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 2018

The Board is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2018.

HIGHLIGHTS

Compared to the last year consolidated financial results:

- Revenue increased by 16.6% to RMB23,734 million
- Gross profit increased by 17.1% to RMB6,228 million
- Profit for the year increased by 8.0% to RMB2,446 million
- Basic earnings per share was RMB0.80, increased by 8.1%
- The payment of a final dividend of HK20 cents per share is recommended for the year ended 31 December 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	2018 *RMB'000*	2017 *RMB'000*
REVENUE	3	**23,733,517**	20,360,000
Cost of sales		**(17,505,068)**	(15,043,217)
Gross profit		**6,228,449**	5,316,783
Other revenue, income and gains	3	**571,430**	568,650
Selling and distribution expenses		**(1,111,914)**	(1,029,222)
Administrative expenses		**(1,080,820)**	(938,241)
Impairment losses on financial and contract assets		**(233,091)**	–
Other expenses		**(840,531)**	(732,914)
Finance costs	4	**(415,403)**	(229,309)
Share of results of associates		**116,803**	(1,404)
Share of results of joint ventures		**616**	243
PROFIT BEFORE TAX	5	**3,235,539**	2,954,586
Income tax expense	6	**(789,315)**	(688,779)
PROFIT FOR THE YEAR		**2,446,224**	2,265,807
OTHER COMPREHENSIVE (EXPENSE)/ INCOME			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
Changes in fair value		**–**	219,589
Reclassification adjustment for gains included in consolidated statement of profit or loss			
– gain on disposal		**–**	(1,050)
– gain on early redemption		**–**	(39,071)
Changes in fair value of debt instruments at fair value through other comprehensive income		**(758)**	–
Share of other comprehensive income of an associate, net of tax		**(800)**	–
Exchange differences on translation of foreign operations		**(207,018)**	197,143
		(208,576)	376,611

	Note	2018 RMB'000	2017 RMB'000
Items that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income		**(189,718)**	–
OTHER COMPREHENSIVE (EXPENSE)/ INCOME FOR THE YEAR		**(398,294)**	376,611
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,047,930**	2,642,418
Profit attributable to:			
Owners of the Company		**2,491,774**	2,293,055
Non-controlling interests		**(45,550)**	(27,248)
		2,446,224	2,265,807
Total comprehensive income attributable to:			
Owners of the Company		**2,089,225**	2,666,410
Non-controlling interests		**(41,295)**	(23,992)
		2,047,930	2,642,418
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	8		
Basic and diluted		**RMB0.80**	RMB0.74

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	**2018**	2017
	Note	***RMB'000***	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**7,478,765**	7,156,134
Prepaid land lease payments		**1,337,959**	1,266,216
Investment properties		**4,650,423**	4,038,900
Deposits paid for the purchase of land, property, plant and equipment		**1,731,202**	1,024,497
Goodwill		**363,133**	85,309
Other intangible assets		**257,787**	172,332
Interests in associates		**1,375,567**	41,324
Interests in joint ventures		**9,303**	9,024
Available-for-sale investments	9A	**–**	1,582,208
Other financial assets	9B	**1,852,511**	–
Loan receivables	10	**163,422**	228,710
Other non-current assets		**360,097**	150,591
Contract assets		**84,651**	–
Deferred tax assets		**88,130**	69,908
Total non-current assets		**19,752,950**	15,825,153
CURRENT ASSETS			
Inventories	11	**3,521,214**	3,227,742
Amounts due from customers for contract work		**–**	269,239
Contract assets		**327,279**	–
Other financial assets	9B	**47,649**	–
Loan receivables	10	**355,470**	561,206
Trade and bills receivables	12	**2,379,447**	2,024,608
Prepayments, deposits and other receivables		**1,800,477**	1,613,307
Cash and bank deposits		**6,451,791**	4,452,370
Total current assets		**14,883,327**	12,148,472
CURRENT LIABILITIES			
Amounts due to customers for contract work		**–**	101,555
Contract liabilities		**1,482,994**	–
Trade and bills payables	13	**4,277,323**	3,021,085
Other payables and accruals		**927,482**	1,892,922
Tax payable		**272,780**	180,973
Borrowings	14	**6,144,492**	2,877,256
Total current liabilities		**13,105,071**	8,073,791

	Note	2018 RMB'000	2017 RMB'000
NET CURRENT ASSETS		**1,778,256**	4,074,681
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,531,206**	19,899,834
NON-CURRENT LIABILITIES			
Borrowings	14	**5,586,566**	5,442,119
Other long-term payables		**109,546**	92,572
Derivative financial instruments	15	**6,592**	–
Deferred tax liabilities		**572,967**	444,640
Deferred income		**182,670**	137,012
Total non-current liabilities		**6,458,341**	6,116,343
Net assets		**15,072,865**	13,783,491
EQUITY			
Share capital	16	**135,344**	135,344
Reserves		**14,667,985**	13,354,571
Equity attributable to owners of the Company		**14,803,329**	13,489,915
Non-controlling interests		**269,536**	293,576
Total equity		**15,072,865**	13,783,491

Note:

1.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, other financial assets and derivative financial instruments which have been measured at fair value. These consolidated financial statements are presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC) Interpretation 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers
Amendments to HKAS 40	Transfers of Investment Property
Annual improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as further explained below, the application of these new and revised standards has had no material financial impact on these consolidated financial statements.

HKFRS 9

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together two aspects of the accounting for financial instruments: classification and measurement; and impairment.

The Group has applied HKFRS 9 retrospectively, and has recognised the transition adjustments of nil against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the consolidated statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 Measurement				HKFRS 9 Measurement	
		Category[(a)]	Amount	Re-classification	ECL	Category[(a)]	Amount
	Note		*RMB'000*	*RMB'000*	*RMB'000*		*RMB'000*
Financial assets							
Available-for-sale investments		AFS	1,582,208	(1,582,208)	–	N/A	–
Equity instruments at fair value through other comprehensive income	(i)	N/A	–	1,574,273	–	FVOCI (equity)	1,574,273
Debt instruments at fair value through other comprehensive income	(ii)	N/A	–	7,935	–	FVOCI (debt)	7,935
Loan receivables		L&R	789,916	–	–	AC	789,916
Trade and bills receivables	(iii)	L&R	2,024,608	–	–	AC	2,024,608
Financial assets included in prepayments, deposits and other receivables		L&R	228,030	–	–	AC	228,030
Cash and bank deposits		L&R	4,452,370	–	–	AC	4,452,370
			9,077,132	–	–		9,077,132
Total assets			27,973,625	–	–		27,973,625
Financial liabilities							
Trade and bills payables		AC	3,021,085	–	–	AC	3,021,085
Financial liabilities included in other payables and accruals		AC	646,765	–	–	AC	646,765
Other long-term payables		AC	92,572	–	–	AC	92,572
Borrowings		AC	8,319,375	–	–	AC	8,319,375
			12,079,797	–	–		12,079,797
Total liabilities			14,190,134	–	–		14,190,134

Note:

(a) AC: Financial assets or financial liabilities at amortised cost
AFS: Available-for-sale investments
FVOCI: Financial assets at fair value through other comprehensive income
L&R: Loans and receivables
N/A: Not applicable

(i) The Group has elected the option to irrevocably designate all of its previous available-for-sale equity investments as equity instruments at fair value through other comprehensive income.

(ii) As of 1 January 2018, the Group has assessed its liquidity portfolio of debt investments which had previously been classified as available-for-sale debt investments. The objective of the Group in holding this liquidity portfolio is to earn interest income and, at the same time, manage everyday liquidity needs. The Group concluded that these debt investments are managed within a business model to collect contractual cash flows and to sell the financial assets. Accordingly, the Group has classified these investments as debt instruments at fair value through other comprehensive income.

(iii) The gross carrying amounts of the trade and bills receivables under the column "HKAS 39 measurement – Amount" represent the amounts after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs.

Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income ("FVTOCI"), lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss ("FVTPL") under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group has applied the simplified approach and recorded lifetime expected credit losses that are estimated based on the present value of all cash shortfalls over the remaining life on trade and bills receivables and contract assets, and general approach and recorded twelve-month expected credit losses on other financial assets, loan receivables and financial assets included in prepayments, deposits and other receivables. The aforesaid transition upon the adoption of HKFRS 9 do not have material impact on the Group's consolidated financial statements.

As a result of the application of HKFRS 9, the Group has changed the accounting policy with respect to investments and other financial assets.

HKFRS 15

HKFRS 15 and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

The Group adopted HKFRS 15 using the modified retrospective method of adoption and it elected to apply that method only to those contracts that were not completed at the date of initial application. The comparative information for each of the primary financial statements would be presented based on the requirements of HKAS 11, HKAS 18 and related interpretations.

