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 2020

The Board is pleased to announce the consolidated financial results of the Group for the year ended 31 December 2020.

HIGHLIGHTS

Compared to the last year consolidated financial results:

- Revenue increased by 6.6% to RMB28,073 million
- Gross profit increased by 11.2% to RMB8,384 million
- Profit for the year increased by 24.1% to RMB3,757 million
- Basic earnings per share was RMB1.22, increased by 24.5%
- The payment of a final dividend of HK38 cents per share is recommended for the year ended 31 December 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2020

	Note	**2020** **RMB'000**	2019 RMB'000
REVENUE	3	**28,073,065**	26,344,523
Cost of sales		**(19,689,086)**	(18,807,404)
Gross profit		**8,383,979**	7,537,119
Other revenue, income and gains	3	**509,187**	483,390
Selling and distribution expenses		**(1,264,143)**	(1,227,651)
Administrative expenses		**(1,332,183)**	(1,263,440)
Impairment losses on financial and contract assets		**(56,439)**	(108,705)
Other expenses		**(1,255,349)**	(968,546)
Finance costs	4	**(435,892)**	(577,194)
Share of results of associates		**203,233**	105,895
Share of results of a joint venture		**1,167**	1,053
PROFIT BEFORE TAX	5	**4,753,560**	3,981,921
Income tax expense	6	**(996,171)**	(953,586)
PROFIT FOR THE YEAR		**3,757,389**	3,028,335
OTHER COMPREHENSIVE INCOME/ (EXPENSE)			
Items that may be reclassified subsequently to profit or loss:			
Debt instruments at fair value through other comprehensive income:			
Changes in fair value		**(8,393)**	7,587
Reclassification adjustments for loss/(gain) on disposal included in the consolidated statement of profit or loss		**8,191**	(7,587)
		(202)	–
Share of other comprehensive expense of an associate, net of tax		**(1,472)**	(196)
Exchange differences on translation of foreign operations		**407,430**	(27,660)
		405,756	(27,856)

	Note	**2020**	2019
		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		**214,505**	(252,571)
OTHER COMPREHENSIVE INCOME/ (EXPENSE) FOR THE YEAR		**620,261**	(280,427)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,377,650**	2,747,908
Profit attributable to:			
Owners of the Company		**3,750,829**	3,024,701
Non-controlling interests		**6,560**	3,634
		3,757,389	3,028,335
Total comprehensive income attributable to:			
Owners of the Company		**4,338,754**	2,733,430
Non-controlling interests		**38,896**	14,478
		4,377,650	2,747,908
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	*8*	**RMB1.22**	RMB0.98

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Note	**2020** **RMB'000**	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**9,900,108**	9,394,821
Right-of-use assets		**2,036,052**	1,614,395
Investment properties		**6,973,570**	6,870,181
Deposits paid for the purchase of land, property, plant and equipment		**1,599,016**	884,486
Goodwill		**381,408**	398,589
Other intangible assets		**380,929**	336,109
Interests in associates		**2,395,177**	1,501,137
Interests in a joint venture		**11,523**	10,356
Other financial assets	*9*	**2,681,006**	1,771,120
Loan receivables	*10*	**139,584**	11,613
Other non-current assets		**122,299**	70,784
Contract assets		**78,411**	81,571
Deferred tax assets		**159,888**	108,301
Total non-current assets		**26,858,971**	23,053,463
CURRENT ASSETS			
Inventories	*11*	**5,126,847**	3,966,048
Contract assets		**469,541**	279,443
Other financial assets	*9*	**24,915**	8,363
Loan receivables	*10*	**875,066**	364,673
Trade and bills receivables	*12*	**3,850,194**	3,259,456
Prepayments, deposits and other receivables		**1,874,592**	2,249,130
Cash and bank deposits		**7,447,436**	7,604,221
Total current assets		**19,668,591**	17,731,334
CURRENT LIABILITIES			
Contract liabilities		**1,528,934**	1,725,300
Trade and bills payables	*13*	**5,678,208**	5,829,534
Other payables and accruals		**1,100,218**	1,181,792
Tax payable		**322,283**	289,958
Borrowings	*14*	**7,364,331**	11,411,319
Lease liabilities		**53,448**	88,843
Other financial liabilities		**10,960**	–
Total current liabilities		**16,058,382**	20,526,746

	Note	2020 RMB'000	2019 RMB'000
NET CURRENT ASSETS/(LIABILITIES)		**3,610,209**	(2,795,412)
TOTAL ASSETS LESS CURRENT LIABILITIES		**30,469,180**	20,258,051
NON-CURRENT LIABILITIES			
Borrowings	*14*	**8,082,154**	1,267,061
Convertible loans	*15*	**627,362**	652,595
Lease liabilities		**108,868**	117,281
Other long-term payables		**16,953**	106,093
Other financial liabilities		**70,266**	14,360
Deferred tax liabilities		**991,518**	788,671
Deferred income		**217,937**	217,594
Total non-current liabilities		**10,115,058**	3,163,655
Net assets		**20,354,122**	17,094,396
EQUITY			
Share capital	*16*	**135,344**	135,344
Reserves		**19,705,783**	16,440,901
Equity attributable to owners of the Company		**19,841,127**	16,576,245
Non-controlling interests		**512,995**	518,151
Total equity		**20,354,122**	17,094,396

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 other financial liabilities which have been measured at fair value. These consolidated financial statements are presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised standards for the first time for the current year's consolidated financial statements.

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The adoption of the above revised HKFRSs has had no significant financial effect on these consolidated financial statements. The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* are described below:

Conceptual Framework for Financial Reporting 2018 (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

2. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

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

(viii) Outside China.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, changes in fair value of financial instruments at FVTPL, changes in fair value of other financial liabilities, investment income, gain/(loss) on disposal of subsidiaries, gain on disposal of associates, gain from a bargain purchase, changes in fair value of investment properties, (loss)/gain on disposal of debt instruments at FVTOCI, exchange differences, non-lease-related finance costs, share of results of associates and a joint venture and other unallocated income and expenses are excluded from such measurement.

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

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

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

During the years ended 31 December 2020 and 2019, 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 2020

	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	14,296,424	2,793,802	2,873,149	1,545,613	2,097,594	1,422,689	737,700	703,236	–	26,470,207
Contract revenue from renovation and installation works	697,116	47,068	108,364	199,095	28,923	1,449	19,769	8,912	–	1,110,696
Income from environmental engineering and other related services	179,958	17,539	23,773	127,330	4,098	1,299	–	–	–	353,997
Financial service income	30,349	1,633	3,625	12,581	2,151	34	19	–	–	50,392
Property rental and other related services	11,370	–	–	24	–	–	–	76,379	–	87,773
Revenue from external customers	15,215,217	2,860,042	3,008,911	1,884,643	2,132,766	1,425,471	757,488	788,527	–	28,073,065
Intersegment revenue	4,354,850	450,144	532,163	437,339	557,703	238,605	185,929	771,577	(7,528,310)	–
Total	19,570,067	3,310,186	3,541,074	2,321,982	2,690,469	1,664,076	943,417	1,560,104	(7,528,310)	28,073,065
Segment results:	4,801,638	884,882	952,938	526,249	620,639	346,109	185,439	224,671	(158,586)	8,383,979
Reconciliations:										
Interest income										171,112
Gain on fair value changes of financial instruments at FVTPL										129,294
Gain on fair value changes of other financial liabilities										13,348
Investment income										17,550
Gain on disposal of subsidiaries										365
Gain on disposal of associates										1,438
Gain from a bargain purchase										5,579
Loss on fair value changes of investment properties										(157,263)
Loss on disposal of debt instruments at FVTOCI										(8,191)
Exchange loss										(2,328)
Finance costs (other than interest on lease liabilities)										(427,405)
Share of results of associates										203,233
Share of results of a joint venture										1,167
Unallocated income and expenses										(3,578,318)
Profit before tax										4,753,560
Segment assets:	18,529,130	1,531,128	1,667,031	1,842,455	998,984	734,828	542,214	7,961,847	–	33,807,617
Reconciliations:										
Interests in associates										2,395,177
Interest in a joint venture										11,523
Other financial assets										2,705,921
Deferred tax assets										159,888
Cash and bank deposits										7,447,436
Total assets										46,527,562
Other segment information:										
Write-down of inventories to net realisable value, net	18,367	–	–	–	–	–	–	(132)	–	18,235
Depreciation and amortisation	658,051	68,829	61,010	49,406	42,846	41,689	21,093	62,992	–	1,005,916
Impairment of property, plant and equipment	36,166	–	–	11,349	–	–	–	316	–	47,831
Impairment of goodwill	11,578	–	–	8,755	–	–	–	–	–	20,333
Reversal of impairment of contract assets, net	(370)	–	–	–	–	–	–	–	–	(370)
Impairment of trade and bills receivables, net	25,522	351	1,441	4,578	5,897	661	(1,158)	1,218	–	38,510
Impairment of prepayments, net	6,774	6,402	–	–	–	–	253	6,645	–	20,074
Impairment of other receivables, net	(2,724)	–	–	–	–	–	–	3,955	–	1,231
Impairment of loan receivables	17,068	–	–	–	–	–	–	–	–	17,068
Capital expenditure#	1,509,062	108,124	276,130	150,447	74,846	37,231	21,877	624,145	(59,774)	2,742,088

\# 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 RMB252,952,000.

