CHINA LESSO GROUP HOLDINGS LIMITED

中國聯塑集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2128)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

The Board is pleased to announce the unaudited consolidated financial results of the Group for the six months ended 30 June 2019.

HIGHLIGHTS

Compared to the financial results for the six months ended 30 June 2018:

- Revenue increased by 6.6% to RMB11,137 million
- Gross profit increased by 17.6% to RMB3,200 million
- Profit attributable to owners of the Company increased by 21.4% to RMB1,264 million
- Basic earnings per share was RMB0.41, increased by 20.6%
- An interim dividend of HK12 cents per share is declared for the six months ended 30 June 2019

* *For identification purposes only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	3	**11,137,154**	10,448,302
Cost of sales		**(7,936,688)**	(7,727,083)
Gross profit		**3,200,466**	2,721,219
Other revenue, income and gains	3	**152,182**	118,828
Selling and distribution expenses		**(519,045)**	(511,197)
Administrative expenses		**(564,424)**	(473,807)
Impairment losses on financial and contract assets		**(11,664)**	(4,287)
Other expenses		**(423,651)**	(400,524)
Finance costs	4	**(271,492)**	(179,961)
Share of results of associates		**18,148**	28,721
Share of results of joint ventures		**407**	167
PROFIT BEFORE TAX	5	**1,580,927**	1,299,159
Income tax expense	6	**(323,537)**	(294,051)
PROFIT FOR THE PERIOD		**1,257,390**	1,005,108
OTHER COMPREHENSIVE INCOME/ (EXPENSE)			
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of debt instruments at fair value through other comprehensive income		**10,920**	(4,501)
Share of other comprehensive income of an associate, net of tax		**(97)**	601
Exchange differences on translation of foreign operations		**17,346**	(98,016)
		28,169	(101,916)

	Note	Six months ended 30 June **2019** *RMB'000* **(Unaudited)**	2018 *RMB'000* (Unaudited)
Items that will not to be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income		**(147,054)**	(346,766)
OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD		**(118,885)**	(448,682)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**1,138,505**	556,426
Profit for the period attributable to:			
Owners of the Company		**1,263,701**	1,041,194
Non-controlling interests		**(6,311)**	(36,086)
		1,257,390	1,005,108
Total comprehensive income for the period attributable to:			
Owners of the Company		**1,138,130**	594,605
Non-controlling interests		**375**	(38,179)
		1,138,505	556,426
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	8	**RMB0.41**	RMB0.34

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	**30 June 2019 RMB'000 (Unaudited)**	31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**8,062,465**	7,478,765
Prepaid land lease payments		**–**	1,337,959
Right-of-use assets		**1,564,556**	–
Investment properties		**5,858,217**	4,650,423
Deposits paid for the purchase of land, property, plant and equipment		**969,183**	1,731,202
Goodwill		**365,122**	363,133
Other intangible assets		**254,882**	257,787
Interests in associates		**1,400,007**	1,375,567
Interests in joint ventures		**9,710**	9,303
Other financial assets	9	**1,562,489**	1,852,511
Loan receivables	10	**201,467**	163,422
Other non-current assets		**401,708**	360,097
Contract assets		**83,048**	84,651
Deferred tax assets		**90,140**	88,130
Total non-current assets		**20,822,994**	19,752,950
CURRENT ASSETS			
Inventories	11	**4,125,051**	3,521,214
Contract assets		**307,034**	327,279
Other financial assets	9	**8,255**	47,649
Loan receivables	10	**335,416**	355,470
Trade and bills receivables	12	**2,839,623**	2,379,447
Prepayments, deposits and other receivables		**1,774,006**	1,800,477
Cash and bank deposits		**5,922,352**	6,451,791
Total current assets		**15,311,737**	14,883,327

	Note	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
CURRENT LIABILITIES			
Contract liabilities		**1,250,572**	1,482,994
Trade and bills payables	13	**4,650,430**	4,277,323
Other payables and accruals		**737,586**	927,482
Tax payable		**189,049**	272,780
Borrowings	14	**6,530,047**	6,144,492
Lease liabilities		**86,216**	–
Total current liabilities		**13,443,900**	13,105,071
NET CURRENT ASSETS		**1,867,837**	1,778,256
TOTAL ASSETS LESS CURRENT LIABILITIES		**22,690,831**	21,531,206
NON-CURRENT LIABILITIES			
Borrowings	14	**5,617,435**	5,586,566
Convertible loans	15	**382,981**	–
Lease liabilities		**118,917**	–
Other long-term payables		**108,591**	109,546
Derivative financial instruments		**6,592**	6,592
Deferred tax liabilities		**651,346**	572,967
Deferred income		**206,665**	182,670
Total non-current liabilities		**7,092,527**	6,458,341
Net assets		**15,598,304**	15,072,865
EQUITY			
Share capital	16	**135,344**	135,344
Reserves		**15,200,743**	14,667,985
Equity attributable to owners of the Company		**15,336,087**	14,803,329
Non-controlling interests		**262,217**	269,536
Total equity		**15,598,304**	15,072,865

Note:

1.1 BASIS OF PREPARATION

These condensed consolidated financial statements of the Group for the six months ended 30 June 2019 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. They have been prepared under the historical cost convention, except for investment properties, other financial assets and derivative financial instruments which have been measured at fair value. These condensed consolidated financial statements are presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these condensed consolidated financial statements are the same as those used in the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) as disclosed in note 1.2 below.

These condensed consolidated financial statements do not include all information and disclosures required in the Group’s annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018.

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 period’s condensed consolidated financial statements.

HKFRS 16	Leases
HK(IFRIC) Interpretation 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements 2015 – 2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as further explained below, the application of these new and revised standards in the current period has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

HKFRS 16

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

(a) ***New definition of a lease***

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

(b) ***As a lessee – Leases previously classified as operating leases***

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of leasehold lands, plants and buildings, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and printers); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The Group elected to present the lease liabilities separately in the statement of financial position.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics

- Excluded initial direct costs from the measurement of the right-of-use assets at the date of initial application

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) *RMB'000* (Unaudited)
Assets:	
Increase in right-of-use assets	1,689,086
Increase in investment properties	48,080
Decrease in prepaid land lease payments	(1,337,959)
Decrease in prepayments, deposits and other receivables	(30,455)
Increase in total assets	368,752
Liabilities:	
Increase in lease liabilities and total liabilities	368,752

The lease liabilities as at 1 January 2019 reconciled to the operating lease arrangements as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
Operating lease arrangements as at 31 December 2018	349,861
Weighted average incremental borrowing rate as at 1 January 2019	4.69%
Discounted operating lease arrangements at 1 January 2019	274,752
Less: Arrangements relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(6,246)
Arrangements relating to leases of low-value assets	(938)
Add: Management service fee not included in arrangements as at 31 December 2018	101,184
Lease liabilities as at 1 January 2019	368,752