The cumulative effect of the initial application of HKFRS 15 was immaterial and no opening balance of retained profits as at 1 January 2018 was adjusted. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Increase/ (decrease)
	RMB'000
Non-current assets:	
Other non-current assets	(52,591)
Contract assets	48,709
	(3,882)
Current assets:	
Amounts due from customers for contract work	(269,239)
Contract assets	273,121
	3,882
Current liabilities:	
Amounts due to customers for contract work	(101,555)
Contract liabilities	1,221,724
Other payables and accruals	(1,120,169)
	–
Net assets	–
Retained profits	–
Non-controlling interests	–
Total equity	–

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on profit or loss and other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted.

Consolidated statement of financial position as at 31 December 2018:

	Amounts prepared under HKFRS 15 *RMB'000*	Previous HKFRS *RMB'000*	Increase/ (decrease) *RMB'000*
Non-current assets:			
Other non-current assets	**360,097**	**444,748**	**(84,651)**
Contract assets	**84,651**	**–**	**84,651**
	444,748	**444,748**	**–**
Current assets:			
Amounts due from customers for contract work	**–**	**327,279**	**(327,279)**
Contract assets	**327,279**	**–**	**327,279**
	327,279	**327,279**	**–**
Current liabilities:			
Amounts due to customers for contract work	**–**	**72,780**	**(72,780)**
Contract liabilities	**1,482,994**	**–**	**1,482,994**
Other payables and accruals	**927,482**	**2,337,696**	**(1,410,214)**
	2,410,476	**2,410,476**	**–**
Net assets	**15,072,865**	**15,072,865**	**–**
Retained profits	**11,002,968**	**11,002,968**	**–**
Non-controlling interests	**269,536**	**269,536**	**–**
Total equity	**15,072,865**	**15,072,865**	**–**

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the consolidated statement of financial position as at 31 December 2018 are described below:

(a) Renovation, installation and engineering services

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customers. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations.

The excess of cumulative revenue recognised in profit or loss over the cumulative billings to customers is recognised as contract assets. Contract assets are rights to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditional on something other than the passage of time.

The excess of cumulative billings to customers over the cumulative revenue recognised in profit or loss is recognised as contract liabilities. Contract liabilities are obligations to transfer goods or services to customer for which the Group has received consideration, or for which an amount of consideration is due from the customer.

Upon the adoption of HKFRS 15, the Group has reclassified the amounts due from/to customers for contract work to contract assets/liabilities.

(b) Concession operating right

The Group entered into concession agreements with the local government authorities in PRC. Pursuant to the concession agreements, the Group was granted rights to construct, operate and maintain waste water treatment related project in PRC for a period of 30 years. The Group recognise the consideration receivable in exchange for the construction services as a financial receivable under the concession agreements. The balance as at the end of each reporting period represent the amounts are not yet due for payment and will be settled by revenue to be generated during the operating periods of the concession agreements. Upon the adoption of HKFRS 15, the Group reclassified it to *contract assets* from *other non-current assets* and *prepayments, deposits and other receivables* for the current portion.

(c) Consideration received from customers in advance

Advance receipt is normally required for sales to independent distributors. Prior to the adoption of HKFRS 15, deferred revenue arose from advance receipt was recognised in the statement of financial position within *other payables and accruals*. Upon the adoption of HKFRS 15, the Group reclassified it to *contract liabilities* from *other payable and accruals*.

2. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of building materials and interior decoration products; the provision of renovation and installation works, environmental engineering and other related services, financial services and property rental and other related services. For management purposes, the Group's businesses are organised by geographical areas based on the location of the customers and assets are attributable to the geographical unit based on the location of the assets. The Group has eight reportable operating segments as follows:

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

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

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

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

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

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

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

(viii) Outside China.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, changes in fair value of investment properties, changes in fair value of financial instruments at FVTPL, loss on fair value changes of derivative financial instruments, gain on disposal of available-for-sale investments, gain on disposal of held-to-maturity investments, gain on early redemption of available-for-sale investments, investment income, gain on disposal of subsidiaries, exchange differences, finance costs, share of results of associates and joint ventures and other unallocated income and expenses are excluded from such measurement.

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

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

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

During the years ended 31 December 2018 and 2017, 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 2018

	Southern China *RMB'000*	Southwestern China *RMB'000*	Central China *RMB'000*	Eastern China *RMB'000*	Northern China *RMB'000*	Northwestern China *RMB'000*	Northeastern China *RMB'000*	Outside China *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Segment revenue:										
Sale of goods	12,782,004	2,518,896	2,806,527	1,240,391	1,607,400	951,207	581,562	736,285	–	23,224,272
Contact revenue from renovation and installation works	184,400	–	–	–	–	–	–	–	–	184,400
Income from environmental engineering and other related services	125,990	20,959	11,659	24,594	12	2,937	388	–	–	186,539
Financial service income	38,197	1,507	25,303	–	181	–	184	–	–	65,372
Property rental and other related services	5,793	–	–	–	–	–	–	67,141	–	72,934
Revenue from external customers	13,136,384	2,541,362	2,843,489	1,264,985	1,607,593	954,144	582,134	803,426	–	23,733,517
Intersegment revenue	3,972,827	441,559	446,347	317,045	393,322	178,059	118,826	760,666	(6,628,651)	–
Total	17,109,211	2,982,921	3,289,836	1,582,030	2,000,915	1,132,203	700,960	1,564,092	(6,628,651)	23,733,517
Segment results	3,668,555	744,870	847,805	252,485	432,423	218,153	142,826	27,083	(105,751)	6,228,449
Reconciliations:										
Interest income										111,149
Gain on fair value changes of investment properties										311,809
Gain on fair value changes of financial instruments at FVTPL										7,098
Investment income										32,178
Gain on disposal of subsidiaries										33,273
Exchange loss										(15,874)
Finance costs										(415,403)
Share of results of associates										116,803
Share of results of joint ventures										616
Unallocated income and expenses										(3,174,559)
Profit before tax										3,235,539
Segment assets	13,235,406	1,376,886	1,311,875	1,518,197	791,056	644,194	487,490	5,446,222	–	24,811,326
Reconciliations:										
Interests in associates										1,375,567
Interests in joint ventures										9,303
Other financial assets										1,900,160
Deferred tax assets										88,130
Cash and bank deposits										6,451,791
Total assets										34,636,277
Other segment information										
Write-back of inventories to net realisable value, net	(31,074)	362	(432)	9,521	(1,993)	(516)	(5,858)	16,752	–	(13,238)
Depreciation and amortisation	448,461	67,890	62,533	62,639	44,147	35,381	19,698	17,407	–	758,156
Impairment of property, plant and equipment	–	–	–	–	–	–	–	2,711	–	2,711
Impairment of goodwill	–	–	–	–	–	–	–	372	–	372
Impairment of loan receivables	159,500	–	–	–	–	–	–	–	–	159,500
Impairment of contract assets	21,855	–	–	–	–	–	–	–	–	21,855
Impairment of trade and bills receivables, net	22,503	8	215	2,171	98	7	347	26,387	–	51,736
Capital expenditure#	796,332	96,364	70,824	300,836	59,570	24,742	59,689	232,288	(14,740)	1,625,905

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

Operating segment information for the year ended 31 December 2017

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

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

3. REVENUE, OTHER REVENUE, INCOME AND GAINS

Revenue

Set out below is the disaggregation of the Group's revenue from contracts with customers and the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

By revenue nature:

	2018			2017		
	Goods transferred at a point in time *RMB'000*	**Services transferred over time** *RMB'000*	**Total** *RMB'000*	Goods transferred at a point in time *RMB'000*	Services transferred over time *RMB'000*	Total *RMB'000*
Revenue from contracts with customers:						
Sale of goods	**23,224,272**	**–**	**23,224,272**	19,860,766	–	19,860,766
Contract revenue from renovation and installation works	**–**	**184,400**	**184,400**	–	211,667	211,667
Income from environmental engineering and other related services	**–**	**186,539**	**186,539**	–	184,062	184,062
Sub-total	**23,224,272**	**370,939**	**23,595,211**	19,860,766	395,729	20,256,495
Financial service income			**65,372**			46,722
Property rental and other related services			**72,934**			56,783
Total			**23,733,517**			20,360,000

By geographical locations:

	2018			2017		
	Goods transferred at a point in time *RMB'000*	**Services transferred over time** *RMB'000*	**Total** *RMB'000*	Goods transferred at a point in time *RMB'000*	Services transferred over time *RMB'000*	Total *RMB'000*
Revenue from contracts with customers:						
Mainland China	**22,487,987**	**370,939**	**22,858,926**	19,169,319	395,729	19,565,048
Outside China	**736,285**	**–**	**736,285**	691,447	–	691,447
Sub-total	**23,224,272**	**370,939**	**23,595,211**	19,860,766	395,729	20,256,495
Financial service income			**65,372**			46,722
Property rental and other related services			**72,934**			56,783
Total			**23,733,517**			20,360,000

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018
	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period	
Sale of goods	**1,120,169**
Contract revenue from renovation and installation works	**9,091**
Income from environmental engineering and other related services	**8,896**
	1,138,156

Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 360 days from delivery, except for new customers, where payment in advance is normally required.