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
Loss on fair value changes of other financial liabilities										(7,768)
Investment income										19,693
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 results 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 contract assets, net	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, net	34,330	–	–	–	–	–	–	–	–	34,330
Impairment of other receivables, net	38,990	–	–	–	–	–	–	–	–	38,990
Impairment of loan receivables	31,177	–	–	–	–	–	–	–	–	31,177
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.

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:

	2020			2019		
	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	**26,470,207**	**–**	**26,470,207**	25,305,228	–	25,305,228
Contract revenue from renovation and installation works	**–**	**1,110,696**	**1,110,696**	–	595,751	595,751
Income from environmental engineering and other related services	**–**	**353,997**	**353,997**	–	325,797	325,797
Sub-total	**26,470,207**	**1,464,693**	**27,934,900**	25,305,228	921,548	26,226,776
Financial service income			**50,392**			40,900
Property rental and other related services			**87,773**			76,847
Total			**28,073,065**			26,344,523

By geographical locations:

	2020			2019		
	Goods transferred at a point in time	**Services transferred over time**	**Total**	Goods transferred at a point in time	Services transferred over time	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from contracts with customers:						
Mainland China	**25,766,971**	**1,455,781**	**27,222,752**	24,433,462	912,332	25,345,794
Outside China	**703,236**	**8,912**	**712,148**	871,766	9,216	880,982
Sub-total	**26,470,207**	**1,464,693**	**27,934,900**	25,305,228	921,548	26,226,776
Financial service income			**50,392**			40,900
Property rental and other related services			**87,773**			76,847
Total			**28,073,065**			26,344,523

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:

	2020	2019
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**1,604,951**	1,410,214
Contract revenue from renovation and installation works	**1,750**	12,373
Income from environmental engineering and other related services	**8**	4,240
	1,606,709	1,426,827

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 the reporting period are as follows:

	2020	2019
	RMB'000	*RMB'000*
Amounts expected to be recognised as revenue:		
Not more than 1 year	**954,379**	778,063
Over 1 year	**1,368,927**	704,246
	2,323,306	1,482,309

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

	2020 *RMB'000*	2019 *RMB'000*
Bank interest income	**123,520**	102,460
Interest income from other financial assets	**47,592**	22,860
Total interest income	**171,112**	125,320
Government grants and subsidies	**69,375**	55,928
Gain on fair value changes of investment properties	**–**	147,997
Gain on fair value changes of financial instruments at FVTPL	**129,294**	3,432
Gain on fair value changes of other financial liabilities	**13,348**	–
Investment income	**17,550**	19,693
Gain on disposal of debt instruments at FVTOCI	**–**	7,587
Gain on disposal of subsidiaries	**365**	–
Gain on disposal of associates	**1,438**	–
Gain from a bargain purchase	**5,579**	–
Gain on termination of right-of-use assets	**17**	5,992
Rental income	**32,291**	27,468
Exchange gain	**–**	27,084
Others	**68,818**	62,889
	509,187	483,390

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

	2020 *RMB'000*	2019 *RMB'000*
Interest expenses on bank and other loans	**458,039**	569,271
Interest expenses on lease liabilities	**8,487**	13,773
	466,526	583,044
Less: Interest capitalised	**(30,634)**	(5,850)
	435,892	577,194

5. PROFIT BEFORE TAX

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

	2020 *RMB'000*	2019 *RMB'000*
Cost of inventories sold	**18,584,843**	18,134,201
Direct cost of renovation and installation works	**831,187**	465,227
Direct cost of environmental engineering and other related services	**217,596**	174,463
Direct cost of financial services	**7,387**	685
Direct cost of property rental and other related services	**29,838**	27,137
Write-down of inventories to net realisable value, net	**18,235**	5,691
Depreciation of property, plant and equipment	**884,927**	880,279
Depreciation of right-of-use assets	**96,382**	99,695
Amortisation of other intangible assets	**24,607**	16,777
Total depreciation and amortisation	**1,005,916**	996,751
Research and development costs	**946,843**	856,202
Loss on disposal of items of other intangible assets and property, plant and equipment	**8,257**	14,575
Impairment of property, plant and equipment	**47,831**	9,880
Changes in fair value of investment properties	**157,263**	(147,997)
Gain on fair value changes of financial instruments at FVTPL	**(129,294)**	(3,432)
(Gain)/loss on fair value changes of other financial liabilities	**(13,348)**	7,768
Loss/(gain) on disposal of debt instrument at FVTOCI	**8,191**	(7,587)
(Gain)/loss on disposal of subsidiaries	**(365)**	8,324
Gain from a bargain purchase	**(5,579)**	–
Gain on termination of right-of-use assets	**(17)**	(5,992)
Impairment of goodwill	**20,333**	29,100
Impairment of loan receivables	**17,068**	31,177
(Reversal of impairment)/impairment of contract assets, net	**(370)**	3,052
Impairment of trade and bills receivables, net	**38,510**	35,486
Impairment of prepayments, net	**20,074**	34,330
Impairment of other receivables, net	**1,231**	38,990
Foreign exchange differences, net	**2,328**	(27,084)

6. INCOME TAX EXPENSE

	2020	2019
	RMB'000	*RMB'000*
Current tax		
PRC	**938,283**	857,319
Other jurisdictions	**443**	106
	938,726	857,425
(Over)/under provision in prior years		
PRC	**(82,716)**	(80,312)
Other jurisdictions	**(35)**	186
	(82,751)	(80,126)
Deferred tax	**140,196**	176,287
Total tax charge for the year	**996,171**	953,586

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% (2019: 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 (2019: Nil).

PRC corporate income tax

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

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

Income tax for other jurisdictions

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

7. DIVIDENDS

	2020 HK$ per share	2020 HK$'000	2019 HK$ per share	2019 HK$'000
2020 interim dividend paid (2019: 2019 interim dividend paid)	**0.12**	**372,290**	0.12	372,290
Less: Dividends for shares held for share award scheme	**0.12**	**(2,759)**	0.12	(2,759)
		369,531		369,531
2019 final dividend paid (2019: 2018 final dividend paid)	**0.28**	**868,677**	0.20	620,484
Less: Dividends for shares held for share award scheme	**0.28**	**(6,437)**	0.20	(4,598)
		862,240		615,886
		1,231,771		985,417
Equivalent to		**RMB1,095,414,000**		RMB866,871,000

Subsequent to the end of the reporting period, final dividend of HK38 cents in respect of the year ended 31 December 2020 per ordinary share in aggregate of HK$1,170,182,000 has been declared by the Board to the owners of the Company whose names appear on the Company's register of members on 25 June 2021 (2019: final dividend of HK28 cents in respect of the year ended 31 December 2019 per ordinary share amounting to in aggregate of HK$862,240,000). The amount of final dividend declared for the year ended 31 December 2020 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:

	2020 RMB'000	2019 RMB'000
Earnings		
Profit attributable to owners of the Company used in the basic and diluted earnings per share calculation	**3,750,829**	3,024,701

	Number of Shares 2020	Number of Shares 2019
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	**(22,991,000)**	(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	**3,079,427,400**	3,080,644,860

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019, respectively.