(c) Summary of new accounting policies

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for inventories. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for investment properties.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease land, plant and building for additional terms of certain years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of land due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

Amounts recognised in these condensed consolidated financial statements

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

	Right-of-use assets						
	Leasehold lands *RMB'000*	**Plants and buildings** *RMB'000*	**Motor vehicles** *RMB'000*	**Other equipment** *RMB'000*	**Sub-total** *RMB'000*	**Investment properties** *RMB'000*	**Lease liabilities** *RMB'000*
As at 1 January 2019	**1,384,033**	**304,179**	**382**	**492**	**1,689,086**	**48,080**	**368,752**
Additions	**55,649**	**47,303**	**–**	**–**	**102,952**	**–**	**47,303**
Depreciation expense	**(16,557)**	**(40,302)**	**(79)**	**(174)**	**(57,112)**	**–**	**–**
Interest expense	**–**	**–**	**–**	**–**	**–**	**–**	**10,181**
Payments	**–**	**–**	**–**	**–**	**–**	**–**	**(51,913)**
Termination	**(3,224)**	**(167,695)**	**–**	**–**	**(170,919)**	**–**	**(169,686)**
Exchange realignment	**296**	**253**	**–**	**–**	**549**	**837**	**496**
As at 30 June 2019	**1,420,197**	**143,738**	**303**	**318**	**1,564,556**	**48,917**	**205,133**

The Group recognised rental expense from short-term leases of RMB4,915,000, leases of low-value assets of RMB110,000 and rental income from subleasing right-of-use assets of RMB2,075,000 for the six months ended 30 June 2019.

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 financial instruments at FVTPL, 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, 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 six months ended 30 June 2019 and 2018, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

	Southern China *RMB'000*	Southwestern China *RMB'000*	Central China *RMB'000*	Eastern China *RMB'000*	Northern China *RMB'000*	Northwestern China *RMB'000*	Northeastern China *RMB'000*	Outside China *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Six months ended 30 June 2019										
Segment revenue:										
Sale of goods	5,840,231	1,169,743	1,271,064	592,424	798,302	483,611	238,835	379,139	–	10,773,349
Contract revenue from renovation and installation works	133,467	48	8,582	8,644	102	295	636	–	–	151,774
Income from environmental engineering and other related services	85,782	3,295	2,308	57,114	1,621	1,094	–	–	–	151,214
Financial service income	15,326	716	9,998	94	–	–	–	–	–	26,134
Property rental and other related services	944	–	–	–	–	–	–	33,739	–	34,683
Revenue from external customers	6,075,750	1,173,802	1,291,952	658,276	800,025	485,000	239,471	412,878	–	11,137,154
Intersegment revenue	1,725,062	198,694	203,010	128,186	189,532	97,012	66,222	398,475	(3,006,193)	–
Total	7,800,812	1,372,496	1,494,962	786,462	989,557	582,012	305,693	811,353	(3,006,193)	11,137,154
Segment results	1,874,353	355,973	407,609	186,740	232,881	127,311	62,520	15,464	(62,385)	3,200,466
Reconciliations:										
Interest income										47,717
Gain on fair value changes of financial instruments at FVTPL										1,748
Exchange gain										29,897
Finance costs										(271,492)
Share of results of associates										18,148
Share of results of joint ventures										407
Unallocated income and expenses										(1,445,964)
Profit before tax										1,580,927
Other segment information:										
Write-back of inventories to net realisable value, net	3,380	(163)	8	(8,377)	215	(23)	(2,084)	328	–	(6,716)
Depreciation and amortisation	265,842	36,417	32,022	23,243	21,128	18,403	9,836	22,669	–	429,560
Write-back of impairment of property, plant and equipment	–	–	–	–	–	–	–	(1,787)	–	(1,787)
Impairment of trade and bills receivables, net	9,241	395	(279)	7,064	(3,663)	64	(316)	(1,889)	–	10,617
Impairment of prepayments	34,331	–	–	–	–	–	–	–	–	34,331
Impairment of other receivables	1,045	–	–	–	–	–	–	2	–	1,047
Capital expenditure#	802,336	56,791	57,635	95,766	38,467	11,585	13,467	1,109,433	(11,462)	2,174,018
As at 30 June 2019										
Segment assets	14,493,777	1,501,922	1,318,692	1,618,001	864,881	716,248	477,657	6,150,600	–	27,141,778

Capital expenditure consists of additions to property, plant and equipment, right-of-use assets, investment properties and other intangible assets.

	Southern China RMB'000	Southwestern China RMB'000	Central China RMB'000	Eastern China RMB'000	Northern China RMB'000	Northwestern China RMB'000	Northeastern China RMB'000	Outside China RMB'000	Eliminations RMB'000	Consolidated RMB'000
Six months ended 30 June 2018										
Segment revenue:										
Sale of goods	5,506,143	1,190,759	1,253,591	551,722	685,425	394,558	220,766	364,683	–	10,167,647
Contract revenue from renovation and installation works	112,831	23	1,186	7,699	943	7	–	–	–	122,689
Income from environmental engineering and other related services	64,583	14,325	4,454	767	–	289	–	–	–	84,418
Financial service income	20,460	723	13,582	–	117	–	183	–	–	35,065
Property rental and other related services	5,570	–	–	–	–	–	–	32,913	–	38,483
Revenue from external customers	5,709,587	1,205,830	1,272,813	560,188	686,485	394,854	220,949	397,596	–	10,448,302
Intersegment revenue	1,833,960	226,661	207,508	149,337	177,792	74,895	46,970	372,356	(3,089,479)	–
Total	7,543,547	1,432,491	1,480,321	709,525	864,277	469,749	267,919	769,952	(3,089,479)	10,448,302
Segment results	1,873,613	381,574	403,415	129,450	216,630	100,780	58,030	98,085	(540,358)	2,721,219
Reconciliations:										
Interest income										50,301
Gain on disposal of subsidiaries										36,507
Exchange loss										(11,423)
Finance costs										(179,961)
Share of results of associates										28,721
Share of results of joint ventures										167
Unallocated income and expenses										(1,346,372)
Profit before tax										1,299,159
Other segment information:										
Depreciation and amortisation	220,365	33,063	30,819	32,724	21,827	17,465	9,670	7,378	–	373,311
Impairment of property, plant and equipment	–	–	–	22,715	–	–	–	–	–	22,715
Impairment of trade and bills receivables, net	–	–	–	–	–	–	3,626	661	–	4,287
Capital expenditure#	323,966	46,189	55,477	73,142	29,485	12,527	2,343	36,067	(14,740)	564,456
As at 31 December 2018										
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

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:

