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LESSO 联塑

CHINA LESSO GROUP HOLDINGS LIMITED

中國聯塑集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2128)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

The Board is pleased to announce the consolidated financial results of the Group for the six months ended 30 June 2021.

HIGHLIGHTS

Compared to the financial results for the six months ended 30 June 2020:

- Revenue increased by 28.1% to RMB14,723 million
- Gross profit increased by 29.4% to RMB4,374 million
- Profit for the period increased by 28.3% to RMB1,779 million
- Basic earnings per share was RMB0.59, increased by 31.1%
- An interim dividend of HK12 cents per share is declared for the six months ended 30 June 2021

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

Six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	3	14,723,265	11,491,884
Cost of sales		(10,349,464)	(8,112,185)
		<hr/>	<hr/>
Gross profit		4,373,801	3,379,699
Other revenue, income and gains	3	368,691	197,122
Selling and distribution expenses		(661,499)	(497,124)
Administrative expenses		(794,885)	(607,223)
Impairment losses on financial and contract assets		(88,075)	(13,637)
Other expenses		(804,860)	(543,145)
Finance costs	4	(256,045)	(246,195)
Share of results of associates		122,180	49,153
Share of result of a joint venture		782	956
		<hr/>	<hr/>
PROFIT BEFORE TAX	5	2,260,090	1,719,606
Income tax expense	6	(480,881)	(333,249)
		<hr/>	<hr/>
PROFIT FOR THE PERIOD		1,779,209	1,386,357
		<hr/> <hr/>	<hr/> <hr/>
OTHER COMPREHENSIVE INCOME/ (EXPENSE)			
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of debt instruments at fair value through other comprehensive income		1,187	26,434
Share of other comprehensive income of an associate, net of tax		3,891	12,800
Exchange differences on translation of foreign operations		(246,825)	26,062
		<hr/>	<hr/>
		(241,747)	65,296
		<hr/>	<hr/>

	Six months ended 30 June	
	2021	2020
<i>Note</i>	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Items that will not be reclassified to profit or loss:		
Changes in fair value of equity instruments at fair value through other comprehensive income	<u>63,541</u>	<u>(73,792)</u>
OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD	<u>(178,206)</u>	<u>(8,496)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>1,601,003</u>	<u>1,377,861</u>
Profit for the period attributable to:		
Owners of the Company	<u>1,814,284</u>	<u>1,388,017</u>
Non-controlling interests	<u>(35,075)</u>	<u>(1,660)</u>
	<u>1,779,209</u>	<u>1,386,357</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	<u>1,666,229</u>	<u>1,335,201</u>
Non-controlling interests	<u>(65,226)</u>	<u>42,660</u>
	<u>1,601,003</u>	<u>1,377,861</u>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Basic and diluted	<u>8</u> <u>RMB0.59</u>	<u>RMB0.45</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		30 June 2021	31 December 2020
	<i>Note</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		11,049,125	9,900,108
Right-of-use assets		2,131,187	2,036,052
Investment properties		6,994,014	6,973,570
Deposits paid for the purchase of land, property, plant and equipment		1,571,803	1,599,016
Goodwill		452,192	381,408
Other intangible assets		434,942	380,929
Interests in associates		2,599,119	2,395,177
Interest in a joint venture		12,305	11,523
Other financial assets	9	2,366,937	2,681,006
Loan receivables	10	112,921	139,584
Other non-current assets		185,503	122,299
Contract assets		76,323	78,411
Deferred tax assets		168,464	159,888
		<hr/>	<hr/>
Total non-current assets		28,154,835	26,858,971
CURRENT ASSETS			
Inventories	11	6,816,003	5,126,847
Contract assets		472,931	469,541
Other financial assets	9	53,590	24,915
Loan receivables	10	1,347,177	875,066
Trade and bills receivables	12	4,405,937	3,850,194
Prepayments, deposits and other receivables		2,679,856	1,874,592
Cash and bank deposits		8,285,964	7,447,436
		<hr/>	<hr/>
Total current assets		24,061,458	19,668,591
CURRENT LIABILITIES			
Contract liabilities		2,864,108	1,528,934
Trade and bills payables	13	5,272,523	5,678,208
Other payables and accruals		2,252,072	1,100,218
Tax payable		267,530	322,283
Borrowings	14	9,259,523	7,364,331
Convertible loans	15	376,571	–
Lease liabilities		47,800	53,448
Other financial liabilities		11,410	10,960
		<hr/>	<hr/>
Total current liabilities		20,351,537	16,058,382

		30 June 2021	31 December 2020
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
NET CURRENT ASSETS		3,709,921	3,610,209
TOTAL ASSETS LESS CURRENT LIABILITIES		31,864,756	30,469,180
NON-CURRENT LIABILITIES			
Borrowings	<i>14</i>	8,919,087	8,082,154
Convertible loans	<i>15</i>	250,483	627,362
Lease liabilities		123,162	108,868
Other long-term payables		17,891	16,953
Other financial liabilities		67,177	70,266
Deferred tax liabilities		1,109,204	991,518
Deferred income		234,866	217,937
Total non-current liabilities		10,721,870	10,115,058
Net assets		21,142,886	20,354,122
EQUITY			
Share capital	<i>16</i>	135,344	135,344
Reserves		20,400,698	19,705,783
Equity attributable to owners of the Company		20,536,042	19,841,127
Non-controlling interests		606,844	512,995
Total equity		21,142,886	20,354,122

Note:

1.1 BASIS OF PREPARATION

These condensed consolidated financial statements of the Group for the six months ended 30 June 2021 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. They have been prepared under the historical cost convention, except for investment properties, other financial assets and other financial liabilities which have been measured at fair value. These condensed consolidated financial statements are presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these condensed consolidated financial statements are the same as those used in the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) as disclosed in note 1.2 below.

These condensed consolidated financial statements do not include all information and disclosures required in the Group’s annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2020.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current period’s condensed consolidated financial statements.

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

The application of these revised standards in the current period has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2. OPERATING SEGMENT INFORMATION

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

- (i) Southern China, including Guangdong Province, Guangxi Zhuang Autonomous Region, Hunan Province, Fujian Province and Hainan Province;
- (ii) Southwestern China, including Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province and Xizang (Tibet) Autonomous Region;
- (iii) Central China, including Hubei Province, Jiangxi Province and Henan Province;
- (iv) Eastern China, including Shanghai Municipality, Jiangsu Province, Zhejiang Province and Anhui Province;
- (v) Northern China, including Beijing Municipality, Tianjin Municipality, Hebei Province, Shandong Province, Inner Mongolia Autonomous Region and Shanxi Province;
- (vi) Northwestern China, including Shaanxi Province, Ningxia Hui Autonomous Region, Qinghai Province, Gansu Province and Xinjiang Uygur Autonomous Region;
- (vii) Northeastern China, including Liaoning Province, Jilin Province and Heilongjiang Province; and
- (viii) Outside China.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, changes in fair value of investment properties, changes in fair value of financial instruments at FVTPL, changes in fair value of other financial liabilities, investment income, gain on disposal of a subsidiary, loss on deemed disposal of associates, loss on disposal of an associate, gain from a bargain purchase, 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, interest 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 six months ended 30 June 2021 and 2020, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

