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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)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

The Board is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2013.

HIGHLIGHTS

Compared to the last year financial results:

- Revenue increased by 20.0% to RMB13,071 million
- Gross profit increased by 23.3% to RMB3,266 million
- Profit for the year increased by 16.8% to RMB1,438 million
- Basic earnings per share was RMB0.48, increased by 17.1%
- The payment of a final dividend of HK12 cents per share is recommended for the year ended 31 December 2013

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
REVENUE	3	**13,070,547**	10,891,363
Cost of sales		**(9,804,979)**	(8,242,055)
Gross profit		**3,265,568**	2,649,308
Other revenue, income and gains	3	**155,475**	115,774
Selling and distribution expenses		**(722,790)**	(543,681)
Administrative expenses		**(503,959)**	(381,037)
Other expenses		**(276,170)**	(212,169)
Finance costs	4	**(151,003)**	(146,231)
Share of profit of a joint venture		**390**	315
PROFIT BEFORE TAX	5	**1,767,511**	1,482,279
Income tax expense	6	**(329,895)**	(251,008)
PROFIT FOR THE YEAR		**1,437,616**	1,231,271
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
Changes in fair value		**–**	34,732
Reclassification adjustments for gains on disposal		**–**	(14,710)
		–	20,022
Exchange differences on translation of foreign operations		**6,260**	(2,191)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**6,260**	17,831
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,443,876**	1,249,102

	Note	**2013**	2012
		RMB'000	*RMB'000*
Profit attributable to:			
Owners of the Company		**1,449,261**	1,238,322
Non-controlling interests		**(11,645)**	(7,051)
		1,437,616	1,231,271
Total comprehensive income attributable to:			
Owners of the Company		**1,455,556**	1,255,835
Non-controlling interests		**(11,680)**	(6,733)
		1,443,876	1,249,102
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	*8*		
Basic		**RMB0.48**	RMB0.41
Diluted		**RMB0.47**	RMB0.40

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	**2013** *RMB'000*	2012 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**4,452,109**	3,288,261
Prepaid land lease payments		**996,690**	954,279
Other intangible assets		**33,927**	9,771
Deposits paid for the purchase of land, property, plant and equipment		**169,870**	129,705
Interest in a joint venture		**5,676**	5,286
Held-to-maturity investments	*9*	**231,650**	279,006
Deferred tax assets		**9,162**	3,575
Total non-current assets		**5,899,084**	4,669,883
CURRENT ASSETS			
Inventories	*10*	**2,434,049**	1,766,133
Trade and bills receivables	*11*	**1,037,629**	1,009,534
Prepayments, deposits and other receivables		**720,352**	405,227
Held-to-maturity investments	*9*	**17,351**	9,684
Cash and bank deposits		**2,189,242**	1,922,325
Total current assets		**6,398,623**	5,112,903
CURRENT LIABILITIES			
Trade and bills payables	*12*	**861,416**	512,054
Other payables and accruals		**1,252,674**	832,388
Bank loans and other borrowings	*13*	**1,080,092**	595,799
Tax payable		**103,638**	98,635
Total current liabilities		**3,297,820**	2,038,876
NET CURRENT ASSETS		**3,100,803**	3,074,027
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,999,887**	7,743,910

	Notes	**2013** *RMB'000*	2012 *RMB'000*
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	*13*	**1,607,024**	1,628,783
Deferred tax liabilities		**78,418**	64,635
Deferred income		**58,502**	22,574
Total non-current liabilities		**1,743,944**	1,715,992
Net assets		**7,255,943**	6,027,918
EQUITY			
Issued capital	*14*	**134,316**	132,660
Reserves		**7,105,422**	5,877,373
Equity attributable to owners of the Company		**7,239,738**	6,010,033
Non-controlling interests		**16,205**	17,885
Total equity		**7,255,943**	6,027,918

NOTES TO FINANCIAL STATEMENTS

1.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared on a historical cost convention. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributable to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 – *Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 – *Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS1 – *Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009 – 2011 Cycle	*Amendments to a number of HKFRSs issued in June 2012*

Except as described below, the application of these new and revised HKFRSs in the current year 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 financial statements.

Amendments to HKAS 1 – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the statement of comprehensive income has been renamed and the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

2. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of plastic pipes and pipe fittings. For management purposes, the Group's businesses are organised by geographical area based on the location of the customers and assets are attributable to the geographical unit based on the location of the assets. The Group has eight reportable operating segments as follows:

(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 exchange differences, finance costs, interest income, gain on early redemption of held-to-maturity investments, gain on disposal of available-for-sale investments, gain on repurchase of the Senior Notes, 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, held-to-maturity investments, 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 both in the PRC and foreign countries.