9. OTHER FINANCIAL ASSETS

	Note	2020 RMB'000	2019 RMB'000
Non-current			
Debt instruments at FVTOCI:	*(i)*		
Debt securities listed in Hong Kong		**29,724**	46,923
Debt securities listed in PRC		**–**	509,647
		29,724	556,570
Equity instruments at FVTOCI:			
Equity securities listed in PRC		**853,576**	231,536
Equity securities listed in Hong Kong		**551,520**	394,811
Perpetual capital securities listed in Hong Kong		**–**	8,780
Unlisted equity securities		**485,319**	501,153
		1,890,415	1,136,280
Equity instruments at FVTPL:			
Unlisted equity securities	*(ii)*	**53,958**	56,344
Equity securities listed in PRC		**446,196**	–
Equity securities listed in United Kingdom	*(iii)*	**241,983**	–
		742,137	56,344
Funds at FVTPL:			
Stock funds		**18,730**	21,926
		2,681,006	1,771,120
Current			
Debt instruments at FVTOCI:	*(i)*		
Debt securities listed in Hong Kong		**24,915**	8,363
		2,705,921	1,779,483

Note:

(i) The debt securities carry fixed interest at rates ranging from 5.70% to 7.85% (2019: 5.65% to 8.40%) per annum, payable semi-annually or annually in arrears and will mature from February 2021 to January 2023 (2019: January 2020 to January 2023).

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

(iii) The rights of the equity securities are restricted by a loan agreement with a third party.

10. LOAN RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Non-current		
Finance lease receivables	**3,584**	11,613
Factoring receivables	**136,000**	–
	139,584	11,613
Current		
Finance lease receivables	**140,219**	165,339
Factoring receivables	**816,932**	260,491
Receivables from supply-chain financing services	**125,660**	129,520
	1,082,811	555,350
Less: Provision for impairment	**(207,745)**	(190,677)
	875,066	364,673
	1,014,650	376,286

(A) FINANCE LEASE RECEIVABLES

	Minimum lease receivables		**Present value of minimum lease receivables**	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	***RMB'000***	RMB'000
Not more than 1 year	**141,557**	191,748	**140,219**	165,339
Over 1 year but within 5 years	**3,736**	14,131	**3,584**	11,613
	145,293	205,879	**143,803**	176,952
Less: Unearned finance income	**(1,490)**	(28,927)		
Present value of minimum lease receivables	**143,803**	176,952		

The Group's finance lease receivables are denominated in Renminbi. The effective interest rates of the receivables ranged from 11.42% to 11.77% (2019: 5.89% to 13.19%) per annum. There are no unguaranteed residual values of assets leased under finance leases and no contingent rent arrangements that needed to be recognised (2019: Nil).

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

	2020	2019
	RMB'000	*RMB'000*
Not past due	**19,804**	21,731
Overdue	**123,999**	155,221
	143,803	176,952

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 RMB1,310,000 have been included in "other payables and accruals" (2019: RMB21,310,000 included in "other long-term payables") in the consolidated statement of financial position.

At the end of the reporting period, RMB48,245,000 of the Group's finance lease receivables was impaired (2019: RMB31,177,000).

(B) FACTORING RECEIVABLES

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

Factoring receivables are secured by receivables and/or commercial bills originally owned by the customers. These receivables carry interest at rates ranging from 8.04% to 12.00% (2019: 4.00% to 7.20%) per annum.

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

	2020	2019
	RMB'000	*RMB'000*
With a residual maturity of:		
Not more than 3 months	**19,219**	15,778
Over 3 months to 6 months	**158,410**	46,713
Over 6 months to 12 months	**479,803**	38,500
Over 12 months to 24 months	**136,000**	–
Overdue	**159,500**	159,500
	952,932	260,491

At the end of the reporting period, RMB159,500,000 of the Group's factoring receivables was impaired (2019: 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 9.72% to 16.20% per annum (2019: 4.75% to 10.80%).

Certain receivables from supply-chain financing services, amounting to RMB125,660,000 (2019: RMB129,520,000) 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:

	2020	2019
	RMB'000	*RMB'000*
With a residual maturity of:		
Not more than 3 months	**84,810**	79,478
Over 3 months to 6 months	**30,550**	32,390
Over 6 months to 12 months	**10,300**	17,652
	125,660	129,520

At the end of the reporting period, none of the Group's receivables from supply-chain financing services was either past due or impaired (2019: 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

	2020	2019
	RMB'000	*RMB'000*
Manufacturing and trading	**4,577,047**	3,660,365
Property development	**549,800**	305,683
	5,126,847	3,966,048

(A) MANUFACTURING AND TRADING

	2020	2019
	RMB'000	*RMB'000*
Raw materials	**1,700,817**	1,332,697
Work in progress	**476,854**	351,332
Finished goods	**2,399,376**	1,976,336
	4,577,047	3,660,365

(B) PROPERTY DEVELOPMENT

	2020	2019
	RMB'000	*RMB'000*
Property under development	**549,800**	305,683

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

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**2,815,700**	2,734,678
Bills receivable	**1,298,021**	762,004
Less: Provision for impairment	**(263,527)**	(237,226)
	3,850,194	3,259,456

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

Trade and bills receivables are unsecured and interest-free.

An 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:

	2020	2019
	RMB'000	*RMB'000*
Not more than 3 months	**1,690,927**	1,385,281
Over 3 months to 6 months	**741,507**	523,083
Over 6 months to 12 months	**939,601**	916,406
Over 1 year to 2 years	**392,035**	351,848
Over 2 years to 3 years	**74,378**	71,784
Over 3 years	**11,746**	11,054
	3,850,194	3,259,456

13. TRADE AND BILLS PAYABLES

	2020	2019
	RMB'000	*RMB'000*
Trade payables	**1,657,654**	1,276,393
Bills payable	**4,020,554**	4,553,141
	5,678,208	5,829,534

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:

	2020	2019
	RMB'000	*RMB'000*
Not more than 3 months	**3,752,988**	3,467,192
Over 3 months to 6 months	**1,725,541**	2,032,336
Over 6 months to 12 months	**103,177**	255,306
Over 1 year to 2 years	**45,885**	36,791
Over 2 years to 3 years	**16,130**	10,498
Over 3 years	**34,487**	27,411
	5,678,208	5,829,534

14. BORROWINGS

	2020	2019
	RMB'000	*RMB'000*
Current		
Unsecured bank loans	**7,080,626**	5,841,586
Current portion of long-term unsecured bank loans	**185,634**	104,575
Current portion of long-term unsecured syndicated bank loans	**–**	5,381,133
Current portion of long-term unsecured other loans	**28,330**	28,330
Secured bank loans	**61,750**	40,090
Current portion of long-term secured bank loans	**7,991**	15,605
	7,364,331	11,411,319
Non-current		
Unsecured bank loans	**571,503**	1,045,107
Unsecured syndicated bank loans	**7,145,603**	–
Unsecured other loans	**614**	28,330
Secured bank loans	**364,434**	193,624
	8,082,154	1,267,061
	15,446,485	12,678,380
Analysed into borrowings repayable:		
Within one year or on demand	**7,364,331**	11,411,319
In the second year	**480,513**	757,069
In the third to fifth years, inclusive	**7,418,879**	486,490
More than five years	**182,762**	23,502
	15,446,485	12,678,380

Note:

(a) The effective interest rates of the Group's borrowings range from 1.08% to 7.60% (2019: 2.38% to 7.60%) per annum.

(b) At the end of the reporting period, the secured bank loans are secured by machineries and equipment of a subsidiary, leasehold lands and buildings of subsidiaries, investment property of a subsidiary, loan receivables of a subsidiary, the concession rights of a subsidiary and personal guarantee provided by a shareholder of that subsidiary.

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.

(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 RMB6,979,300,000 (2019: RMB6,460,926,000), RMB4,074,077,000 (2019: RMB2,788,805,000), RMB3,507,450,000 (2019: RMB2,793,140,000), RMB754,987,000 (2019: RMB481,169,000) and RMB130,671,000 (2019: RMB154,340,000), respectively.

15. CONVERTIBLE LOANS

At the end of the reporting period, the convertible loans were recognised as a debt component and an 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
At 31 December 2019 and 1 January 2020	652,595	27,605	680,200
Interest expenses	41,692	–	41,692
Increase in interest payable	(16,346)	–	(16,346)
Interest paid	(10,333)	–	(10,333)
Exchange realignment	(40,246)	–	(40,246)
At 31 December 2020	**627,362**	**27,605**	**654,967**

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 3.40% 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 dates are 21 May 2022 and 28 November 2022, respectively.