	Southern China RMB'000	Southwestern China RMB'000	Central China RMB'000	Eastern China RMB'000	Northern China RMB'000	Northwestern China RMB'000	Northeastern China RMB'000	Outside China RMB'000	Eliminations RMB'000	Consolidated RMB'000
Six months ended 30 June 2021										
Segment revenue:										
Sale of goods	7,396,648	1,374,689	1,518,740	859,141	1,164,905	709,913	390,236	402,417	-	13,816,689
Contract revenue from renovation and installation works	460,263	29,536	52,887	83,962	27,430	4,788	3,717	5,493	-	668,076
Income from environmental engineering and other related services	71,679	2,761	6,249	53,398	451	3	-	-	-	134,541
Financial service income	29,498	3,774	949	13,330	1,949	15	36	-	-	49,551
Property rental and other related services	5,941	-	-	-	-	-	-	48,467	-	54,408
Revenue from external customers	7,964,029	1,410,760	1,578,825	1,009,831	1,194,735	714,719	393,989	456,377	-	14,723,265
Intersegment revenue	2,450,465	259,618	341,687	290,444	315,153	125,599	102,494	399,603	(4,285,063)	-
Total	10,414,494	1,670,378	1,920,512	1,300,275	1,509,888	840,318	496,483	855,980	(4,285,063)	14,723,265
Segment results:	2,581,795	412,559	517,567	227,876	319,567	184,721	91,413	108,179	(69,876)	4,373,801
Reconciliations:										
Interest income										54,673
Gain on fair value changes of financial instruments at FVTPL										205,307
Gain on fair value changes of other financial liabilities										2,814
Investment income										2,566
Gain from a bargain purchase										463
Loss on fair value changes of investment properties										(85,768)
Loss on deemed disposal of associates										(56,670)
Exchange loss										(24,834)
Finance costs (other than interests on lease liabilities)										(252,347)
Share of results of associates										122,180
Share of result of a joint venture										782
Unallocated income and expenses										(2,082,877)
Profit before tax										2,260,090
Other segment information:										
Depreciation and amortisation	422,019	39,790	32,446	28,393	24,447	22,441	12,024	35,056	-	616,616
Impairment of property, plant and equipment	15,847	-	-	469	-	-	4,393	1,011	-	21,720
Impairment of contract assets, net	2,337	-	-	-	-	-	-	-	-	2,337
Impairment of trade and bills receivables, net	70,540	5	291	(1,934)	(528)	(99)	(274)	16,371	-	84,372
Impairment of prepayments, net	71	25	1,090	15	236	11	-	-	-	1,448
Impairment of other receivables, net	1,366	-	-	-	-	-	-	-	-	1,366
Capital expenditure [#]	1,468,724	62,873	216,260	79,666	81,818	95,335	7,013	468,905	(42,351)	2,438,243
As at 30 June 2021	22,298,690	1,738,974	2,027,832	2,083,593	1,117,730	896,440	579,905	7,986,750	-	38,729,914
Segment assets	22,298,690	1,738,974	2,027,832	2,083,593	1,117,730	896,440	579,905	7,986,750	-	38,729,914

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 RMB289,088,000.

	Southern China RMB'000	Southwestern China RMB'000	Central China RMB'000	Eastern China RMB'000	Northern China RMB'000	Northwestern China RMB'000	Northeastern China RMB'000	Outside China RMB'000	Eliminations RMB'000	Consolidated RMB'000
Six months ended 30 June 2020										
Segment revenue:										
Sale of goods	6,025,198	1,236,181	1,142,216	612,565	771,371	589,403	245,975	307,079	-	10,929,988
Contract revenue from renovation and installation works	217,282	15,152	32,307	69,244	12,645	113	5,942	3,505	-	356,190
Income from environmental engineering and other related services	74,220	11,506	4,497	56,454	1,726	816	-	-	-	149,219
Financial service income	10,271	368	2,990	730	165	-	-	-	-	14,524
Property rental and other related services	5,005	-	-	12	-	-	-	36,946	-	41,963
Revenue from external customers	6,331,976	1,263,207	1,182,010	739,005	785,907	590,332	251,917	347,530	-	11,491,884
Intersegment revenue	1,746,226	195,030	206,751	157,843	213,785	103,275	71,694	296,892	(2,991,496)	-
Total	<u>8,078,202</u>	<u>1,458,237</u>	<u>1,388,761</u>	<u>896,848</u>	<u>999,692</u>	<u>693,607</u>	<u>323,611</u>	<u>644,422</u>	<u>(2,991,496)</u>	<u>11,491,884</u>
Segment results:										
Reconciliations:										
Interest income										62,679
Loss on fair value changes of financial instruments at FVTPL										(39,437)
Gain on fair value changes of other financial liabilities										54,151
Investment income										206
Gain on disposal of a subsidiary										454
Loss on disposal of an associate										(295)
Exchange loss										(93,646)
Finance costs (other than interests on lease liabilities)										(241,652)
Share of results of associates										49,153
Share of result of a joint venture										956
Unallocated income and expenses										(1,452,662)
Profit before tax										<u>1,719,606</u>
Other segment information:										
Write-down of inventories to net realisable value, net	-	-	-	-	-	-	-	15	-	15
Depreciation and amortisation	306,678	34,455	28,177	22,782	20,766	22,419	10,191	34,919	-	480,387
Impairment of property, plant and equipment	27,854	-	-	-	-	-	-	5,496	-	33,350
Impairment of trade and bills receivables, net	6,854	-	397	(6)	-	-	-	267	-	7,512
Impairment of prepayments, net	5,774	-	-	-	-	-	-	-	-	5,774
Impairment of other receivables, net	6,125	-	-	-	-	-	-	-	-	6,125
Capital expenditure [#]	<u>113,035</u>	<u>27,950</u>	<u>97,960</u>	<u>42,591</u>	<u>35,810</u>	<u>10,901</u>	<u>2,042</u>	<u>282,789</u>	<u>(20,446)</u>	<u>592,632</u>
As at 30 June 2020										
Segment assets	<u>16,007,578</u>	<u>1,463,306</u>	<u>1,360,513</u>	<u>1,836,844</u>	<u>865,113</u>	<u>700,528</u>	<u>499,362</u>	<u>7,731,859</u>	<u>-</u>	<u>30,465,103</u>

[#] Capital expenditure consists of additions to property, plant and equipment, right-of-use assets, investment properties and other intangible assets. There is no addition resulted from business combination during the period.

