

LESSO 联塑

CHINA LESSO GROUP HOLDINGS LIMITED

中國聯塑集團控股有限公司

(于开曼群岛注册成立的有限公司)

股份代号：2128. HK

Improve Urban Quality of Life

為城市提高品質生活

2017 Annual Results Corporate Presentation



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Agenda



01 Results Highlights



02 Financial Review



03 Business Review



04 Outlook

Results Highlights

- ❖ Encouraging and steady growth in 2017
 - ❖ Revenue: **RMB20,360 million, +18.2%**
 - ❖ Gross profit: **RMB5,317 million, +16.0%**
 - ❖ Profit attributable to the owners of the Company: **RMB2,293 million, +19.3%**
 - ❖ A final dividend of **HK18 cents per share** for the year ended 31 December 2017, **+20%** (2016: HK15 cents per share)
- ❖ Dedicated to develop **automated and intelligent** production bases and accelerate to promote **large-scale** production
- ❖ Actively capitalized on the various infrastructure and domestic projects of Chinese government which boosted the demand of plastic pipes and pipe fittings
 - ❖ Sales volume of plastic piping systems : **2,004,840 tonnes, +17.6%**
 - ❖ Revenue: **RMB18,110 million, +22.8%**
- ❖ Achieved a breakthrough in the environmental business and won many large-scale contracts from different sectors

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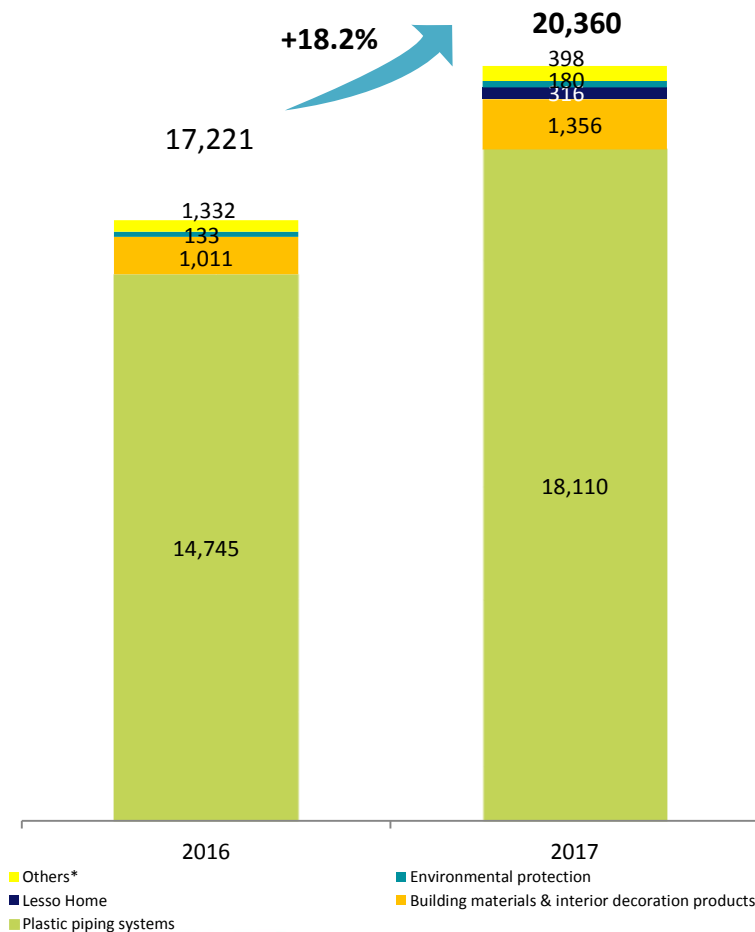


04 Outlook

Steady revenue growth

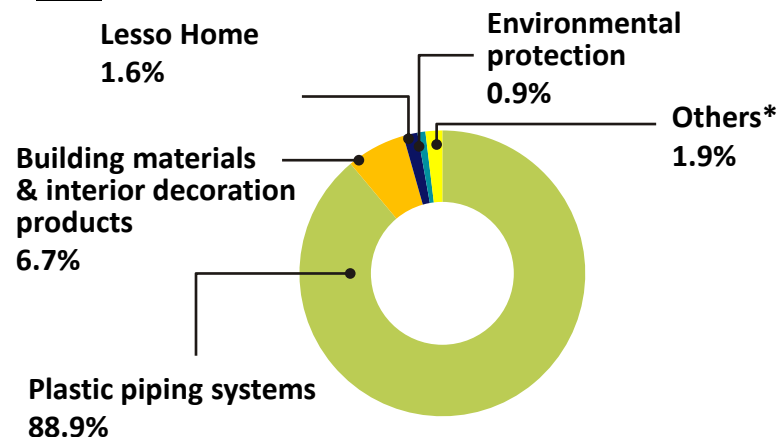
Total revenue

(RMB million)