During the years ended 31 December 2013 and 2012, 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 2013

	Southern China	Southwestern China	Central China	Eastern China	Northern China	Northwestern China	Northeastern China	Outside China	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:										
Sales to external customers	7,847,960	1,318,881	1,307,612	659,740	874,806	471,552	303,309	228,372	–	13,012,232
Intersegment sales	1,382,313	256,546	393,213	75,151	136,046	99,519	89,799	327,938	(2,760,525)	–
	9,230,273	1,575,427	1,700,825	734,891	1,010,852	571,071	393,108	556,310	(2,760,525)	13,012,232
Revenue from construction contracts	58,315	–	–	–	–	–	–	–	–	58,315
Total	9,288,588	1,575,427	1,700,825	734,891	1,010,852	571,071	393,108	556,310	(2,760,525)	13,070,547
Segment results	2,283,550	363,984	428,642	156,513	227,889	113,142	66,354	97,964	(472,470)	3,265,568
Reconciliations:										
Exchange gain										44,009
Finance costs										(151,003)
Interest income										70,586
Gain on early redemption of held-to-maturity investments										2,864
Share of profit of a joint venture										390
Unallocated income and expenses										(1,464,903)
Profit before tax										1,767,511
Segment assets	5,553,271	778,407	995,223	547,182	512,218	671,442	555,901	230,982	–	9,844,626
Reconciliations:										
Interest in a joint venture										5,676
Held-to-maturity investments										249,001
Deferred tax assets										9,162
Cash and bank deposits										2,189,242
Total assets										12,297,707
Other segment information:										
Depreciation and amortisation	181,813	31,641	40,011	21,321	28,550	27,318	22,876	6,808	–	360,338
Impairment of trade receivables, net	12,750	–	(359)	–	8,180	–	–	1,574	–	22,145
Write-down of inventories to net realisable value	9,591	–	–	–	–	–	–	257	–	9,848
Capital expenditure[#]	1,016,603	126,297	148,415	150,892	68,283	64,057	42,554	17,671	(16,910)	1,617,862

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

Operating segment information for the year ended 31 December 2012

	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	6,881,666	1,069,646	1,035,479	549,437	688,821	302,663	222,219	141,432	–	10,891,363
Intersegment sales	968,970	200,212	262,610	69,362	146,614	57,196	81,557	127,516	(1,914,037)	–
Total	7,850,636	1,269,858	1,298,089	618,799	835,435	359,859	303,776	268,948	(1,914,037)	10,891,363
Segment results	1,921,068	280,403	365,778	129,485	177,330	65,949	33,519	39,399	(363,623)	2,649,308
Reconciliations:										
Exchange loss										(618)
Finance costs										(146,231)
Interest income										52,516
Gain on disposal of available-for-sale investments										14,710
Gain on repurchase of the Senior Notes										4,259
Share of profit of a joint venture										315
Unallocated income and expenses										(1,091,980)
Profit before tax										1,482,279
Segment assets	4,086,718	616,238	839,473	313,717	535,307	533,904	520,106	117,447	–	7,562,910
Reconciliations:										
Interest in a joint venture										5,286
Held-to-maturity investments										288,690
Deferred tax assets										3,575
Cash and bank deposits										1,922,325
Total assets										9,782,786
Other segment information:										
Depreciation and amortisation	118,563	25,155	36,253	12,611	25,061	14,488	16,524	3,919	–	252,574
Impairment of trade receivables, net	9,250	–	671	–	–	–	–	–	–	9,921
Write-back of inventories to net realisable value	(488)	–	–	–	–	–	–	–	–	(488)
Capital expenditure#	959,435	220,173	134,853	23,221	48,667	194,669	103,345	21,149	(7,028)	1,698,484

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

3. REVENUE, OTHER REVENUE, INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts (net of value-added tax, if any), and an appropriate proportion of contract revenue from construction contracts during the year.

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

	2013	2012
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**13,012,232**	10,891,363
Revenue from construction contracts	**58,315**	–
	13,070,547	10,891,363
Other revenue, income and gains		
Bank interest income	**23,067**	34,128
Interest income from held-to-maturity investments	**47,519**	18,388
Total interest income	**70,586**	52,516
Government grants and subsidies	**20,769**	25,617
Gain on early redemption of held-to-maturity investments	**2,864**	–
Gain on disposal of available-for-sale investments	**–**	14,710
Gain on repurchase of the Senior Notes	**–**	4,259
Dividend income	**–**	432
Exchange gain	**44,009**	–
Others	**17,247**	18,240
	155,475	115,774

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

4. FINANCE COSTS

	2013	2012
	RMB'000	*RMB'000*
Interest on:		
Bank loans	**16,082**	10,299
The Senior Notes	**134,921**	135,932
	151,003	146,231

5. PROFIT BEFORE TAX

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

	2013	2012
	RMB'000	*RMB'000*
Cost of inventories sold	**9,745,014**	8,242,543
Direct cost of construction work	**50,117**	–
Depreciation	**336,839**	237,634
Amortisation of prepaid land lease payments	**18,193**	13,594
Amortisation of other intangible assets	**5,306**	1,346
Total depreciation and amortisation	**360,338**	252,574
Research and development costs#	**244,202**	198,455
(Gain)/loss on disposal of items of land, other intangible assets, property, plant and equipment	**(5,776)**	120
Gain from a bargain purchase	**(157)**	–
Write-down/(write-back) of inventories to net realisable value	**9,848**	(488)
Impairment of trade receivables, net#	**22,145**	9,921
Foreign exchange differences, net	**(44,009)**	618

\# Research and development costs and the impairment of trade receivables, net are included in the "other expenses" in profit or loss.

6. INCOME TAX EXPENSE

	2013	2012
	RMB'000	*RMB'000*
Current tax		
Hong Kong	**2,158**	2,484
PRC	**346,087**	286,462
	348,245	288,946
Overprovision in prior years		
PRC	**(26,546)**	(28,437)
Deferred tax	**8,196**	(9,501)
Total tax charge for the year	**329,895**	251,008

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

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for both periods, if any, after offsetting the tax loss brought forward.