3. REVENUE, OTHER REVENUE, INCOME AND GAINS

Revenue

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

By revenue nature:

	Six months ended 30 June 2021			Six months ended 30 June 2020		
	Goods	Services	Total	Goods	Services	Total
	transferred at a point in time RMB'000	transferred over time RMB'000		transferred at a point in time RMB'000	transferred over time RMB'000	
Revenue from contracts with customers:						
Sale of goods	13,816,689	–	13,816,689	10,929,988	–	10,929,988
Contract revenue from renovation and installation works	–	668,076	668,076	–	356,190	356,190
Income from environmental engineering and other related services	–	134,541	134,541	–	149,219	149,219
Sub-total	<u>13,816,689</u>	<u>802,617</u>	<u>14,619,306</u>	<u>10,929,988</u>	<u>505,409</u>	<u>11,435,397</u>
Financial service income			49,551			14,524
Property rental and other related services			<u>54,408</u>			<u>41,963</u>
Total			<u>14,723,265</u>			<u>11,491,884</u>

By geographical locations:

	Six months ended 30 June 2021			Six months ended 30 June 2020		
	Goods	Services	Total	Goods	Services	Total
	transferred at a point in time RMB'000	transferred over time RMB'000		transferred at a point in time RMB'000	transferred over time RMB'000	
Revenue from contracts with customers:						
Mainland China	13,414,272	797,124	14,211,396	10,622,909	501,904	11,124,813
Outside China	<u>402,417</u>	<u>5,493</u>	<u>407,910</u>	<u>307,079</u>	<u>3,505</u>	<u>310,584</u>
Sub-total	<u>13,816,689</u>	<u>802,617</u>	<u>14,619,306</u>	<u>10,929,988</u>	<u>505,409</u>	<u>11,435,397</u>
Financial service income			49,551			14,524
Property rental and other related services			<u>54,408</u>			<u>41,963</u>
Total			<u>14,723,265</u>			<u>11,491,884</u>

Other Revenue, Income and Gains

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Bank interest income	52,927	58,020
Interest income from other financial assets	1,746	4,659
Total interest income	54,673	62,679
Government grants and subsidies	35,469	19,848
Gain on fair value changes of financial instruments at FVTPL	205,307	–
Gain on fair value changes of other financial liabilities	2,814	54,151
Investment income	2,566	206
Gain on disposal of a subsidiary	–	454
Gain on disposal of items of other intangible assets and property, plant and equipment	–	7,571
Gain on sale of raw materials	36,439	4,129
Gain on termination of right-of-use assets	396	–
Gain from a bargain purchase	463	–
Rental income	9,177	15,004
Others	21,387	33,080
	<u>368,691</u>	<u>197,122</u>

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

4. FINANCE COSTS

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Interest expenses on bank and other loans	259,089	256,505
Interest expenses on lease liabilities	3,698	4,543
	<u>262,787</u>	<u>261,048</u>
Less: Interest capitalised	(6,742)	(14,853)
	<u>256,045</u>	<u>246,195</u>

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Cost of inventories sold	9,777,403	7,747,703
Direct cost of renovation and installation works	471,732	275,882
Direct cost of environmental engineering and other related services	77,973	75,677
Direct cost of financial services	5,360	597
Direct cost of property rental and other related services	16,996	12,311
Write-down of inventories to net realisable value, net	–	15
Depreciation of property, plant and equipment	549,596	419,024
Depreciation of right-of-use assets	52,345	50,650
Amortisation of other intangible assets	14,675	10,713
Total depreciation and amortisation	<u>616,616</u>	<u>480,387</u>
Research and development costs	603,281	366,818
Loss/(gain) on disposal of items of other intangible assets and property, plant and equipment	7,106	(7,571)
Impairment of property, plant and equipment	21,720	33,350
Loss on fair value changes of investment properties	85,768	–
Loss on deemed disposal of associates	56,670	–
Loss on disposal of an associate	–	295
(Gain)/loss on fair value changes of financial instruments at FVTPL	(205,307)	39,437
Gain on fair value changes of other financial liabilities	(2,814)	(54,151)
Gain from a bargain purchase	(463)	–
Equity-settled share option expense	2,687	–
Impairment of contract assets, net	2,337	–
Impairment of trade and bills receivables, net	84,372	7,512
Impairment of prepayments, net	1,448	5,774
Impairment of other receivables, net	1,366	6,125
Foreign exchanges differences, net	<u>24,834</u>	<u>93,646</u>

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Current tax		
PRC	459,402	355,405
Other jurisdictions	520	153
	<u>459,922</u>	<u>355,558</u>
Overprovision in prior years		
PRC	(81,902)	(104,577)
Deferred tax	<u>102,861</u>	<u>82,268</u>
Total tax charge for the period	<u>480,881</u>	<u>333,249</u>

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

Hong Kong Profits Tax

The statutory rate of Hong Kong profits tax was 16.5% (six months ended 30 June 2020: 16.5%) on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax was made as the Group had no assessable profits arising in Hong Kong during the period (six months ended 30 June 2020: Nil).

PRC Corporate Income Tax

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

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

Income Tax for Other Jurisdictions

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

7. DIVIDENDS

	Six months ended 30 June			
	2021		2020	
	HK\$ per share	HK\$'000	HK\$ per share	HK\$'000
2020 final dividend paid (2020: 2019 final dividend paid)	–	–	0.28	868,677
2020 final dividend declared	0.38	1,178,919	–	–
Less: Dividends for shares held for share award scheme	0.38	(8,737)	0.28	(6,437)
		1,170,182		862,240
Equivalent to		<u>RMB973,685,000</u>		<u>RMB780,672,000</u>

Subsequent to the end of the reporting period, interim dividend of HK12 cents in respect of the six months ended 30 June 2021 per ordinary share in aggregate of HK\$369,531,000 has been declared by the Board to the owners of the Company whose names appear on the Company's register of members on 4 October 2021 (six months ended 30 June 2020: interim dividend of HK12 cents per ordinary share in aggregate of HK\$369,531,000). The amount of interim dividend declared for the six months ended 30 June 2021 and 2020 is calculated based on the number of issued shares, less dividends for shares held for share award scheme, at the date of approval of these condensed consolidated financial statements.

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Earnings		
Profit attributable to owners of the Company used in the basic and diluted earnings per share calculation	1,814,284	1,388,017
	3,102,418,400	3,102,418,400
	(22,991,000)	(22,991,000)
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)	(22,991,000)
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	3,079,427,400

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2021 and 2020, respectively.