	Six months ended 30 June 2019			Six months ended 30 June 2018		
	Goods transferred at a point in time	**Services transferred over time**	**Total**	Goods transferred at a point in time	Services transferred over time	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from contracts with customers:						
Sale of goods	**10,773,349**	**–**	**10,773,349**	10,167,647	–	10,167,647
Contract revenue from renovation and installation works	**–**	**151,774**	**151,774**	–	122,689	122,689
Income from environmental engineering and other related services	**–**	**151,214**	**151,214**	–	84,418	84,418
Sub-total	**10,773,349**	**302,988**	**11,076,337**	10,167,647	207,107	10,374,754
Financial service income			**26,134**			35,065
Property rental and other related services			**34,683**			38,483
Total			**11,137,154**			10,448,302

By geographical locations:

	Six months ended 30 June 2019			Six months ended 30 June 2018		
	Goods transferred at a point in time	**Services transferred over time**	**Total**	Goods transferred at a point in time	Services transferred over time	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from contracts with customers:						
Mainland China	**10,394,210**	**302,988**	**10,697,198**	9,802,964	207,107	10,010,071
Outside China	**379,139**	**–**	**379,139**	364,683	–	364,683
Sub-total	**10,773,349**	**302,988**	**11,076,337**	10,167,647	207,107	10,374,754
Financial service income			**26,134**			35,065
Property rental and other related services			**34,683**			38,483
Total			**11,137,154**			10,448,302

Other revenue, income and gains

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Bank interest income	**45,746**	48,261
Interest income from other financial assets	**1,971**	2,040
Total interest income	**47,717**	50,301
Government grants and subsidies	**22,748**	20,868
Gain on fair value changes of financial instruments at FVTPL	**1,748**	–
Gain on disposal of subsidiaries	**–**	36,507
Gain on sale of raw materials	**7,919**	4,282
Gain on termination of right-of-use assets	**5,974**	–
Rental income	**11,300**	1,025
Exchange gain	**29,897**	–
Others	**24,879**	5,845
	152,182	118,828

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Interest expenses on bank and other loans	**262,636**	179,961
Interest expenses on lease liabilities	**10,181**	–
	272,817	179,961
Less: Interest capitalised	**(1,325)**	–
	271,492	179,961

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Cost of inventories sold	**7,709,750**	7,542,257
Direct cost of renovation and installation works	**126,194**	107,900
Direct cost of environmental engineering and other related services	**94,075**	36,435
Direct cost of financial services	**–**	1,090
Direct cost of property rental and other related services	**13,385**	39,401
Write-back of inventories to net realisable value, net	**(6,716)**	–
Depreciation of property, plant and equipment	**366,973**	354,041
Depreciation of right-of-use assets	**57,112**	–
Amortisation of prepaid land lease payments	**–**	14,062
Amortisation of other intangible assets	**5,475**	5,208
Total depreciation and amortisation	**429,560**	373,311
Research and development costs	**376,375**	353,126
Loss on disposal of items of property, plant and equipment	**10,603**	4,090
(Write-back of impairment)/impairment of property, plant and equipment	**(1,787)**	22,715
Gain on disposal of subsidiaries	**–**	(36,507)
Gain on termination of right-of-use assets	**(5,974)**	–
Impairment of trade and bills receivables, net	**10,617**	4,287
Impairment of prepayments	**34,331**	–
Impairment of other receivables	**1,047**	–
Foreign exchanges differences, net	**(29,897)**	11,423

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current tax		
PRC	**329,819**	280,755
Other jurisdictions	**242**	–
	330,061	280,755
Overprovision in prior years		
PRC	**(82,478)**	(30,145)
Deferred tax	**75,954**	43,441
Total tax charge for the period	**323,537**	294,051

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Hong Kong profits tax

The statutory rate of Hong Kong profits tax was 16.5% (six months ended 30 June 2018: 16.5%) on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax was made as the Group had no assessable profits arising in Hong Kong during the period (six months ended 30 June 2018: Nil).

PRC corporate income tax

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

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

Income tax for other jurisdictions

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

7. DIVIDENDS

	Six months ended 30 June			
	2019		2018	
	HK$ **per share**	***HK$'000***	*HK$* per share	*HK$'000*
2018 final dividend paid (2018: 2017 final dividend paid)	**0.20**	**620,484**	0.18	558,435
Less: Dividends for shares held for share award scheme	**0.20**	**(4,598)**	–	–
		615,886		558,435
Equivalent to		**RMB532,987,000**		RMB456,633,000

Subsequent to the end of the reporting period, interim dividend of HK12 cents in respect of the six months ended 30 June 2019 per ordinary share amounting to in aggregate HK$369,531,000 has been declared by the Board to the owners of the Company whose names appear on the Company's register of member on 23 September 2019 (six months ended 30 June 2018: interim dividend of HK10 cents in respect of the six months ended 30 June 2018 per ordinary share amounting to in aggregate of HK$310,242,000). The amount of interim dividend declared for the six months ended 30 June 2019 is calculated based on the number of issued shares, less dividends for shares held for share award scheme, at the date of approval of these condensed consolidated financial statements.

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Earnings		
Profit attributable to owners of the Company used in the basic and diluted earnings per share calculation	**1,263,701**	1,041,194

	Number of Shares	
	Six months ended 30 June	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue	**3,102,418,400**	3,102,418,400
Weighted average number of shares held for the share award scheme	**(20,535,901)**	–
Adjusted weighted average number of ordinary shares of the Company in issue used in the basic and diluted earnings per share calculation	**3,081,882,499**	3,102,418,400

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2019 and 2018, respectively.

9. OTHER FINANCIAL ASSETS

	Note	**30 June 2019** *RMB'000*	31 December 2018 *RMB'000*
Non-current:			
Debt instruments at FVTOCI:	(i)		
Debt securities listed in Hong Kong		**45,187**	50,376
Debt securities listed in PRC		**212,769**	204,723
		257,956	255,099
Equity instruments at FVTOCI:			
Equity securities listed in PRC		**309,305**	247,573
Equity securities listed in Hong Kong		**397,360**	482,293
Non-cumulative redeemable preference shares listed in Hong Kong		**34,607**	34,474
Perpetual capital securities listed in Hong Kong		**8,645**	8,391
Unlisted equity securities		**499,020**	770,795
		1,248,937	1,543,526
Equity instruments at FVTPL:	(ii)		
Unlisted equity securities		**55,596**	53,886
		1,562,489	1,852,511
Current:			
Debt instruments at FVTOCI:	(i)		
Debt securities listed in Hong Kong		**8,255**	–
Debt instruments at FVTPL		**–**	47,649
		8,255	47,649
		1,570,744	1,900,160

Note:

(i) The debt securities carry fixed interest at rates ranging from 5.65% to 8.40% (31 December 2018: 5.65% to 8.40%) per annum, payable semi-annually or annually in arrears and will mature from January 2020 to January 2023 (31 December 2018: January 2020 to January 2023).