PRC corporate income tax

The Group's income tax provision in respect of its operations in Mainland China has been calculated at the applicable tax rates on the taxable profits for the years ended 31 December 2013 and 2012, based on the existing legislation, interpretations and practices in respect thereof.

7. DIVIDENDS

	2013	2012
	RMB'000	*RMB'000*
Dividends recognised as distributions during the year: 2012 final – HK12 cents (2012: 2011 final – HK12 cents) per ordinary share	**291,809**	293,834

The final dividend of HK12 cents in respect of the year ended 31 December 2013 (2012: final dividend of HK12 cents in respect of the year ended 31 December 2012) per ordinary share has been proposed by the Board 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 basic and diluted earnings per share are based on:

	2013	2012
	RMB'000	*RMB'000*
Earnings		
Profit attributable to owners of the Company used in the basic and diluted earnings per share calculation	**1,449,261**	1,238,322

	Number of Shares	
	2013	2012
Shares		
Weighted average number of ordinary shares of the Company in issue used in the basic earnings per share calculation	**3,050,089,873**	3,011,875,112
Effect of dilution – weighted average number of ordinary shares: share options	**38,037,067**	57,300,281
	3,088,126,940	3,069,175,393

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2013 includes 3,033,602,350 ordinary shares in issue as at 31 December 2012 (2012: 3,005,906,950 ordinary shares in issue as at 31 December 2011) and 16,487,523 shares (2012: 5,968,162 shares) derived from the weighted average of 42,129,390 ordinary shares (2012: 27,695,400 ordinary shares) issued upon the exercise of share options.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to owners of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

9. HELD-TO-MATURITY INVESTMENTS

	2013	2012
	RMB'000	*RMB'000*
Listed debt securities	**249,001**	288,690
Less: Amounts with maturity of less than one year shown under current assets	**(17,351)**	(9,684)
Amounts shown under non-current assets	**231,650**	279,006

The held-to-maturity investments represented debt securities listed on the Singapore Exchange Securities Trading Limited. These securities carry fixed interest at 9.38% to 13.75% (2012: 9.00% to 13.75%) per annum, payable semi-annually in arrears, and will mature from March 2014 to April 2018 (2012: November 2013 to April 2016).

As at 31 December 2013, the fair value of the debt securities based on quoted market price provided by a leading global financial market data provider was RMB260,137,000 (2012: RMB316,582,000).

10. INVENTORIES

	2013	2012
	RMB'000	*RMB'000*
Raw materials	**1,159,341**	885,211
Work in progress	**231,976**	78,784
Finished goods	**1,042,732**	802,138
	2,434,049	1,766,133

11. TRADE AND BILLS RECEIVABLES

	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**854,518**	779,354
Bills receivable	**218,041**	243,265
Less: Provision for impairment	**(34,930)**	(13,085)
	1,037,629	1,009,534

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 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 as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**609,315**	632,975
4 to 6 months	**284,077**	179,554
7 to 12 months	**103,761**	159,689
1 to 2 years	**36,359**	33,724
2 to 3 years	**3,350**	2,705
Over 3 years	**767**	887
	1,037,629	1,009,534

12. TRADE AND BILLS PAYABLES

	2013	2012
	RMB'000	*RMB'000*
Trade payables	**349,495**	375,488
Bills payable	**511,921**	136,566
	861,416	512,054

The trade payables are interest-free. The average credit period for trade purchases is 30 to 90 days.

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

	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**350,338**	483,943
4 to 6 months	**505,157**	23,520
7 to 12 months	**1,299**	1,542
1 to 2 years	**3,867**	2,562
2 to 3 years	**755**	299
Over 3 years	**–**	188
	861,416	512,054

13. BANK LOANS AND OTHER BORROWINGS

	2013		2012	
	Maturity	***RMB'000***	Maturity	*RMB'000*
Current				
Secured bank loans		**–**	2013	26,332
Unsecured bank loans	**2014**	**1,080,092**	2013	569,467
		1,080,092		595,799
Non-current				
Unsecured bank loans	**2015**	**61,200**	2015	42,873
The Senior Notes	**2016**	**1,545,824**	2016	1,585,910
		1,607,024		1,628,783
		2,687,116		2,224,582

	2013	2012
	RMB'000	*RMB'000*
Analysed into bank loans repayable:		
Within one year or on demand	**1,080,092**	595,799
In the second year	**61,200**	21,437
In the third to fifth years, inclusive	**–**	21,436
	1,141,292	638,672
Analysed into other borrowings repayable:		
In the third to fifth years, inclusive	**1,545,824**	1,585,910
	2,687,116	2,224,582

Notes:

(a) The effective interest rates on the Group's bank loans range from 1.21% to 6.30% (2012: 1.33% to 5.50%) per annum.

As at 31 December 2013, the Group's bank loans are denominated in US$, HK$ and RMB at aggregate amounts of RMB507,475,000 (2012: RMB194,682,000), RMB483,708,000 (2012: RMB291,906,000) and RMB150,109,000 (2012: RMB152,084,000), respectively.

As at 31 December 2012, the Group's secured bank loans were secured by the pledge of the Group's inventories with an aggregate net carrying amount of RMB26,332,000.