Renovation, installation and engineering services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days from the date of billing. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	2018
	RMB'000
Not more than 1 year	**356,315**
Over 1 year	**368,211**
	724,526

The remaining performance obligations expected to be recognised in more than one year relate to renovation, installation and engineering services. All the other remaining performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

Other Revenue, Income and Gains

	2018	2017
	RMB'000	*RMB'000*
Bank interest income	**105,140**	82,378
Interest income from available-for-sale investments	**–**	6,822
Interest income from held-to-maturity investments	**–**	1,585
Interest income from other financial assets	**6,009**	–
Total interest income	**111,149**	90,785
Government grants and subsidies	**44,628**	30,173
Gain on fair value changes of investment properties	**311,809**	327,313
Gain on fair value changes of financial instruments at FVTPL	**7,098**	–
Gain on disposal of available-for-sale investments	**–**	1,050
Gain on disposal of held-to-maturity investments	**–**	3,315
Gain on early redemption of available-for-sale investments	**–**	39,071
Investment income	**32,178**	2,694
Gain on disposal of subsidiaries	**33,273**	2,141
Exchange gain	**–**	23,483
Others	**31,295**	48,625
	571,430	568,650

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

4. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest expenses on bank and other loans	**415,725**	231,920
Less: Interest capitalised	**(322)**	(2,611)
	415,403	229,309

5. PROFIT BEFORE TAX

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

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold	**17,177,238**	14,653,632
Direct cost of renovation and installation works	**150,595**	190,030
Direct cost of environmental engineering and other related services	**129,008**	108,249
Direct cost of financial services	**1,265**	2,351
Direct cost of property rental and other related services	**60,200**	27,112
(Write-back)/write-down of inventories to net realisable value, net	**(13,238)**	61,843
Depreciation	**714,784**	603,560
Amortisation of prepaid land lease payments	**31,035**	26,867
Amortisation of other intangible assets	**12,337**	16,395
Total depreciation and amortisation	**758,156**	646,822
Research and development costs	**758,284**	641,354
Loss on disposal of items of other intangible assets and property, plant and equipment	**40,838**	15,144
Impairment of property, plant and equipment	**2,711**	–
Changes in fair value of investment properties	**(311,809)**	(327,313)
Gain on fair value changes of financial instruments at FVTPL	**(7,098)**	–
Loss on fair value changes of derivative financial instruments	**–**	31,575
Gain on disposal of subsidiaries	**(33,273)**	(2,141)
Impairment of goodwill	**372**	–
Impairment of loan receivables	**159,500**	–
Impairment of contract assets	**21,855**	–
Impairment of trade and bills receivables, net	**51,736**	25,268
Net rental income	**(3,115)**	(1,407)
Foreign exchange differences, net	**15,874**	(23,483)

6. INCOME TAX EXPENSE

	2018	2017
	RMB'000	*RMB'000*
Current tax		
PRC	**719,197**	559,945
Other jurisdictions	**1,991**	5
	721,188	559,950
(Over)/under provision in prior years		
PRC	**(28,340)**	(27,709)
Other jurisdictions	**939**	–
	(27,401)	(27,709)
Deferred tax	**95,528**	156,538
Total tax charge for the year	**789,315**	688,779

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 operated.

Hong Kong Profits Tax

The statutory rate of Hong Kong profits tax was 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax was made as the Group had no assessable profits arising in Hong Kong during the year (2017: Nil).

PRC Corporate Income Tax

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

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

Income Tax for Other Jurisdictions

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

7. DIVIDENDS

	2018		2017	
	HK$ per share	***HK$'000***	*HK$ per share*	*HK$'000*
2018 interim dividend paid	**0.10**	**310,242**	–	–
2017 final dividend paid (2017: 2016 final dividend paid)	**0.18**	**558,435**	0.15	465,363
		868,677		465,363
Equivalent to		**RMB715,436,000**		RMB411,288,000

Subsequent to the end of the reporting period, final dividend of HK20 cents in respect of the year ended 31 December 2018 (2017: final dividend of HK18 cents in respect of the year ended 31 December 2017) per ordinary share has been proposed by the directors and is subject to approval by the Shareholders at the forthcoming annual general meeting.

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit attributable to owners of the Company used in the basic and diluted earnings per share calculation	**2,491,774**	2,293,055

	Number of Shares	
	2018	2017
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**	3,102,418,400

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2018 includes 3,102,418,400 ordinary shares in issue as at 31 December 2017 (2017: 3,102,418,400 ordinary shares in issue as at 31 December 2016).

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017 respectively.

9A. AVAILABLE-FOR-SALE INVESTMENTS

	Note	**2018** *RMB'000*	2017 *RMB'000*
Listed investments:			
Debt securities listed in Hong Kong	(i)	**–**	7,935
Equity securities listed in PRC		**–**	412,318
Equity securities listed in Hong Kong		**–**	1,095,840
Non-cumulative redeemable preference shares listed in Hong Kong		**–**	33,635
Perpetual capital securities listed in Hong Kong		**–**	8,403
		–	1,558,131
Unlisted investments:			
Equity securities	(ii)	**–**	24,077
		–	1,582,208

Note:

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

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

(iii) At 31 December 2017, certain of the Group's available-for-sale investments with an aggregate carrying amount of RMB33,635,000 were pledged to a bank to secure the banking facility granted. The Group has not utilised this banking facility.

(iv) Upon the adoption the HKFRS 9, the Group has reclassified the available-for-sale investments to other financial assets.

9B. OTHER FINANCIAL ASSETS

	Note	2018 RMB'000	2017 RMB'000
Non-current:			
Debt instruments at FVTOCI:	(i)		
Debt securities listed in Hong Kong		**50,376**	–
Debt securities listed in PRC		**204,723**	–
		255,099	–
Equity instruments at FVTOCI:	(ii)		
Equity securities listed in PRC		**247,573**	–
Equity securities listed in Hong Kong		**482,293**	–
Non-cumulative redeemable preference shares listed in Hong Kong		**34,474**	–
Perpetual capital securities listed in Hong Kong		**8,391**	–
Unlisted equity securities		**770,795**	–
		1,543,526	–
Equity instruments at FVTPL:	(iii)		
Unlisted equity securities		**53,886**	–
		1,852,511	–
Current:			
Debt instruments at FVTPL		**47,649**	–
		1,900,160	–

Note:

(i) The debt securities carry fixed interest at rates ranging from 5.65% to 8.40% per annum, payable semi-annually or annually in arrears and will mature from January 2020 to January 2023. These debt securities were reclassified from available-for-sale investments to debt instruments at FVTOCI.

(ii) The Group elected to present in other comprehensive income for the fair value changes of all of its equity instruments previously classified as available-for-sale investments. These instruments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, RMB1,574,273,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI, of which RMB24,077,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. No fair value change related to those investments previously carried at cost less impairment was adjusted to equity instruments at FVTOCI and FVTOCI reserve as at 1 January 2018.

(iii) The equity securities contained a puttable option were classified as equity instruments at FVTPL.

(iv) At the end of the reporting period, certain of the Group's other financial assets with an aggregate net carrying amount of RMB34,474,000 were pledged to a bank to secure the banking facility granted and the Group has not utilised this banking facility.

10. LOAN RECEIVABLES

	2018 *RMB'000*	2017 *RMB'000*
Non-current:		
Finance lease receivables	**163,422**	228,710
Current:		
Finance lease receivables	**100,421**	109,677
Factoring receivables	**334,379**	321,929
Receivables from supply-chain financing services	**80,170**	129,600
	514,970	561,206
Less: Provision for impairment	**(159,500)**	–
	355,470	561,206
	518,892	789,916

(A) Finance Lease Receivables

	Minimum lease receivables		Present value of minimum lease receivables	
	2018 *RMB'000*	2017 *RMB'000*	2018 *RMB'000*	2017 *RMB'000*
Not more than 1 year	**116,208**	117,912	**100,421**	109,677
Over 1 year but within 5 years	**182,104**	272,151	**163,422**	228,710
	298,312	390,063	**263,843**	338,387
Less: Unearned finance income	**(34,469)**	(51,676)		
Present value of minimum lease receivables	**263,843**	338,387		

The Group's finance lease receivables are denominated in Renminbi. The effective interest rates of the receivables ranged from 5.89% to 12.70% (2017: 5.89% to 12.70%) per annum. There are no unguaranteed residual value of assets leased under finance leases and no contingent rent arrangement that needed to be recognised (2017: Nil).

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

	2018 *RMB'000*	2017 *RMB'000*
Neither past due nor impaired	**263,843**	338,387

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

Cash deposits from finance lease customers are collected upfront based on certain percentage of the entire value of the lease contracts. When the lease contracts expires and all related liabilities and obligations are fulfilled by the customers, the cash deposit will be returned in full. The balance of the cash deposit can also be used to settle any outstanding lease receivables for the corresponding lease contract. The collected cash deposits of RMB25,613,000 (2017: RMB22,164,000) has been included in "other long-term payables" in the consolidated statement of financial position.