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

(iii) At the end of reporting period, certain of the Group's other financial assets with an aggregate net carrying amount of RMB34,607,000 (31 December 2018: RMB34,474,000) were pledged to a bank to secure the banking facility granted and the Group has not utilised this banking facility (31 December 2018: Nil).

10. LOAN RECEIVABLES

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Non-current:		
Finance lease receivables	**201,467**	163,422
Current:		
Finance lease receivables	**104,588**	100,421
Factoring receivables	**332,858**	334,379
Receivables from supply-chain financing services	**57,470**	80,170
	494,916	514,970
Less: Provision for impairment	**(159,500)**	(159,500)
	335,416	355,470
	536,883	518,892

(A) Finance lease receivables

	Minimum lease receivables		Present value of minimum lease receivables	
	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*	**30 June 2019** *RMB'000*	31 December 2018 *RMB'000*
Not more than 1 year	**123,517**	116,208	**104,588**	100,421
Over 1 year but within 5 years	**243,558**	182,104	**201,467**	163,422
	367,075	298,312	**306,055**	263,843
Less: Unearned finance income	**(61,020)**	(34,469)		
Present value of minimum lease receivables	**306,055**	263,843		

The Group's finance lease receivables are denominated in Renminbi. The effective interest rates of the receivables range from 5.89% to 13.19% (31 December 2018: 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 (31 December 2018: Nil).

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

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Neither past due nor impaired	**306,055**	263,843

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

Cash deposits from certain finance lease customers are collected upfront based on a certain percentage of the entire value of the lease contracts. When the lease contract expires and all related liabilities and obligations are fulfilled by the customer, the cash deposit will be returned in full. The balance of the cash deposit can also be used to settle any outstanding lease receivables for the corresponding lease contract. The collected cash deposit of RMB23,813,000 (31 December 2018: RMB25,613,000) has been included in "other long-term payables" in the condensed 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 540 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 7.00% (31 December 2018: 4.00% to 6.50%) per annum.

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

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
With a residual maturity of:		
Not more than 3 months	**33,258**	65,079
Over 3 months to 6 months	**800**	109,800
Over 6 months to 12 months	**134,300**	–
Over 12 months	**5,000**	–
Overdue	**159,500**	159,500
	332,858	334,379

At the end of the reporting period, RMB159,500,000 of the Group's factoring receivables was impaired (31 December 2018: RMB159,500,000).

(C) Receivables from supply-chain financing services

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

These receivables carry interest at rates ranging from 5.40% to 10.80% per annum (31 December 2018: 5.40% to 10.80%).

Certain receivables from supply-chain financing services, amounting to RMB57,470,000 (31 December 2018: RMB80,170,000) 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:

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
With a residual maturity of:		
Not more than 3 months	**28,570**	57,050
Over 3 months to 6 months	**28,900**	19,900
Over 6 months to 12 months	**–**	3,220
	57,470	80,170

At the end of the reporting period, none of the Group's receivables from supply-chain financing services was either past due or impaired (31 December 2018: 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 condensed consolidated financial statements.

11. INVENTORIES

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Manufacturing and trading	**3,857,465**	3,271,853
Property development	**267,586**	249,361
	4,125,051	3,521,214

(A) Manufacturing and trading

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Raw materials	**1,645,251**	1,401,893
Work in progress	**312,853**	327,273
Finished goods	**1,899,361**	1,542,687
	3,857,465	3,271,853

(B) Property development

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Property under development	**267,586**	249,361

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

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Trade receivables	**2,042,768**	2,036,323
Bills receivable	**995,784**	537,617
Less: Provision for impairment	**(198,929)**	(194,493)
	2,839,623	2,379,447

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:

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Not more than 3 months	**1,142,350**	1,326,856
Over 3 months to 6 months	**535,260**	339,304
Over 6 months to 12 months	**533,428**	347,898
Over 1 year to 2 years	**574,076**	314,239
Over 2 years to 3 years	**40,239**	42,684
Over 3 years	**14,270**	8,466
	2,839,623	2,379,447

13. TRADE AND BILLS PAYABLES

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Trade payables	**1,133,833**	889,123
Bills payable	**3,516,597**	3,388,200
	4,650,430	4,277,323

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 reporting period, based on the invoice date, is as follows:

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Not more than 3 months	**2,751,468**	2,568,152
Over 3 months to 6 months	**1,711,987**	1,527,285
Over 6 months to 12 months	**123,959**	132,857
Over 1 year to 2 years	**28,194**	13,300
Over 2 years to 3 years	**10,437**	11,287
Over 3 years	**24,385**	24,442
	4,650,430	4,277,323

14. BORROWINGS

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Current		
Unsecured bank loans	**6,146,435**	5,800,738
Current portion of long term unsecured bank loans	**342,188**	340,568
Current portion of long term secured bank loans	**6,974**	3,186
Secured bank loans	**34,450**	–
	6,530,047	6,144,492
Non-current		
Unsecured bank loans	**280,903**	280,845
Unsecured syndicated loans	**5,275,528**	5,246,043
Secured bank loans	**61,004**	59,678
	5,617,435	5,586,566
	12,147,482	11,731,058
Analysed into borrowings repayable:		
Within one year or on demand	**6,530,047**	6,144,492
In the second year	**5,564,098**	5,355,245
In the third to fifth years, inclusive	**25,532**	201,462
More than five years	**27,805**	29,859
	12,147,482	11,731,058

Note:

(a) The effective interest rates of the Group's borrowings range from 2.77% to 5.39% (31 December 2018: 3.22% to 5.39%) per annum.

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

(c) At the end of the reporting period, the Group's borrowings are denominated in US dollar, HK dollar, Renminbi, Australian dollar and Canadian dollar which are equivalent to RMB6,184,159,000 (31 December 2018: RMB6,466,723,000), RMB2,704,042,000 (31 December 2018: RMB2,477,101,000), RMB2,689,851,000 (31 December 2018: RMB2,251,568,000), RMB411,811,000 (31 December 2018: RMB364,372,000) and RMB157,619,000 (31 December 2018: RMB171,294,000), respectively.

15. CONVERTIBLE LOANS

At the end of the reporting period, the convertible loans were recognised as a debt component and equity component as follows:

	Debt component *RMB'000*	**Equity component** *RMB'000*	**Total** *RMB'000*
At the date of issue	381,681	16,422	398,103
Interest expense	3,672	–	3,672
Increase in interest payable	(2,662)	–	(2,662)
Exchange realignment	290	–	290
	382,981	16,422	399,403

Note:

(a) On 6 May 2019, the Group's wholly owned subsidiary, Lesso Home International Holding Limited ("Lesso Home International"), entered into a convertible loan facilities agreement with ICBC International Investment Management Limited in the aggregate principal amount of USD100,000,000 (approximately equivalent to RMB684,025,000) (the "Convertible Loans"). On 22 May 2019, the Group drew down USD60,000,000 (approximately equivalent to RMB410,415,000). The maturity date is 21 May 2022.