(b) The Senior Notes are listed on the Singapore Exchange Securities Trading Limited. They carry interest at 7.875% per annum (effective interest rate at 8.63% per annum), payable semi-annually in arrears on 13 May and 13 November, and will mature on 13 May 2016 unless redeemed earlier. The Company can at its option redeem all or a portion of the Senior Notes at any time prior to the maturity date in accordance with the purchase agreement.

The Senior Notes are guaranteed by certain of the Company's subsidiaries and secured by a first-priority fixed charge over the shares of those subsidiaries providing such guarantee.

The outstanding principal amount of the Senior Notes was US$258,880,000 as at 31 December 2013 (31 December 2012: US$258,880,000).

As at 31 December 2013, the fair value of the Senior Notes based on the quoted market price provided by leading global financial market data provider was RMB1,678,698,000 (2012: RMB1,706,766,000).

14. SHARE CAPITAL

Shares	2013	2012
Authorised:		
20,000,000,000 (2012: 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:		
3,075,731,740 (2012: 3,033,602,350) ordinary shares of HK$0.05 each	**HK$153,786,587**	HK$151,680,118
Equivalent to	**RMB134,316,000**	RMB132,660,000

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:			
As at 1 January 2012	3,005,906,950	150,295	131,537
Upon exercise of the share options (note)	27,695,400	1,385	1,123
As at 31 December 2012 and 1 January 2013	3,033,602,350	151,680	132,660
Upon exercise of the share options (note)	42,129,390	2,106	1,656
As at 31 December 2013	**3,075,731,740**	**153,786**	**134,316**

Note:

Pursuant to the exercise of the share options at the exercise price of HK$1.82 each granted by the Company, the Company issued a total of 42,129,390 ordinary shares (2012: 27,695,400 ordinary shares) of HK$0.05 each for a total cash consideration, before expenses, of approximately HK$76,675,000 (2012: HK$50,406,000) (approximately RMB60,284,000 (2012: RMB40,872,000) equivalent) during the year. The shares issued during the year rank pari passu in all respects with the then existing shares of the Company.

15. COMMITMENTS

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

	2013	2012
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Land, property, plant and equipment	**454,881**	320,969

CHAIRMAN'S STATEMENT

In the previous year, China achieved steady economic growth in a positive external environment amid the slow recovery of global economy. Economic indicators showed that the country registered a steady development pace. The Chinese government's accelerating urbanisation, increased investment in infrastructure, irrigation engineering works and construction of social security housing provided a fresh impetus to China Lesso's business. Capitalising on the market opportunities and favourable government policies, the Group leveraged its leading position in the industry and well-established brand, and expanded its nationwide sales network with refined segmentation of its target markets. It also enhanced its research and development and marketing capabilities. As a result, the Group achieved steady progress during the year under review.

For the year ended 31 December 2013, the Group's revenue rose by 20.0% to approximately RMB13,071 million, compared with RMB10,891 million in 2012. Profit attributable to owners of the Company grew by 17.0% to RMB1,449 million, compared with RMB1,238 million in 2012. The Board recommended the payment of a final dividend of HK12 cents per share for the year ended 31 December 2013.

In 2013, which was the third year of China's Twelfth Five-year Plan, urbanisation remained on top of the government's agenda. The national development programme stimulated demand for infrastructure facilities such as water supply, drainage, power supply and telecommunications. In addition, increased government efforts to construct social security housing, improve the livelihood of farmers and reform agriculture were also favourable to the businesses of plastic pipes and home decoration products. A brisk trade in the PRC property market during the year under review also contributed to the Group's business growth.

The aforesaid factors have resulted in stable growth in demand for building materials and home decoration products. During the year under review, the Group strengthened its existing clientele and developed new customers. It did so through finer market segmentation and expansion of its sales network. Meanwhile, it stepped up product research and development, improved product quality, and enhanced service standards, in a bid to boost customer satisfaction and loyalty. Moreover, the Group continued to optimise its production capacity and to augment the economies of scale. All these measures have consolidated its market shares and leading position.

Capitalising on the prospering PRC property market and the steadily rising proportion of pre-decorated flats, the Group continued to develop its new businesses of building materials and home decoration products. It supplies products, such as whole sets of doors and windows, sanitary products and integrated kitchens, to leading and well-known domestic property developers with an aim of nurturing the businesses into future growth drivers.

Looking into 2014, the Group believes that the country's urbanisation, renovation and conversion of its infrastructure facilities, as well as steady, healthy development of its property sector will continue their momentum. These trends are expected to lead to stable growth in the demand for building materials, plastic pipes and home decoration products. The Group will actively capture business opportunities by expanding its nationwide sales network, fostering the business of home decoration products and optimising its production capacity. These measures are aimed at achieving healthy business development, fortifying the Group's market leadership and generating good returns to Shareholders.

The key to the Group's success is its wealth of talent. On behalf of the Board, I would like to take this opportunity to express sincere gratitude to all the employees for their relentless efforts and contribution to the Group's development during the past year. I would also like to thank all of our customers, business partners, Shareholders and various parties in the community for their valuable support.

Wong Luen Hei
Chairman

Hong Kong, 17 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

From a manufacturer of plastic pipes, China Lesso has evolved into a supplier of premium and comprehensive building materials, home decoration products and services by capitalising on market opportunities and favourable government policies. Building on its market leadership in pipes and pipe fittings and its economies of scale in production of the relevant products, the Group is also actively diversifying into new businesses of building materials and home decoration products, which include whole sets of doors and windows, sanitary products and integrated kitchens. It will develop the new businesses into future growth drivers to take full advantage of the country's urbanisation, social security housing projects and property boom. With an enormous sales network covering major markets in China and 18 production bases in 12 provinces, the Group is well-positioned to reinforce its market leadership in Southern China and expand its business beyond the region.