(b) The convertible loans contain two components, a debt component and an equity component. The initial fair values of the two components were determined based on gross proceeds at drawdown. The initial fair values 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 dates 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 rates of the debt component are 4.50% and 5.53% (2019: 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	**2020**	2019
Authorised:		
20,000,000,000 (2019: 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 (2019: 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

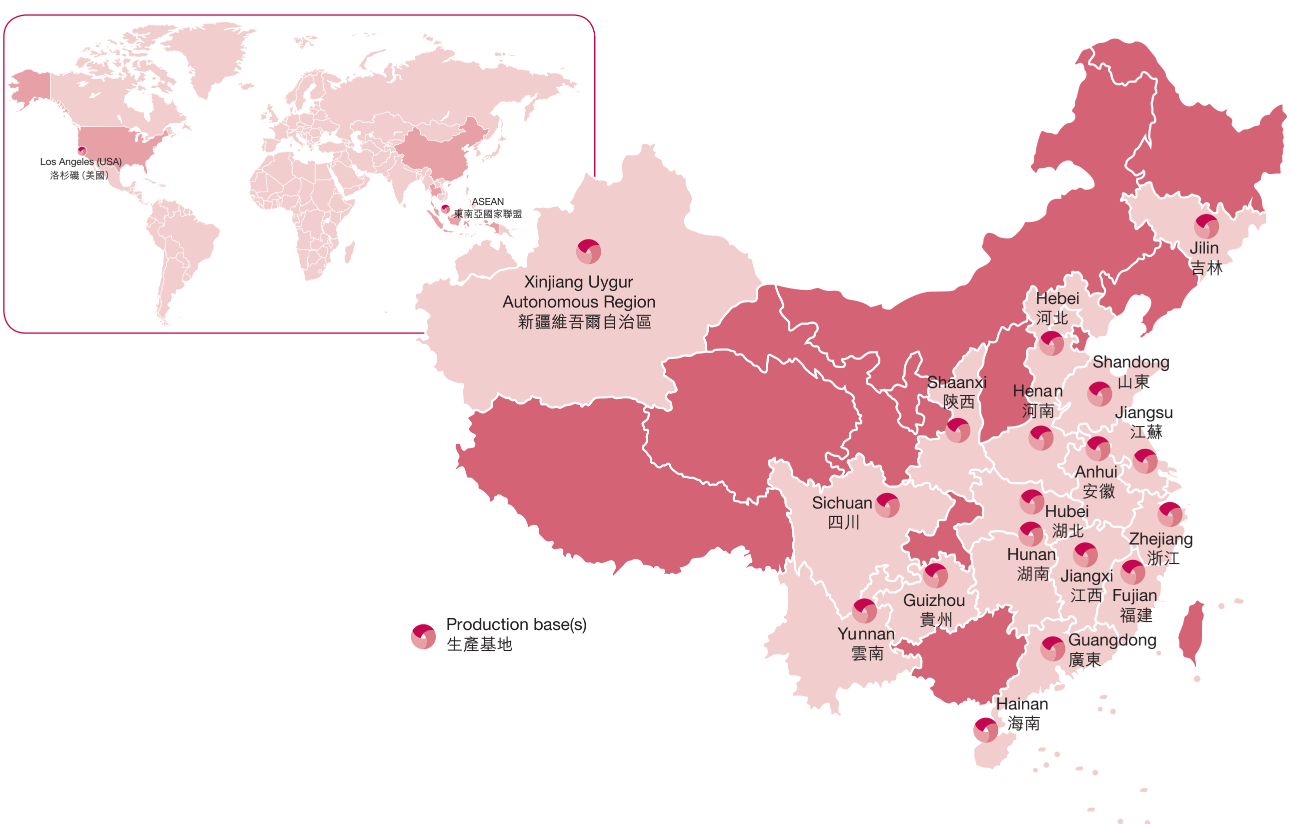
The Group had the following capital commitments at the end of the reporting period:

	2020	2019
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Property, plant and equipment and investment properties	**2,404,045**	738,811
Investment in a joint venture	**–**	23,520
	2,404,045	762,331

CORPORATE PROFILE

China Lesso Group Holdings Limited (Stock Code of Hong Kong Stock Exchange: 2128) is a leading large-scale industrial group that manufactures building materials and interior decoration products in mainland China. China Lesso is one of the constituent stocks of the Hang Seng Composite MidCap Index and is a stock eligible for trading through the Hong Kong Stock Exchange's Stock Connect. In addition, China Lesso was officially made a constituent stock of MSCI China index in November 2019. After more than 30 years of rapid development, the Group has evolved into a leader in the industry of building materials and interior decoration products. It provides highquality products and services such as plastic piping, building materials and interior decoration, environmental protection, and operates a supply chain service platform.

Currently, the Group has established over 30 advanced production bases in 18 provinces of China and in foreign countries. The Group has established a nationwide sales network and has also developed longterm strategic partnerships with 2,397 independent and exclusive first-tier distributors that enable timely and efficient supply of comprehensive, quality products and professional services to customers. As an integrated manufacturer of a comprehensive range of building materials and interior decoration products, China Lesso provides over 10,000 types of quality products, which are widely applied to such fields as interior decoration, civil architecture, municipal water supply, drainage, electric power transmission, telecommunication, gas supply, fire services, environmental protection, agriculture and marine aquaculture.



CHAIRMAN'S STATEMENT

The year 2020 was marked by extraordinary circumstances for the world. The outbreak of the novel coronavirus pneumonia ("COVID-19") at the beginning of the year severely damaged the global economy and affected society profoundly. However, China recorded a V-shaped economic recovery in the second quarter and became the only major economy in the world to have achieved growth despite the difficulties and challenges. Furthermore, the country steadfastly upheld the principle that "houses are for living in, not for speculation" in its policy on the domestic property market even though the pandemic had dampened the economy. The state continued its "City-specific Policy" on the regulation of the property market with precision as it aimed to stabilise the market. Since the second half of the year, the authorities have continuously stepped up their regulation on the financing of the real estate sector. As a result, in the case of many cities with unstable prices for properties and lands, the local authorities have successively stepped up a series of regulatory policies in an effort to restore the property market to normal. Meanwhile, the central government also tried to restore the national economy to normal quickly in the aftermath of the pandemic outbreak. It has introduced a series of economic stimulus policies, including those supporting the development of the "New Infrastructure, New Urbanisation Initiatives and Major Projects", which not only stimulate consumption and improve people's livelihood, but also form a part of the ongoing economic restructuring that can add impetus to the momentum of economic growth. The Chinese government was forging ahead with major projects such as those on new infrastructure, new urbanisation, transportation and hydraulic engineering with aim of unlocking the huge potential of the domestic demand that can boost economic growth in the long term. All these policies can contribute to continuous and steady growth in the pipeline industry and also favour the development of the industries of building materials and interior decoration products as they can generate stable demand.

As a leading large-scale industrial conglomerate that manufactures building materials and interior decoration products in mainland China, China Lesso capitalises on the Chinese government's favorable policies and the strong demand of the domestic market by fully developing all lines of its business. It had successfully entered the field of applications in agriculture in 2020. The Group also succeeded in overcoming the difficulties caused by the pandemic outbreak and global economic downturn as it made considerable progress in sales, market expansion and in terms of other key performance indicators during the year by leveraging its leading market position, excellent brand image, economies of scale, and high-quality products and professional services. The Group's revenue grew by 6.6% to RMB28,073 million in 2020 from RMB26,345 million in 2019. Gross profit rose by 11.2% to RMB8,384 million and profit attributable to owners of the Company increased by 24.0% to RMB3,751 million. 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 HK38 cents per share for the year ended 31 December 2020.

During the year, plastic piping systems remained the mainstay business and the major source of income of the Group. Despite the impact of the pandemic and the suspension of production in early 2020, the Group had made an all-out effort to resume business and production since March. As a result, its production capacity quickly returned to the pre-pandemic level and further improved in the following months. The Group continued to carry out technological innovation and actively developed new products and technologies to meet demand. During the year, it successfully began to mass-produce fiberglass reinforced thermoplastic pipes, which is expected to inject fresh momentum into future sales growth. In addition, the Group was driving the sales growth of its business by extending the scope of the application of its plastic pipes and pipe fittings, to expand its market and grow its market shares. During the reporting period, the Group actively expanded its business that served the agricultural sectors. It launched a variety of products that could be applied to various types of farming and deep-water aquaculture, thus widening the scope of its business and enriching its source of income. The Group is constantly looking for prospective business partners and will try to give full play to the synergies between itself and the business partners through multi-channel cooperation. This will enable the Group's own businesses to develop consistently and steadily.