9. OTHER FINANCIAL ASSETS

		30 June 2021 RMB'000	31 December 2020 RMB'000
Non-current			
Debt instruments at FVTOCI:	(i)		
Debt securities listed in Hong Kong		<u>31,098</u>	<u>29,724</u>
Equity instruments at FVTOCI:			
Equity securities listed in PRC		676,159	853,576
Equity securities listed in Hong Kong		647,316	551,520
Unlisted equity securities		<u>714,737</u>	<u>485,319</u>
		<u>2,038,212</u>	<u>1,890,415</u>
Equity instruments at FVTPL:			
Unlisted equity securities	(ii)	53,345	53,958
Equity securities listed in PRC		–	446,196
Equity securities listed in United Kingdom	(iii)	<u>227,434</u>	<u>241,983</u>
		<u>280,779</u>	<u>742,137</u>
Funds at FVTPL:			
Stock funds		<u>16,848</u>	<u>18,730</u>
		<u>2,366,937</u>	<u>2,681,006</u>
Current			
Debt instruments at FVTOCI:	(i)		
Debt securities listed in Hong Kong		6,540	24,915
Debt instruments at FVTPL:			
Unlisted debt securities	(iv)	<u>47,050</u>	–
		<u>53,590</u>	<u>24,915</u>
		<u>2,420,527</u>	<u>2,705,921</u>

Note:

- (i) The debt securities carry fixed interest at rates ranging from 5.65% to 6.38% (31 December 2020: 5.70% to 7.85%) per annum, payable semi-annually or annually in arrears and will mature from October 2021 to January 2023 (31 December 2020: February 2021 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.
- (iv) The structured deposits and the debt securities with a convertible right were classified as debt instruments at FVTPL.

10. LOAN RECEIVABLES

	30 June 2021 RMB'000	31 December 2020 RMB'000
Non-current		
Finance lease receivables	921	3,584
Factoring receivables	<u>112,000</u>	<u>136,000</u>
	<u>112,921</u>	<u>139,584</u>
Current		
Finance lease receivables	134,014	140,219
Factoring receivables	1,272,430	816,932
Receivables from supply-chain financing services	<u>148,478</u>	<u>125,660</u>
	1,554,922	1,082,811
Less: Provision for impairment	<u>(207,745)</u>	<u>(207,745)</u>
	<u>1,347,177</u>	<u>875,066</u>
	<u><u>1,460,098</u></u>	<u><u>1,014,650</u></u>

(A) Finance Lease Receivables

	Minimum lease receivables		Present value of minimum lease receivables	
	30 June 2021 RMB'000	31 December 2020 RMB'000	30 June 2021 RMB'000	31 December 2020 RMB'000
Not more than 1 year	134,547	141,557	134,014	140,219
Over 1 year but within 5 years	<u>934</u>	<u>3,736</u>	<u>921</u>	<u>3,584</u>
	135,481	145,293	<u>134,935</u>	<u>143,803</u>
Less: Unearned finance income	<u>(546)</u>	<u>(1,490)</u>		
Present value of minimum lease receivables	<u><u>134,935</u></u>	<u><u>143,803</u></u>		

The Group's finance lease receivables are denominated in Renminbi. The effective interest rates of the receivables range from 11.42% to 11.77% (31 December 2020: 11.42% to 11.77%) per annum. There are no unguaranteed residual values of assets leased under finance leases and no contingent rent arrangements that needed to be recognised (31 December 2020: Nil).

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

	30 June 2021 RMB'000	31 December 2020 RMB'000
Not past due	7,936	19,804
Overdue	<u>126,999</u>	<u>123,999</u>
	<u>134,935</u>	<u>143,803</u>

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. No collected cash deposits (31 December 2020: RMB1,310,000) have been included in “other payables and accruals” in the condensed consolidated statement of financial position.

At the end of the reporting period, RMB48,245,000 of the Group’s finance lease receivables was impaired (31 December 2020: RMB48,245,000).

(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 6.57% to 14.00% (31 December 2020: 8.04% to 12.00%) per annum.

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

	30 June 2021 RMB'000	31 December 2020 RMB'000
With a residual maturity of:		
Not more than 3 months	246,915	19,219
Over 3 months to 6 months	330,399	158,410
Over 6 months to 12 months	535,616	479,803
Over 12 months to 24 months	112,000	136,000
Overdue	<u>159,500</u>	<u>159,500</u>
	<u>1,384,430</u>	<u>952,932</u>

At the end of the reporting period, RMB159,500,000 of the Group’s factoring receivables was impaired (31 December 2020: 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 9.60% to 18.00% per annum (31 December 2020: 9.72% to 16.20%).

Certain receivables from supply-chain financing services amounting to RMB146,478,000 (31 December 2020: RMB125,660,000) are secured by certain interests of companies and personal guarantees.

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

	30 June 2021 RMB'000	31 December 2020 RMB'000
With a residual maturity of:		
Not more than 3 months	104,178	84,810
Over 3 months to 6 months	42,300	30,550
Over 6 months to 12 months	–	10,300
Overdue	2,000	–
	<u>148,478</u>	<u>125,660</u>

At the end of the reporting period, none of the Group's receivables from supply-chain financing services was impaired (31 December 2020: Nil).

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

11. INVENTORIES

	30 June 2021 RMB'000	31 December 2020 RMB'000
Manufacturing and trading	6,185,664	4,577,047
Property development	630,339	549,800
	<u>6,816,003</u>	<u>5,126,847</u>

(A) Manufacturing and Trading

	30 June 2021 RMB'000	31 December 2020 RMB'000
Raw materials	2,273,299	1,700,817
Work in progress	505,751	476,854
Finished goods	3,406,614	2,399,376
	<u>6,185,664</u>	<u>4,577,047</u>

(B) Property Development

	30 June 2021 RMB'000	31 December 2020 RMB'000
Property under development	630,339	549,800

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

	30 June 2021 RMB'000	31 December 2020 RMB'000
Trade receivables	3,434,150	2,815,700
Bills receivable	1,344,370	1,298,021
Less: Provision for impairment	(372,583)	(263,527)
	<u>4,405,937</u>	<u>3,850,194</u>

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

Trade and bills receivables are unsecured and interest-free.

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

	30 June 2021 RMB'000	31 December 2020 RMB'000
Not more than 3 months	1,577,270	1,690,927
Over 3 months to 6 months	679,420	741,507
Over 6 months to 12 months	1,155,039	939,601
Over 1 year to 2 years	813,325	392,035
Over 2 years to 3 years	152,086	74,378
Over 3 years	28,797	11,746
	<u>4,405,937</u>	<u>3,850,194</u>

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

13. TRADE AND BILLS PAYABLES

	30 June 2021 RMB'000	31 December 2020 RMB'000
Trade payables	1,739,326	1,657,654
Bills payable	3,533,197	4,020,554
	<u>5,272,523</u>	<u>5,678,208</u>

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

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

	30 June 2021 RMB'000	31 December 2020 RMB'000
Not more than 3 months	3,709,693	3,752,988
Over 3 months to 6 months	1,386,473	1,725,541
Over 6 months to 12 months	91,930	103,177
Over 1 year to 2 years	38,393	45,885
Over 2 years to 3 years	16,454	16,130
Over 3 years	29,580	34,487
	5,272,523	5,678,208