(B) Factoring Receivables

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

Factoring receivables are secured by receivables and/or commercial bills originally owned by the customers. These receivables carry interest at rates ranging from 4.00% to 6.50% (2017: 4.50% to 6.00%) per annum.

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

	2018	2017
	RMB'000	*RMB'000*
With a residual maturity of:		
Not more than 3 months	**65,079**	44,700
Over 3 months to 6 months	**109,800**	125,000
Over 6 months to 12 months	**–**	152,229
Over due	**159,500**	–
	334,379	321,929

At the end of the reporting period, RMB159,500,000 of the Group's factoring receivables was impaired (2017: Nil).

(C) Receivables From Supply-Chain Financing Services

The Group's receivables from supply-chain financing services arise from the provision of supply-chain financing services to companies located in PRC. The credit period for each customer is generally within 365 days.

These receivables carry interest at rates ranging from 5.40% to 10.80% per annum (2017: 5.40% to 7.20%).

Certain receivables from supply-chain financing services, amounting to RMB80,170,000 (2017: RMB50,000,000) are secured by certain interests of companies and personal guarantees.

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

	2018	2017
	RMB'000	*RMB'000*
With a residual maturity of:		
Not more than 3 months	**57,050**	95,600
Over 3 months to 6 months	**19,900**	34,000
Over 6 months to 12 months	**3,220**	–
	80,170	129,600

At the end of the reporting period, none of the Group's receivables from supply-chain financing services was either past due or impaired (2017: Nil).

An impairment analysis is performed at each reporting date by considering the probability of default of those companies with financial conditions, historical loss experience, coverage by letters of credit or other forms of credit insurance. At the end of the reporting period, the loss given default for the remaining balance of loan receivables was not material and has no impact on the Group's consolidated financial statements.

11. INVENTORIES

	2018	2017
	RMB'000	*RMB'000*
Manufacturing and trading	**3,271,853**	3,099,969
Property development	**249,361**	127,773
	3,521,214	3,227,742

(A) Manufacturing and Trading

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**1,401,893**	1,445,320
Work in progress	**327,273**	297,190
Finished goods	**1,542,687**	1,357,459
	3,271,853	3,099,969

(B) Property Development

	2018	2017
	RMB'000	*RMB'000*
Property under development	**249,361**	127,773

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

12. TRADE AND BILLS RECEIVABLES

	2018 *RMB'000*	2017 *RMB'000*
Trade receivables	**2,036,323**	1,981,994
Bills receivable	**537,617**	187,675
Less: Provision for impairment	**(194,493)**	(145,061)
	2,379,447	2,024,608

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

Trade and bills receivables are unsecured and interest-free.

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

	2018 *RMB'000*	2017 *RMB'000*
Not more than 3 months	**1,326,856**	1,063,621
Over 3 months to 6 months	**339,304**	438,828
Over 6 months to 12 months	**347,898**	248,608
Over 1 year to 2 years	**314,239**	173,230
Over 2 years to 3 years	**42,684**	90,318
Over 3 years	**8,466**	10,003
	2,379,447	2,024,608

13. TRADE AND BILLS PAYABLES

	2018 *RMB'000*	2017 *RMB'000*
Trade payables	**889,123**	918,375
Bills payable	**3,388,200**	2,102,710
	4,277,323	3,021,085

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

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

	2018	2017
	RMB'000	*RMB'000*
Not more than 3 months	**2,568,152**	1,914,118
Over 3 months to 6 months	**1,527,285**	357,082
Over 6 months to 12 months	**132,857**	702,632
Over 1 year to 2 years	**13,300**	20,587
Over 2 year to 3 years	**11,287**	5,465
Over 3 years	**24,442**	21,201
	4,277,323	3,021,085

14. BORROWINGS

	2018	2017
	RMB'000	*RMB'000*
Current		
Unsecured bank loans	**5,800,738**	2,698,795
Current portion of long-term unsecured bank loans	**340,568**	70,624
Current portion of long-term secured bank loans	**3,186**	–
Secured bank loans	**–**	105,500
Secured other loans	**–**	2,337
	6,144,492	2,877,256
Non-current		
Unsecured bank loans	**280,845**	422,168
Unsecured syndicated loans	**5,246,043**	4,988,151
Secured bank loans	**59,678**	19,800
Loans from non-controlling interests	**–**	12,000
	5,586,566	5,442,119
	11,731,058	8,319,375
Analysed into borrowings repayable:		
Within one year or on demand	**6,144,492**	2,877,256
In the second year	**5,355,245**	338,236
In the third to fifth years, inclusive	**201,462**	5,092,722
More than five years	**29,859**	11,161
	11,731,058	8,319,375

Note:

(a) The effective interest rates of the Group's borrowings range from 3.22% to 5.39% (2017: 1.60% to 6.00%) per annum.

(b) At the end of the reporting period, the secured bank loans were secured by the concession rights of a subsidiary and personal guarantee provided by a shareholder of that subsidiary.

At 31 December 2017, the secured bank loans were 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 were unsecured, interest-free and would mature in September 2019. During the year, the loans from non-controlling interests were disposed through the disposal of the subsidiary of the Group.

(d) At the end of the reporting period, the Group's borrowings are denominated in US dollar, HK dollar, Renminbi, Australian dollar and Canadian dollar are equivalent to RMB6,466,723,000 (2017: RMB5,213,421,000), RMB2,477,101,000 (2017: RMB1,254,263,000), RMB2,251,568,000 (2017: RMB1,108,835,000), RMB364,372,000 (2017: RMB537,423,000), and RMB171,294,000 (2017: RMB205,433,000) respectively.

15. DERIVATIVE FINANCIAL INSTRUMENTS

	2018	2017
	RMB'000	*RMB'000*
Put option	**6,592**	–

The Group's derivative financial instruments are managed and the performances are evaluated on fair value basis. Any changes in fair value was recognised in profit or loss.

The fair value of the put option has been estimated using valuation technique with unobservable inputs. Management has reviewed the valuation result by verifying all major inputs and assumptions as well as assessing the reasonableness of such valuation.

The Group entered into a sale and purchase agreement to acquire 70% equity interest in Jiangsu Yongbao Environmental Technology Co., Ltd. during the year. Pursuant to the agreement, the minority shareholder has the right to sell the remaining 30% equity interest to the Group after three years from the date of acquisition.

16. SHARE CAPITAL

Shares	**2018**	2017
Authorised:		
20,000,000,000 (2017: 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 (2017: 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:

	2018	2017
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Land, property, plant and equipment and investment properties	**982,063**	636,381
Investment in a joint venture	**23,520**	23,520
	1,005,583	659,901

CHAIRMAN'S STATEMENT

With 6.6% growth in gross domestic product, China has achieved the target set at the beginning of the year 2018; however, the economic growth rate is the lowest in the past 28 years. Various industries and sectors have therefore been affected by the economic slowdown. As deepening the progress of the 13th Five-year Plan, the Chinese government has continued to actively implement various policies to protect the energy and environment sectors, and kept investing in a number of large-scale municipal projects and urban infrastructure projects to boost the economy. These projects, amongst others, including the "Sponge City" Plan, the "Action Plan for Prevention and Control of Water Pollution" and the "Construction for Underground Pipe Gallery", have been carried out gradually to ensure the provision of safe water supplies and reduce water pollution. This has generated stable demand for plastic piping system products. Meanwhile, the Chinese government pressed on with the new mode of urbanisation and regional economic development, which created a favourable operating environment for the pipe industry.

As a leading large-scale industrial group producing building materials and interior decoration products in China, China Lesso has actively tapped the stable demand for infrastructure and pipes which resulted from the state's policies. Despite the fact that the Chinese economy is facing continuing downside pressure, the Group has successfully achieved steady growth in various aspects such as business sales, market expansion and key performance indicators during the year, owing to its leading position in the industry and its brand advantage with economies of scale. The Group's revenue increased by 16.6% to RMB23,734 million in 2018 from RMB20,360 million in 2017. Gross profit rose by 17.1% to RMB6,228 million, and profit attributable to owners of the Company grew by 8.7% to RMB2,492 million. The Board proposed a final dividend of HK20 cents per share for the year ended 31 December 2018.

During the year, Southern China remained as the main source of revenue of the Group. The Group continued to reinforce its leading market position in Southern China, and proactively expanded its footholds in other regions of the country and enhanced market penetration, thereby driving up overall sales. The Group kept striving to optimise the facilities at its existing production bases, raising the level of automation and upgrading production technologies and facilities, in a bid to improve its overall operational efficiency and competitiveness.