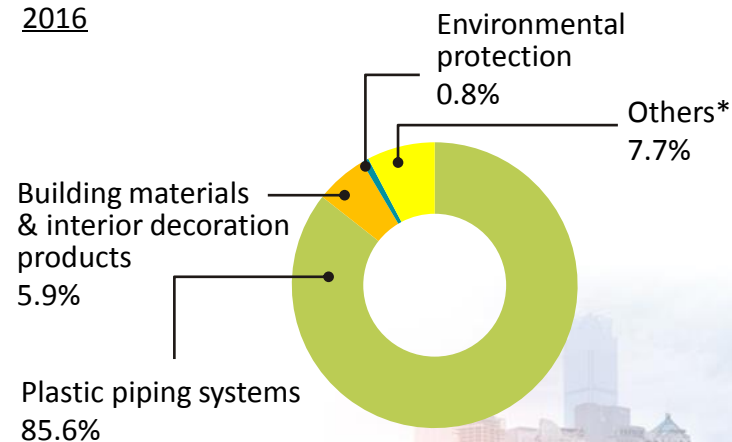


Total revenue (by business segment)

2017



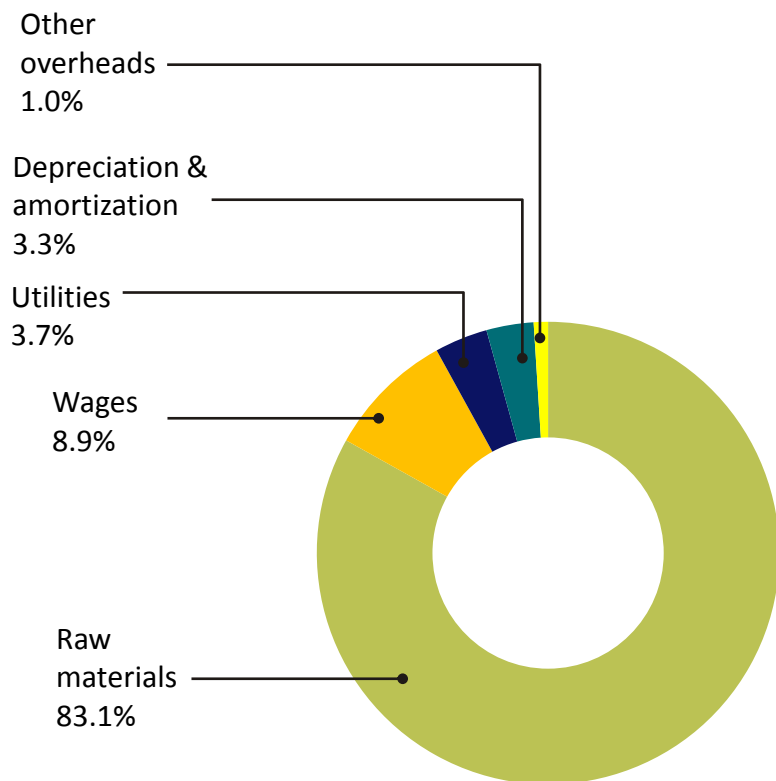
2016



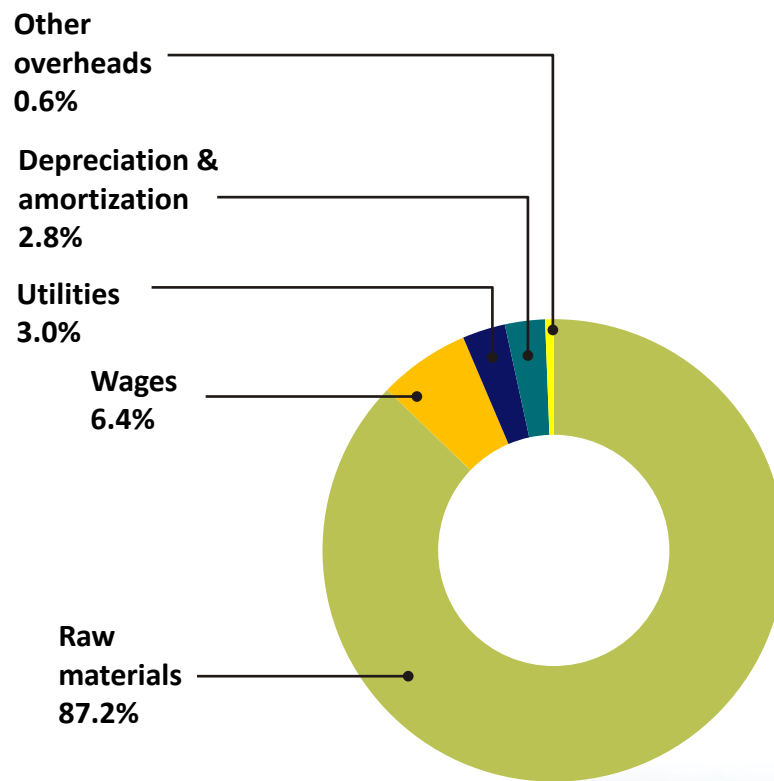
Remarks: Others* including finance, plastic film, connection materials and other businesses