14. BORROWINGS

	30 June 2021 RMB'000	31 December 2020 RMB'000
Current		
Unsecured bank loans	9,103,746	7,080,626
Current portion of long term unsecured bank loans	23	185,634
Current portion of long-term unsecured other loans	28,330	28,330
Secured bank loans	115,731	61,750
Current portion of long-term secured bank loans	11,693	7,991
	9,259,523	7,364,331
Non-current		
Unsecured bank loans	1,438,222	571,503
Unsecured syndicated bank loans	7,075,138	7,145,603
Unsecured other loans	625	614
Secured bank loans	405,102	364,434
	8,919,087	8,082,154
	18,178,610	15,446,485
Analysed into borrowings repayable:		
Within one year or on demand	9,259,523	7,364,331
In the second year	1,167,900	480,513
In the third to fifth years, inclusive	7,554,478	7,418,879
More than five years	196,709	182,762
	18,178,610	15,446,485

Note:

- (a) The effective interest rates of the Group's borrowings range from 1.08% to 7.60% (31 December 2020: 1.08% to 7.60%) per annum.
- (b) At each of the end of 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 subsidiaries, the concession rights of a subsidiary and personal guarantee provided by a shareholder of that subsidiary.
- (c) At the end of the reporting period, the Group's borrowings are denominated in US dollar, HK dollar, Renminbi, Australian dollar and Canadian dollar which are equivalent to RMB6,774,451,000 (31 December 2020: RMB6,979,300,000), RMB3,861,779,000 (31 December 2020: RMB4,074,077,000), RMB6,547,854,000 (31 December 2020: RMB3,507,450,000), RMB861,390,000 (31 December 2020: RMB754,987,000) and RMB133,136,000 (31 December 2020: RMB130,671,000), 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 <i>RMB'000</i>	Equity component <i>RMB'000</i>	Total <i>RMB'000</i>
At 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)
	<u>627,362</u>	<u>27,605</u>	<u>654,967</u>
At 31 December 2020 and 1 January 2021	627,362	27,605	654,967
Interest expenses	35,345	–	35,345
Increase in interest payable	(18,713)	–	(18,713)
Interest paid	(9,794)	–	(9,794)
Exchange realignment	(7,146)	–	(7,146)
	<u>627,054</u>	<u>27,605</u>	<u>654,659</u>
At 30 June 2021	627,054	27,605	654,659
		30 June 2021	31 December 2020
		RMB'000	RMB'000
Debt component analysed into:			
Current portion		376,571	–
Non-current portion		250,483	627,362
		<u>627,054</u>	<u>627,362</u>

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 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

	30 June 2021	31 December 2020
Authorised:		
20,000,000,000 (31 December 2020: 20,000,000,000) ordinary shares of HK\$0.05 each	<u>HK\$1,000,000,000</u>	<u>HK\$1,000,000,000</u>
Issued and fully paid:		
3,102,418,400 (31 December 2020: 3,102,418,400) ordinary shares of HK\$0.05 each	<u>HK\$155,120,920</u>	<u>HK\$155,120,920</u>
Equivalent to	<u>RMB135,344,000</u>	<u>RMB135,344,000</u>

17. COMMITMENTS

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

	30 June 2021	31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for:		
Land, property, plant and equipment and investment properties	<u>2,875,781</u>	<u>2,404,045</u>

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 and MSCI China index. 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 high-quality 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 long-term strategic partnerships with 2,512 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.



MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

In 2020, the Chinese government succeeded in containing the novel coronavirus pneumonia (“COVID-19”) pandemic. This allowed domestic production and consumption to fully resume and then grow steadily in the second half of the year. The momentum of the recovery in China’s economy was sustained well into the beginning of 2021. According to the National Bureau of Statistics of China, the country’s gross domestic product increased by 12.7% year on year to RMB53.2 trillion in the first half of 2021, demonstrating the strong momentum of the country’s economic recovery. In addition, the Chinese government has started off the 14th Five-year Plan by speeding up its initiatives in the “New Infrastructure, New Urbanisation Initiatives and Major Projects” in order to meet the needs of the country’s ongoing social and economic development as well as those of the economic transformation. For instance, it fostered the development of the digital economy by extending the scope of application of the 5G telecommunications technology, pressed on with urban renewal by redeveloping old urban communities, and forged ahead with major transportation and water conservancy projects such as railway and gorge dam projects. Such government initiatives will add new impetus to social and economic development. The pipeline industry anticipates a steady growth as it benefits from the favourable business environment with significant infrastructure investments and commencement of large-scale infrastructure projects across the country.

As the PRC government is expected to introduce more policies to support the domestic economy in the second half of 2021, it is expected that “new industries”, “new business operations” and companies that adopt “new business models” will continue to grow. The Chinese government has reiterated the principle that “houses are for living in, not for speculation” regarding the real estate sector, and it plans to implement the policy of “promoting the healthy development of housing purchase and leasehold” during the 14th Five-year Plan in order to make the residential property market serve its original purpose of providing housing instead of becoming a hotbed of property speculation. Following the introduction of the “three red lines” and other new regulations, real estate developers also speed up property construction and ramp up efforts to sell properties so as to ease the pressure of tight liquidity. This also facilitates strong growth in the overall sales volume in the market and can thus accelerate the growth in the business of the property sector. This development is conducive to the development of the industry of building materials and interior decoration products and can lead to stable demand for such products.

BUSINESS OVERVIEW

As a leader in the pipeline manufacturing industry, China Lesso persists in pursuing high-quality development by leveraging its technological strength and applying its quality standard. It also keeps on honing its own strengths and upgrading its brand and prowess with a view to contributing to the development of the industry in the new era. In upholding the green development concept, the Group strictly implements all-round and whole-process environmental management with advanced technologies to minimise both the resource consumption and the exhaust emissions. In the first half of 2021, China Lesso was rated as one of the “2021 Preferred Brands of Pipe and Fitting Suppliers for Top 500 China Real Estate Developers by Comprehensive Strength”, “2021 Top Ten Listed Companies of Supporting Supply Chain for China Real Estate by Comprehensive Strength” and “2020 Top 500 China Listed Company Brands”. These accolades testify to the Group’s strong brand recognition and its leading position in the industry.

Revenue by Region[#]

Six months ended 30 June	Revenue		Change	% of total revenue	
	2021 RMB million	2020 RMB million		2021	2020
Southern China	7,964	6,332	25.8%	54.1%	55.1%
Southwestern China	1,411	1,263	11.7%	9.6%	11.0%
Central China	1,579	1,182	33.6%	10.7%	10.3%
Eastern China	1,010	739	36.6%	6.9%	6.4%
Northern China	1,195	786	52.0%	8.1%	6.9%
Northwestern China	714	590	21.1%	4.8%	5.1%
Northeastern China	394	252	56.4%	2.7%	2.2%
Outside China	456	348	31.3%	3.1%	3.0%
Total	14,723	11,492	28.1%	100.0%	100.0%

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

At the end of the reporting period, the number of the Group’s independent and exclusive first-tier distributors nationwide increased to 2,512 (1H 2020: 2,365). Southern China remained the Group’s major revenue-contributing market, and its revenue accounted for 54.1% of the Group’s total revenue (1H 2020: 55.1%) while the revenue from other regions accounted for 45.9% (1H 2020: 44.9%).