In 2018, the Chinese government was determined to curb property speculation by intensively promulgating regulatory policies in real estate market. As a result, the investment sentiment in the domestic real estate market became conservative and the growth rate of the industry declined. According to the National Bureau of Statistics, comparing with the same period of last year, the growth rate of floor area sold of national commercial housing dropped by 6.4% while the transaction volume growth rate of commercial housing decreased by 1.5%. The building materials and interior decoration products industries continued to capitalise on the opportunities brought by the intensive implementation of the national urbanisation policy, but such positive drivers were impeded by the market environment. Nevertheless, the Group will continue to enhance its competitiveness and optimise its product portfolio to meet customers' demand for quality building materials and household products. The Group remains confident in the future development of this business segment and expects to deliver synergies among its businesses in the long run.

The Chinese government has continued to actively implement environmental protection policies and encouraged the development of green industries in recent years. During the year under review, the Group intensified environmental protection strategies, continuously invested resources in technological innovation and development, and established upstream and downstream industrial chains with the pipe products and fittings as the core; thus achieving a synergistic effect with the business for plastic piping systems. The Group strives to become a one-stop environmental service provider in China, creating a green lifestyle for residents and fulfilling its corporate social responsibility in a proactive manner.

The Group began the "Lesso Home" business from 2017, with an aim to assist Chinese manufacturers to deliver building materials, home furnishings and other consumer products to target customers and consumers around the globe directly, and subsequently to expand the growth for their brands. The Group currently has 12 projects at different stages of development in the United States, Canada, Australia, Thailand, United Arab Emirates and other countries. In the future, the Group will strive to develop Lesso Home into the world's leading sales platform for building materials, home furnishings and other consumer products, and turn its business into a new growth driver for the Group in the long term.

Under the complex and uncertain macroeconomic environment in 2018, the Group continued to proactively offer a diverse range of products by leveraging its brand strength and the extensiveness of its dealer network, while striving to expand the Lesso Home business to increase its streams of income. This successfully brought about a steady increase in the Group's overall revenue. Moreover, the Group applied different development strategies to its existing and new businesses, to expand its business scope in China and overseas markets, and enhance its brand image and awareness, thus establishing a solid foundation for sustainable growth in revenue and profitability in the future.

While we expect that the Chinese economy will maintain steady growth in 2019, it would be clouded by uncertainties over the global economy. In order to adapt to the ever-changing market demand, the Group will fully grasp the opportunities arising from the Chinese government's initiatives that are beneficial to the industry to develop its business of building materials and interior decoration products as well as the business of environmental protection, seeking to achieve synergies between such businesses and aim for sustainable growth. The Group will strive to upgrade its existing production bases so as to make them automated and intelligent, thereby enhancing the Group's production capacity and efficiency. In addition, the Group will continue to adopt a blue ocean strategy by expanding the scope of applications of piping systems to solidify its leading position.

On behalf of the Board, I would like to express my heartfelt gratitude to our management and all the staff members for their commitment and dedication to the Group. The Group will continue to fulfill its mission of "improving the quality of urban life" by providing the market with innovative and high-quality building materials and interior decoration products. At the same time, we will actively capitalise on the opportunities arising from the state's policies and infrastructure to drive the Group's business development in the long term. This will enable us to achieve better results and create greater value for customers, investors and Shareholders. China Lesso is determined to scale new heights in the future!

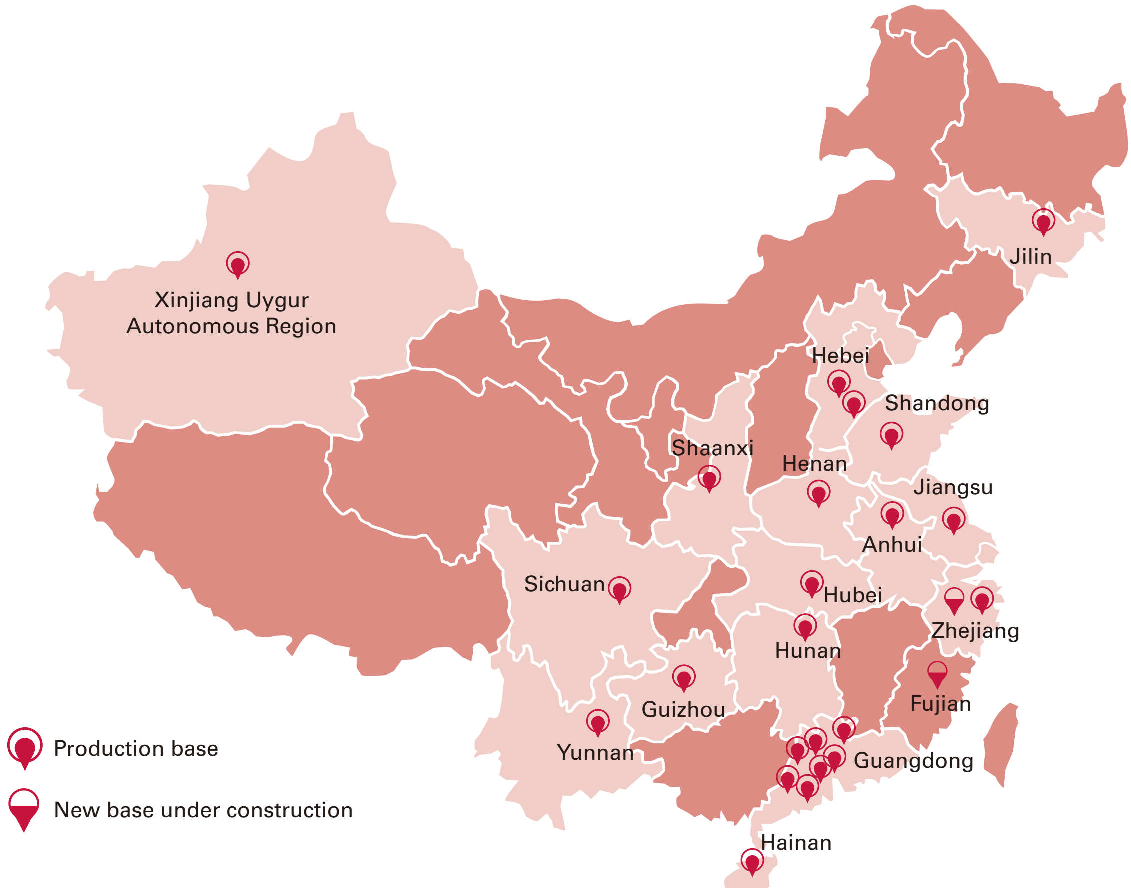
Wong Luen Hei
Chairman of the Board

Hong Kong, 26 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE OVERVIEW

China Lesso is a leading large-scale industrial group which produces building materials and interior decoration products in mainland China. The Group established 23 advanced production bases in 16 regions within China and foreign countries to support a nationwide sales network. The Group strives to refine its strategic planning and sales network, offering a comprehensive range of diverse industrial products and quality sales services.



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

The brand name LESSO of China Lesso represents the key elements of the Group's corporate culture: "Link, Easiness, Safety, Sharing and Openness", and demonstrates its commitment to "Creating a Relaxing Life for Dwellers". Since it was established over 30 years ago, China Lesso has been consistently consolidating its strong brand position and reputation, and has received quality accreditations from many national and professional institutions, including "The Most Trusted Brand by Consumers in 2018", "Influential Brand in China's Interior Decoration Industry", "Annual Innovative Brand in China's Interior Decoration Industry", "Preferred Supplier of Top 500 Chinese Real Estate Development Enterprises in 2018", "China's Top 100 Companies Award", "Award for Benchmark Company in Quality Manufacturing in Foshan", and "Top 10 Companies Award in China's Light Industry and Plastics Industry". The Group's leading brand position reflects its strong capabilities to conduct product research and development and to ensure excellent product quality. This has laid a foundation for the Group's strong business presence in mainland China and overseas markets, and gave the impetus for further expansion of China Lesso's sales network.

MARKET REVIEW

In 2018, the global economic environment was clouded by a number of uncertainties and underwent changes, such as heightened trade friction between China and the United States as well as turmoil in the European economy as a result of Brexit. Meanwhile, China's economic growth remained stable, and made continued progress due to policies such as supply side structural reform. During the year under review, China enhanced financial deleveraging efforts and adopted stringent macro-control measures on the real estate market, with an aim to continuously cool down the overall real estate market. In addition, with the ongoing process of urbanisation, the Chinese government continued to press on with its policies on energy conservation and environmental protection, and speeded up multiple large-scale municipal projects and urban infrastructure construction. This drove up the demand for the application of pipes and pipe fittings accordingly.

According to the forecast of the "Development Proposal on the PRC's Plastic Industry for the 13th Five-year Plan Period (2016–2020)", China's production volume of plastic pipes during the period of "The 13th Five-year Plan" will maintain at an annual growth rate of approximately 3%. In 2020, it is expected that China's production volume of plastic pipes will reach 16 million tonnes. Moreover, under "The Program for Construction of the National Urban Municipal Infrastructure of the 13th Five-year Plan", targets have been set for the development of national water supply, heating, drainage and waterlogging prevention facilities. Under this program, China plans to add 93,000 kilometres ("km") of new pipelines to the water supply network, add 95,000 km of new pipelines and replace 23,000 km of old pipelines to the drainage network, build 41,000 km of pipelines to the centralised heating network, 137,000 km of gas pipelines, and 112,400 km of urban rainwater pipelines during the period of "The 13th Five-year Plan". These large-scale infrastructure projects will give momentum to urbanisation and regional economic development, and will generate enormous demand for pipes, thus benefitting the industry.