Overall cost structure

2016



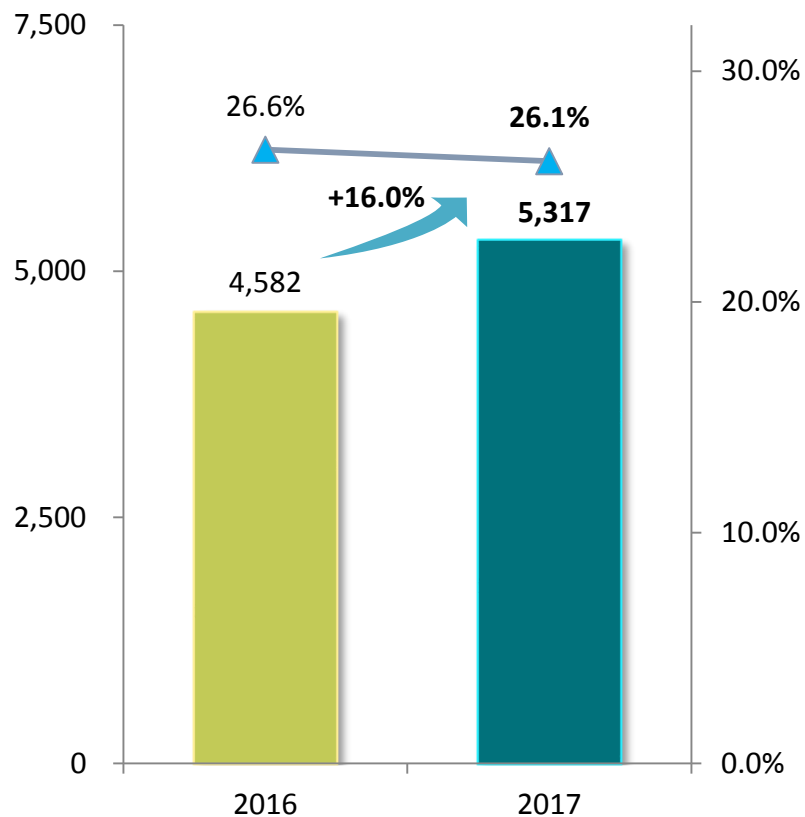
2017



GP & NP continued to increase

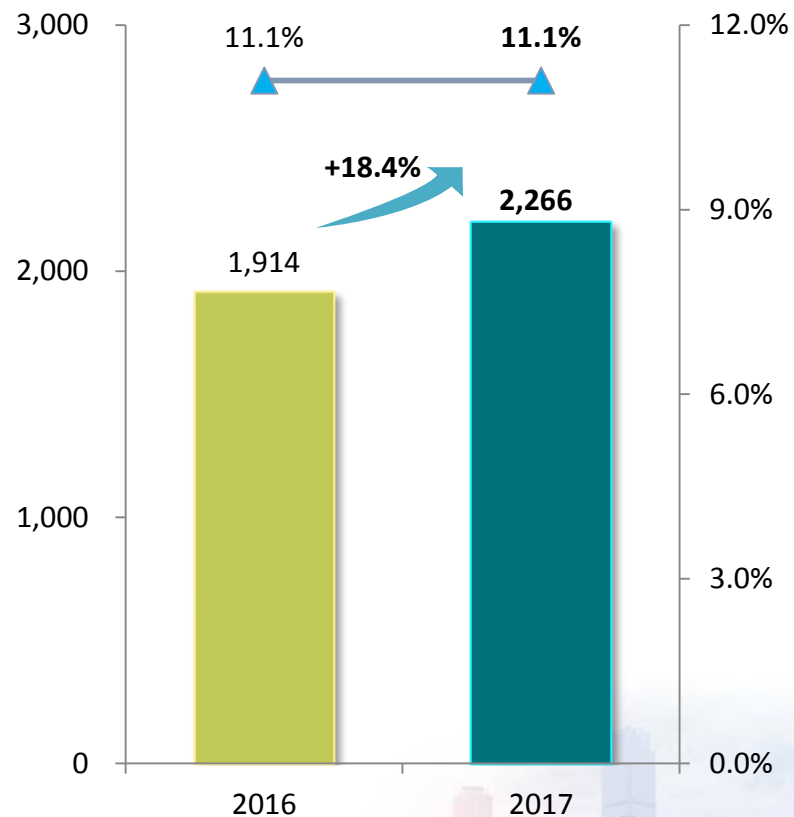
GP & GP margin

(RMB million)



NP & NP margin

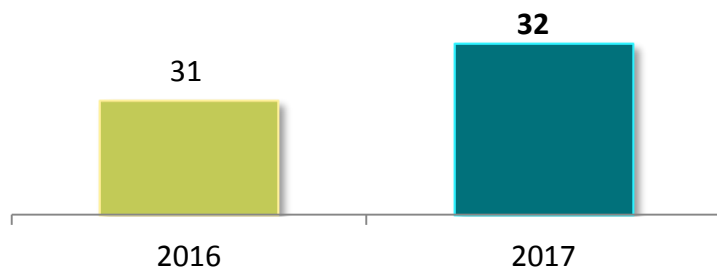
(RMB million)



