0.29).

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 30 June 2017, the Group had total debts (i.e. total borrowings) of approximately RMB7,305 million, of which 69.6% was denominated in US dollar, 17.6% was denominated in HK dollar, 8.1% was denominated in Renminbi, 4.6% was denominated in Australian dollar and 0.1% was denominated in Canadian dollar. The Group's borrowings are subject to effective interest rates ranging from 1.85% to 4.99% per annum with maturity periods ranging from within one year to more than five years.

As at 30 June 2017, the Group's current assets and current liabilities were approximately RMB10,984 million and RMB8,096 million respectively. The Group's Current Ratio increased to 1.36 from 1.03 as at 31 December 2016, while the Quick Ratio increased to 0.98 from 0.75 as at 31 December 2016. The Group's total equity increased to approximately RMB12,085 million. The Group's Gearing Ratio stood at a healthy level of 37.7%.

With cash and bank deposits, including restricted cash, of approximately RMB4,357 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 period.

CHARGE ON ASSETS

As at 30 June 2017, 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.

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

As at 30 June 2017, the Group's investment properties were approximately RMB 3,517 million, which are under the planning stage of development.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES

As at 30 June 2017, the Group employed a total of approximately 10,000 employees including directors. Total staff costs were RMB391 million during the period. 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 GOVERNANCE AND OTHER INFORMATION

AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting policies adopted by the Group and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2017. Such condensed consolidated financial statements have not been audited but have been reviewed by the independent auditor of the Company, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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 period.

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 period. 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.

EVENTS AFTER THE REPORTING PERIOD

(A) 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, 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.

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.

(B) Pursuant to the Company's announcement dated 7 July 2017, Guangdong Lesso Mall Co., Ltd.* ("Lesso Co"), an indirectly wholly-owned subsidiary of the Company, entered into an agreement with a company under the common control of a director for the disposal of all its equity interest in Guangdong Lesso Hardware & Building Materials Co., Ltd.*, a 75%-owned subsidiary of Lesso Co, at a cash consideration of RMB56,338,000, which is subject to adjustment as detailed in the announcement. It is estimated that the Group will record a gain of approximately RMB2,141,000 from the disposal.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the six months ended 30 June 2017, the Company or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange (www.hkex.com.hk) and the Company (www.lesso.com). The 2017 interim 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, 21 August 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 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 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
"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$0.05 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Taiwan”	the Republic of China
“tonne(s)”	a unit measuring weight, equal to 1,000 kilograms
“US”	the United States of America
“US$”	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.