In terms of production and business operation, the Group actively raised the levels of automated production and smart manufacturing and upgraded both the technology and equipment for production; it also implemented effective procurement strategies, seeking to keep the rising costs of raw materials and production in check so as to maximise the Group's economies of scale. In order to satisfy the huge demand in China and Southeast Asian markets, the Group will scale up its production step by step.

The COVID-19 outbreak in early 2020 almost brought economic activities to a standstill in China, thus dealing a heavy blow to the country's economy and real estate sector alike. During the reporting period, the central government adhered to the principle that "houses are for living in, not for speculation" in its policy on the property sector and forged ahead with new urbanisation and the restructuring of rural villages. As the pandemic gradually abated in the second quarter, the economy recovered gradually. This allowed the central and provincial governments to regulate the real estate sector with flexibility, which contributed to a rebound in property sales. According to the National Bureau of Statistics of China in 2020, sales of commodity properties increased by 8.7% to more than RMB17 trillion, which was a milestone, and rose by 2.6% in terms of gross floor area sold in the country in 2020, against a decline of 0.1% in 2019. These developments will foster the development of the industries of building materials and interior decoration products. The Group will strive to optimise its sales channels and product mix, further enhance its competitiveness, and satisfy customers' demand for high-quality building materials and interior decoration products. Benefiting from the state policy of expediting national development with "New Infrastructure, New Urbanisation Initiatives and Major Projects", the Group remains confident about the future development of its businesses of building materials and interior decoration products, and expects to achieve synergies between these businesses and its other businesses in the long term. This will lead to steady growth in the Group's overall business.

In recent years, the Chinese government has pursued a series of environmental policies 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 during the year to enhance its research and development capability. Through the creation of a value chain that covers both upstream and downstream businesses of the industry of the pipe and fittings products, the Group has endeavored to attain synergies between its environmental protection business and plastic piping system business in the long term. The Group seeks to establish itself as a provider of one-stop environmental services in China, creating a green lifestyle for residents and fulfilling its corporate social responsibility.

As to its supply chain service platform, the Group aims to establish a multinational platform for Chinese manufacturers of building materials, interior decoration products and consumer goods so as to help them display, distribute and retail their goods, mainly in the Southeast Asian market. At present, this business is still at an early stage of development. The Group will seize opportunities for development by building up the distribution network of its supply chain service platform in Southeast Asia as it aims to make the business a new growth driver in the long term.

All citizens and enterprises have worried about the havoc caused by COVID-19 in China. As a corporate citizen, the Group felt duty-bound to help fight the pandemic. Therefore, it aided hospitals across the country in the fight against the disease by promptly allocating and providing relevant resources and various types of pipe products in large batches required for the construction of emergency hospitals. In addition, the Group provided necessary construction materials for the existing hospitals which were being renovated or expanded. The Group gave full support to the people all over the country in their fight against the disease.

In 2021, although the pandemic has not yet been fully brought under control in the world and the global economy still faces severe challenges, the market generally expects the world's economy to rebound from the trough in 2020 and gradually improve because of the introduction of effective vaccines and the successful implementation of vaccination programmes. The prospect has boosted the global market's confidence. In fact, China's economy has recovered from the impact of the pandemic and resumed its uptrend. The outlook for China's economy in 2021 is far more optimistic than that for other economies. The momentum of China's economic growth is expected to continue. The Group will actively grasp the opportunities arising from the government policies that favor the development of the industries. We will expand our businesses of plastic piping systems, building materials and interior decoration products and environmental protection, and strive for synergies among the various business segments. These efforts can lead to sustainable growth in revenue. Looking ahead, the Group will continue to raise the levels of automated production and smart manufacturing and actively build up its production bases so that its production capacity can be increased to match its business expansion. The Group will also continue to increase investment in innovation, research and development, expand the scope of the application of its pipe systems and improve product quality with the aim of consolidating its leading position in the market.

The year 2021 is characterised by a lot of uncertainties and changes. The Group will have to rise to even bigger challenges of achieving growth in business. We will give full play to the advantages of our strong brand and extensive distributor network and proactively diversify our product lines so as to enhance our competitive strength. On the one hand, the Group will actively extend the scope of the application of its plastic pipes and pipe fittings and explore new market opportunities such as those in the agricultural sectors in order to expand its source of revenue and attain synergies between its various businesses in the long term. On the other hand, the Group will strive to develop the supply chain service platform business, open up new sources of revenue growth, and actively explore new overseas markets, laying a solid foundation for growth in revenue and profit. The Group has confidence in the prospect of its business and expects it to perform steadily in the future.

On behalf of the Board, I would like to express my heartfelt gratitude to our shareholders, management, all the staff members, business partners and customers for their support. The Group will continue to fulfil its mission to "improve the quality of urban life" by providing the market with high-quality, innovative building materials and interior decoration products. Furthermore, the Group will actively grasp the opportunities arising from the state policies and infrastructure construction to achieve rapid development and better business performance and create greater value for our customers, employees, shareholders and society at large. China Lesso is determined to scale new heights in the future!

Wong Luen Hei
Chairman of the Board
Hong Kong, 29 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

In 2020, the Chinese and global economies were hammered by the novel coronavirus pneumonia ("COVID-19") pandemic, resulting in a buildup and exposure of various risks, and the severe imbalance of global development. Despite the raging pandemic and the unstable trade relations between China and the United States, China has demonstrated its resilience and underlying security, underpinning its strong economic recovery. According to data released by the National Bureau of Statistics of China, China's Gross Domestic Product (GDP) exceeded RMB100 trillion for the first time in 2020 and hit RMB101.6 trillion, up 2.3% year-on-year. Although the growth rate reached the lowest level in 40 years, China was the only major economy in the world that has achieved positive economic growth in 2020.

As the pandemic gradually came under control in the second quarter, the whole country of China actively promoted the resumption of work and production activities, and the government launched a series of economic stimulus policies to ensure that domestic economic activities could gradually return to the normal level. In addition, in order to further boost macroeconomic growth after the COVID-19 outbreak in 2020, the Chinese government proposed the unprecedented development initiative of "New Infrastructure, New Urbanisation Initiatives and Major Projects", which was regarded as one of the important domestic economic policies, focusing on the promotion of important engineering construction including new infrastructure, new urbanisation, transportation and water conservancy, seeking to boost the declining economy through infrastructure construction. With the overall acceleration of investment in the "New Infrastructure, New Urbanisation Initiatives and Major Projects", large-scale key infrastructure projects have started intensively across the country, keeping related industries in a high boom and creating favourable conditions for urban infrastructure development. It is expected that the pipeline industry will continue to grow steadily.

In addition, the Chinese government adopted the "CPC Central Committee's Proposals for Formulating the 14th Five-Year Plan (2021-2025) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035" in 2020. Many local governments began to tighten up regulation on the property market, and the introduction of new regulatory regulations such as "Three Red Lines" prompted major real estate companies to proactively reduce financial leverage. In order to ease the financial pressure, real estate developers ramped up efforts to make promotional activities in sales of properties, which led to strong sales growth in "Golden September and Silver October".

As the COVID-19 pandemic was gradually brought under control in China in the first half of the year, various real estate activities were resumed, the pent-up demand was released, the commercial housing sales market recovered rapidly, and the real estate market recovered faster than expected. Going forward, the Government will uphold the positioning of "Houses are for living in, not for speculation" and the principle of adopting "City-specific Policies" for the real estate market. Under the guidance of policies such as "promoting the balanced development of finance, real estate and the real economy" and "promoting the healthy development of housing consumption" in the "14th Five-Year Plan", the property market will undergo a shift toward the true purpose of properties — that is, places built for people to live in — at an accelerating pace. The real estate industry is expected to grow at a faster pace, which will certainly bring a stable demand to the building materials and interior decoration products industry.