Healthy and stable key financial indicators

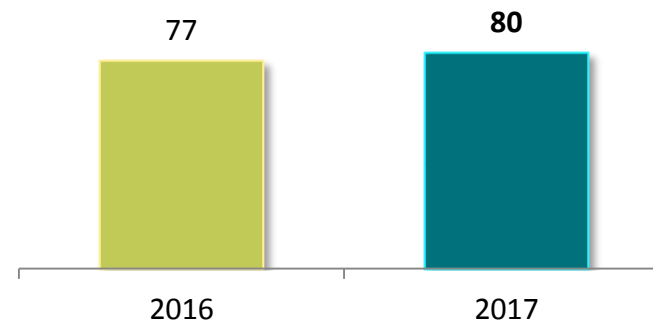
Trade receivable days

(days)



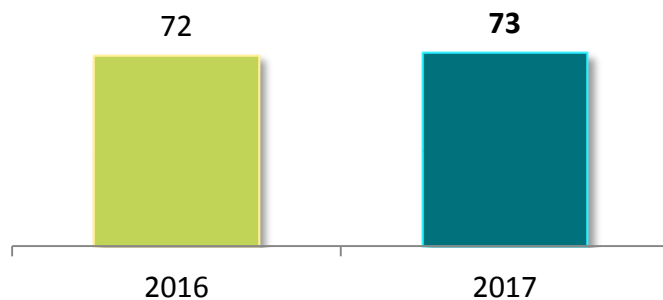
Trade payable days

(days)



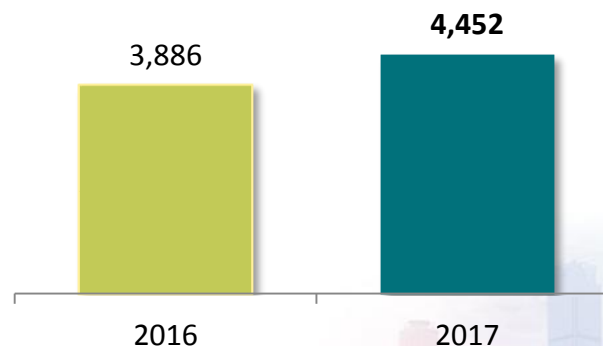
Inventory turnover days

(days)