The rapid growth of demand for natural gas in China provided a significant growth driver for the pipeline industry. "The Program for Natural Gas Development under the 13th Five-Year Plan (《天然氣發展「十三•五」規劃》)" stated that during the period of "The 13th Five-year Plan", China will build 40,000 km of new main and branch natural gas pipelines, which will result in a total distance of 104,000 km in 2020. As the State Council stated in the "Several Opinions on Promoting the Coordinated and Stable Development of Natural

Gas", natural gas infrastructure construction and connectivity among them shall be enhanced to develop a diversified natural gas supply system. According to the "Clean Winter Heating Plan for Northern China (2017–2021)", China plans to add eight new main pipes. After the completion of construction and commencement of operation, the supply capacity will increase by approximately 75 billion cubic meters per year, while there are plans for six provinces and cities including Beijing, Tianjin, Hebei, Shandong, Henan and Shanxi to add 4,300 km from 2017 to 2021. In addition, the province of Heilongjiang has engaged in the construction of the natural gas pipeline network where the total investment will reach over RMB13 billion and will cover the natural gas pipeline network of 36 main and branch pipelines with a total distance of 2,800 km. Following the nationwide implementation of clean heating infrastructure construction works, it is expected that a stable growth driver will be provided for the pipeline industry.

2018 was a year when China made substantial progress of the "Action Plan for Prevention and Control of Water Pollution". According to the requirements of the new "Law on Prevention and Control of Water Pollution" and the related planning under the "13th Five-year Plan" of the country, various local governments of China have successively promulgated a series of pollution control policies, which will facilitate sewage control, improve the quality of water environment, enhance the municipal pipeline network and sewage disposal equipment, thus generating enormous market demand for the pipeline industry. In the "Water Pollution Prevention and Control Plan for Major River Basins (2016–2020) (《重點流域水污染防治規劃(2016–2020年)》)", according to the objective of the "13th Five-year Plan", the National Development and Reform Commission estimated investments in water pollution prevention and control projects in major river basins totalled around RMB700 billion. In particular, the investment in municipal sewage disposal and ancillary facilities development projects was estimated to be RMB316.1 billion. Meanwhile, various local governments in China have successively engaged in the pipeline network reformation plan. For instance, in the "Three-Year Action and Implementation Plan for the Reformation of the Aged Municipal Pipeline Network of Cities in Hebei Province (2018–2020) (《河北省城市市政老舊管網改造三年行動實施方案(2018–2020年)》)", it is expected that an investment of approximately RMB11.55 billion will be used to improve the water supply, heat supply, gas and combined drainage pipeline network. Also, in the "Action Plan for Safety Operation Enhancement of Municipal Pipeline Network in Jilin Province (《吉林省城市管網安全運行提升行動方案》)", a full coverage of the underground pipeline network is targeted and it is expected that a sizable amount of market demand will be unleashed.

During the year under review, the State Council promulgated the "Strategy Plan for Rural Revitalisation (2018–2022) (《鄉村振興戰略規劃(2018–2022年)》)", in which it is suggested that greater effort shall be made to develop the construction of rural infrastructure, and to enhance rural irrigation infrastructure and network development, as well as to promote the urbanisation development by unifying cities and rural area. In the "Crucial Action Plan for Pollution Control in Agriculture and Rural Areas (《農業農村污染治理攻堅戰行動計劃》)" jointly promulgated by the Ministry of Ecology and Environment and the Ministry of Agriculture and Rural Affairs, it is even expressly stated that pollution control in rural areas is of major concern. General sewage control in rural areas has been a top priority. In regions where rural environmental infrastructure development are lagging behind, there shall be initiation of the development of infrastructure such as water supply, drainage gutter, sewage collecting pipeline and sewage disposal networks. It is expected that by 2020, arbitrary disposal of general sewage in rural areas will be under control. The progress of rural infrastructure construction will bring about increasing market drivers for the pipeline development market.

The "Program for Developing National Marine Economy under the 13th Five-year Plan" was introduced by the Chinese government to adjust and improve the traditional marine industries, promote comprehensive regional development of the marine industries primarily in the form of marine ranch construction, in order to realise a sustainable development of land-ocean coordination and people-ocean harmony. Meanwhile, it can further optimise settings of the oceanic economy, improve the deployment of port resources, develop integrated and ancillary industry chains, and promote the oceanic economy transformation from one of speed and scale to a quality and efficiency model. According to the "Implementation Plan for Seawater Desalination Works around Islands (《海島海水淡化工程實施方案》)", it is intended to promote the development, upgrade and transformation of seawater desalination works around 100 islands in 3 to 5 years in coastal provinces and cities such as Liaoning, Shandong, Qingdao, Zhejiang, Fujian and Hainan, and actively promote the application of scaling of seawater desalination. The move to improve the marine utilisation industries is expected to enlarge the plastic pipe market and present new business opportunities for the application of pipes.

Affected by the external economic environment, the building materials and interior decoration market entered a reshuffling period in 2018. During the reporting period, the Chinese government closely and successively launched a number of policies to stringently manage the real estate market from overheating, and the objectives of housing price stabilisation, rental management, leverage reduction, risk aversion, structural adjustment and expectation stabilisation were implemented seriously. According to the "Notification of Inspection and Reformation Progress of CPC's Unit at the Ministry of Housing and Urban-Rural Development (《中共住房城鄉建設部黨組關於巡視整改進展情況的通報》)" promulgated by the Ministry of Housing and Urban-Rural Development, the government insisted on its position of "Housing is for living, not for speculating". Meanwhile, it was reiterated in the Central Economic Work Conference that a specific strategy for specific cities and specific instruction for specific category orientation will be adopted to develop a long term and effective mechanism for the healthy development of the real estate market. The growth pace of the real estate investment in 2018 slightly slowed down as a result of the policy, which in turn directly affected the performance of the building materials and interior decoration industry. The official implementation of the Environmental Protection Tax Law and the launch of a range of more stringent standard further standardised standards for the building materials and interior decoration industry and accelerated the pace of reshuffling of the industry. However, benefitting from the upgrade of consumption structure are the development of new retail sales, further progress in the supply side structural reform, advances in the new mode of urbanisation and the reorganisation of real estate industry, it will present new opportunities for the building materials and interior decoration industry.

In terms of the development of overseas market, China actively pursued exchanging development ideas and strengthening strategy connection with different countries and regions, in order to achieve cooperation and mutual winning and active promotion of a large number of Sino-foreign cooperation projects, such as China-Myanmar Economic Corridor and China – Europe Railway Express and Hambantota Port, etc. Meanwhile, significant progress has been made in the "Belt and Road Initiative" as it is continuously developed by China and cooperation has been commenced with over 50 countries during the year under review. The Chinese government continued to increase its support to various industries, thus resulting in overseas markets becoming solid business growth drivers for Chinese companies. The continued expansion of overseas cooperation projects and "Belt and Road Initiative" provide huge room for infrastructure construction, hence massive demand for the application of pipes and pipe fittings as well as building materials and equipment.

RESULTS AND PERFORMANCE

During the year under review, the Group continued its strict adherence to the national policy to continuously stabilise the plastic piping systems business, and actively develop the building materials and interior decoration business as well as environmental protection business at the same time, in order to broaden the revenue base for the Group. In 2018, benefitting from the Chinese economy which maintained medium to high growth rate and a huge demand for infrastructure construction, the revenue of China Lesso increased by 16.6% year on year to RMB23,734 million (2017: RMB20,360 million). During the year, on the back of the Group's economies of scale, continued enhancement of the production capacity of plant and the implementation of effective cost control, the gross profit rose by 17.1% year on year to RMB6,228 million (2017: RMB5,317 million), with gross profit margin remaining at a healthy level of 26.2% (2017: 26.1%).

The table below sets out the breakdown of revenue by business unit for 2018 and 2017:

	Revenue			**% of total revenue**	
	2018	2017		**2018**	2017
	RMB million	*RMB million*	***Change***		
Plastic piping systems	**21,343**	18,110	17.9%	**89.9%**	88.9%
Building materials and interior decoration products	**1,314**	1,356	(3.1)%	**5.6%**	6.7%
Others#	**1,077**	894	20.4%	**4.5%**	4.4%
Total	**23,734**	20,360	16.6%	**100.0%**	100.0%

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

For the year ended 31 December 2018, the number of the Group's independent and exclusive first-tier distributors nationwide increased to 2,193 (2017: 2,155). Southern China remained the Group's major revenue contributor, and revenue from Southern China and other regions accounted for 55.3% and 44.7% respectively (2017: 56.6% and 43.4%) of the Group's total revenue.