BUSINESS OVERVIEW

The year 2020 marked the 10th anniversary of China Lesso's listing on the Hong Kong Stock Exchange, an important milestone in our development history. Along the way, the Group has always adhered to the strategy of creating a relaxing life for dwellers, without changing its original intention on its road of development. With clear corporate development plans and goals, we have been constantly seeking innovations and changes in the ever-changing market environment and achieving rapid growth, thereby establishing China Lesso as a market leader. In the past year, China Lesso strived to improving its brand image and reputation as well. In terms of creative marketing, research and development ("R&D") and innovation, and industry demonstrations, the Group has won the praise and recognition from peer companies and outsiders alike. It was listed again as a "Hurun China 500 Most Valuable Private Enterprise", included in the "China's Top 500 Companies in Terms of Brand Value" for seven consecutive years, and won the "Science and Technology Innovation Advanced Enterprise of 2019 in Shunde District" and "Preferred Brand of Pipes and Fittings for Top 500 Development Enterprises" awards, the "First Prize of Science and Technology Progress Award of 2019 in Guangdong Province", the title of "Guangdong Province's Outstanding Private Enterprise with Contribution to the Fighting of COVID-19 Pandemic" and many other industry accolades, demonstrating its brand strength and leading market position.

In response to the state's call for tackling climate change, China Lesso has formulated effective countermeasures, improved environmental management, practiced environment-friendly operations, enhanced corporate energy management, strictly controlled waste emissions, and developed environmental protection industries, thus contributing to the alleviation of effects caused by climate change and promoting the creation of a healthier lifestyle.

During production and business operations, the Group always adheres to the philosophy of green development, strictly implements all-round and full-process environmental management, and reduces resource consumption through effective energy management, thermal management and the development of renewable energy. Furthermore, it strictly controls the pollution generated in the production process, develops a comprehensive environmental management system, implements environmental monitoring on a comprehensive scale, ensures that the discharge of pollutants meets the requirements of relevant laws and regulations through clean production, reducing the impact of business production and operations on the environment, and promoting the development of green economy. The Group also uses new technologies to reduce exhaust pollution.

The Group dedicated to promote green offices, incorporates environmental protection into routine office work, actively promotes paperless offices, and advocates best practices to reduce the use of office supplies, effectively improving the efficiency of resource utilisation, and creating the harmonious and symbiotic environment for the enterprise development through green operation.

The table below sets out the breakdown of revenue by region for 2020 and 2019:

Region[#]	Revenue 2020 RMB million	Revenue 2019 RMB million	Change	% of total revenue 2020	% of total revenue 2019
Southern China	**15,215**	14,180	*7.3%*	**54.2%**	53.8%
Southwestern China	**2,860**	2,627	*8.9%*	**10.2%**	10.0%
Central China	**3,009**	3,090	*(2.6%)*	**10.7%**	11.7%
Eastern China	**1,885**	1,558	*21.0%*	**6.7%**	5.9%
Northern China	**2,133**	1,972	*8.2%*	**7.6%**	7.5%
Northwestern China	**1,425**	1,263	*12.8%*	**5.1%**	4.8%
Northeastern China	**757**	700	*8.2%*	**2.7%**	2.7%
Outside China	**789**	955	*(17.3%)*	**2.8%**	3.6%
Total	**28,073**	26,345	*6.6%*	**100.0%**	100.0%

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

For the year ended 31 December 2020, the number of the Group's independent and exclusive first-tier distributors across the country increased to 2,397 (2019: 2,276). Southern China remained the Group's major revenue-contributing market, whose revenue accounted for 54.2% of the Group's total revenue (2019: 53.8%), while the revenue from other regions accounted for 45.8% (2019: 46.2%).

The table below sets out the breakdown of revenue by business unit for 2020 and 2019:

	Revenue 2020 RMB million	Revenue 2019 RMB million	Change	% of total revenue 2020	% of total revenue 2019
Plastic piping systems	**24,512**	23,709	*3.4%*	**87.3%**	90.0%
Building materials and interior decoration products	**1,997**	1,519	*31.5%*	**7.1%**	5.8%
Others[#]	**1,564**	1,117	*40.1%*	**5.6%**	4.2%
Total	**28,073**	26,345	*6.6%*	**100.0%**	100.0%

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

Despite the outbreak of COVID-19 pandemic, the Group has always been actively overcoming the negative impact brought by the pandemic. Under the premise of taking preventive measures, it has continuously and steadily promoted the resumption of work and production activities since March, so as to capture market opportunities after the pandemic. While steadily upgrading the core business of plastic piping systems, it also actively expands business in other sectors, including building materials and interior decoration products, environmental protection, agriculture and supply chain service platform businesses, in order to achieve diversified development and simultaneous advancement, therefore broadening the Group's revenue base.

The revenue of the Group increased by 6.6% to RMB28,073 million (2019: RMB26,345 million). Benefited from the Group's economies of scale, actively advancing production automation and implementing an effective procurement strategy, its gross profit increased by 11.2% to RMB8,384 million (2019: RMB7,537 million), and gross profit margin further improved to 29.9% (2019: 28.6%), and the net profit margin rose to 13.4% (2019: 11.5%).

With a view to maximising the benefits of economies of scale, the Group formulated and implemented effective procurement strategies and it actively promoted automated production, thereby effectively reducing the pressure caused by the rising costs of raw materials and production. In addition, the Group promoted sustainable business development and maintained its profitability at a healthy level by enhancing its operating efficiency, optimising its product mix and increasing its market share.

During the reporting period, the Group's EBITDA increased by 11.5% to RMB6,195 million (2019: RMB5,556 million), and the EBITDA margin was 22.1% (2019: 21.1%). Profit before tax increased by 19.4% to RMB4,754 million (2019: RMB3,982 million). Profit attributable to owners of the Company increased by 24.0% to RMB3,751 million (2019: RMB3,025 million). Basic earnings per share increased by 24.5% to RMB1.22 (2019: RMB0.98). The effective tax rate was reduced to 21.0% (2019: 23.9%).

BUSINESS REVIEW AND OUTLOOK

Plastic Piping Systems

COVID-19 broke out and spread rapidly across China in early 2020. In response to the outbreak, the state carried out a number of emergency hospital construction projects, and assisted hospitals across the country to build anti-pandemic facilities in the fight against the pandemic. While prompt responding to the challenges posed by the pandemic, the Group has allocated resources promptly to fully support the national emergency plan to cope with the situation and provided a variety of suitable pipe products for the construction of emergency hospitals as well as construction materials for further renovation and expansion of existing hospitals.

The table below sets out the breakdown of revenue from plastic piping systems by region for 2020 and 2019:

	Revenue			% of revenue	
	2020	2019		**2020**	2019
Region	***RMB million***	*RMB million*	Change		
Southern China	**12,994**	12,658	*2.7%*	**53.0%**	53.4%
Other than Southern China	**11,084**	10,563	*4.9%*	**45.2%**	44.5%
Outside China	**434**	488	*(11.1%)*	**1.8%**	2.1%
Total	**24,512**	23,709	*3.4%*	**100.0%**	100.0%

The table below sets out the breakdown of revenue from plastic piping systems business by the application of the products for 2020 and 2019:

	Revenue			% of revenue	
	2020	2019		**2020**	2019
	RMB million	*RMB million*	Change		
Water supply	**9,458**	9,228	*2.5%*	**38.6%**	38.9%
Drainage	**9,322**	8,966	*4.0%*	**38.0%**	37.8%
Power supply and telecommunications	**4,207**	4,126	*2.0%*	**17.2%**	17.4%
Gas transmission	**418**	383	*9.2%*	**1.7%**	1.6%
Others#	**1,107**	1,006	*10.1%*	**4.5%**	4.3%
Total	**24,512**	23,709	*3.4%*	**100.0%**	100.0%

“Others” include agricultural applications, floor heating and fire services.

The production capacity of the Group was adversely affected by the pandemic in the first quarter. Fortunately, the pandemic was gradually brought under control in the second quarter. By actively capturing the development opportunities created by China’s “New Infrastructure” strategy and striving to catch up with the production plans, the Group’s production bases across the country have successively resumed work and production, and started production at full speed. During the reporting period, the Group not only successfully restored its production capacity to the pre-pandemic level, but also achieved a further increase in its production capacity. The Group’s annual designed capacity for manufacturing plastic piping systems expanded from 2.78 million tonnes in 2019 to 3.03 million tonnes, and the capacity utilisation rate during the period reached 87.9%.

