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 2019

The Board is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2019.

HIGHLIGHTS

Compared to the last year consolidated financial results:

- Revenue increased by 11.0% to RMB26,345 million
- Gross profit increased by 21.0% to RMB7,537 million
- Profit for the year increased by 23.8% to RMB3,028 million
- Basic earnings per share was RMB0.98, increased by 22.5%
- The payment of a final dividend of HK28 cents per share is recommended for the year ended 31 December 2019

* *For identification purposes only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
REVENUE	3	**26,344,523**	23,733,517
Cost of sales		**(18,807,404)**	(17,505,068)
Gross profit		**7,537,119**	6,228,449
Other revenue, income and gains	3	**483,390**	571,430
Selling and distribution expenses		**(1,227,651)**	(1,111,914)
Administrative expenses		**(1,263,440)**	(1,080,820)
Impairment losses on financial and contract assets		**(108,705)**	(233,091)
Other expenses		**(968,546)**	(840,531)
Finance costs	4	**(577,194)**	(415,403)
Share of results of associates		**105,895**	116,803
Share of results of joint ventures		**1,053**	616
PROFIT BEFORE TAX	5	**3,981,921**	3,235,539
Income tax expense	6	**(953,586)**	(789,315)
PROFIT FOR THE YEAR		**3,028,335**	2,446,224
OTHER COMPREHENSIVE EXPENSE			
Items that may be reclassified subsequently to profit or loss:			
Debt instruments at fair value through other comprehensive income:			
Changes in fair value		**7,587**	(758)
Reclassification adjustments for gain on disposal included in consolidated statement of profit or loss		**(7,587)**	–
		–	(758)
Share of other comprehensive expense of an associate, net of tax		**(196)**	(800)
Exchange differences on translation of foreign operations		**(27,660)**	(207,018)
		(27,856)	(208,576)

	Note	**2019**	2018
		RMB'000	*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		**(252,571)**	(189,718)
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR		**(280,427)**	(398,294)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,747,908**	2,047,930
Profit attributable to:			
Owners of the Company		**3,024,701**	2,491,774
Non-controlling interests		**3,634**	(45,550)
		3,028,335	2,446,224
Total comprehensive income attributable to:			
Owners of the Company		**2,733,430**	2,089,225
Non-controlling interests		**14,478**	(41,295)
		2,747,908	2,047,930
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	*8*	**RMB0.98**	RMB0.80

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Note	**2019** **RMB'000**	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**9,394,821**	7,478,765
Prepaid land lease payments		**–**	1,337,959
Right-of-use assets		**1,614,395**	–
Investment properties		**6,870,181**	4,650,423
Deposits paid for the purchase of land, property, plant and equipment		**884,486**	1,731,202
Goodwill		**398,589**	363,133
Other intangible assets		**336,109**	257,787
Interests in associates		**1,501,137**	1,375,567
Interests in joint ventures		**10,356**	9,303
Other financial assets	*9*	**1,771,120**	1,852,511
Loan receivables	*10*	**11,613**	163,422
Other non-current assets		**70,784**	360,097
Contract assets		**81,571**	84,651
Deferred tax assets		**108,301**	88,130
Total non-current assets		**23,053,463**	19,752,950
CURRENT ASSETS			
Inventories	*11*	**3,966,048**	3,521,214
Contract assets		**279,443**	327,279
Other financial assets	*9*	**8,363**	47,649
Loan receivables	*10*	**364,673**	355,470
Trade and bills receivables	*12*	**3,259,456**	2,379,447
Prepayments, deposits and other receivables		**2,249,130**	1,800,477
Cash and bank deposits		**7,604,221**	6,451,791
Total current assets		**17,731,334**	14,883,327
CURRENT LIABILITIES			
Contract liabilities		**1,725,300**	1,482,994
Trade and bills payables	*13*	**5,829,534**	4,277,323
Other payables and accruals		**1,181,792**	927,482
Tax payable		**289,958**	272,780
Borrowings	*14*	**11,411,319**	6,144,492
Lease liabilities		**88,843**	–
Total current liabilities		**20,526,746**	13,105,071
NET CURRENT (LIABILITIES)/ASSETS		**(2,795,412)**	1,778,256
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,258,051**	21,531,206

	Note	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Borrowings	*14*	**1,267,061**	5,586,566
Convertible loans	*15*	**652,595**	–
Lease liabilities		**117,281**	–
Other long-term payables		**106,093**	109,546
Derivative financial instruments		**14,360**	6,592
Deferred tax liabilities		**788,671**	572,967
Deferred income		**217,594**	182,670
Total non-current liabilities		**3,163,655**	6,458,341
Net assets		**17,094,396**	15,072,865
EQUITY			
Share capital	*16*	**135,344**	135,344
Reserves		**16,440,901**	14,667,985
Equity attributable to owners of the Company		**16,576,245**	14,803,329
Non-controlling interests		**518,151**	269,536
Total equity		**17,094,396**	15,072,865

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.

As at 31 December 2019, the Group recorded net current liabilities of RMB2,795,412,000, which was mainly resulted from two syndicated loans (the "Syndicated Loans") of US$599,001,000 (equivalent to approximately RMB4,174,913,000) and HK$1,346,558,000 (equivalent to approximately RMB1,206,220,000) which will be due for repayment in July 2020 and October 2020, respectively, as disclosed in note 14.

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 (the "Facilities"). The final maturity date under the Facility Agreement is the date falling 48 months after the first utilisation date. On 23 October 2019, an amendment agreement in relation to the Facility Agreement was entered into to increase the total commitment under the Facilities to the equivalent amount of US$1,100,000,000 for general corporate purpose, including the refinancing of the Group's existing financial indebtedness. The directors of the Company believe the Group will be able to continue to generate positive cash flows from its operations. On this basis, the directors of the Company consider that the Group is able to meet in full its financial obligations as they fall due in the coming 12 months. Accordingly, the consolidated financial statements have been prepared by the directors of the Company on a going concern basis.

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 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 has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these 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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. For a sublease arrangement, the classification of the sublease is made by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

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

(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.

(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 land, 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 leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities as finance costs.

Impact 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 consolidated 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 consolidated 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 consolidated statement of financial position.

For the leasehold land and buildings that were held to earn rental income and/or for capital appreciation previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

For the leases previously accounted for as operating leases and entered into for earning sublease rental income, the related right-of-use assets of the head leases amounting to RMB48,080,000 were measured at fair value at 1 January 2019, and have been accounted for and classified as investment properties applying HKAS 40 from that date.

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

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

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

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities at 1 January 2019

- Excluding initial direct costs from the measurement of the right-of-use assets at the date of initial application *(c)* ***Financial impact at 1 January 2019***

The impact arising from the adoption of HKFRS 16 as at 1 January 2019 was as follows:

	Increase/ (decrease) *RMB'000*
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 are as follows:

	RMB'000
Operating lease arrangements as at 31 December 2018	**349,861**
Less: Arrangements relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(6,539)
Arrangements relating to leases of low-value assets	(982)
Add: Management service fee not included in arrangements as at 31 December 2018	113,490
	455,830
Weighted average incremental borrowing rate as at 1 January 2019	4.69%
Discounted operating lease arrangements and lease liabilities as at 1 January 2019	**368,752**

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, gain on disposal of debt instruments at FVTOCI, investment income, loss on fair value changes of derivative financial instruments, (loss)/gain on disposal of subsidiaries, exchange differences, non-lease-related 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 China, special administrative regions of PRC and foreign countries.