The table below sets out the breakdown of revenue by region for 2018 and 2017:

	Revenue			**% of total revenue**	
	2018	2017		**2018**	2017
Region#	***RMB million***	*RMB million*	***Change***		
Southern China	**13,136**	11,521	14.0%	**55.3%**	56.6%
Southwestern China	**2,541**	2,115	20.1%	**10.7%**	10.4%
Central China	**2,844**	2,231	27.5%	**12.0%**	10.9%
Eastern China	**1,265**	1,224	3.4%	**5.3%**	6.0%
Northern China	**1,608**	1,341	19.9%	**6.8%**	6.6%
Northwestern China	**954**	746	27.9%	**4.0%**	3.7%
Northeastern China	**582**	460	26.6%	**2.5%**	2.3%
Outside China	**804**	722	11.2%	**3.4%**	3.5%
Total	**23,734**	20,360	16.6%	**100.0%**	100.0%

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

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

The Group's EBITDA increased by 15.1% year on year to RMB4,409 million during the reporting period (2017: RMB3,831 million), and the EBITDA ratio was 18.6% (2017: 18.8%). Profit before tax increased by 9.5% year on year to RMB3,236 million (2017: RMB2,955 million). Profit attributable to owners of the Company increased by 8.7% year on year to RMB2,492 million (2017: RMB2,293 million). Basic earnings per share increased by 8.1% year on year to RMB0.80 (2017: RMB0.74). The effective tax rate stayed at 24.4% (2017: 23.3%).

To express gratitude to the Shareholders for their support and to share with them the fruits of the Group's endeavours, the Board proposed payment of a final dividend of HK20 cents per share for the year ended 31 December 2018 (2017: HK18 cents per share).

BUSINESS REVIEW AND OUTLOOK

Plastic Piping Systems

The Chinese government promoted various energy and environmental protection policies such as "Coal to Gas" and "Action Plan for Prevention and Control of Water Pollution", and continued to implement piping and pipeline networks planning, in order to generate a stable market demand for plastic pipes and pipe fittings. For the year ended 31 December 2018, benefitting from the stable increase in demand of the Chinese construction industry, coupled with municipal projects and infrastructure construction, as well as a smooth development of the overall performance of the real estate market, all of these generated more orders and supported a stable growth of the plastic piping systems business of the Group. During the reporting period, the revenue from the plastic piping systems business increased by 17.9% year on year to RMB21,343 million (2017: RMB18,110 million), and accounted for 89.9% of the Group's total revenue (2017: 88.9%).

The table below sets out the breakdown of revenue from plastic piping systems business by product application for 2018 and 2017:

	Revenue			**% of revenue**	
	2018	2017		**2018**	2017
	RMB million	*RMB million*	***Change***		
Water supply	**8,274**	6,887	20.1%	38.8%	38.0%
Drainage	**8,171**	6,965	17.3%	38.3%	38.5%
Power supply and telecommunications	**3,716**	3,257	14.1%	17.4%	18.0%
Gas transmission	**459**	412	11.3%	2.1%	2.3%
Others#	**723**	589	22.6%	3.4%	3.2%
Total	**21,343**	18,110	17.9%	100.0%	100.0%

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

The Group also continued to boost sales volume of plastic pipes and pipe fittings such that sales volume of the plastic piping systems increased by 8.2% year on year. In terms of product materials, sales volume of PVC products increased by 6.3% year on year to 1,682,949 tonnes (2017: 1,582,697 tonnes), while that of non-PVC products increased by 15.0% year on year to 485,673 tonnes (2017: 422,143 tonnes). Revenue from sales of PVC products increased by 15.4% year on year to RMB13,660 million (2017: RMB11,840 million) while that of non-PVC products increased by 22.5% year on year to RMB7,683 million (2017: RMB6,270 million).

The table below sets out the breakdown of revenue from plastic piping systems by region for 2018 and 2017:

	Revenue			% of revenue	
	2018	2017		**2018**	2017
Region	***RMB million***	*RMB million*	***Change***		
Southern China	**11,743**	10,160	15.6%	55.0%	56.1%
Other than Southern China	**9,223**	7,672	20.2%	43.2%	42.4%
Outside China	**377**	278	35.4%	1.8%	1.5%
Total	**21,343**	18,110	17.9%	100.0%	100.0%

During the reporting period, as affected by global economic environment, geopolitical factors and exchange rate fluctuation, the average cost of raw materials posed an increasing upward pressure on prices. The Group strived to maintain its gross profit margin at a reasonable and healthy level by effectively controlling the costs of raw materials and production through economies of scale, massive procurement from raw materials suppliers and other measures. As the average cost of sales increased by 8.8% year on year, the Group lifted the average selling price of its plastic piping systems by 9.0% year on year to RMB9,842 per tonne (2017: RMB9,033 per tonne). The gross profit margin of this business reached 27.2% (2017: 27.1%).

The table below sets out the breakdown of average selling price, sales volume, and revenue from plastic piping systems business by product material for 2018 and 2017:

	Average selling price			Sales volume			Revenue		
	2018	2017		**2018**	2017		**2018**	2017	
	RMB	*RMB*	***Change***	***Tonne***	*Tonne*	***Change***	***RMB million***	*RMB million*	***Change***
PVC products	**8,116**	7,481	8.5%	**1,682,949**	1,582,697	6.3%	**13,660**	11,840	15.4%
Non-PVC products#	**15,820**	14,853	6.5%	**485,673**	422,143	15.0%	**7,683**	6,270	22.5%
Total	**9,842**	9,033	9.0%	**2,168,622**	2,004,840	8.2%	**21,343**	18,110	17.9%

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

The Group actively enhanced its standards in automatic production and smart production, and strived for full mechanisation in the production of pipe products, so as to improve the overall production capacity, quality and efficiency in fulfilling the market demand. During the year under review, the Group's annual designed capacity of plastic pipes and pipe fittings expanded from 2.40 million tonnes in 2017 to 2.62 million tonnes, with a capacity utilisation rate of 84.8% in the year.

The Group has progressively expanded the capacity with reference to business development and actual requirement. Looking forward, the Group will continue to enhance its core competitiveness and actively develop and update its intelligent plant and equipment, in order to improve its efficiency. Meanwhile, the Group will continue to promote a full automation of its production base and further optimise the mechanic equipment and ancillary facilities in its existing production base in order to raise the level of automation and accelerate the production process, so as to expand the capacity and enhance the production efficiency. In addition, the Group will also continue to put in effort for innovation and research and development, with a focus on cutting edge technological research in the piping and building materials industry, which can ensure the technology claims an industry leading position and endeavour to provide diversified and quality products for the public.

With China's steady progress in its plan for development and the robust demand in the field of infrastructure construction, the application of plastic pipes and pipe fittings are further drivers which have contributed to the opportunities of market development. As a market leader, the Group will strive to expand the scope of applications of plastic pipes and pipe fittings to increase product sales, thereby maintaining its market leadership. Overall, the management is fully confident on the future development of the plastic piping systems business segment, and it is believed that the Group will continue to deliver a solid and satisfactory business performance.

Building Materials and Interior Decoration Products

In 2018, the central government intensively promulgated specific regulations which exerted downward pressure on the growth in the real estate market, resulting in decline in the growth rates of floor area sold and sales value of national commercial housing. During the year, the Group's business of building materials and interior decoration products continued to be under pressure due to external unfavourable factors. Nevertheless, during the year, the Group successfully acquired several large-scale property corporate customers and received more new orders from existing customers. This business steadily developed, and generated income of RMB1,314 million (2017: RMB1,356 million), accounting for 5.6% of the Group's total revenue. The Group anticipated that the regulatory policies for real estate industry in 2019 will turn more accommodative than last year and believed that the business of building materials and interior decoration products will benefit from the positive impacts driven by the less stringent policy implementation. In 2019, the Group will strive to deliver continuous growth in revenue of the business of building materials and interior decoration products, and increase the revenue proportion of this business to the Group's total revenue. At the same time, the Group will strengthen its promotion to existing customers, actively engage new customers and increase sales by provision of diverse products.

Others

Environmental Protection

To cope with the Chinese government's environmental protection initiatives, the Group is actively expanding its environmental protection business. The Group actively capitalised on municipal projects in various fields, including those of municipal sewerage system, river treatment, soil restoration, underground pipeline gallery, sponge city, installation of integrated water purifiers. All these projects drove up the demand for plastic pipes and pipe fittings. However, the business development of environmental protection was slightly slower than expected owing to the modification to the regulations governing the finance of public-private partnerships projects by the Chinese government. During the year, this business maintained a steady growth and realised a revenue of RMB188 million (2017: RMB180 million). The Group aspires to become an one-stop environmental protection service provider and to enable people to live eco-friendly lives. The Group entered into a sale and purchase agreement to acquire 70% equity interest in Jiangsu Yongbao Environmental Technology Co., Ltd. ("Jiangsu Yongbao") in October 2018 at a consideration of RMB392 million. Pursuant to the agreement, the minority shareholder of Jiangsu Yongbao has the right to sell the remaining 30% equity interest to the Group after three years from the date of acquisition. Jiangsu Yongbao has been engaging in the provision of hazardous waste, wastewater and exhaust fumes treatment services in China. The Group will continue to enhance its own technology, operation and quality, and fostering new growth drivers so as to achieve synergy between its environmental protection business and other businesses, and diversify its source of income.