China Lesso's development strategy paid off as it recorded satisfactory performance in 2013. Steady growth in sales led to a 20.0% year-on-year increase in revenue to RMB13,071 million for the year. Gross profit grew by 23.3% to RMB3,266 million, while gross profit margin rose to 25.0%. Profit attributable to shareholders rose by 17.0% year-on-year to RMB1,449 million. Basic earnings per share were RMB0.48.

MARKET OVERVIEW

2013 was the third year of China's Twelfth Five-year Plan. Urbanisation remained as a top issue on the agenda. The country's development programme propelled steady growth in demand for infrastructure facilities such as water supply, drainage, power supply and telecommunications. In addition, the government stepped up efforts to construct social security housing, improve the livelihood of farmers and reform agriculture. These government policies were favourable to the businesses of plastic pipes and home decoration products. During the year under review, the property boom in the PRC also stimulated the Group's business growth.

The Chinese government has set specific targets for urbanisation at the Third Plenum of the 18th Central Committee of the Communist Party of China, with a view to achieving healthy development in the long run. The urbanisation ratio is expected to rise from approximately 54.0% in 2013 to 60.0% in 2018. To attain this goal, the government will step up investment in six types of infrastructure facilities in cities, including underground pipe networks, sewage and refuse treatment, renovation of old pipe networks for gas and heat, public transport such as metro lines and light rails, electric power distribution networks, as well as environmental protection facilities.

In particular, construction of municipal pipe networks and hydraulic engineering works will benefit the development of the pipe business. Construction and renovation of water supply pipe networks during the period of the Twelfth Five-year Plan is expected to be immense, because a total of approximately 92,300 kilometres of dated water pipe in networks will be upgraded with an investment of approximately RMB83.5 billion. Approximately RMB184.3 billion has been earmarked for building additional networks of approximately 185,000 kilometres of municipal water pipes. Sewage pipe networks of approximately 160,000 kilometres will be built with a total investment of approximately RMB244.3 billion. Meanwhile, the government will expedite the construction of sewage and refuse treatment facilities and their underground ancillary to promote the recycling of used water discharged from construction works and that of urban sewage. The capacity for treating urban sewage will increase to over 200 million cubic metres per day.

The completion of infrastructure facilities will pave the way for property development, including the construction of social security housing and private residential real estate projects. This will, in turn, boost the demand for building materials and home decoration products. Statistics from China's Ministry of Housing and Urban-Rural Development showed that, during the period from 2011 to the end of 2013, construction of 24.9 million units of urban social security housing was commenced, among which 15.8 million units were completed. The government has set the target of constructing 36 million housing units of various types under its schemes for social security housing and conversion of shanty towns during the Twelfth Five-year Plan period. According to the National Bureau of Statistics of China, investments in the country's property development amounted to RMB8,601.3 billion in 2013, representing a nominal growth of 19.8% over 2012. The thriving property sector brings upon enormous market potential for the Group's newly-developed building materials and home decoration products businesses.

The trends of the country's development have resulted in stable growth in the demand for plastic pipes and home decoration products. The Group captured the business opportunities by leveraging its leading position in the industry, sizeable production capacity, nationwide sales network, innovative advantages in research and development of products and technologies and its widely-recognised brand. It also kept abreast of market trends, refined segmentation of the target markets and enhanced its marketing and sales capability. All these measures contributed to a 20.0% growth in the Group's revenue for 2013.

BUSINESS REVIEW

Plastic pipes and pipe fittings business

The Group is principally engaged in the business of plastic pipes and pipe fittings, which are widely applied to such fields as water supply, drainage, power supply, telecommunications, gas supply, agriculture, floor heating and fire prevention. During the year under review, the business registered steady progress, as the Group capitalised on the country's urbanisation by enhancing the advantage of its economies of scale, and by leveraging its sizeable sales network to develop new markets, especially those outside of Southern China. It also developed new products, enhanced the quality of its products and services, reinforced its existing customer base and developed new clients. As a result, aggregate sales volume of plastic pipes and pipe fittings grew by 17.2% to 1,272,631 tonnes in 2013, compared with the 1,085,415 tonnes in 2012. Sales of PVC and non-PVC plastic pipes and pipe fittings continued to register growth. PVC products accounted for 65.9% of the plastic pipes and pipe fittings revenue.

The table below sets out the breakdown of revenue from plastic pipes and pipe fittings by product for 2013 and 2012:

	2013		2012	
	RMB million	***% of total revenue***	*RMB million*	*% of total revenue*
Water supply	**4,822**	**39.5%**	4,149	39.7%
Drainage	**4,637**	**38.0%**	3,941	37.7%
Power supply and telecommunications	**2,139**	**17.5%**	1,870	17.9%
Gas supply	**186**	**1.5%**	130	1.3%
Others#	**431**	**3.5%**	358	3.4%
Total	**12,215**	**100.0%**	10,448	100.0%

“Others” include agricultural use, floor heating and fire prevention.