(b) The convertible loans contain two components, a debt and an equity components. The initial fair value of the two components was determined based on gross proceeds at issuance. The initial fair value less allocated transaction costs of the debt component was estimated to be USD55,799,000 (approximately equivalent to RMB381,681,000) as at the issuance date of using the Monte Carlo Model and Binomial Option Pricing Model, taking into account the terms and conditions of the convertible loans. In subsequent periods, the debt component is measured at amortised cost using effective interest rate method. The effective interest rate of the debt component is 7.24% per annum. The residual amount less allocated transaction costs representing the value of the equity component of USD2,401,000 (approximately equivalent to RMB16,422,000), is included in convertible loans equity reserve.

16. SHARE CAPITAL

	30 June 2019	31 December 2018
Authorised:		
20,000,000,000 (31 December 2018: 20,000,000,000) ordinary shares of HK$0.05 each	**HK$1,000,000,000**	HK$1,000,000,000
Issued and fully paid:		
3,102,418,400 (31 December 2018: 3,102,418,400) ordinary shares of HK$0.05 each	**HK$155,120,920**	HK$155,120,920
Equivalent to	**RMB135,344,000**	RMB135,344,000

17. COMMITMENTS

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

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Contracted, but not provided for:		
Land, property, plant and equipment and investment properties	**635,759**	982,063
Investment in a joint venture	**23,520**	23,520
	659,279	1,005,583

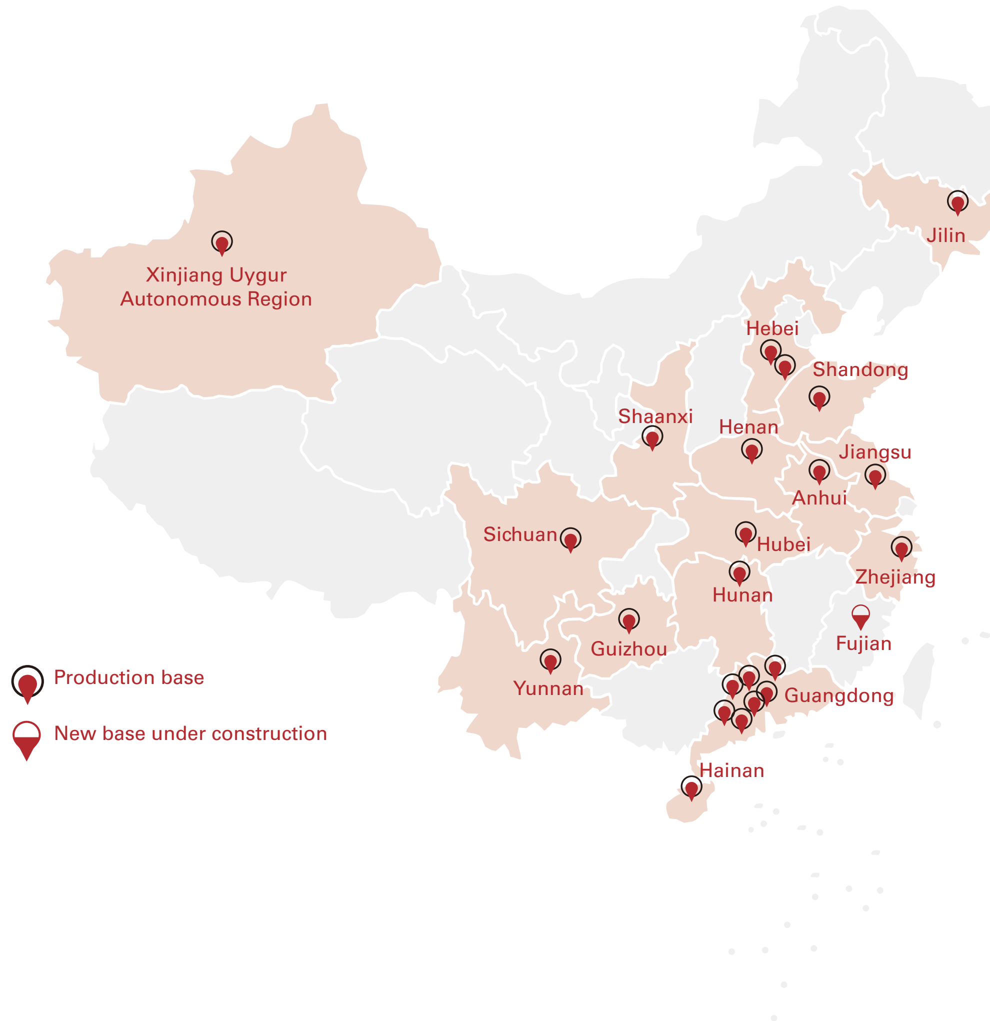
18. EVENT AFTER THE REPORTING PERIOD

On 30 July 2019, the Company as guarantor and its wholly-owned subsidiary as borrower entered into a facility agreement (the "Facility Agreement") in relation to dual currency syndicated term loan and revolving credit facilities in the equivalent amount of US$900,000,000 at an interest rate of LIBOR/HIBOR plus 1.60% per annum with syndicate lenders, for general corporate requirements (including the refinancing of the Group's existing financial indebtedness). The loan made thereunder is repayable 48 months after the same has been made.

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 provinces within China 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 proactively diversified building materials and interior decoration products, and expanded business of environmental protection and Lesso Home, so as to create long-term commercial synergies for the Group's overall business while providing convenient and efficient solutions for 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 Best Supplier for Cooperation on Batch Residential Refined Decoration Standard in Guangdong-Hong Kong-Macao Greater Bay Area in 2019", "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 the first half of 2019, the trade dispute between China and United States persisted. This is one of the uncertainties that continued to cloud the prospect of the global economy. Meanwhile, China maintained stable economic growth on the back of steady progress in the country's supply-side reform. During the reporting period, China pressed on with its city-specific policies on regulating its property market and tightened its supervision of the financing of the real estate sector in an attempt to cool down the overheated property market. Meanwhile, the Chinese government continued with multiple large-scale municipal projects and urban infrastructure construction as it pursues its policies on energy conservation and environmental protection in tandem with its ongoing urbanisation. This resulted in a steady increase in the demand for pipes and pipe fittings.

According to the forecast of the "Development Proposal on the China's Plastic Industry for the 13th Five-year Plan Period (2016–2020)", China's production volume of plastic pipes during that period will grow by approximately 3% annually. By 2020, it is expected that China's production volume of plastic pipes will reach 16 million tonnes. In addition, under the "Programme for Construction of the National Urban Municipal Infrastructure of the 13th Five-year Plan", targets have been set for the development of the facilities for water supply, heating, drainage and waterlogging prevention in China. Under the Programme, China plans to add 93,000 kilometres ("km") of new pipelines to the water supply network and 95,000 km of new pipelines to the drainage network. The country will also replace 23,000 km of old pipelines of the drainage network, add 41,000 km of new pipelines to the centralised heating network, build 137,000 km of new gas pipelines, and construct 112,400 km of urban rainwater pipelines during the period of the "13th Five-year Plan". These large-scale infrastructure projects will add impetus to the urbanisation and regional economic development. All these will generate enormous demand for pipes.