For the year ended 31 December 2020, the plastic piping system business has achieved stable growth, with revenue increased by 3.4% to RMB24,512 million (2019: RMB23,709 million), accounting for 87.3% of the total revenue of the Group (2019: 90.0%).

The table below sets out the breakdown of average selling price, sales volume and revenue from plastic piping systems business by product material for 2020 and 2019:

	Average selling price			Sales volume			Revenue		
	2020	2019		**2020**	2019		**2020**	2019	
	RMB	*RMB*	Change	***Tonne***	*Tonne*	Change	***RMB million***	*RMB million*	Change
PVC products	**7,781**	8,116	*(4.1%)*	**1,957,868**	1,817,179	*7.7%*	**15,234**	14,748	*3.3%*
Non-PVC products#	**14,250**	15,431	*(7.7%)*	**651,090**	580,685	*12.1%*	**9,278**	8,961	*3.5%*
Total	**9,395**	9,887	*(5.0%)*	**2,608,958**	2,397,864	*8.8%*	**24,512**	23,709	*3.4%*

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

During the reporting period, sales volume of plastic piping systems increased by 8.8%. In terms of product materials, sales volume of PVC products increased by 7.7% to 1,957,868 tonnes (2019: 1,817,179 tonnes), while that of non-PVC products increased by 12.1% to 651,090 tonnes (2019: 580,685 tonnes). Revenue from sales of PVC products and non-PVC products increased by 3.3% to RMB15,234 million (2019: RMB14,748 million) and 3.5% to RMB9,278 million (2019: RMB8,961 million) respectively.

During the reporting period, the flexible pricing policy adopted by the Group was fully executed. The bulk purchases policy enables the Group to secure raw materials at lower prices and better quality, allowing the Group to effectively control the costs of raw materials and production, so that the gross profit margin maintained at a reasonable and stable level. The Group reduced the average selling price of its plastic piping system by 5.0% during the year to RMB9,395 per tonne (2019: RMB9,887 per tonne).The gross profit margin of its plastic piping system business reached 30.2% (2019: 28.9%).

In 2020, the Group focused on accelerating the construction of production bases, improving the national strategic planning, and actively increasing production capacity through in-depth intelligent manufacturing transformation, so as to gain a foothold in the “New Infrastructure” market. In December, the Group’s production bases in Fujian and Jiangxi officially commenced operation, contributing to the Group’s acceleration of the output of production capacity. The Group will make full use of the new production bases in Jiangxi and Fujian, rapidly grow its share of the local markets, and bring more items to the Group’s entire product range. In addition, the construction of second-phase projects of production bases in Hunan, Henan, and Yunnan has also been accelerated. In the future, the Group will continue to expand its production base layout and plans by building new production bases in Guangxi and Gansu provinces; for overseas operations, the Group will focus on Southeast Asian countries such as Thailand and Cambodia to speed up the construction of manufacturing and R&D bases, so as to realise its international strategic layout. The Group will also identify targets for any potential acquisitions in the market to support capacity expansion.

The Group firmly believes that through management and technological innovation, it can continuously inject momentum into business development. In 2021, the Group will continue to implement automation transformation, introduce high-precision equipment, enhance production automation, intelligent operation and product optimisation, so as to improve production and operation efficiency and ensure that the production capacity fulfill sales targets. In addition, the Group has always attached great importance to scientific and technological R&D. In the future, it will continue to increase its investment in R&D and improve its technological innovation capabilities. This will not only enhance the Group's core competitiveness, but also consolidate its leading position in the market. At the same time, the Group put great emphasis to the cultivation of talents, performs well in the succession plan of talents, and builds a platform for the development of employees to boost the Group's management level.

In order to keep abreast of market trends, the Group continues to develop new products and new technologies to meet market needs. As early as 2017, China Lesso started research on manufacturing and industrialisation of fiberglass reinforced thermoplastic pipes ("RTP fiberglass pipes"). After several years of R&D, the Group has successfully achieved mass production of RTP fiberglass pipes in 2020, and the products were officially released in October. The new RTP fiberglass pipes are suitable for oil and gas gathering and transportation, high-pressure alcohol injection, oil field water injection, sewage treatment and other systems in the oil and gas industry. The successful launch of RTP fiberglass pipes production will diversify the product categories of existing plastic pipes and open up a new business line for the Group. In addition, the Group also launched fresh air duct and stainless steel pipe products, which contributed to the integrity and balance of the Group's development in the pipeline industry, creating a complementarity to the Group's leading position in the domestic pipeline industry. In 2021, the Group will speed up the new products development and cooperate with marketing departments to carry out promotion work.

As a market leader, the Group is committed to broadening the scope of applications of plastic piping systems in all aspects. In view of the huge market demand in the agricultural sector, the Group actively expanded business in this sector and further extended the scope of the main business and application areas of plastic pipes to releases its market potential. After more than a year of development, the Group's agricultural business currently covers a broad range of segments, including facility agriculture, marine aquaculture, and flower planting. Through in-depth R&D work, the Group successfully launched products for emerging market such as agriculture and deep-water aquaculture, further enriching its income sources. In January 2020, China Lesso and Guangdong Academy of Agricultural Sciences signed a strategic cooperation agreement to jointly establish Lesso Modern Agriculture Research Institute to carry out technological innovation and full-process technical services, and to provide comprehensive policies and plans for the Group's development of modern agriculture. In the future, the Group will vigorously diversify the agricultural business, ramp up investment in agricultural facilities, and strive to create an integrated industrial value chain of modern agriculture in China that encompasses modern agricultural facility engineering, water-saving irrigation systems, cage farming, family leisure agriculture and the planting of flower and fruits. Backed up by science and technology to serve agricultural reforms, the Group will contribute to the promotion of rural revitalisation, and turn into the fast lane of agricultural development.

Under the implementation of the "New Infrastructure, New Urbanisation Initiatives and Major Projects" in China, the Group has been actively seizing the development opportunities in the market of plastic pipes and pipe fittings. Leveraging its strong competitiveness, extensive market coverage, quality products and service capabilities, after its success in winning a tender of the construction of Xiongan Civic Center project, the Group once again won the tender for the Pipe Gallery project in Xiongan New Area, aiming to provide green and efficient urban smart pipe gallery solutions and products with "Xiongan Quality", and establish a national exemplary project called "Xiongan Model". The Group also participated in the municipal road project in the Sanyuan High-tech Zone in Shaanxi, providing strong support for the construction of the underground pipeline network in the area. As for the project in Washixia Town, Ruoqiang County, Xinjiang, the Group's first large-scale heating project in the northwest region, the Group provided pipeline products to effectively support the smooth progress of the construction of the project, and escort the construction and transformation of the secondary pipe network for central heating.

The Group signed strategic cooperation framework agreements with various branches of national bureaus during the year to unite efforts for national construction and jointly make greater contributions to the promotion of urban development. In addition, the Group is seeking prospective partners in a bid to further consolidate its market leadership. During the year, it has established strategic partnerships with a number of private enterprises to promote diversified cooperation, give full play to brand synergies, and create mutual benefits and a win-win situation.

The Group will actively expand overseas markets with a focus on the Southeast Asian markets, so as to tap the huge local demand of the region's market and capitalise on the local infrastructure development. In order to further enhance the competitiveness and influence of China Lesso in overseas markets, the Group is committed to scaling up overseas production. The Group's existing production base in Indonesia has been in operation, and the construction of another production base is currently underway. The production base in Cambodia is also under planning. In conclusion, the Group will speed up the development of production bases in overseas markets such as Thailand and the Philippines to seize the opportunities of the Belt and Road Initiative. Overall, the management is fully confident about the future development of the plastic piping system business and believes that it will continue to perform well.