During the years ended 31 December 2019 and 2018, 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 2019

	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	13,535,151	2,598,852	3,009,404	1,376,221	1,956,487	1,260,583	696,764	871,766	–	25,305,228
Contract revenue from renovation and installation works	439,477	13,349	54,097	62,090	13,983	121	3,418	9,216	–	595,751
Income from environmental engineering and other related services	175,752	13,406	12,993	119,513	1,177	2,768	188	–	–	325,797
Financial service income	26,084	913	13,626	120	157	–	–	–	–	40,900
Property rental and other related services	3,773	–	–	126	–	–	–	72,948	–	76,847
Revenue from external customers	14,180,237	2,626,520	3,090,120	1,558,070	1,971,804	1,263,472	700,370	953,930	–	26,344,523
Intersegment revenue	3,989,030	430,309	533,746	324,949	450,154	247,667	152,790	826,810	(6,955,455)	–
Total	18,169,267	3,056,829	3,623,866	1,883,019	2,421,958	1,511,139	853,160	1,780,740	(6,955,455)	26,344,523
Segment results:	5,272,730	819,409	1,021,793	496,233	642,678	306,270	178,466	227,538	(1,427,998)	7,537,119
Reconciliations:										
Interest income										125,320
Gain on fair value changes of investment properties										147,997
Gain on fair value changes of financial instruments at FVTPL										3,432
Gain on disposal of debt instruments at FVTOCI										7,587
Investment income										19,693
Loss on fair value changes of derivative financial instruments										(7,768)
Loss on disposal of subsidiaries										(8,324)
Exchange gain										27,084
Finance costs (other than interest on lease liabilities)										(563,421)
Share of results of associates										105,895
Share of result of a joint venture										1,053
Unallocated income and expenses										(3,413,746)
Profit before tax										3,981,921
Segment assets:	16,065,801	1,442,760	1,293,721	1,794,605	825,589	686,628	464,689	7,207,506	–	29,781,299
Reconciliations:										
Interests in associates										1,501,137
Interest in a joint venture										10,356
Other financial assets										1,779,483
Deferred tax assets										108,301
Cash and bank deposits										7,604,221
Total assets										40,784,797
Other segment information:										
Write-down of inventories to net realisable value, net	–	–	–	–	–	–	–	5,691	–	5,691
Depreciation and amortisation	659,556	68,317	68,538	51,461	42,104	36,776	20,011	49,988	–	996,751
Impairment of property, plant and equipment	4,826	–	–	–	–	–	–	5,054	–	9,880
Impairment of goodwill	29,100	–	–	–	–	–	–	–	–	29,100
Impairment of loan receivables	31,177	–	–	–	–	–	–	–	–	31,177
Impairment of contract assets	3,052	–	–	–	–	–	–	–	–	3,052
Impairment of trade and bills receivables, net	35,473	47	(96)	3,062	399	85	(961)	(2,523)	–	35,486
Impairment of prepayments	34,330	–	–	–	–	–	–	–	–	34,330
Impairment of other receivables	38,990	–	–	–	–	–	–	–	–	38,990
Capital expenditure[#]	2,736,680	113,772	256,476	338,397	60,261	32,572	27,780	1,762,678	(53,797)	5,274,819

[#] Capital expenditure consists of additions to property, plant and equipment, right-of-use assets, investment properties and other intangible assets, among which the additions resulted from business combination amount to RMB1,234,240,000.

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
Contract 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, among which the additions resulted from business combination amount to RMB150,620,000.

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:

	2019			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	**25,305,228**	**–**	**25,305,228**	23,224,272	–	23,224,272
Contract revenue from renovation and installation works	**–**	**595,751**	**595,751**	–	184,400	184,400
Income from environmental engineering and other related services	**–**	**325,797**	**325,797**	–	186,539	186,539
Sub-total	**25,305,228**	**921,548**	**26,226,776**	23,224,272	370,939	23,595,211
Financial service income			**40,900**			65,372
Property rental and other related services			**76,847**			72,934
Total			**26,344,523**			23,733,517

By geographical locations:

	2019			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:						
China	**24,433,462**	**912,332**	**25,345,794**	22,487,987	370,939	22,858,926
Outside China	**871,766**	**9,216**	**880,982**	736,285	–	736,285
Sub-total	**25,305,228**	**921,548**	**26,226,776**	23,224,272	370,939	23,595,211
Financial service income			**40,900**			65,372
Property rental and other related services			**76,847**			72,934
Total			**26,344,523**			23,733,517

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:

	2019	2018
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**1,410,214**	1,120,169
Contract revenue from renovation and installation works	**12,373**	9,091
Income from environmental engineering and other related services	**4,240**	8,896
	1,426,827	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 amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) at the end of reporting period are as follows:

	2019	2018
	RMB'000	*RMB'000*
Amounts expected to be recognised as revenue:		
Not more than 1 year	**778,063**	356,315
Over 1 year	**704,246**	368,211
	1,482,309	724,526

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

Other revenue, income and gains

	2019	2018
	RMB'000	*RMB'000*
Bank interest income	**102,460**	105,140
Interest income from other financial assets	**22,860**	6,009
Total interest income	**125,320**	111,149
Government grants and subsidies	**55,928**	44,628
Gain on fair value changes of investment properties	**147,997**	311,809
Gain on fair value changes of financial instruments at FVTPL	**3,432**	7,098
Gain on disposal of debt instruments at FVTOCI	**7,587**	–
Investment income	**19,693**	32,178
Gain on disposal of subsidiaries	**–**	33,273
Gain on termination of right-of-use assets	**5,992**	–
Rental income	**27,468**	3,115
Exchange gain	**27,084**	–
Others	**62,889**	28,180
	483,390	571,430

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

	2019	2018
	RMB'000	*RMB'000*
Interest expenses on bank and other loans	**569,271**	415,725
Interest expenses on lease liabilities	**13,773**	–
	583,044	415,725
Less: Interest capitalised	**(5,850)**	(322)
	577,194	415,403

5. PROFIT BEFORE TAX

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

	2019	2018
	RMB'000	*RMB'000*
Cost of inventories sold	**18,134,201**	17,177,238
Direct cost of renovation and installation works	**465,227**	150,595
Direct cost of environmental engineering and other related services	**174,463**	129,008
Direct cost of financial services	**685**	1,265
Direct cost of property rental and other related services	**27,137**	60,200
Write-down/(write-back) of inventories to net realisable value, net	**5,691**	(13,238)
Depreciation of property, plant and equipment	**880,279**	714,784
Depreciation of right-of-use assets	**99,695**	–
Amortisation of prepaid land lease payments	**–**	31,035
Amortisation of other intangible assets	**16,777**	12,337
Total depreciation and amortisation	**996,751**	758,156
Research and development costs	**856,202**	758,284
Loss on disposal of items of other intangible assets and property, plant and equipment	**14,575**	40,838
Impairment of property, plant and equipment	**9,880**	2,711
Changes in fair value of investment properties	**(147,997)**	(311,809)
Gain on fair value changes of financial instruments at FVTPL	**(3,432)**	(7,098)
Loss on fair value changes of derivative financial instruments	**7,768**	–
Loss/(gain) on disposal of subsidiaries	**8,324**	(33,273)
Gain on termination of right-of-use assets	**(5,992)**	–
Impairment of goodwill	**29,100**	372
Impairment of loan receivables	**31,177**	159,500
Impairment of contract assets	**3,052**	21,855
Impairment of trade and bills receivables, net	**35,486**	51,736
Impairment of prepayments	**34,330**	–
Impairment of other receivables	**38,990**	–
Foreign exchange differences, net	**(27,084)**	15,874

6. INCOME TAX EXPENSE

	2019	2018
	RMB'000	*RMB'000*
Current tax		
PRC	**857,319**	719,197
Other jurisdictions	**106**	1,991
	857,425	721,188
(Over)/under provision in prior years		
PRC	**(80,312)**	(28,340)
Other jurisdictions	**186**	939
	(80,126)	(27,401)
Deferred tax	**176,287**	95,528
Total tax charge for the year	**953,586**	789,315

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% (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 year (2018: Nil).