The rapid growth in China's demand for natural gas can also boost the development of the pipeline industry. The "Programme for Natural Gas Development under the 13th Five-Year Plan" 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 length of 104,000 km in 2020. According to the "Plan for Clean Heating in Winter in Northern China (2017–2021)", China plans to add eight new main pipes for transmission of natural gas. After the completion of construction and commencement of operation, the supply capacity will increase by approximately 75 billion cubic meters per year. Meanwhile, six provinces and cities including Beijing, Tianjin, Hebei, Shandong, Henan and Shanxi plan to add 4,300 km of natural gas pipelines from 2017 to 2021. The nationwide construction of infrastructure for clean heating is expected to add impetus to the pipeline industry.

During the reporting period, the Chinese government continued to push forward 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 national "13th Five-year Plan", various local governments in 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 pipelines. In the "Plan for Prevention and Control of Water Pollution in Major River Basins (2016–2020)", the National Development and Reform Commission estimates that investments in projects for prevention and control of water pollution in major river basins will be around RMB700 billion in total if the objectives of the "13th Five-year Plan" are to be met. In particular, the investment in projects for municipal sewage disposal and the development of ancillary facilities is estimated to be RMB316.1 billion. Meanwhile, various local governments in China had started the pipeline network reformation plan from which huge demand is expected.

Last year, the State Council promulgated the "Strategic Plan for Rural Revitalisation (2018–2022)", in which it proposed making greater effort to construct rural infrastructure, to enhance rural water management system, and to promote the integration of urban and rural areas. In the "Crucial Action Plan for Pollution Control in Agriculture and Rural Areas" 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, and progress need to be made in the construction of infrastructure such as water supply system, drainage gutter, pipeline networks for collecting and disposing of sewage. This can add impetus to the development of pipelines.

The Chinese government put forward the "Plan for Seawater Desalination Works Around Islands", according to which, China intends 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, actively promoting the application of seawater desalination on larger scale. The move to improve the marine industries was expected to enlarge the market for plastic pipes and unveil new business opportunities for the application of such pipes.

During the reporting period, the Chinese government continued with its stringent regulatory measures to cool down the overheated real estate market and its city-specific policies on regulating the property market. As a result, growth in investment in the property sector had decelerated in the first half of 2019, continuing the trend since last year. This, in turn, exerted downward pressure on the growth in industry of building materials and interior decoration. However, the country's consumption upgrade, further progress in the supply-side reform, advances in the new urbanisation and the redevelopment of old towns will bring new opportunities for the industry.

To develop overseas markets, China has been exchanging ideas and strengthening strategic alliances with different countries and regions for mutual benefits. Furthermore, China took efforts to press ahead with a large number of Sino-foreign cooperation projects, such as China-Myanmar Economic Corridor, China-Europe Railway Express and Hambantota Port, etc. Meanwhile, the Chinese government had spared no efforts to promote investment in industries under the "Belt and Road Initiative". The move can make overseas markets a driving force of Chinese companies' growth. Chinese companies had carried out cooperation with countries covered by the "Belt and Road Initiative" in oil and gas projects, including infrastructure construction. This creates massive demand for the application of pipes and pipe fittings as well as building materials.

RESULTS AND PERFORMANCE

The Group continued to capture the opportunities brought by national policies and the real estate industry to consolidate the plastic piping systems business, and actively develop the business of building materials and interior decoration as well as the environmental protection business at the same time, in order to broaden the revenue base for the Group. In the first half of 2019, benefitting from the steady growth in China's economy and demand for infrastructure construction, China Lesso saw its revenue increased by 6.6% to RMB11,137 million (1H2018: RMB10,448 million). During the reporting period, gross profit rose by 17.6% to RMB3,200 million (1H 2018: RMB 2,721 million) on the back of the Group's economies of scale, continued expansion of production capacity of its plants and effective strategy in procurement of raw materials. Gross profit margin reached at 28.7% (1H 2018: 26.0%), and the net profit margin increased by 1.7 percentage points year on year to 11.3%.

The table below sets out the breakdown of revenue by business unit for the six months ended 30 June 2019 and 2018:

	Revenue			**% of total revenue**	
	2019	2018		**2019**	2018
	RMB million	*RMB million*	***Change***		
Plastic piping systems	**10,067**	9,400	*7.1%*	**90.4%**	90.0%
Building materials and interior decoration products	**572**	559	*2.3%*	**5.1%**	5.3%
Others[#]	**498**	489	*1.8%*	**4.5%**	4.7%
Total	**11,137**	10,448	*6.6%*	**100.0%**	100.0%

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

For the six months ended 30 June 2019, the number of the Group's independent and exclusive first-tier distributors nationwide increased to 2,206 (1H 2018: 2,172). Southern China remained the Group's major revenue contributing market, and revenue from Southern China and other regions accounted for 54.5% and 45.5% (1H 2018: 54.6% and 45.4%) respectively of the Group's total revenue.

The table below sets out the breakdown of revenue by region for the six months ended 30 June 2019 and 2018:

	Revenue			**% of total revenue**	
	2019	2018		**2019**	2018
Region[#]	***RMB million***	*RMB million*	***Change***		
Southern China	**6,076**	5,709	*6.4%*	**54.5%**	54.6%
Southwestern China	**1,174**	1,206	*(2.7)%*	**10.5%**	11.5%
Central China	**1,292**	1,273	*1.5%*	**11.6%**	12.2%
Eastern China	**658**	560	*17.5%*	**5.9%**	5.4%
Northern China	**800**	686	*16.5%*	**7.2%**	6.6%
Northwestern China	**485**	395	*22.8%*	**4.4%**	3.8%
Northeastern China	**239**	221	*8.4%*	**2.2%**	2.1%
Outside China	**413**	398	*3.8%*	**3.7%**	3.8%
Total	**11,137**	10,448	*6.6%*	**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 stemmed from rising raw materials and production costs by means of economies of scale, production automation and effective strategy in the procurement of raw materials, while actively enhancing operational efficiency, optimising its product portfolio and expanding market coverage. All these contributed to the sustainable development and profitability of the Group.

The Group's EBITDA increased by 23.2% to RMB2,282 million during the reporting period (1H 2018: RMB1,852 million), and the EBITDA margin was 20.5% (1H 2018: 17.7%). Profit before tax increased by 21.7% to RMB1,581 million (1H 2018: RMB1,299 million). Profit attributable to owners of the Company increased by 21.4% to RMB1,264 million (1H 2018: RMB1,041 million). Basic earnings per share increased by 20.6% year on year to RMB0.41 (1H 2018: RMB0.34). The effective tax rate reduced to 20.5% (1H 2018: 22.6%).