Revenue by Business Unit

Six months ended 30 June	Revenue		Change	% of total revenue	
	2021 RMB million	2020 RMB million		2021	2020
Plastic piping systems	12,574	10,141	24.0%	85.4%	88.2%
Building materials and interior decoration products	1,258	743	69.3%	8.5%	6.5%
Others [#]	891	608	46.5%	6.1%	5.3%
Total	14,723	11,492	28.1%	100.0%	100.0%

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

With the domestic economy fully back on track in 2021, the Group continues its initial aspiration to create a relaxing life for dwellers on its way forward. Besides constantly promoting the development of its plastic piping system business, the Group actively advances the development of its various business segments, including the businesses of building materials and interior decoration products, environmental protection, agricultural application and supply chain services platform so that the Group can achieve robust development and synergistic growth in various business segments. In the first half of 2021, the Group not only successfully broadened its revenue base, but also achieved steady growth in results. Looking ahead, China Lesso will continue to step up innovation, steadily develop its various businesses in the long term, add impetus to its business operations, enhance its brand value so as to provide more diverse and high-quality products and services for its customers.

China Lesso’s revenue increased by 28.1% to RMB14,723 million (1H 2020: RMB11,492 million). Gross profit edged up by 29.4% to RMB4,374 million (1H 2020: RMB3,380 million); gross profit margin was 29.7% (1H 2020: 29.4%); and net profit margin was 12.1% (1H 2020: 12.1%). The Group strived to maximise the benefits from economies of scale by continuing to promote production automation, actively upgrading production technology and equipment and by controlling the cost of raw materials and production with an effective procurement strategy. In addition, the Group sustained growth in business and maintained its profitability at a satisfactory level by enhancing the operational efficiency, optimising its product portfolio and increasing its market share.

During the reporting period, the Group’s EBITDA increased by 28.1% to RMB3,133 million (1H 2020: RMB2,446 million), and the EBITDA margin was 21.3% (1H 2020: 21.3%). Profit before tax increased by 31.4% to RMB2,260 million (1H 2020: RMB1,720 million). Profit attributable to owners of the Company increased by 30.7% to RMB1,814 million (1H 2020: RMB1,388 million). Basic earnings per share increased by 31.1% to RMB0.59 (1H 2020: RMB0.45). The effective tax rate was increased to 21.3% (1H 2020: 19.4%).

BUSINESS REVIEW AND OUTLOOK

Plastic Piping Systems

Taking advantage of the domestic economic recovery in the post-pandemic era, Chinese enterprises accelerated their production in the first half of 2021, leading to a significant rebound in the Chinese manufacturing industry. This has indicated growing momentum of the domestic economic recovery. The Group pressed ahead with technological innovation so as to actively develop new products and technologies to satisfy the market's needs. To actively grasp the opportunities arising from the Chinese government's initiatives in the "New Infrastructure, New Urbanisation Initiatives and Major Projects" and economic stimulus package, the Group boosted the sales volume of plastic pipes and pipe fittings. The move helped the business segment maintain steady growth.

Revenue by Region

Six months ended 30 June	Revenue		Change	% of revenue	
	2021	2020		2021	2020
	RMB million	RMB million			
Southern China	6,580	5,555	18.4%	52.3%	54.8%
Other than Southern China	5,670	4,433	27.9%	45.1%	43.7%
Outside China	324	153	111.2%	2.6%	1.5%
Total	<u>12,574</u>	<u>10,141</u>	<u>24.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Revenue by Product Application

Six months ended 30 June	Revenue		Change	% of revenue	
	2021	2020		2021	2020
	RMB million	RMB million			
Water supply	4,866	3,939	23.5%	38.7%	38.9%
Drainage	4,681	3,899	20.1%	37.2%	38.4%
Power supply and telecommunications	2,188	1,718	27.3%	17.4%	17.0%
Gas transmission	200	156	27.9%	1.6%	1.5%
Others [#]	639	429	49.1%	5.1%	4.2%
Total	<u>12,574</u>	<u>10,141</u>	<u>24.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

During the reporting period, the plastic piping systems business continued to grow on the back of its stable performance. Revenue from the plastic piping systems business increased by 24.0% to RMB12,574 million (1H 2020: RMB10,141 million), accounting for 85.4% of the Group's total revenue (1H 2020: 88.2%).

Average Selling Price, Sales Volume, and Revenue by Product Material

Six months ended 30 June	Average selling price			Sales volume			Revenue		
	2021 RMB	2020 RMB	Change	2021 Tonne	2020 Tonne	Change	2021 RMB million	2020 RMB million	Change
PVC products	9,076	7,789	16.5%	861,083	829,524	3.8%	7,815	6,461	21.0%
Non-PVC products [#]	15,051	14,577	3.3%	316,219	252,474	25.2%	4,759	3,680	29.3%
Total	10,681	9,373	14.0%	1,177,302	1,081,998	8.8%	12,574	10,141	24.0%

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

During the reporting period, the sales volume of the plastic piping systems increased by 8.8%. In terms of product materials, the sales volume of PVC products increased by 3.8% to 861,083 tonnes (1H 2020: 829,524 tonnes), while that of non-PVC products increased by 25.2% to 316,219 tonnes (1H 2020: 252,474 tonnes). Revenue from sales of PVC products increased by 21.0% to RMB7,815 million (1H 2020: RMB6,461 million) while that of non-PVC products increased by 29.3% to RMB4,759 million (1H 2020: RMB3,680 million).

By taking advantage of its economies of scale and implementing effective procurement strategy to control the costs of raw materials and manufacturing, the Group maintained its gross profit margin at a sustainable level after the implementation of reasonable price adjustments. The Group increased the average selling price of its plastic piping systems by 14.0% to RMB10,681 per tonne (1H 2020: RMB9,373 per tonne). The gross profit margin at its plastic piping systems business reached 29.7% (1H 2020: 29.7%).

To expedite the transformation and upgrading of the industry and deepen the integration of the next generation of information technology with the manufacturing industry, the Group is gradually upgrading its production bases across the country to build smart factories integrated with the Internet of things, smart control and automated production. In 2020, the Group constructed smart factories in Jiangxi, Hunan, Yunnan, Henan and Shaanxi to realise the smart manufacturing of products with both quality and efficiency improved. During the reporting period, the Group achieved a further increase in its production capacity. The Group’s annual designed capacity for manufacturing plastic piping systems expanded from 3.03 million tonnes at the end of 2020 to 3.13 million tonnes, and the capacity utilisation rate during the period reached 80.5%.