PRC corporate income tax

The Group's income tax provision in respect of its operations in 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

	2019		2018	
	HK$ per share	***HK$'000***	*HK$ per share*	*HK$'000*
2019 interim dividend paid (2018: 2018 interim dividend paid)	**0.12**	**372,290**	0.10	310,242
Less: Dividends for shares held for share award scheme	**0.12**	**(2,759)**	–	–
		369,531		310,242
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
		985,417		868,677
Equivalent to		**RMB866,871,000**		RMB715,436,000

Subsequent to the end of the reporting period, final dividend of HK28 cents in respect of the year ended 31 December 2019 per ordinary share in aggregate of HK$862,240,000 has been declared by the Board to the owners of the Company whose names appear on the Company's register of members on 2 June 2020 (2018: final dividend of HK20 cents in respect of the year ended 31 December 2018 per ordinary share amounting to in aggregate of HK$615,886,000). The amount of final dividend declared for the year ended 31 December 2019 is calculated based on the number of issued shares, less dividends for shares held for the share award scheme, at the date of approval of these consolidated financial statements.

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	2019	2018
	RMB'000	*RMB'000*
Earnings		
Profit attributable to owners of the Company used in the basic and diluted earnings per share calculation	**3,024,701**	2,491,774

	Number of Shares	
	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	**(21,773,540)**	–
Adjusted weighted average number of ordinary shares of the Company in issue used in the basic and diluted earnings per share calculation	**3,080,644,860**	3,102,418,400

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018 respectively.

9. OTHER FINANCIAL ASSETS

	Note	2019 RMB'000	2018 RMB'000
Non-current			
Debt instruments at FVTOCI:	*(i)*		
Debt securities listed in Hong Kong		**46,923**	50,376
Debt securities listed in PRC		**509,647**	204,723
		556,570	255,099
Equity instruments at FVTOCI:			
Equity securities listed in PRC		**231,536**	247,573
Equity securities listed in Hong Kong		**394,811**	482,293
Non-cumulative redeemable preference shares listed in Hong Kong		**–**	34,474
Perpetual capital securities listed in Hong Kong		**8,780**	8,391
Unlisted equity securities		**501,153**	770,795
		1,136,280	1,543,526
Equity instruments at FVTPL:	*(ii)*		
Unlisted equity securities		**56,344**	53,886
Funds at FVTPL:			
Stock funds		**21,926**	–
		78,270	53,886
		1,771,120	1,852,511
Current			
Debt instruments at FVTOCI:	*(i)*		
Debt securities listed in Hong Kong		**8,363**	–
Debt instruments at FVTPL		**–**	47,649
		8,363	47,649
		1,779,483	1,900,160

Note:

(i) The debt securities carry fixed interest at rates ranging from 5.65% to 8.40% (2018: 5.65% to 8.40%) per annum, payable semi-annually or annually in arrears and will mature from January 2020 to January 2023 (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 the reporting period, no other financial assets were pledged. At 31 December 2018, 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

	2019 *RMB'000*	2018 *RMB'000*
Non-current		
Finance lease receivables	**11,613**	163,422
Current		
Finance lease receivables	**165,339**	100,421
Factoring receivables	**260,491**	334,379
Receivables from supply-chain financing services	**129,520**	80,170
	555,350	514,970
Less: Provision for impairment	**(190,677)**	(159,500)
	364,673	355,470
	376,286	518,892

(a) Finance lease receivables

	Minimum lease receivables		Present value of minimum lease receivables	
	2019 *RMB'000*	2018 *RMB'000*	**2019** *RMB'000*	2018 *RMB'000*
Not more than 1 year	**191,748**	116,208	**165,339**	100,421
Over 1 year but within 5 years	**14,131**	182,104	**11,613**	163,422
	205,879	298,312	**176,952**	263,843
Less: Unearned finance income	**(28,927)**	(34,469)		
Present value of minimum lease receivables	**176,952**	263,843		

The Group's finance lease receivables are denominated in Renminbi. The effective interest rates of the receivables ranged from 5.89% to 13.19% (2018: 5.89% to 12.70%) per annum. There are no unguaranteed residual values of assets leased under finance leases and no contingent rent arrangements that needed to be recognised (2018: Nil).

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

	2019 *RMB'000*	2018 *RMB'000*
Not past due	**21,731**	263,843
Overdue	**155,221**	–
	176,952	263,843

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 expire 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 RMB21,310,000 (2018: RMB25,613,000) have been included in "other long-term payables" in the consolidated statement of financial position.

At the end of the reporting period, RMB31,177,000 of the Group's finance lease receivables was impaired (2018: Nil).

(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 7.20% (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:

	2019 ***RMB'000***	2018 *RMB'000*
With a residual maturity of:		
Not more than 3 months	**15,778**	65,079
Over 3 months to 6 months	**46,713**	109,800
Over 6 months to 12 months	**38,500**	–
Overdue	**159,500**	159,500
	260,491	334,379

At the end of the reporting period, RMB159,500,000 of the Group's factoring receivables was impaired (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 4.75% to 10.80% per annum (2018: 5.40% to 10.80%).

Certain receivables from supply-chain financing services, amounting to RMB129,520,000 (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:

	2019	2018
	RMB'000	*RMB'000*
With a residual maturity of:		
Not more than 3 months	**79,478**	57,050
Over 3 months to 6 months	**32,390**	19,900
Over 6 months to 12 months	**17,652**	3,220
	129,520	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 (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 consolidated financial statements.

11. INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
Manufacturing and trading	**3,660,365**	3,271,853
Property development	**305,683**	249,361
	3,966,048	3,521,214

(a) Manufacturing and trading

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**1,332,697**	1,401,893
Work in progress	**351,332**	327,273
Finished goods	**1,976,336**	1,542,687
	3,660,365	3,271,853

(b) Property development

	2019	2018
	RMB'000	*RMB'000*
Property under development	**305,683**	249,361

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

12. TRADE AND BILLS RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**2,734,678**	2,036,323
Bills receivable	**762,004**	537,617
Less: Provision for impairment	**(237,226)**	(194,493)
	3,259,456	2,379,447

The Group's major customers are independent distributors, civil contractors, property developers, utility companies and municipalities in 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 ageing 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:

	2019	2018
	RMB'000	*RMB'000*
Not more than 3 months	**1,385,281**	1,326,856
Over 3 months to 6 months	**523,083**	339,304
Over 6 months to 12 months	**916,406**	347,898
Over 1 year to 2 years	**351,848**	314,239
Over 2 years to 3 years	**71,784**	42,684
Over 3 years	**11,054**	8,466
	3,259,456	2,379,447

13. TRADE AND BILLS PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**1,276,393**	889,123
Bills payable	**4,553,141**	3,388,200
	5,829,534	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 the reporting period, based on the invoice date, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Not more than 3 months	**3,467,192**	2,568,152
Over 3 months to 6 months	**2,032,336**	1,527,285
Over 6 months to 12 months	**255,306**	132,857
Over 1 year to 2 years	**36,791**	13,300
Over 2 years to 3 years	**10,498**	11,287
Over 3 years	**27,411**	24,442
	5,829,534	4,277,323

14. BORROWINGS

	2019	2018
	RMB'000	*RMB'000*
Current		
Unsecured bank loans	**5,841,586**	5,800,738
Current portion of long-term unsecured bank loans	**104,575**	340,568
Current portion of long-term unsecured syndicated bank loans	**5,381,133**	–
Current portion of long-term secured bank loans	**15,605**	3,186
Current portion of long-term unsecured other loans	**28,330**	–
Secured bank loans	**40,090**	–
	11,411,319	6,144,492
Non-current		
Unsecured bank loans	**1,045,107**	280,845
Unsecured syndicated loans	**–**	5,246,043
Unsecured other loans	**28,330**	–
Secured bank loans	**193,624**	59,678
	1,267,061	5,586,566
	12,678,380	11,731,058
Analysed into borrowings repayable:		
Within one year or on demand	**11,411,319**	6,144,492
In the second year	**757,069**	5,355,245
In the third to fifth years, inclusive	**486,490**	201,462
More than five years	**23,502**	29,859
	12,678,380	11,731,058

Note:

(a) The effective interest rates of the Group's borrowings range from 2.38% to 7.60% (2018: 3.22% to 5.39%) per annum.