The Group priced its products on a cost-plus basis and achieved economies of scale in production during the year under review by enhancing the production capacity utilisation rate, and raising both the efficiency and yield of production. The average selling price (“ASP”) of plastic pipes and pipe fittings decreased by 0.3% to RMB9,598 per tonne in 2013 from RMB9,626 per tonne in 2012. The ASP of PVC products increased by 0.3% to RMB8,022 per tonne. The ASP of non-PVC products decreased by 1.4% to RMB15,472 per tonne. The average cost of plastic pipes and pipe fittings was generally stable, decreasing slightly by 2.1% to RMB7,124 per tonne in 2013 from RMB7,278 per tonne in 2012.

The table below sets out the breakdown of sales volume, revenue and average selling price by product material for 2013 and 2012:

	2013			2012			Change in		
	Sales volume *Tonne*	Revenue *RMB million*	Average selling price *RMB*	Sales volume *Tonne*	Revenue *RMB million*	Average selling price *RMB*	Sales volume *(%)*	Revenue *(%)*	Average selling price *(%)*
Plastic pipes and pipe fittings									
– PVC[(a)]	**1,003,362**	**8,049**	**8,022**	855,777	6,845	7,999	17.2	17.6	0.3
– Non-PVC[(b)]	**269,269**	**4,166**	**15,472**	229,638	3,603	15,690	17.3	15.6	(1.4)
	1,272,631	**12,215**	**9,598**	1,085,415	10,448	9,626	17.2	16.9	(0.3)
Construction contracts	**N/A**	**58**	**N/A**	N/A	–	N/A	N/A	N/A	N/A
Others[(c)]	**N/A**	**798**	**N/A**	N/A	443	N/A	N/A	80.1	N/A
Total	**N/A**	**13,071**	**N/A**	N/A	10,891	N/A	N/A	20.0	N/A

Notes:

(a) "PVC" refers to material used in the manufacture of plastic pipes and pipe fittings with high mechanical strength and hardness.

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

(c) "Others" include ancillary, home building material products and other materials. Sales volumes for "others" are measured in units rather than tonnes and the size of the units between different products may vary.

Home decoration products business

To capitalise on China's urbanisation and property boom, especially the advent of pre-decorated flats, the Group has been diversifying into new businesses of building materials and home decoration products, such as whole sets of doors and windows, sanitary products and integrated kitchens, since 2012. The Group partnered with leading and well-known domestic property developers to provide such building materials and home decoration products for their residential property projects. During the year under review, the Group marketed its home decoration products business with an objective of "Building an easy life for dwellers". Progress in developing of this business met the expectations of management. The Group achieved synergy between the home decoration product business and the manufacturing and sales of plastic pipes and pipe fittings, which is its principal business, as they are complementary in nature and share the same sales channels. The prospect of a rising proportion of pre-decorated flats in China presents a huge business opportunity for the business of home decoration products. The Group intends to develop the business into a future growth driver, as China Lesso strives to evolve into a supplier of premium and comprehensive building materials, home decoration products and services from a manufacturer of plastic pipes.

Geographic revenue analysis

A geographic breakdown of revenue shows that Southern China remained a major market for the Group during the year under review, accounting for 60.5% of the Group's turnover. The Group vigorously developed markets outside of Southern China, and they became the Group's growth drivers and boosted the overall sales. As a result, markets outside of Southern China accounted for a higher proportion of the Group's turnover for 2013.

The table below sets out the breakdown of revenue by operating region for 2013 and 2012:

	2013		2012	
Region#	***RMB million***	**% of total revenue**	*RMB million*	% of total revenue
Southern China	**7,906**	**60.5%**	6,882	63.2%
Southwestern China	**1,319**	**10.1%**	1,070	9.8%
Central China	**1,308**	**10.0%**	1,035	9.5%
Eastern China	**660**	**5.0%**	549	5.0%
Northern China	**875**	**6.7%**	689	6.3%
Northwestern China	**472**	**3.6%**	303	2.8%
Northeastern China	**303**	**2.3%**	222	2.1%
Outside China	**228**	**1.8%**	141	1.3%
Total	**13,071**	**100.0%**	10,891	100.0%

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

Capital expenditure and Capacity Expansion

During the year under review, the Group's annual designed capacity for production of plastic pipes and pipe fittings increased to approximately 1.8 million tonnes. In a bid to satisfy the market demand, the Group decided to have production bases built in Hainan, Yunnan and Shandong. The production bases in Hainan and Yunnan will commence operation in 2014, while preparations are currently underway for the construction of the production base in Shandong.

Sales network

The Group has established a nationwide sales network. As at the end of December 2013, it had approximately 1,780 independent distributors, for whom the Group's sales team provided comprehensive and professional sales and after-sales services. The sales team carried out finer segmentation of the market for building materials and home decoration products and conducted marketing campaigns according to the requirements and characteristics of the various local markets. This enabled the Group to strengthen its market leadership in Southern China and expand its market shares vigorously elsewhere by developing new markets outside of Southern China, especially in third- and fourth-tier cities.

Staff training

The key to the Group's success is its wealth of talent. High-calibre personnel are being groomed to support the business development. During the year under review, the Lesso College was established to provide professional training in production, sales and management for staff at various levels, with a goal to improving the Group's overall operating efficiency. Meanwhile, the Group also invited professional trainers to conduct lectures for staff on a regular basis. With the two-pronged approach, the Group has established a comprehensive staff training mechanism.