In addition, China Lesso has actively participated in China's "New Infrastructure" initiative. It further developed its intelligent manufacturing segment with increased production capacity, thereby adding impetus to its high-quality development. The Group planned to expand or construct production bases in Gansu, Sichuan, Guangxi and Guangdong. Specifically, the Group will invest in an intelligent production base for high-tech and environmental building materials in Gansu. This production base is not only an integral component in the Group's nationwide strategic business planning, but also a fulcrum of its move to accelerate the development of the market of northwestern China. The project will be able to generate annual sales of approximately 100,000 to 150,000 tonnes of plastic piping at full capacity. Meanwhile, the digital intelligent factory in Guangdong, will put into operation, adding strong impetus to the Group's intelligent manufacturing and high-quality development. That factory also indicates China Lesso's commitment to the plastic piping system business as its primary operation, pursuit of agricultural modernisation, and the expansion of its business of building materials and interior decoration. The gradual popularisation of 5G technology and the further upgrading of the industrial internet and intelligent manufacturing will usher in a new wave of transformation of the manufacturing industry. Looking into the future, China Lesso will press ahead with the transformation and upgrading of its business through automation, intelligent production and digitalisation. It will spearhead the digitalisation of the traditional manufacturing industry and advocate intelligent manufacturing so as to raise efficiency in both the business operation and management in all aspects, reduce cost and improve quality.

The Group firmly believes that only innovation can lead to breakthroughs. To strengthen its innovation and research capabilities and cultivate its core development capability, the Group have established R&D centres that measure up to the international standard with an R&D team of over 1,000 professionals, thus providing a strong talent pool which drives China Lesso's technological innovation and building up its core competitiveness.

During the reporting period, the Group remained committed to broadening the scope of application of plastic pipes and pipe fittings, and actively extend it to the agricultural sector. The efforts not only enriched the Group's income sources, but also expanded its market share and boosted its sales growth. In the second half of 2021, the Group will continue to expand the plastic piping system business by fully capitalising on the government policies on fostering the industry's development. In addition, the Group kept on seeking prospective business partners and formed strategic partnerships with a number of private enterprises that enable all the parties to complement each other with their respective advantages and to share information through in-depth cooperation, and thus achieve synergies among them. This will enable them to raise the standard of quality of urban construction in different regions, and is conducive to enriching the scope of their collaboration. Such strategic partnerships will ultimately increase the Group's market share and enhance its competitive strength in regional markets, thus further consolidating its market leadership.

The Group will actively expand overseas markets with a focus on the Southeast Asian markets. It will tap into the huge domestic demand of such markets and capitalise on the infrastructure development there. In order to further enhance the competitiveness and influence of China Lesso in overseas markets, the Group is committed to scaling up its overseas production. The production bases in Indonesia and Cambodia are under planning. Overall, the management is fully confident about the future development of the plastic piping system business and believe that it will continue to perform well.

Building Materials and Interior Decoration Products

In the first half of 2021, China's real estate sector has fully recovered in the aftermath of the pandemic. Benefiting from the Chinese government's economic stimulus policies, the property market turned bullish, registering a high volume of transactions. This has generated stable demand for building materials and interior decoration products. During the reporting period, the Group's business of building materials and interior decoration products recorded revenue of RMB1,258 million, accounting for 8.5% of the Group's total revenue. To accelerate the development of this business segment, the Group actively explored possibilities for collaboration with various industries. In April, the Group established a strategic partnership with a biopharmaceutical company, pursuant to which, both parties will tap into their respective business advantages and explore the potential of interdisciplinary integration in which biopharmaceutical technology can be integrated into building materials and interior decoration. The two business partners will aim to optimise the use of their shared resources for their mutual benefit. In addition, a Chinese real estate developer, which has a well-established cooperative relationship with the Group for a long time, entered into a new strategic cooperation agreement with the Group in May to jointly extend the scope of their collaboration. Both parties will seek to drive the development of the building materials and interior decoration business segment and, at the same time, explore the new business model of "finance + industry".

In the second half of the year, the Group will continue to capitalise on the Chinese government's policy of accelerating the new type of urbanisation by providing more diverse products and one-stop integrated solution services, with a view to strengthening its relationships with its existing customers and business partners. The national policy of speeding up the initiatives in the "New Infrastructure, New Urbanisation Initiatives and Major Projects" bodes well for the prospect of the industry of building materials and interior decoration products. Therefore, the Group is confident about the future of its relevant business. It will actively give full play to the synergies between the pipeline business and its building materials and interior decoration business. Furthermore, the Group will increase investment in scientific research, emphasise the cultivation of technical talents, and establish a product research centre. It will use technology to innovate and upgrade eco-friendly products which will further advance the healthy development of the supply chain of the property sector and drive the steady growth in the business of building materials and interior decoration products.

Others

Environmental Protection Business

The Group always cares about environmental protection and expedites the development of its environmental protection business in response to the Chinese government's environmental policies. During the reporting period, the Group's environmental protection business recorded revenue of RMB135 million. The Group is planning to further expand its environmental protection business by establishing hazardous solid waste treatment centres in Guangdong and Hunan. In the future, the Group will give full play to its technological advantages in the environmental protection industry and continue to integrate various resources as it aims for great achievements in various projects, including environmental protection investment, municipal sewage and industrial wastewater treatment, black odorous water treatment, comprehensive treatment for rural environmental improvement, solid waste treatment, testing, sponge city, urban underground integrated pipeline utility tunnels, soil restoration, urban water supply and drainage, and marine environmental protection. The Group aspires to rank among China's top, large environmental companies.

Supply Chain Service Platform Business

To capitalise on the Belt and Road Initiative of the PRC government in recent years, the Group has built a supply chain service platform, which is positioned as a "One-Stop Specialty Market for Home Furnishing and Consumer Products", to enter overseas markets, especially the Southeast Asian market. With the supply chain service platform serving as a transnational platform, the Group is well-positioned to showcase in overseas markets the products of Chinese manufacturers engaged in the manufacturing of home building materials and consumer goods, and to provide supporting services such as marketing, brand promotion and development planning consultation to these manufacturers. During the reporting period, the supply chain services platform business only recorded revenue of RMB445 million due to the ongoing global pandemic. In the future, the Group, taking into account the business development, plans to further expand the distribution network of the supply chain services platform business in Southeast Asia, and grasp the resulting business opportunities to promote the long-term development of such business segment.

CAPITAL EXPENDITURE

During the reporting period, the Group's capital expenditure was approximately RMB2,440 million, which was primarily used for improvement of automated facilities in production bases, expansion of the existing production bases, acquisition of industrial lands, 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 RMB18,977 million, of which 39.1% was denominated in US dollar, 20.3% was denominated in HK dollar, 35.1% was denominated in RMB, 4.6% was denominated in Australian dollar, 0.7% was denominated in Canadian dollar and 0.2% was denominated in other currencies. 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 47.3%.

At the end of the reporting period, the Group's total equity increased to RMB21,143 million. The Group's current assets and current liabilities were RMB24,061 million and RMB20,352 million, respectively. The Group's Current Ratio and Quick Ratio decreased to 1.18 and 0.85 from 1.22 and 0.91 as at 31 December 2020, 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 RMB8,286 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 subsidiaries, 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 19,200 employees including directors. Total staff costs were RMB1,199 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

At the end of reporting period, the Group has 26.2% of equity interest in Xingfa Aluminium Holdings Limited (“Xingfa Aluminium”) (Stock Code of the Stock Exchange: 98). 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. This 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 RMB6,646 million, and profit attributable to the shareholders of Xingfa Aluminium was RMB389 million.