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

At 31 December 2018, the secured bank loans were 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 are equivalent to RMB6,460,926,000 (2018: RMB6,466,723,000), RMB2,788,805,000 (2018: RMB2,477,101,000), RMB2,793,140,000 (2018: RMB2,251,568,000), RMB481,169,000 (2018: RMB364,372,000), and RMB154,340,000 (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	640,113	27,605	667,718
Interest expenses	22,655	–	22,655
Increase in interest payable	(10,728)	–	(10,728)
Interest paid	(6,297)	–	(6,297)
Exchange realignment	6,852	–	6,852
	652,595	27,605	680,200

Note:

(a) On 6 May 2019, the Group's wholly owned subsidiary entered into a convertible loan facilities agreement with ICBC International Investment Management Limited in the aggregate principal amount of US$100,000,000 (approximately equivalent to RMB684,025,000) (the "Convertible Loans"). The Convertible Loans bear interest at the rate of 3.4% plus LIBOR per annum. The Group drew down US$60,000,000 (approximately equivalent to RMB410,415,000) on 22 May 2019 and US$40,000,000 (approximately equivalent to RMB279,489,000) on 29 November 2019. The maturity date is 21 May 2022 and 28 November 2022, respectively.

(b) The convertible loans contain two components, a debt and equity components. The initial fair value of the two components was determined based on gross proceeds at drawdown. The initial fair value less allocated transaction costs of the debt component were estimated to be US$55,799,000 (approximately equivalent to RMB381,681,000) and US$36,982,000 (approximately equivalent to RMB258,432,000) as at the drawdown 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 7.70% per annum. The residual amount less allocated transaction costs representing the value of the equity component of US$4,001,000 (approximately equivalent to RMB27,605,000), is included in convertible loans equity reserve.

16. SHARE CAPITAL

Shares	**2019**	2018
Authorised:		
20,000,000,000 (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 (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:

	2019	2018
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Property, plant and equipment and investment properties	**738,811**	982,063
Investment in a joint venture	**23,520**	23,520
	762,331	1,005,583

CHAIRMAN'S STATEMENT

China's economic growth continued to slow down in 2019 amid global instability. The central government adopted measures to cool the country's overheated property market under its principle that "houses are for people to live in but not for speculation", thus subjecting the market to mounting downward pressure. China's ongoing urbanisation stimulates both economic growth and unlocks the huge potential of its domestic demand. The Chinese government has invested in a number of large-scale municipal engineering works and urban infrastructure projects as it implements the policies on energy conservation and environmental protection such as "Switching over from Coal to Gas" and "Action Plan for Prevention and Control of Water Pollution". Such projects include the construction of infrastructure for using clean energy for heating in various regions, sewage control planning in major river basins, sewage and pollution control in rural areas and the plan for seawater desalination works around islands. Furthermore, Chinese companies have been cooperating with countries which are covered by China's "Belt and Road Initiative" in oil and gas projects. This can also stimulate the demand for pipe fittings and pipe products.

As a leading large-scale industrial group that manufactures building materials and interior decoration products in mainland China, China Lesso capitalises on the Chinese government's favourable policies by fully developing all of its business segments to meet the strong demand of the market. Despite the downward pressure on the national economy, the Group achieved sustainable growth in sales revenue and profit and further improved its financial performances during the reporting period with its leading industry position, strong brand and excellent product quality. The Group's revenue increased by 11.0% to RMB26,345 million in 2019 from RMB23,734 million in 2018. Gross profit rose by 21.0% to RMB7,537 million, and profit attributable to owners of the Company grew by 21.4% to RMB3,025 million. The Board proposed a final dividend of HK28 cents per share for the year ended 31 December 2019.

In 2019, Southern China continued to contribute the majority of the Group's revenue. The Group further developed the market of Southern China, thus reinforcing its leading market position there. Meanwhile, it actively expanded the market for plastic pipes in other regions of the country and continued to optimise its product portfolio to increase its market share and boost its overall business growth. The Group continued to increase the levels of automatic production and smart production. Through its effective strategy for procurement, the Group reduced the pressure of the hike in prices of raw materials and production costs, aiming to maximise the benefits of economies of scale.

During the reporting period, the central and provincial governments resolutely adopted a number of regulatory policies to curb speculation on properties under the principles that "houses are for people to live in but not for speculation" and that "equal emphasis be placed on both the markets for property rental and purchase". As a result, the real estate market cooled down consistently. According to the National Bureau of Statistics of China, sales of commodity properties in terms of gross floor area dropped by 0.1% in 2019 against the 1.3% growth in 2018. The coronavirus disease (the "COVID-19") outbreak in early 2020 almost brought economic activities to a standstill and also delivered a blow to the real estate sector. The market expects the government to relax the regulation of the property sector after the COVID-19 pandemic dies out in order to increase market liquidity and stimulate economic growth. This will benefit the development of the industry of building materials and interior decoration. The Group will continue to enhance the competitiveness of its business of building materials and interior decoration and optimise its product portfolio to meet customers' demand for quality products. The Group remains confident about the future of this business segment and expects to attain synergy between it and its other businesses in the long run.

In recent years, the Chinese government has pursued a series of environmental policies. This has helped to foster the development of the environmental protection industry. To capitalise on this trend, the Group further developed its environmental protection business and increased investment in technological innovation to enhance its own research and development capability. Having established both the upstream and downstream businesses of the pipe products and fittings that cover the whole value chain of that industry, the Group is now endeavouring to develop the business of treating hazardous and solid wastes so as to create synergy between its environmental protection business and plastic piping system business for the long term. The Group will continue to work towards the goal of becoming a one-stop environmental service provider in China, creating a green lifestyle for residents and fulfilling its corporate social responsibility.

In respect of the business of specialty sales and marketing platform, the Group aims to assist Chinese manufacturers in delivering building materials, interior decoration products and other consumer products to retailers and consumers around the globe directly, thus helping them expand the market for their brands. The Group has 13 projects at different stages of development in the United States, Canada, Australia, Thailand, Myanmar, Indonesia, the United Arab Emirates and other countries. We will strive to turn this business into a new growth driver for the Group in the long term.

To cope with the unfavourable macroeconomic environment in 2019, the Group proactively diversified its product range and enhanced its competitive advantage by leveraging its brand strength and its extensive dealer network. In order to adapt to the ever-changing market demand, the Group also devoted itself to developing the business of specialty sales and marketing platform, seeking new growth drivers of revenue and actively expanding both the domestic and overseas markets. This has laid a solid foundation for the growth of revenue and the enhancement of its profitability in the future. In addition, China made steady progress in its plan for development and this generated a robust demand for pipes and pipe fittings in the field of infrastructure construction. To capture the opportunity, the Group will actively expand the scope of applications of its plastic pipes and pipe fittings, explore new opportunities on the market and achieve long-lasting synergy among its businesses. Through strategic cooperation with Guangdong Academy of Agricultural Sciences, the Group will seek to develop more applications of pipes and pipe fittings in agriculture. This can diversify its source of revenue and consolidate its leading market position. The Group is confident about the prospect of this business segment and expects it to perform steadily in the future.