PROSPECTS

China's gross national product growth decelerated slightly in 2013, casting uncertainty and risks over the macro-economy, fixed asset investment and retail market in the year ahead. Looking into 2014, the country's economy will continue to be influenced by the change in its model of economic development and the economic conditions of Europe, the United States and emerging economies. Nevertheless, the Group believes that urbanisation, agricultural reform and the increase in properties completed in China will continue at a steady pace. This will lead to consistent growth in the demand for building materials, plastic pipes and home decoration products. To seize business opportunities, the Group has formulated the following development strategies:

Vigorous development of a nationwide sales network

The Group will fortify its market leadership in Southern China and will actively develop new markets by expanding its sales network outside of Southern China. The Group will also continue to develop its distribution network and broaden its sales channels. Meanwhile, it will continue to identify opportunities for business development in overseas markets, especially emerging markets such as the Middle East, Africa and Southeast Asia.

Developing business of building materials and home decoration products into future growth drivers

China's infrastructure and social security housing projects as well as property development will gain momentum against the backdrop of urbanisation. Notably, the proportion of pre-decorated flats will be on the rise. To tap the trends for growth, the Group will proactively develop its burgeoning businesses of building materials and home decoration products by coming up with more models of whole sets of doors and windows, sanitary products and integrated kitchens. The Group will continue to partner with major domestic property developers and supply its products to their residential property projects. This will help develop the potentially lucrative new businesses of building materials and home decoration products into a future growth driver for the Group.

Optimising production capacity to support business development

To support its business expansion and enhance its advantage of economies of scale in production, the Group is expanding its production capacity for plastic pipes and pipe fittings. Its production bases in Hainan and Yunnan will commence operation in 2014, while preparations are underway for the construction of a production base in Shandong. The Group will also optimise the operation of its existing plants to improve the overall production efficiency.

CONCLUSION

Over the years, China Lesso has been a leader in the country's plastic pipes and pipe fittings industry. In order to gain an edge against competition to capitalise on the country's urbanisation, infrastructure construction and thriving property sector, the Group will continue to develop opportunely its nationwide network of production facilities and service network. This will also enable it to provide the market with the most comprehensive range of premium products. Meanwhile, the Group will continue to develop its home decoration products business. By further improving its product quality and enhancing its core competitive advantages, China Lesso aims at realising the corporate mission of "Building an easy life for dwellers" and bringing fruitful returns to shareholders and investors.

EARNINGS PERFORMANCE

The Group reported steady financial performance during the year under review. Revenue amounted to RMB13,071 million, an increase of 20.0% over the last year. Gross profit for 2013 rose by 23.3% to RMB3,266 million from 2012. The profit for the year amounted to RMB1,438 million for 2013, representing an increase of 16.8% from 2012. Basic earnings per share for 2013 improved by 17.1% to RMB0.48.

During the year under review, there was an increase in the demand for plastic pipes and pipe fittings. The Group saw a steady growth in turnover. This was mainly driven by improving economies of scale and strengthening of sales network. The Group's efficient production and high quality products facilitated business development. This in turn helped maintain the Group's gross profit margin at a reasonable level.

However, increases in staff salaries, depreciation charges together with selling and distribution expenses dragged down the pre-tax profit margin. Depreciation were incurred from the opening of new factory premises, office buildings and equipment. Selling and distribution expenses increased mainly due to increase in packaging costs.

Finance costs increased by 3.3% to RMB151 million during the year under review due to making of new loans. The Group's management has been active in establishing relationship with various banks in a bid to widen sources of funding.

The Group's effective tax rate increased from 16.9% in 2012 to 18.7% in 2013.

As a result, the Group's profit before tax increased by 19.2% to RMB1,768 million and profit attributable to owners of the Company increased by 17.0% to RMB1,449 million. Meanwhile, pre-tax profit margin and net profit margin also moved down to 13.5% and 11.0% respectively during the year under review from last year's 13.6% and 11.3%.

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

The net proceeds from the Company's IPO in June 2010 after deducting the relevant expenses were approximately HK$1,860 million (approximately RMB1,629 million equivalent).

Up to 31 December 2013, all the net proceeds from the IPO has been applied in accordance with the results of allocation announcement of the Company dated 22 June 2010.

FINANCIAL POSITION

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

As at 31 December 2013, the Group had total debts (i.e. total bank loans and other borrowings) of approximately RMB2,687 million, of which 76.4% was denominated in US dollars, 18.0% was denominated in HK dollars and 5.6% was denominated in Renminbi. Other than approximately US$259 million of the outstanding Senior Notes due in 2016, the Group's borrowings are subject to floating rates ranging from 1.21% to 6.30% per annum with maturity periods ranging from within one year to two years.

As at 31 December 2013, the Group's current assets and current liabilities were approximately RMB6,399 million and RMB3,298 million respectively. The Group's current ratio (that is, the ratio of current assets over current liabilities) and the quick ratio (that is, the ratio of current assets less inventories over current liabilities) reduced to 1.94 and 1.20 from 2.51 and 1.64 as at 31 December 2012, respectively. The Group's total equity increased to approximately RMB7,256 million. The Group's gearing ratio (calculated on the basis of the total debts divided by the sum of total debts and total equity) stood at a healthy level of 27.0%.

With cash and bank deposits, including restricted cash, of approximately RMB2,189 million as well as unutilised banking facilities, the directors consider that the Group has sufficient working capital for its operation and future development.