Investment Properties

At the end of the reporting period, the Group’s investment properties were RMB6,994 million. Increase in investment properties was mainly attributable to the capitalisation of construction costs on certain investment properties under development of RMB416 million, and set-off with the exchange loss on translation of RMB305 million and fair value loss of RMB86 million 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

At the end of reporting period, the Group held long-term and short-term financial investments of approximately RMB2,367 million (31 December 2020: RMB2,681 million) and RMB54 million (31 December 2020: RMB25 million), respectively. The investment portfolio comprised of 64.1% in listed equity securities (issued by (i) PRC-based companies of: home improvement and furnishings shopping malls operating, battery technology and property management; and (ii) United Kingdom based company of automotive manufacturer), 1.6% in listed debt securities, 1.9% in unlisted debt securities, 0.7% in stock funds and 31.7% in unlisted equity securities. Each of these investments has a carrying amount accounting to less than 5% of the Group’s total assets as at 30 June 2021.

During the reporting period, the Group recognised a realised disposal gain of approximately RMB272 million, unrealised mark-to-market valuation gain of approximately RMB15 million due to volatility of the global capital market and recognised approximately RMB6 million of exchange loss on translation. Income from the portfolio amounted to approximately RMB4 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 unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2021. Such condensed consolidated financial statements have not been audited but have been reviewed by the independent auditor of the Company, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE PRACTICES

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

In pursuit of good and high standards of corporate governance practices, the Board reviews the corporate governance practices of the Company from time to time so as to meet the expectations of the Shareholders for continual improvement, and fulfill its commitment of pursuing excellent corporate governance. In the opinion of the directors, the Company complied with all the applicable code provisions of the Code during the reporting period, except that an independent non-executive director was unable to attend the annual general meeting of the Company held on 15 June 2021 (as provided for under the Code A.6.7) due to other business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

UPDATES ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the following directors have had changes in their biographical details as of the date of this announcement:

Dr. Tao Zhigang, aged 56, was appointed as an independent non-executive director of the Company on 1 September 2015. Dr. Tao is HSBC Professor of Global Economy and Business Strategy in the Faculty of Business and Economics and the director of the Institute for China and Global Development, the University of Hong Kong. Prior to joining the University of Hong Kong in 1998, he taught at Hong Kong University of Science and Technology from 1992 to 1998. Dr. Tao received his B.Sc. in management science from Fudan University in 1986, and PhD in economics from Princeton University in 1992. Dr. Tao had been an independent non-executive director of Huadian Fuxin Energy Corporation Limited (stock code: 816), which was listed on the Stock Exchange, from June 2014 to October 2020. Dr. Tao has joined Cheung Kong Graduate School of Business as Professor of Economics and Management since 16 August 2021.

Mr. Cheng Dickson, aged 52, was appointed as an independent non-executive director of the Company on 11 July 2018. Mr. Cheng is currently (i) an independent director of Magnum Opus Acquisition Limited (Ticker: OPA.U), which is listed on the New York Stock Exchange; (ii) the director of Thornton Strategic Capital Management Limited; and (iii) the managing director and head of the investment banking department of Shanggu Securities Limited. He acts as its responsible officer and holds licences for types 1, 4 and 6 of regulated activities under the SFO.

Prior thereto, Mr. Cheng worked in J.P. Morgan between August 1994 and February 1996. In December 1995, he was promoted to TCRM professional in its global markets department. Between March 1996 and June 2000, Mr. Cheng worked in the securities lending department of The Bank of New York, Hong Kong Branch. From July 2000 to August 2002, Mr. Cheng worked as an assistant vice president in the equity capital markets division of BOCI Asia Limited. In August 2002, Mr. Cheng joined ICEA Capital Limited and worked in its investment banking division until October 2005 when he was a senior vice president. Mr. Cheng was an executive director at the respective capital markets department in the investment banking division of Mitsubishi UFJ Securities (HK) Capital, Limited and Mizuho Securities Asia Limited from November 2005 to October 2016. Mr. Cheng has more than 23 years of experience in investment banking industry. Mr. Cheng obtained a bachelor's degree in arts majoring in economics from University of Toronto in June 1994 and a master of applied finance degree majoring in corporate finance from Macquarie University of Australia in November 2000.

Ms. Lu Jiandong, aged 52, was appointed as an independent non-executive director of the Company on 1 September 2020. Ms. Lu is currently the vice president and chief financial officer of Beijing Xinghan Bona Pharmaceutical Technology Co., Ltd. (“Xinghan Bona”), an internet pharmaceutical distributor and channel management enterprise in PRC. Prior to Xinghan Bona, Ms. Lu served multiple positions (including independent director, executive director, chief operation officer and chief financial officer) in Rise Education Cayman Ltd (Ticker: REDU), which is listed on NASDAQ, from October 2017 to December 2020. Ms. Lu also served as an executive director in a subsidiary of the Company from January 2018 to July 2018. With over 15 years of experience in investment banking, Ms. Lu has extensive management and capital markets experiences with deep knowledge about corporate finance, accounting and operations. Ms. Lu served as a managing director in the Global Real Asset Asia Fund of J.P. Morgan Asset Management Real Assets (Asia) Limited from May 2016 to March 2017, and as a managing director and chief operating officer in J.P. Morgan First Capital Securities Co. Ltd. from April 2012 to March 2015. Ms. Lu joined J.P. Morgan Securities (Asia Pacific) Limited in August 2001 and became a managing director in May 2011. Ms. Lu served as a senior representative at John Hancock Mutual Life Insurance Company Beijing Representative Office from July 1994 to June 1999, and she also served as a public officer and chief translator in The Chinese People’s Friendship Association with Foreign Countries from August 1991 to July 1994. Ms. Lu obtained a master degree in business administration from The Wharton School of the University of Pennsylvania in May 2001 and a Bachelor’s degree in economics from Beijing International Studies University in July 1991.

In addition, the remuneration for each of the executive Directors and the independent non-executive Directors were adjusted to the equivalent amount of HK\$2.60 million and HK\$0.36 million, respectively, per annum effective 1 January 2021. The adjustment in remuneration was the result of a remuneration review carried out by the Company.

Save for those disclosed above, there is no other information in respect of the directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INTERIM DIVIDEND

The Board has declared an interim dividend for the six months ended 30 June 2021 of HK12 cents per share (the “Interim Dividend”) to the Shareholders and is expected to be distributed to those entitled on Thursday, 18 November 2021. A final dividend of HK38 cents per share was paid on Monday, 19 July 2021 in respect of the year ended 31 December 2020 to shareholders during the reporting period.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 29 September 2021 to Monday, 4 October 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 Interim Dividend, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, 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, 28 September 2021.

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
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“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.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange (www.hkex.com.hk) and the Company (www.lesso.com). The 2021 interim report will be despatched to the Shareholders and available on the above websites in due course.

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

Hong Kong, 27 August 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.