The COVID-19 outbreak in early 2020 can have a temporary impact on the Chinese economy. The momentum of the Chinese economy will be maintained in the medium and long term. It is expected that the central government will launch a number of policies to stimulate the economy. The Group will actively grasp the opportunities arising from the government policies that favour the development of the industries. It will expand its businesses of plastic pipe systems, building materials and interior decoration and environmental protection, and strive for synergy among the various business segments. All this can lead to long-term growth. Looking ahead, the Group will continue to raise the levels of automatic production and smart production and actively build up its production bases so that its production capacity can be increased to support business expansion. The Group will also continue to increase investment in innovation, research and development as it continues to improve product quality and consolidate its leading position in the industry.

Lesso Group is concerned about the havoc wreaked by the COVID-19 outbreak on society. As a corporate citizen, the Group has supported hospitals across the country in their efforts to build facilities for fighting against the pandemic. The Group has promptly allocated resources in the form of a large amount of various pipe products required for the construction of systems of pipelines for water supply and drainage at emergency hospitals dedicated to the fight against the pandemic. In addition, the Group has provided necessary construction materials for the hospitals which are under reconstruction or expansion. The Group gives full support to the people in all regions in their fight against the disease.

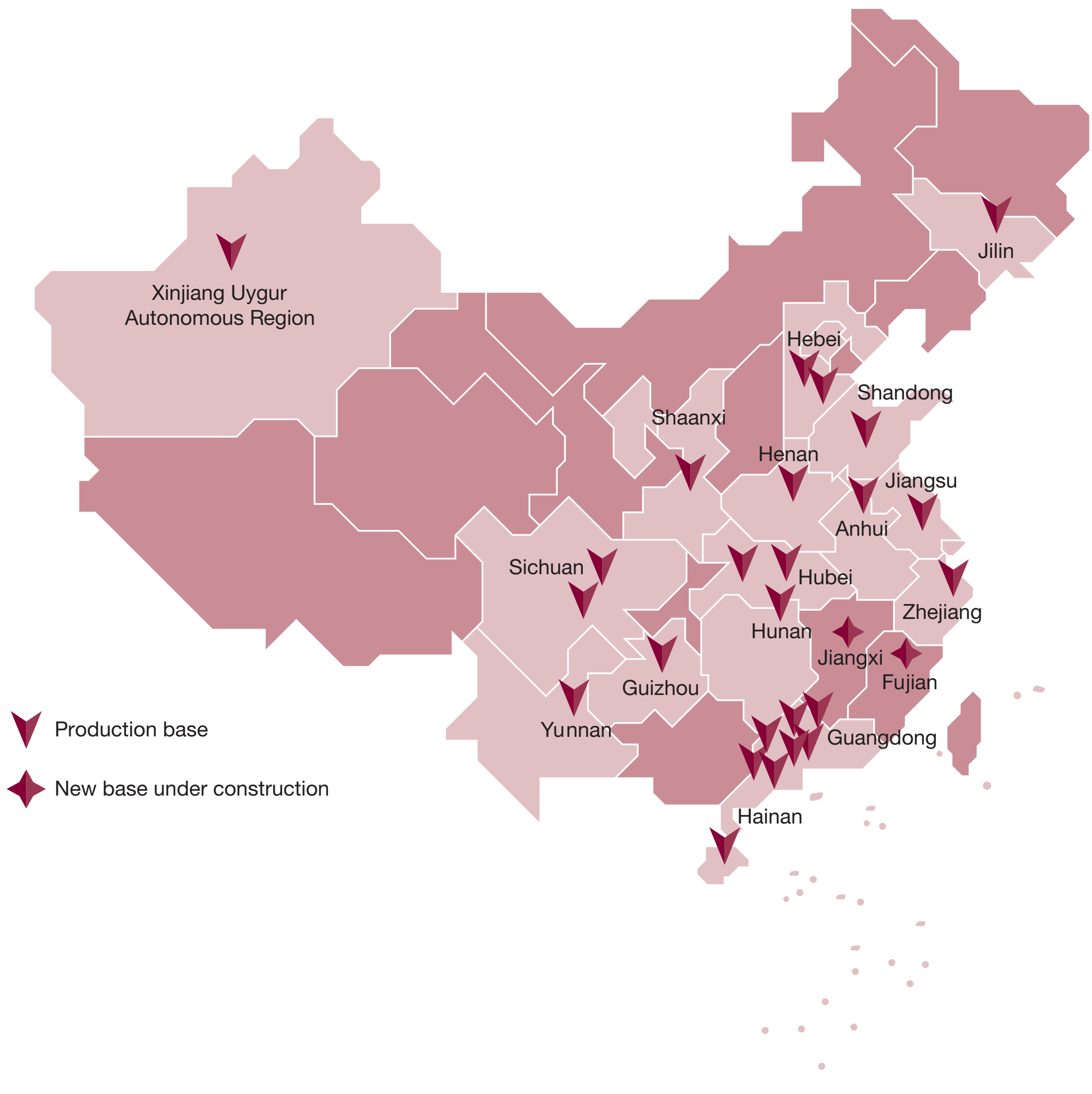
On behalf of the Board, I would like to express my heartfelt gratitude to our management and all the staff members for their commitment and dedication to the Group. In fulfilling its mission of "improving the quality of urban life", the Group will continue to provide the market with high-quality and innovative building materials and interior decoration products. At the same time, we will actively grasp the opportunities arising from the state policies and infrastructure construction to drive the Group's sustainable development for the long term. We will endeavor to achieve better performance 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, 27 March 2020

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 25 advanced production bases in 16 provinces 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 actively opened up building materials and interior decoration products, environmental protection and specialty market platform businesses, thereby creating long-term business synergy to the overall business of the Group, and providing customers with convenient and efficient solutions.

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". In 2019, China Lesso continued to receive national and industrial awards which consolidated its strong brand reputation and leading position in the industry, including "70 Brands of the 70th Anniversary of New China", "China's Top 500 Companies in Terms of Brand Value", "2019's Interior Decoration Brand in terms of Investment Value", "Top 500 Chinese Private Owned Enterprises", "National Brand of Water Supply and Drainage Industry and Outstanding Contribution Award", "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 solid 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 2019, the protracted Sino-United States trade friction shrouded the global economy in uncertainty. However, China continued with its supply-side reform aiming for steady economic growth in the long term. During the year under review, the central government of China reiterated that "houses are for people to live in but not for speculation" and put in place a long-term regulatory mechanism for stabilising the prices of lands and housing and managing market expectations. It had also fine-tuned the policies on the property sector and made them more flexible by allowing municipal governments to adopt city-specific policies according to the conditions of the local property markets. This is summed up by the principles of "City-specific Policies and One Strategy for One City". The Chinese government also tightened controls on the financing of the real estate sector throughout the year of 2019. As a result, downward pressure on the real estate market mounted. Meanwhile, the Chinese government pressed on with its policies on energy conservation and environmental protection to match the progress of urbanisation. Accordingly, it increased investment in urban infrastructure. The conditions for the financing of the projects undertaken through public-private partnerships were also improving, favouring the development of urban infrastructure. All this resulted in steady growth in demand for pipes and pipe fittings.

In addition, large-scale infrastructure projects will add impetus to urbanisation and regional economic development. This means enormous demand for pipes and pipe fittings. According to a forecast made in the "Proposal on Development of the PRC's Plastic Industry During the 13th Five-year Plan Period (2016–2020)", the volume of China's plastic pipe production will grow by approximately 3% annually. In 2020, it is expected that the volume of China's plastic pipe production will reach 16 million tonnes. Moreover, in "The 13th Five-year Plan for the Construction of the Nationwide Urban Municipal Infrastructure", targets have been set for the development of the country's infrastructure for water supply, heating, drainage and prevention of waterlogging. 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 to the drainage network, and replace 23,000 km of old pipelines in drainage network. It will also extend the central heating network by 41,000 km of pipelines and build 137,000 km of gas pipelines and 112,400 km of urban rainwater pipelines during the period of "The 13th Five-year Plan". All this indicates a bright future of the pipes and pipe fittings industry.