The Group had no material exposure to foreign exchange fluctuation other than borrowings denominated in US dollars and Hong Kong dollars. No hedging has been arranged on the above-mentioned exposure.

CHARGE ON ASSETS

As at 31 December 2013, certain of the Group's held-to-maturity investments with an aggregate net carrying amount of RMB242,667,000 were pledged to a bank to secure the banking facility granted to the Company. The Company has not utilised this banking facility as at 31 December 2013.

The shares of certain subsidiaries of the Company incorporated outside the PRC were pledged as securities for issuance of the Senior Notes.

CONTINGENT LIABILITIES

As at 31 December 2013, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES

As at 31 December 2013, the Group employed a total of approximately 8,000 employees including directors. Total staff costs were RMB562 million during the year under review. 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. Due to the increase in employment of managers and workers, the overall salary also rose during the year under review.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CHANGE OF COMPANY NAME

Pursuant to the special resolution passed at the annual general meeting of the Company held on 31 May 2013, the name of the Company was approved to be changed from "China Liansu Group Holdings Limited 中国联塑集团控股有限公司" to "China Lesso Group Holdings Limited 中国联塑集团控股有限公司". With effect from 31 May 2013, the Registry of Companies in the Cayman Islands approved the change of the Company name and issued the certificate of incorporation on change of name. The Registrar of Companies in Hong Kong issued the certificate of registration of corporate name of non-Hong Kong company on 2 July 2013 confirming registration of the new Company's name in Hong Kong under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting policies adopted by the Group and the audited consolidated financial statements of the Group for the year ended 31 December 2013.

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 31 May 2013 (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. The controlling Shareholder being New Fortune and Mr. Wong Luen Hei (the "Controlling Shareholder"), has entered into a deed of non-competition in favour of the Group dated 14 May 2010 (the "Deed of Non-Competition").

The directors are of the view that the Group's measures adopted by the Company in respect of the enforceability of the Deed of Non-Competition are adequate to safeguard the effectiveness of the non-competition undertakings. The independent non-executive directors have reviewed the compliance of the Deed of Non-Competition, including any potential conflicts of interest and competition arising from the taking up by the Controlling Shareholder of opportunities rejected by the Group pursuant to the Deed of Non-Competition. Based on the confirmation from the Controlling Shareholder, the independent non-executive directors are of the view that the Deed of Non-Competition has been complied with and has been effectively enforced.

EVENTS AFTER THE REPORTING PERIOD AND 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**") in relation to a syndicated term loan facility in the amount of US$135,000,000 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.

Pursuant to the Facility Agreement, it is required that (i) Mr. Wong Luen Hei (being the controlling Shareholder) and his family (collectively, 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; and (ii) the Wong Family shall remain to have effective management control over the Company. 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.

SENIOR NOTES

As at 31 December 2013, the outstanding principal amount of the Senior Notes was US$258,880,000. The Company intended to use the net proceeds for financing of the then existing indebtedness, for capital expenditures and for other general corporate purposes. The details of the Senior Notes are set out in note 13 to this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2013, the Company or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

ACQUISITION OF SUBSIDIARIES

During the year, the Group entered into the sale and purchase agreements to acquire 100% equity interests in Guangdong Lesso Valve Co., Ltd.*, Anhui Lesso Chiao Yue New Construction Material Co., Ltd.*, Guangdong Lesso O'Conn Fire Service Equipment Co., Ltd.*, Guangdong Lesso Shun An Fire Service Equipment Co., Ltd.* and Foshan Nanhai Eago Sanitary Ware Co., Ltd.* at a total consideration of RMB286,149,000. The acquisitions allow the Group to expand its production lines on the valve supply for the Group's water supply-related pipe projects and on the other home building material products.

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK12 cents per share for the year ended 31 December 2013 (the "Proposed Final Dividend"), which will be paid out of profits and/or share premium of the Company, to the Shareholders whose names appear on the register of members of the Company on Wednesday, 11 June 2014, subject to the Shareholders' approval at the forthcoming annual general meeting of the Company to be held on Friday, 30 May 2014 (the "2014 AGM"). It is expected that the Proposed Final Dividend will be paid on Friday, 20 June 2014.

CLOSURE OF REGISTER OF MEMBERS

(i) For determining the entitlement to attend and vote at the 2014 AGM

The register of members of the Company will be closed from Tuesday, 27 May 2014 to Friday, 30 May 2014, 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 2014 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, 26 May 2014.

(ii) For determining the entitlement to the Proposed Final Dividend

The register of members of the Company will be closed from Monday, 9 June 2014 to Wednesday, 11 June 2014, 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 Friday, 6 June 2014.

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 2013 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

Hong Kong, 17 March 2014

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 Dr. Bai Chongen, Mr. Fung Pui Cheung, Mr. Wong Kwok Ho Jonathan, Mr. Cheung Man Yu and Mr. Gao Lixin.

GLOSSARY

"Board"	the board of directors of the Company
"China" or "PRC"	the People's Republic of China, for the purpose of this annual report, excluding Hong Kong, Macau and Taiwan
"Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Company" or "China Lesso"	China Lesso Group Holdings Limited
"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
"PE"	polyethylene
"PP-R"	polypropylene random
"PVC"	polyvinyl chloride
"RMB"	Renminbi, the lawful currency of the PRC
"Senior Notes"	US$300 million 7.875% senior notes due 2016 issued by the Company
"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.