Building Materials and Interior Decoration Products

Due to the COVID-19 pandemic in the first half of 2020, property sales in China market were severely affected. With the gradual easing of the domestic pandemic and the more flexible implementation of "City-specific Policies" by local governments, the pent-up demand for housing properties has been effectively unlocked, and the real estate market has gradually recovered, which has brought stable demand for the industry of building materials and interior decoration products. Furthermore, the Group is committed to optimising sales channels and actively capturing the business opportunities arising from the real estate sector's shift towards the bulk purchasing model. After more than a year of practice, satisfactory results have been achieved. In an effort to boost the growth of its businesses of building materials and interior decoration products, the Group also launched prefabricated building products and construction equipment during the year, which not only conform to the general trend toward building assembly, but also embody the concept of environmental protection and reduction of construction waste. These efforts reflected the Group's pursue of green development and fulfillment of its social responsibilities. In August 2020, the Group launched a smart home production project in Shandong, marking an acceleration in the application of the new-generation of information technology in the home furnishing industry, and injecting new impetus into China Lesso's in-depth development in the smart home market. The project will introduce the world's leading automated production line and an intelligent system of supporting software management to build an industry-leading high-end home furnishing and wood industry factory. Upon the completion of the factory, it will be capable of producing 600,000 sets of high-end smart home furnishing products annually, which will help the Group to gain more market share in the smart home segment. During the reporting period, the Group's building materials and interior decoration products business recorded revenue of RMB1,997 million, accounting for 7.1% of the Group's total revenue. In 2021, with the primary goal of seizing the market, the Group will timely adjust the price of building materials and interior decoration products to keep pace with the market. The Group will continue to strengthen its partnerships with large real estate developers while actively consolidating its relation with existing customers. It will provide a diverse range of products and high-quality services to boost sales revenue. Benefiting from the key construction policies for the initiative of "New Infrastructure, New Urbanisation Initiatives and Major Projects"and the on-going progress of China's new model of urbanisation, the Group is expected to further enhance synergies between its businesses of building materials and interior decoration products and other business segments, and drive the steady development of this business sector.

Others

Environmental Protection Business

The Chinese government has issued a series of environmental protection policies in recent years to support the development of the environmental protection industry. In view of this, the Group actively responded to the government's call for environmental protection, and vigorously develops the environmental protection business segment, which covers consulting, design, operation and maintenance, engineering management, environmental protection testing, and hazardous solid waste treatment. The Group has achieved long-term synergies between the environmental protection business and plastic pipe system business, benefitting from the growing demand for plastic pipes and pipe fittings from municipal projects in different fields. During the reporting period, this environmental protection business delivered a revenue of RMB354 million. The Group made preparations to establish hazardous solid waste treatment centers in Heshan and Yunfu, Guangdong, to further consolidate and expand its market share. The Group will strive to be innovative, pragmatic and enterprising, and continue to invest in R&D. While maintaining the steady development of its existing environmental protection business, the Group is committed to expanding the hazardous solid waste treatment business. Furthermore, the Group will explore opportunities for mergers and acquisitions to provide new impetus for future growth drivers.

Supply Chain Service Platform Business

In line with the Chinese government's "Belt and Road Initiative", the Group has extended its footprint of the supply chain service platform business for "One-Stop Specialty Market for Home Furnishing and Consumer Products" to overseas markets, with its focus on the Southeast Asian market. The Group has established a multinational platform for manufacturers of home furnishings, building materials and consumer goods in China to showcase their products and promote product distribution and retail, and provide ancillary services such as marketing, branding, e-commerce needs, consulting, and formulating development plans. As the supply chain service platform business is still at early stage of development, during the reporting period, the revenue from this business was RMB689 million. In the future, the Group will further boost the distribution network for its supply chain service platform business in Southeast Asia and seize development opportunities. The Group strives to make the supply chain service platform business become a new growth driver for the long-term development of the Group.

CAPITAL EXPENDITURE

During the reporting period, the Group's capital expenditure was approximately RMB2,740 million, which was primarily used for improvement of automated facilities in production bases, expansion of the existing production bases, acquisition of industrial land in Jiangxi, construction of certain investment properties 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.

At the end of the reporting period, the Group had total debts (i.e. borrowings, lease liabilities and debt component of convertible loans) of RMB16,236 million, of which 47.0% was denominated in US dollar, 25.1% was denominated in HK dollar, 22.2% was denominated in RMB, 4.7% was denominated in Australian dollar, 0.8% was denominated in Canadian dollar and 0.2% was denominated in other currencies. Other than the outstanding convertible loans of approximately US$96 million at effective interest rates of 4.50% and 5.53% per annum and due in 2022, the Group's borrowings are subject to effective interest rates ranging from 1.08% 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 44.4%.

At the end of the reporting period, the Group's total equity increased to RMB20,354 million. The Group's current assets and current liabilities were RMB19,669 million and RMB16,058 million respectively. The Group's Current Ratio and Quick Ratio increased to 1.22 and 0.91 from 0.86 and 0.67 as at 31 December 2019, respectively.

The Board believes the Group will be able to continue to generate positive cash flows from its operations. With cash and bank deposits, including restricted cash, of RMB7,447 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

At the end of the reporting period, the secured bank loans are secured by leasehold lands and buildings of subsidiaries, machineries and equipment of a subsidiary, investment property 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

At the end of the reporting period, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES

At the end of the reporting period, the Group employed a total of approximately 16,300 employees including directors. Total staff costs were RMB1,373 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

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. During the reporting period, Xingfa Aluminium recorded a revenue of RMB11,887 million, and profit attributable to the shareholders of Xingfa Aluminium was RMB765 million.

Investment Properties

At the end of the reporting period, the Group's investment properties were RMB6,974 million. Increase in investment properties was mainly attributable to the capitalisation of construction costs on certain investment properties under development and the translation difference during the reporting period.

Among these investment properties, the properties in Toronto, Canada, Long Island, US and Auburn district of Sydney are existing properties; the construction of first-phase projects in Thailand, Myanmar and Indonesia have completed; and other properties are under rezoning or at the planning stage of development.

Financial Investments

As at 31 December 2020, the Group held long-term and short-term financial investments of approximately RMB2,681 million (2019: RMB1,771 million) and RMB25 million (2019: RMB8 million), respectively. The investment portfolio comprised of 77.4% in listed equity securities (issued by PRC-based companies of: home improvement and furnishings shopping malls operating, battery technology, chemical and property management), 2.0% in listed debt securities, 0.7% in stock funds and 19.9% 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 2020.

During the reporting period, the Group recognised a realised disposal gain of approximately RMB9 million, unrealised mark-to-market valuation gain of approximately RMB344 million due to volatility of the global capital market and recognised approximately RMB45 million of exchange loss on translation. Income from the portfolio amounted to approximately RMB65 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.

Save as disclosed above, the Group did not have any significant investments at the end of the reporting period.

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 2020.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year that will be contained in the annual report. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the reporting period.

CHANGES IN DIRECTOR'S BIOGRAPHICAL DETAILS UNDER RULE 13.51B(1) OF THE LISTING RULES

Dr. Lin Shaoquan was appointed as an executive director of WIIK Public Company Limited (stock code: WIIK), which is listed on the Stock Exchange of Thailand with effect from 27 November 2020.

Mr. Cheng Dickson was appointed as an independent director of Magnum Opus Acquisition Limited (Ticker: OPA.U), which is listed on the New York Stock Exchange with effect from 23 March 2021.

Save as disclosed above, there is no other change in the Directors' biographical details which is required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules since the date of the 2020 interim report of the Company.

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK38 cents per share for the year ended 31 December 2020 (the "Proposed Final Dividend") to the Shareholders whose names appear on the register of members of the Company on Friday, 25 June 2021, subject to the Shareholders' approval at the forthcoming annual general meeting of the Company to be held on Tuesday, 15 June 2021 (the "2021 AGM"). It is expected that the Proposed Final Dividend will be paid on Monday, 19 July 2021.

Including the interim dividend of HK12 cents per share (2019: HK12 cents per share) for the six months ended 30 June 2020 which was paid to the Shareholders on 28 September 2020, the total dividend for 2020 amounts to a total of HK50 cents per share (2019: HK40 cents per share), which represents a payout ratio of 34.8% (2019: 36.8%) of the profit attributable to the Shareholders for the year ended 31 December 2020.

CLOSURE OF REGISTER OF MEMBERS

(A) For Determining the Entitlement to Attend and Vote at the 2021 AGM

The register of members of the Company will be closed from Thursday, 10 June 2021 to Tuesday, 15 June 2021, 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 2021 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 Wednesday, 9 June 2021.

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

The register of members of the Company will be closed from Wednesday, 23 June 2021 to Friday, 25 June 2021, 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 Tuesday, 22 June 2021.

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 2020 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, 29 March 2021

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, Ms. Lan Fang, Dr. Tao Zhigang, Mr. Cheng Dickson and Ms. Lu Jiandong.

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.