BUSINESS REVIEW AND OUTLOOK

Plastic piping systems

The Chinese government continued to promote various policies on energy conservation and environmental protection such as "Switching from Coal to Gas as Source of Energy" and "Action Plan for Prevention and Control of Water Pollution", and implemented the planning for piping and pipeline networks. This has generated a stable demand for plastic pipes and pipe fittings. For the six months ended 30 June 2019, the Group's business of plastic piping systems maintained steady growth on the back of the steadily increasing demand from the Chinese construction industry and the demand from urbanisation redevelopment and the projects of rural water supply and drainage systems construction. However, the progress of certain construction projects of the Group's clients was affected by severe weather in the coastal regions of Southern China during the reporting period. This restrained the sales volume growth of plastic piping systems business. During the reporting period, the revenue from plastic piping systems business increased by 7.1% to RMB10,067 million (1H2018: RMB9,400 million), accounting for 90.4% of the Group's total revenue (1H 2018: 90.0%).

The table below sets out the breakdown of revenue from plastic piping systems by region for the six months ended 30 June 2019 and 2018:

	Revenue			**% of revenue**	
	2019	2018		**2019**	2018
Region	***RMB million***	*RMB million*	***Change***		
Southern China	**5,437**	5,142	*5.7%*	**54.0%**	54.7%
Other than Southern China	**4,410**	4,066	*8.5%*	**43.8%**	43.3%
Outside China	**220**	192	*14.2%*	**2.2%**	2.0%
Total	**10,067**	9,400	*7.1%*	**100.0%**	100.0%

The table below sets out the breakdown of revenue from plastic piping systems business by product application for the six months ended 30 June 2019 and 2018:

	Revenue			% of revenue	
	2019	2018		**2019**	2018
	RMB million	*RMB million*	***Change***		
Water supply	**3,928**	3,667	*7.1%*	**39.0%**	39.0%
Drainage	**3,805**	3,608	*5.5%*	**37.8%**	38.4%
Power supply and telecommunications	**1,776**	1,633	*8.7%*	**17.6%**	17.4%
Gas transmission	**165**	184	*(10.4)%*	**1.7%**	1.9%
Others#	**393**	308	*27.5%*	**3.9%**	3.3%
Total	**10,067**	9,400	*7.1%*	**100.0%**	100.0%

“Others” includes 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 2.5% year on year. In terms of product materials, sales volume of PVC products increased by 0.7% to 777,899 tonnes (1H 2018: 772,412 tonnes) while that of non-PVC products increased by 8.9% to 231,954 tonnes (1H 2018: 213,006 tonnes). Revenue from sales of PVC products increased by 3.8% to RMB6,355 million (1H 2018: RMB6,124 million) while that of non-PVC products increased by 13.3% to RMB3,712 million (1H 2018: RMB3,276 million).

The Group always determines its product price on a cost-plus basis. During the reporting period, 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 raw materials increased by 0.9% year on year, the Group raised the average selling price of its plastic piping systems by 4.5% to RMB9,969 per tonne (1H 2018: RMB9,539 per tonne). The gross profit margin at the plastic piping systems business reached 29.4% (1H 2018: 26.8%).

The table below sets out the breakdown of average selling price, sales volume, and revenue from plastic piping systems business by product material for the six months ended 30 June 2019 and 2018:

	Average selling price			Sales volume			Revenue		
	2019	2018		**2019**	2018		**2019**	2018	
	RMB	*RMB*	***Change***	***Tonne***	*Tonne*	***Change***	***RMB million***	*RMB million*	***Change***
PVC products	**8,170**	7,929	*3.0%*	**777,899**	772,412	*0.7%*	**6,355**	6,124	*3.8%*
Non-PVC products#	**16,003**	15,378	*4.1%*	**231,954**	213,006	*8.9%*	**3,712**	3,276	*13.3%*
Total	**9,969**	9,539	*4.5%*	**1,009,853**	985,418	*2.5%*	**10,067**	9,400	*7.1%*

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

The Group actively raised the level of its automatic and smart production and strived for full mechanisation of the production of pipe products so as to improve the overall production capacity, quality and efficiency and satisfy the market's demand. During the reporting period, the Group's annual designed capacity for the production of plastic pipes and pipe fittings expanded to 2.69 million tonnes from 2.62 million tonnes in 2018, with a capacity utilisation rate of 80.7%.

In order to grasp the opportunity in China's "Belt and Road Initiative", the Group gave its nationwide network of production bases across China full play and actively sought prospective business partners. In May this year, the Group signed a strategic partnership agreement with Xinjiang Ba Steel International Trade Co., Ltd.* to jointly develop the markets of Central Asia and Xinjiang. By leveraging Xinjiang Ba Steel International Trade Co., Ltd.'s* well-developed sales channels and high-quality customer base in five Central Asian countries, the Group can sell its products to Central Asia in the future, increase its brand awareness there and develop a new growth driver of sales.

The Group has been progressively expanding its production capacity according its needs on business development. Looking ahead, the Group will continue to enhance its core competitiveness by actively introducing smart technology into its production plants and updating the equipment there. It will also improve the efficiency of such intelligent plants and its information system. Meanwhile, the Group will continue its effort to have its production base fully automated and to further improve machinery and ancillary facilities in its existing production base in order to raise the level of automation and accelerate the production process. This will help expand the production capacity and raise the production efficiency. In addition, the Group will also continue to step up its effort to innovate and conduct research and development, with a focus on cutting-edge technologies in the industry of pipes and building materials. This can ensure that the Group leads the industry in technology and provides diverse and quality products.

The scope of applications of plastic pipes and pipe fittings had been extended because of the steady progress in China's plan for national development and the robust demand in the field of infrastructure construction. This, in turn, has generated more opportunities for business. The central government continues to invest heavily in the construction of Xiong'an New Area and other infrastructure projects, thus boosting the demand for plastic pipes and pipe fittings. In addition, it is believed that progress on certain construction projects of the Group's clients will be improved in the second half of the year when it will be free from the impact of severe weather. 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, management is fully confident in the future development of the plastic piping systems business, and believes that it will continue to deliver a solid and satisfactory business performance for the Group.