Lesso Home

To capitalise on the "Belt and Road Initiative", the Group promoted a business line named "Lesso Home" with the aim of bringing "One-Stop Specialised Market for Home Furnishing Products" to the overseas markets. Lesso Home aims to build a multinational platform for Chinese manufacturers of home furnishings, building materials and other consumer products to showcase their products and facilitate the distribution and retailing of such products. Lesso Home will also provide ancillary services, including marketing and branding. During the year, "Lesso Home" business realised a revenue of RMB371 million (2017: RMB316 million).

The Group has 12 site reserves in the United States, Canada, Australia, Thailand and United Arab Emirates. All of the sites are located within close proximity to major metropolitan areas. Most of the projects are under planning and development, of which one to two projects are expected to be finalised in 2019. The Group aims to develop these sites into the largest one-stop showroom markets specialised for home furnishing products in its respective local market. Tenants will independently operate their own showrooms, and sell their products directly to local traders, retailers and consumers. The Group is confident that the "Lesso Home" business will become another growth driver for the Group in the long run.

CAPITAL EXPENDITURE

The Group's capital expenditure for 2018 was approximately RMB1,626 million, which was primarily used for improvement of automated facilities in production bases, expansion of the existing production bases and acquisition of properties in foreign countries.

INVESTMENT IN ASSOCIATES

Given the increasing trend in using aluminium profiles as major construction materials in the PRC, the Group acquired a 26.28% equity interest in Xingfa Aluminium Holdings Limited ("Xingfa Aluminium"), the issued shares of which is listed on the Stock Exchange in 2018 at a consideration of HK$974 million. Xingfa Aluminium is one of the leading aluminium profile manufacturers in China. The Group considers the acquisition not only serves as a valuable investment with sustainable returns, but also as a good strategic investment. With extensive experience in the business of construction materials and industrial materials, Xingfa Aluminium has established various kinds of sales channels and a diverse customer base. The acquisition may create long-term commercial synergies with the Group's businesses to broaden its sales channels and expand its customer base, and enrich the Group's already comprehensive portfolio of products and services. This can facilitate the Group's business diversification and reinforce its market leadership. In 2018, Xingfa Aluminium recorded a revenue of RMB9,925 million, and profit attributable to the shareholders of Xingfa Aluminium was RMB495 million.

In 2018, the Group acquired 38% of the equity interest in Foshan Hechuang Yingke Real Estate Development Co., Ltd. ("Hechuang Yingke") at a consideration of RMB356 million. Hechuang Yingke is an enterprise that primarily engages in commercial real estate development and integrates the diverse operations of real estate development, market development, leasing business, property management and exhibition management. Hechuang Yingke focuses on the development and operation of high-quality, large-scale, multi-format comprehensive commercial real estate projects. For example, "Asia International Furniture Material Trading Center" is a furniture industry base with the integration of global furniture material procurement, information, logistics and exhibition centres. In 2018, Hechuang Yingke recorded a revenue of RMB230 million and the profit attributable to the shareholders of Hechuang Yingke of RMB63 million.

FINANCIAL POSITION

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

As at 31 December 2018, the Group had total debts (i.e. total borrowings) of approximately RMB11,731 million, of which 55.1% was denominated in US dollar, 21.1% was denominated in HK dollar, 19.2% was denominated in RMB, 3.1% was denominated in Australian dollar and 1.5% was denominated in Canadian dollar. The Group's borrowings are subject to effective interest rates ranging from 3.22% to 5.39% per annum with maturity periods ranging from within one year to more than five years.

As at 31 December 2018, the Group's current assets and current liabilities were approximately RMB14,883 million and RMB13,105 million respectively. The Group's Current Ratio decreased to 1.14 from 1.50 as at 31 December 2017, while the Quick Ratio decreased to 0.87 from 1.10 as at 31 December 2017. The Group's total equity increased to approximately RMB15,073 million. The Group's Gearing Ratio stood at a healthy level of 43.8%.

With cash and bank deposits, including restricted cash, of approximately RMB6,452 million as well as unutilised banking facilities, the Board considers that the Group has sufficient working capital for its operation and future development.

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

CHARGE ON ASSETS

As at 31 December 2018, certain of the Group's other financial assets with an aggregate net carrying amount of approximately RMB34 million were pledged to a bank to secure the banking facility granted, but this banking facility has not been utilised. The secured bank loans were secured by the concession rights of a subsidiary and personal guarantee provided by a shareholder of that subsidiary.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES

As at 31 December 2018, the Group employed a total of approximately 11,700 employees including directors. Total staff costs were RMB1,018 million during the year. The Group ensures that the remuneration packages for employees are determined based on their work performance, professional experience and the prevailing industry practice. Discretionary year-end bonus may be paid to employees based on individual performance. Other benefits to employees include medical insurance, retirement scheme and training programmes.

SIGNIFICANT INVESTMENTS

Financial Investments

As at 31 December 2018, the Group held long-term and short-term financial investments of approximately RMB1,853 million (31 December 2017: RMB1,582 million) and RMB47 million (31 December 2017: nil), respectively. The investment portfolio comprised of 38.4% listed equity securities (issued by PRC-based home improvement and furnishings shopping malls operating company, PRC-based property developer and PRC-based environmental companies), 13.4% listed debt securities, 1.8% listed non-cumulative redeemable preference shares, 0.5% listed perpetual capital securities, 43.4% unlisted securities, and 2.5% debt instruments. Each of these investments has a carrying amount accounting to less than 5% of the Group's total assets as at 31 December 2018.

During the reporting period, the Group recognised a realised disposal gain of approximately RMB90 million, unrealised mark-to-market valuation loss of approximately RMB273 million due to volatile global capital market and recognised approximately RMB59 million of exchange gain on translation. Income from the portfolio amounted to approximately RMB38 million in the reporting period, representing dividend and interest incomes.

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

INVESTMENT PROPERTIES

As at 31 December 2018, the Group's investment properties were approximately RMB4,650 million. Increase in investment properties was mainly attributable to the capitalisation of construction costs on certain investment properties under development, gains arising from changes in the fair values of investment properties were approximately RMB312 million and the translation effects during the reporting period.

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

Save as disclosed above, the Group did not have any significant investments as at 31 December 2018.

CORPORATE SOCIAL RESPONSIBILITY

Environment

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

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

Community Engagement

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

Employee

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

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

Customer and Supplier

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting policies adopted by the Group and the annual results of the Group for the year ended 31 December 2018.

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, 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 an independent non-executive director was unable to attend the annual general meeting ("AGM") of the Company held on 25 May 2018 (as provided for under 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 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2018, the Company or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK20 cents per share for the year ended 31 December 2018 (the "Proposed Final Dividend") to the Shareholders whose names appear on the register of members of the Company on Wednesday, 5 June 2019, subject to the Shareholders' approval at the forthcoming annual general meeting of the Company to be held on Monday, 27 May 2019 (the "2019 AGM"). It is expected that the Proposed Final Dividend will be paid on Monday, 17 June 2019.

Including the interim dividend of HK10 cents per share (2017: nil) for the six months ended 30 June 2018 that was paid to the Shareholders on 28 September 2018, the total dividend for 2018 amounts to a total of HK30 cents per share (2017: HK18 cents per share), which represents a payout ratio of 32.7% (2017: 22.6%) of the profit attributable to the Shareholders for the year ended 31 December 2018.

CLOSURE OF REGISTER OF MEMBERS

(A) For Determining the Entitlement to Attend and Vote at the 2019 AGM

The register of members of the Company will be closed from Wednesday, 22 May 2019 to Monday, 27 May 2019, 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 2019 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 Tuesday, 21 May 2019.

(B) For Determining the Entitlement to the Proposed Final Dividend

The register of members of the Company will be closed from Monday, 3 June 2019 to Wednesday, 5 June 2019, 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, 31 May 2019.

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 2018 annual report will be despatched to the Shareholders and available on the above websites in due course.

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

Hong Kong, 26 March 2019

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 and Mr. Lin Dewei; and the independent non-executive directors of the Company are Mr. Wong Kwok Ho Jonathan, Mr. Cheung Man Yu, Ms. Lan Fang, Dr. Tao Zhigong and Mr. Cheng Dickson.

GLOSSARY

"Board"	the board of directors of the Company
"China" or "PRC"	the People's Republic of China, for the purpose of this report, excluding Hong Kong, Macau and Taiwan
"Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Company" or "China Lesso"	China Lesso Group Holdings Limited
"Current Ratio"	the ratio of current assets to current liabilities
"EBITDA"	earnings before interest, taxes, depreciation and amortisation
"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
"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 businesses, industries and markets in which China Lesso operates.