The accelerating global trend of conversion to low-carbon clean energy that China's demand for natural gas is constantly increasing. There is room for steady growth of the pipes and pipe fittings industry. "The Program for Natural Gas Development under the 13th Five-Year Plan" stated that during this period, 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. Specifically, according to the "Plan for Using Clean Energy for Winter Heating in Northern China (2017–2021)", the country plans to build eight new main pipes with the total capacity of transmitting approximately 75 billion cubic meters of natural gas per year. Further details of the national plan show that Beijing, Tianjin, Hebei, Shandong, Henan and Shanxi will together add 4,300 km of natural gas pipelines during the period from 2017 to 2021. All the infrastructure construction projects for conversion to clean energy for winter heating are expected to lead to steady growth of the pipes and pipe fittings industry.

During the reporting period, the Chinese government continued its efforts to promulgate the "Action Plan for Prevention and Control of Water Pollution". According to the requirements of the newly enacted "Law on Prevention and Control of Water Pollution" and the related planning under the "13th Five-year Plan" of the country, various provincial governments in the country have successively promulgated a series of policies on pollution control, which will facilitate sewage control, improve the quality of water environment, enhance the municipal pipeline network and sewage disposal equipment, thus generating enormous demand for the pipes and pipe fittings. In the "Water Pollution Prevention and Control Plan for Major River Basins (2016–2020)", the National Development and Reform Commission estimates that investments in water pollution prevention and control projects in major river basins can total around RMB700 billion if the objectives set in the "13th Five-year Plan" are met. In particular, the investment in the construction of municipal facilities for sewage disposal is estimated to be RMB316.1 billion. Various local governments in China have embarked on plans for restructuring pipeline networks. This can generate enormous demand.

In 2018, the State Council promulgated the "Strategic Plan for Rural Revitalisation (2018–2022)", in which it proposed a greater effort to develop rural infrastructure, especially the irrigation network. This is also part of the government's effort to promote the integrated development 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. General sewage control in rural areas has been a top priority. Rural infrastructure shall be actively developed. For example, in regions where rural environmental infrastructure development is lagging, 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, erratic disposal of sewage in rural areas will be under control. The steady progress in rural infrastructure construction will create room for growth in the market for pipeline networks.

The "Program for Developing National Marine Economy under the 13th Five-year Plan" was introduced by the Chinese government to restructure and improve the traditional marine industries, promote comprehensive regional development of the marine industries primarily in the form of marine ranch construction, vigorously develop the aquaculture in sea water in a healthy manner and support the deep-water aquaculture cage that can withstand winds and waves, in order to realise a sustainable development in the marine fishery industry. According to the "Implementation Plan for Seawater Desalination Works around Islands", it is intended to promote the development, upgrade and transformation of seawater desalination works around 100 islands in three to five years in coastal provinces such as Liaoning, Shandong, Zhejiang, Fujian and Hainan. The plan is also aimed at popularising and expanding the scale of seawater desalination. The move to improve the marine industries is expected to enlarge the market for plastic pipes and widen the scope of the application of pipes, thus generating more business opportunities.

After the central government had set the tone for the regulation of the country's property market with such principles as "houses are for people to live in but not for speculation" and "equal emphasis on both the markets for property rental and purchase", provincial and municipal governments stepped up regulatory measures that resulted in cooling property markets nationwide in 2019. Development of the local property markets in cities of different tiers became even more divergent. Specifically, downward pressure on the real estate market in the tier three and four cities increased. This, coupled with the uncertainties of the trade friction between China and the United States, accelerated the consolidation of the building materials and interior decoration industry in China. Other factors that also contributed to the development are the implementation of the Environmental Protection Tax Law and the application of a range of more stringent standards to the building materials and interior decoration industry. However, the consumption upgrade, the growing trend of new retail, further progress in the supply-side reform, advances in the new mode of urbanisation and redecoration of flats presented new opportunities for the building materials and interior decoration industry.

China actively exchanged ideas about development with different countries and regions to harmonise their development strategies for mutual benefits. A large number of Sino-foreign cooperation projects were launched, including those in China-Myanmar Economic Corridor, the China-Europe Railway Express and the lease of Hambantota Port to China, etc. Meanwhile, the Chinese government continued to increase investment in industries covered by the "Belt and Road Initiative". The move can make the overseas markets covered by the initiative growth drivers for Chinese companies. Some Chinese companies started oil and gas projects through cooperation with foreign companies in countries covered by the "Belt and Road Initiative". The projects included infrastructure construction which demand a lot of piping systems and building materials.

BUSINESS OVERVIEW

During the reporting period, the Group continued to capture the opportunities brought by national policies and the real estate industry. It did so by pushing forward the development of its plastic piping systems business, actively developing the business of building materials and interior decoration and the environmental protection business. This broadened the revenue base for the Group and achieved sustainable growth of businesses. More importantly, on 26 November 2019, China Lesso was officially made a constituent of MSCI China index. This reflected the market's confidence in the future prospect of the Group and its investment value.

In 2019, on the back of the steady growth of the Chinese economy and a rebound in demand from infrastructure construction, the revenue of China Lesso increased by 11.0% to RMB26,345 million (2018: RMB23,734 million). During the reporting period, because of the Group's economies of scale, continued enhancement of the production capacity of its plants and effective procurement strategy, gross profit rose by 21% to RMB7,537 million (2018: RMB6,228 million), with gross profit margin increased to 28.6% (2018: 26.2%). Net profit margin increased by 1.2 percentage points to 11.5% (2018: 10.3%).

The table below sets out the breakdown of revenue by business unit for 2019 and 2018:

	Revenue			**% of total revenue**	
	2019	2018		**2019**	2018
	RMB million	*RMB million*	Change		
Plastic piping systems	**23,709**	21,343	11.1%	**90.0%**	89.9%
Building materials and interior decoration products	**1,519**	1,314	15.6%	**5.8%**	5.6%
Others[#]	**1,117**	1,077	3.7%	**4.2%**	4.5%
Total	**26,345**	23,734	11.0%	**100.0%**	100.0%

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

For the year ended 31 December 2019, the number of the Group's independent and exclusive first-tier distributors nationwide increased to 2,276 (2018: 2,193). Southern China remained the Group's major revenue contributor, and revenue generated from Southern China and other regions accounted for 53.8% and 46.2% respectively (2018: 55.3% and 44.7%) of the Group's total revenue.

The table below sets out the breakdown of revenue by region for 2019 and 2018:

Region#	Revenue 2019 RMB million	2018 RMB million	Change	% of total revenue 2019	2018
Southern China	**14,180**	13,136	7.9%	**53.8%**	55.3%
Southwestern China	**2,627**	2,541	3.4%	**10.0%**	10.7%
Central China	**3,090**	2,844	8.7%	**11.7%**	12.0%
Eastern China	**1,558**	1,265	23.2%	**5.9%**	5.3%
Northern China	**1,972**	1,608	22.7%	**7.5%**	6.8%
Northwestern China	**1,263**	954	32.4%	**4.8%**	4.0%
Northeastern China	**700**	582	20.3%	**2.7%**	2.5%
Outside China	**955**	804	18.7%	**3.6%**	3.4%
Total	**26,345**	23,734	11.0%	**100.0%**	100.0%

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

By leveraging its economies of scale, production automation and effective strategy for procurement, the Group effectively controlled the costs for raw materials and production. In addition, the Group actively enhanced operational efficiency, optimised its product portfolio and expanded market coverage, thereby contributing to the sustainable development of business and maintaining a healthy level of profit.

During the reporting period, the Group's EBITDA increased by 26.0% to RMB5,556 million (2018: RMB4,409 million), and the EBITDA margin was 21.1% (2018: 18.6%). Profit before tax increased by 23.1% to RMB3,982 million (2018: RMB3,236 million). Profit attributable to owners of the Company increased by 21.4% to RMB3,025 million (2018: RMB2,492 million). Basic earnings per share increased by 22.5% to RMB0.98 (2018: RMB0.80). The effective tax rate stayed at 23.9% (2018: 24.4%).