Building materials and interior decoration products

In the first half of 2019, the Chinese central government pressed on with its city-specific policies on regulating China's property market. This resulted in deceleration in the growth of commodity property sales in terms of both value and gross floor area. However, during the reporting period, the new type of urbanisation and projects of redevelopment of old towns continued to boost the demand for refined decoration and redecoration, thereby driving up the performance of the business of building materials and interior decoration products. The business recorded a revenue of RMB572 million, which accounted for 5.1% of the Group's total revenue. In the second half of 2019, the Group will seize the opportunity brought by the new type of urbanisation and the projects of redevelopment of old towns, maintain growth in revenue at the business of building materials and interior decoration products, and increase the proportion of the revenue from this business to the Group's total revenue. At the same time, the Group will step up its effort to market its products to existing customers, actively engage new customers and increase sales by providing diverse products. China's ongoing new urbanisation will enable the Group's business of building materials and interior decoration products to achieve synergy with its businesses of other product lines. This will add impetus to the development of the business of building materials and interior decoration products.

Others

Environmental Protection Business

To grasp opportunities in the Chinese government's environmental protection initiatives, the Group has been developing environmental protection business in recent years. The Group actively capitalised on municipal projects in various fields by tapping the demand for plastic pipes and pipe fittings brought by the treatment of sewerage and river, soil restoration, the construction of underground pipeline gallery and sponge city and the installation of integrated water purifiers. This will enable synergy between the Group's environmental protection business and its plastic piping systems business for the long term. During the reporting period, the environmental protection business steadily developed, and generated income of RMB151 million. In the future, the Group will endeavour to develop a business of treating hazardous and solid wastes and actively explore opportunities for mergers and acquisitions while maintaining steady development of the existing environmental protection business.

Lesso Home

To capitalise on the Chinese government's "Belt and Road Initiative", the Group develops a business 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 reporting period, "Lesso Home" recorded a revenue of RMB137 million.

The Group has 13 sites reserve in the United States, Canada, Australia, Thailand, Indonesia and the United Arab Emirates. All of the lands are located close to major metropolitan areas. The Group aims to develop the largest one-stop showroom markets specialising in home furnishing products on these sites in its respective local markets. Tenants will independently operate their own showrooms, and sell their products directly to local traders, retailers and consumers. During the reporting period, the Group entered into a joint venture agreement with a Myanmar property company to further expand local markets. 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 the first half of 2019 was approximately RMB2,174 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.

FINANCIAL POSITION

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

As at 30 June 2019, the Group had total debts (i.e. total borrowings and debt component of convertible loans) of approximately RMB12,530 million, of which 52.4% was denominated in US dollar, 21.6% was denominated in HK dollar, 21.5% was denominated in RMB, 3.3% was denominated in Australian dollar and 1.2% was denominated in Canadian dollar. Other than the approximately US$56 million of the outstanding convertible loans at an effective interest rate of 7.24% per annum and due in 2022, the Group's borrowings are subject to effective interest rates ranging from 2.77% to 5.39% per annum with maturity periods ranging from within one year to more than five years.

As at 30 June 2019, the Group's current assets and current liabilities were approximately RMB15,312 million and RMB13,444 million respectively. The Group's Current Ratio maintained at 1.14, while the Quick Ratio decreased to 0.83 from 0.87 as at 31 December 2018. The Group's total equity increased to approximately RMB15,598 million. The Group's Gearing Ratio stood at a healthy level of 44.5%.

With cash and bank deposits, including restricted cash, of approximately RMB5,922 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 30 June 2019, certain of the Group's other financial assets with an aggregate net carrying amount of approximately RMB35 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 30 June 2019, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES

As at 30 June 2019, the Group employed a total of approximately 12,100 employees including directors. Total staff costs were RMB602 million during the reporting period. The Group ensures that the remuneration packages for employees are determined based on their work performance, professional experience and the prevailing industry practice. Discretionary year-end bonus and shares award may be distributed to employees based on individual performance. Other benefits to employees include medical insurance, retirement scheme and training programmes.

SIGNIFICANT INVESTMENTS

Financial investments

As at 30 June 2019, the Group held long-term and short-term financial investments of approximately RMB1,562 million (31 December 2018: RMB1,853 million) and RMB8 million (31 December 2018: RMB47 million), respectively. The investment portfolio comprised of 45.0% listed equity securities (issued by PRC-based home improvement and furnishings shopping malls operating company and PRC based environmental companies), 16.9% listed debt securities, 2.2% listed non-cumulative redeemable preference shares, 0.6% listed perpetual capital securities and 35.3% unlisted securities. Each of these investments has a carrying amount accounting to less than 5% of the Group's total assets as at 30 June 2019.

During the reporting period, the Group recognised a realised disposal gain of approximately RMB55 million, unrealised mark-to-market valuation loss of approximately RMB107 million due to volatile global capital market and recognised approximately RMB2 million of exchange loss on translation. Income from the portfolio amounted to approximately RMB2 million in the reporting period, representing 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 30 June 2019, the Group's investment properties were approximately RMB5,858 million. Increase in investment properties was mainly attributable to the capitalisation of construction costs on certain investment properties under development, addition of investment properties and the translation effects during the reporting period.

Among these investment properties, the mall 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.

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 Xingfa Aluminium 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 the first half of 2019, Xingfa Aluminium recorded a revenue of RMB4,955 million, and profit attributable to the shareholders of Xingfa Aluminium was RMB237 million.

Save as disclosed above, the Group did not have any significant investments as at 30 June 2019.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting policies adopted by the Group and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2019. Such condensed consolidated financial statements have not been audited but have been reviewed by the independent auditor of the Company, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE PRACTICES

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

In pursuit of good and high standards of corporate governance practices, the Board reviews the corporate governance practices of the Company from time to time so as to meet the expectations of the Shareholders for continual improvement, 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 reporting period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The share award scheme (the "Scheme") of the Company was adopted by the Company on 28 August 2018. The trustee of the Scheme, pursuant to the rules and trust deed of the Scheme, purchased on the Stock Exchange a total of 22,991,000 shares of the Company at a total consideration of about HK$99.98 million. Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the reporting period.

INTERIM DIVIDEND

The Board has declared an interim dividend for the six months ended 30 June 2019 of HK12 cents per share (the "Interim Dividend") to the Shareholders and is expected to be distributed to those entitled on Monday, 23 September 2019. A final dividend of HK20 cents per share was paid on Monday, 17 June 2019 in respect of the year ended 31 December 2018 to shareholders during the reporting period.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 10 September 2019 to Thursday, 12 September 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 Interim 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, Computer share Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Monday, 9 September 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 2019 interim report will be despatched to the Shareholders and available on the above websites in due course.

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

Hong Kong, 26 August 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 Zhigang 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 announcement, excluding Hong Kong, Macau and Taiwan
"Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Company" or "China Lesso"	China Lesso Group Holdings Limited
"Current Ratio"	the ratio of current assets to current liabilities
"EBITDA"	earnings before interest, taxes, depreciation and amortisation
"FVTOCI"	fair value through other comprehensive income
"FVTPL"	fair value through profit or loss
"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$0.05 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s) of the Company
"sq.ft."	square feet
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Taiwan"	the Republic of China
"tonne(s)"	a unit measuring weight, equal to 1,000 kilograms
"US"	the United States of America
"US$"	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.