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 HK28 cents per share for the year ended 31 December 2019 (2018: 20 HK cents per share).

BUSINESS REVIEW AND OUTLOOK

Plastic piping systems

The Chinese government promoted various policies on energy conservation and environmental protection such as the one on "Switching over from Coal to Gas" and the "Action Plan for Prevention and Control of Water Pollution". It also proceeded with the plan for constructing pipeline networks. This generated stable demand for plastic pipes and pipe fittings. For the year ended 31 December 2019, the number of orders for plastic piping systems increased and the Group's plastic piping systems business maintained stable growth. The increase was attributable to a number of factors, including the stable demand of the Chinese construction industry, the resumption of construction projects in Southern China in the second half of the year, the Chinese government's increased effort to redevelop old towns, the construction of systems for rural water supply and drainage, a gradual rebound in infrastructure investment and the overall stable development of the real estate sector. During the year under review, revenue from the plastic piping systems business increased by 11.1% to RMB23,709 million (2018: RMB21,343 million), and accounted for 90.0% of the Group's total revenue (2018: 89.9%).

The table below sets out the breakdown of revenue from plastic piping systems business by the application of the products for 2019 and 2018:

	Revenue			% of revenue	
	2019	2018		**2019**	2018
	RMB million	*RMB million*	Change		
Water supply	**9,228**	8,274	11.5%	**38.9%**	38.8%
Drainage	**8,966**	8,171	9.7%	**37.8%**	38.3%
Power supply and telecommunications	**4,126**	3,716	11.0%	**17.4%**	17.4%
Gas transmission	**383**	459	(16.6)%	**1.6%**	2.1%
Others#	**1,006**	723	39.2%	**4.3%**	3.4%
Total	**23,709**	21,343	11.1%	**100.0%**	100.0%

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

The Group continued to boost sales volume of plastic piping systems such that sales volume increased by 10.6%. In terms of product materials, sales volume of PVC products increased by 8.0% to 1,817,179 tonnes (2018: 1,682,949 tonnes) while that of non-PVC products increased by 19.6% to 580,685 tonnes (2018: 485,673 tonnes). Revenue from sales of PVC products increased by 8.0% to RMB14,748 million (2018: RMB13,660 million) while that of non-PVC products increased by 16.6% to RMB8,961 million (2018: RMB7,683 million).

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

	Revenue			% of revenue	
	2019	2018		**2019**	2018
Region	***RMB million***	*RMB million*	Change		
Southern China	**12,658**	11,743	7.8%	**53.4%**	55.0%
Other than Southern China	**10,563**	9,223	14.5%	**44.5%**	43.2%
Outside China	**488**	377	29.2%	**2.1%**	1.8%
Total	**23,709**	21,343	11.1%	**100.0%**	100.0%

The Group adopts a cost-plus pricing method. During the reporting period, the Group effectively controlled the costs of raw materials and production through economies of scale, bulk procurement and other measures, therefore the average cost of raw materials decreased by 1.8%. Due to increase in proportion of non-PVC products sales, the Group maintained the average selling price of its plastic piping systems at RMB9,887 per tonne (2018: RMB9,842 per tonne). The gross profit margin at the plastic piping systems business reached 28.9% (2018: 27.2%).

The table below sets out the breakdown of average selling price, sales volume, and revenue from plastic piping systems business by product material for 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	**8,116**	8,116	–	**1,817,179**	1,682,949	8.0%	**14,748**	13,660	8.0%
Non-PVC products#	**15,431**	15,820	(2.5)%	**580,685**	485,673	19.6%	**8,961**	7,683	16.6%
Total	**9,887**	9,842	0.5%	**2,397,864**	2,168,622	10.6%	**23,709**	21,343	11.1%

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

The Group continued to raise the level of automation and computerization of production and strived for full mechanisation of the production of pipe products so as to improve the overall production capacity, the product quality and the efficiency. During the reporting period, the Group's annual designed capacity for producing plastic pipes and pipe fittings expanded from 2.62 million tonnes in 2018 to 2.78 million tonnes, with a capacity utilisation rate of 88.0%.

The Group has been expanding its production capacity in line with its business development and actual needs. The Group's new production bases currently under construction in Fujian, Jiangxi and Zhejiang are expected to be completed and put into trial production in 2020. This will help enhance the advantage of the economies of scale. Looking ahead, the Group will continue to develop its production bases and identify targets for acquisition. Meanwhile, 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 bases fully automated and to further improve machinery and ancillary facilities in its existing production bases in order to raise the level of automation and accelerate the production process. This will help expand the production capacity and enhance 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, which will ensure that the Group leads the industry in technology and provides diverse and quality products.

In terms of the expansion of overseas markets, the Group gave its nationwide network of production bases across China full play and actively sought prospective business partners to grasp the opportunity in China's "Belt and Road Initiative". In May 2019, the Group signed a strategic partnership agreement with Xinjiang Ba Steel International Trade Co., Ltd.* ("Xinjiang Ba Steel") to jointly develop the markets of Central Asia and Xinjiang. The Group will leverage Xinjiang Ba Steel's well-developed sales channels and high-quality customer base in five Central Asian countries to increase its brand awareness there with the aim of increasing its products market penetration and turning into another sales growth driver. In addition, the Group is optimistic about the potential of the Southeast Asian market so it accelerated the globalisation of its business. To tap Indonesia's huge domestic market and potential for infrastructure development, the Group announced an investment plan of approximately US$60 million in September 2019 to establish a large-scale pipeline production base in the country. The factory to be built will be able to enhance the Group's competitiveness and influence in the Southeast Asian market and allow it to seize the opportunities that arise from the Belt and Road Initiative. The Group believes that this move will become an important strategic deployment for China Lesso to establish a global business presence. The production base in Indonesia is expected to be completed and commence trial production in the second half of 2020. In the future, the Group will continue to actively seek opportunities for business development in other Asian countries, such as India, Vietnam and Thailand, adding impetus to the Group's overseas business development.

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. 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. In January 2020, the Group signed a strategic cooperation agreement with Guangdong Academy of Agricultural Sciences to actively explore business opportunities in the agricultural sector and to further diversify its source of income. The collaboration between the two strong industry players will involve in-depth cooperation in various fields such as facility agriculture. They will provide customers with high-quality and professional modern facility agriculture solutions that encompass the facilities, construction, production, and after-sales service. This can promote the development of facility agriculture and agricultural modernization. Overall, the management is confident about the prospect of the plastic piping systems business and believes that it will continue to perform well.

Building materials and interior decoration products

In 2019, the Chinese government continued with various measures to regulate the property sector, thus increasing downward pressure on it. In response to an obvious sign of tightening policy, the overall growth of the real estate sector continued to slow down. Both the floor area sold and sales value declined. Affected by macroeconomic factors, the market for building materials and interior decoration products continued to experience downward pressure during the year. However, the change in the bulk purchasing model in real estate industry and the gradual rebound in the rate of completion of property projects in the second half of the year helped boost the sales of building materials and interior decoration products. This resulted in an increase in the number of new orders and an improvement in overall business performance. During the reporting period, the business segment maintained stable development and recorded a revenue of RMB1,519 million, accounting for 5.8% of the Group's total revenue.

In 2020, the Chinese government's regulation of the real estate sector may not be as tight as that in 2019. This can ease the downward pressure on the economy. The Group will actively seize the opportunities in the new mode of urbanisation and the redevelopment of old towns to boost revenue at its business of building materials and interior decoration products and increase the contribution of the business to the Group's total revenue. At the same time, the Group will further strengthen its relations with existing customers and actively engage new customers and increase sales revenue by providing diverse products. China's ongoing new mode of 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 become a driving force behind the steady development of this business for the long term.

Other businesses

Environmental Protection Business

In recent years, the Chinese government has issued a series of environmental protection policies which bode well for the development of the environmental protection industry. Riding on this trend, the Group constantly expands the market for environmental protection. It capitalised on municipal projects in various fields, including those of sewerage, river treatment, soil restoration, utility tunnels, sponge city, installation of integrated water purifiers, thus tapping the growing demand for plastic pipes and pipe fittings. The Group has strived to create synergy between its environmental protection business and its plastic piping systems business for the long term. Through successful mergers and acquisitions, the Group aspires to establish itself as a one-stop integrated environmental service provider, providing customers with comprehensive services from environmental consulting, solutions design, project construction to environmental equipment manufacturing. During the reporting period, this business sustained to grow and recorded a revenue of RMB326 million. In the future, the Group will continue to enhance its own research and development capability while developing its existing environmental protection business steadily. For instance, it endeavours to develop a business of treating hazardous and solid wastes and actively explores opportunities for mergers and acquisitions so as to form new growth drivers.

Business of Specialty Sales and Marketing Platform

To capitalise on the Chinese government's "Belt and Road Initiative", the Group extended the reach of its specialty sales and marketing platform, "One-Stop Specialty Market for Home Furnishing and Consumer Products", to the overseas markets. The Group built multinational platforms for Chinese manufacturers of home furnishings, building materials and consumer products to showcase their products and facilitate the distribution and retailing of such products. The Group also provides ancillary services, including marketing and branding. During the reporting period, the business recorded a revenue of RMB379 million.

The Group has 13 reserve properties in the United States, Canada, Australia, Thailand, Myanmar, Indonesia, the United Arab Emirates and other countries. All the properties are located close to major metropolitan areas. The Group aims to develop the largest one-stop showroom specialty markets in home furnishing and consumer products on these properties in its respective local markets. The tenants will be able to operate their own showrooms independently, 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 company to further explore the local market. The Group is confident that the specialty sales and marketing platform will become another growth driver for the Group in the long run.

CAPITAL EXPENDITURE

The Group's capital expenditure for 2019 was approximately RMB5,275 million, which was primarily used for improvement of automated facilities in production bases, expansion of the existing production bases, acquisition of properties in foreign countries and the facilities acquired in business combination.

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 2019, the Group had total debts (i.e. borrowings, lease liabilities and debt component of convertible loans) of approximately RMB13,537 million, of which 52.8% was denominated in US dollar, 20.6% was denominated in HK dollar, 21.3% was denominated in RMB, 3.7% was denominated in Australian dollar, 1.2% was denominated in Canadian dollar and 0.4% was denominated in other currencies. Other than the approximately US$93 million of the outstanding convertible loans at an effective interest rate of 7.70% per annum and due in 2022, the Group's borrowings are subject to effective interest rates ranging from 2.38% to 7.60% per annum with maturity periods ranging from within one year to more than five years. The Group's Gearing Ratio stood at a healthy level of 44.2%.

As at 31 December 2019, the Group's total equity increased to approximately RMB17,094 million. The Group's current assets and current liabilities were approximately RMB17,731 million and RMB20,526 million respectively. The Group's Current Ratio and Quick Ratio decreased to 0.86 and 0.67 from 1.14 and 0.87 as at 31 December 2018, respectively. The Group recorded net current liabilities of RMB2,795 million, which was mainly resulted from two syndicated loans (the "Syndicated Loans") aggregated of approximately RMB5,381 million which will be due for repayment in second half of 2020.

During the reporting period, the Group has entered into a facility agreement and its amendment agreement (collectively as the "Facility Agreements") in relation to dual currency syndicated term loan and revolving credit facilities in the equivalent amount of US$1,100 million (the "Facilities"). The final maturity date under the Facility Agreements is the date falling 48 months after the first utilisation date. The Facilities will be used for general corporate purpose, including the refinancing of the Group's existing financial indebtedness.

For details, please refer to the announcements made by the Company on 30 July 2019 and 23 October 2019. Meanwhile, the Board believes the Group will be able to continue to generate positive cash flows from its operations. On this basis, the Board considers that the Group is able to meet in full its financial obligations as they fall due in the coming 12 months.

With cash and bank deposits, including restricted cash, of approximately RMB7,604 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 2019, the secured bank loans were secured by the investment property of a subsidiary, time deposit of a subsidiary, loan receivables of a subsidiary, concession rights of a subsidiary and personal guarantee provided by a shareholder of that subsidiary.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES

As at 31 December 2019, the Group employed a total of approximately 13,000 employees including directors. Total staff costs were RMB1,278 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 31 December 2019, the Group held long-term and short-term financial investments of approximately RMB1,771 million (31 December 2018: RMB1,853 million) and RMB8 million (31 December 2018: RMB47 million), respectively. The investment portfolio comprised of 35.2% in listed equity securities (issued by PRC-based home improvement and furnishings shopping malls operating companies, PRC-based internet companies and PRC based environmental companies), 31.8% in listed debt securities, 1.2% in stock funds, 0.5% in listed perpetual capital securities and 31.3% in unlisted securities. Each of these investments has a carrying amount accounting to less than 5% of the Group's total assets as at 31 December 2019.

During the reporting period, the Group recognised a realised disposal gain of approximately RMB64 million, unrealised mark-to-market valuation loss of approximately RMB306 million due to volatility of the global capital market and recognised approximately RMB24 million of exchange gain on translation. Income from the portfolio amounted to approximately RMB43 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 2019, the Group's investment properties were approximately RMB6,870 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 difference during the reporting period.

Among these investment properties, the mall in Toronto, Canada is an existing property; the malls in Long Island, US and in Auburn district of Sydney, Australia are under refurbishment; the lands in Thailand, Myanmar, the United Arab Emirates and China are under development; and 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 2019, Xingfa Aluminium recorded a revenue of RMB11,281 million, and profit attributable to the shareholders of Xingfa Aluminium was RMB606 million.

Save as disclosed above, the Group did not have any significant investments as at 31 December 2019.

CORPORATE SOCIAL RESPONSIBILITY

Environment

Environmental protection is always a top priority of China Lesso, and the concepts of low carbon and environmental protection are integrated into its whole operational process. 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 modern agriculture construction, and has created a sustainable and eco-friendly industrial chain from environmental protection consultation, environmental assessment, design, construction and operation of environmental protection plans to financing support. 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. During the reporting period, the Group launched poverty alleviation projects, such as education in poverty-stricken areas in Yunnan and Guizhou and drinking water improvement in Sichuan.

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 behaviour 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 2019.

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.

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 year. 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.

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK28 cents per share for the year ended 31 December 2019 (the "Proposed Final Dividend") to the Shareholders whose names appear on the register of members of the Company on Tuesday, 2 June 2020, subject to the Shareholders' approval at the forthcoming annual general meeting of the Company to be held on Friday, 22 May 2020 (the "2020 AGM"). It is expected that the Proposed Final Dividend will be paid on Thursday, 11 June 2020.

Including the interim dividend of HK12 cents per share (2018: HK10 cents per share) for the six months ended 30 June 2019 which was paid to the Shareholders on 23 September 2019, the total dividend for 2019 amounts to a total of HK40 cents per share (2018: HK30 cents per share), which represents a payout ratio of 36.8% (2018: 32.7%) of the profit attributable to the Shareholders for the year ended 31 December 2019.

CLOSURE OF REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the 2020 AGM

The register of members of the Company will be closed from Tuesday, 19 May 2020 to Friday, 22 May 2020, 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 2020 AGM, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Monday, 18 May 2020.

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

The register of members of the Company will be closed from Friday, 29 May 2020 to Tuesday, 2 June 2020, 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 Thursday, 28 May 2020.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkex.com.hk) and the Company (www.lesso.com). The 2019 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, 27 March 2020

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
"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
"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.