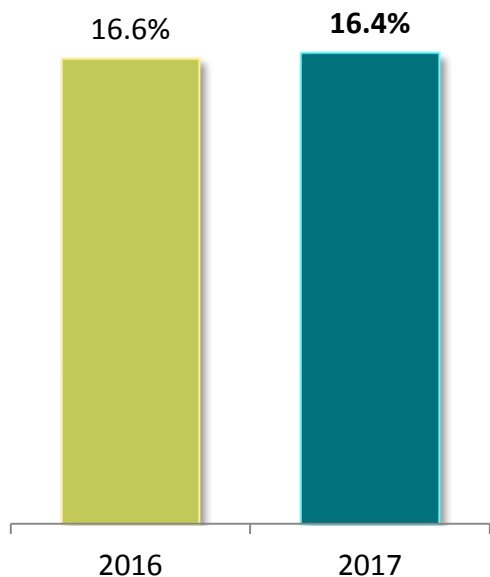
Cash & bank deposits

(RMB million)

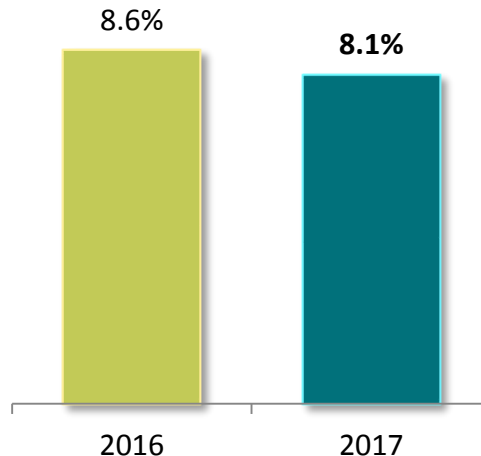


Remained stable in return rates

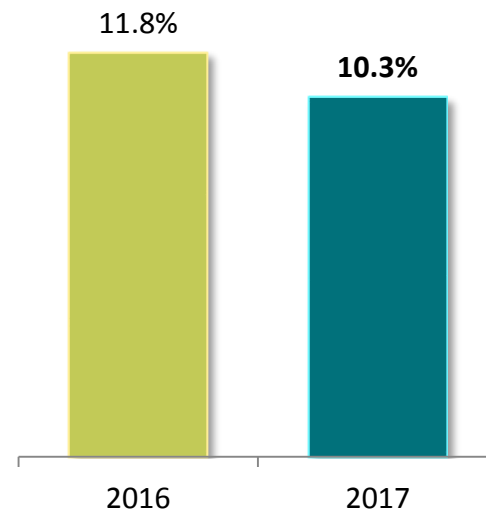
Return on equity⁽¹⁾



Return on assets⁽²⁾



Return on invested capital⁽³⁾



(1) Net profit divided by total equity at the end of the period

(2) Net profit divided by total asset at the end of the period

(3) Net profit divided by (total debt + total equity)

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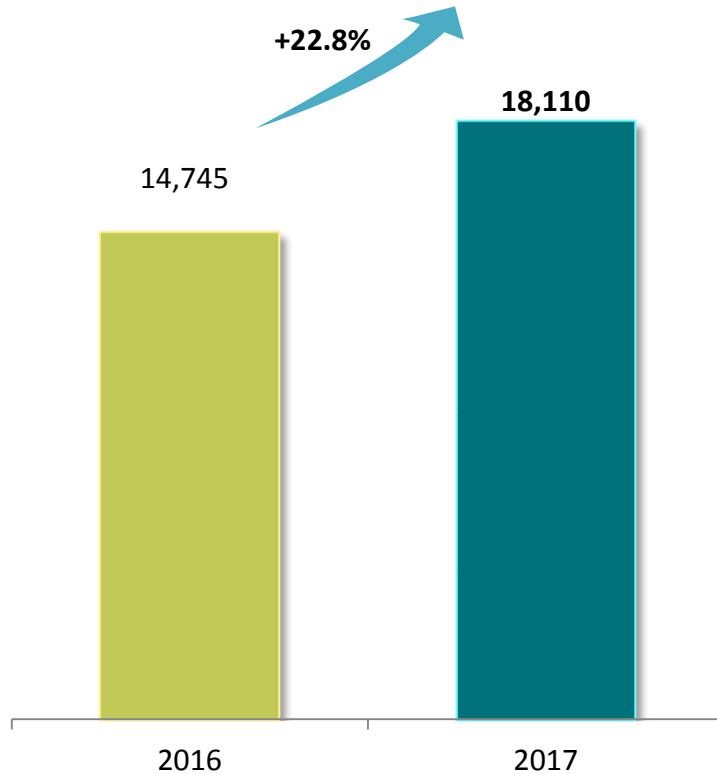


04 Outlook

Plastic piping systems business: Revenue & sales volume achieved sustainable growth

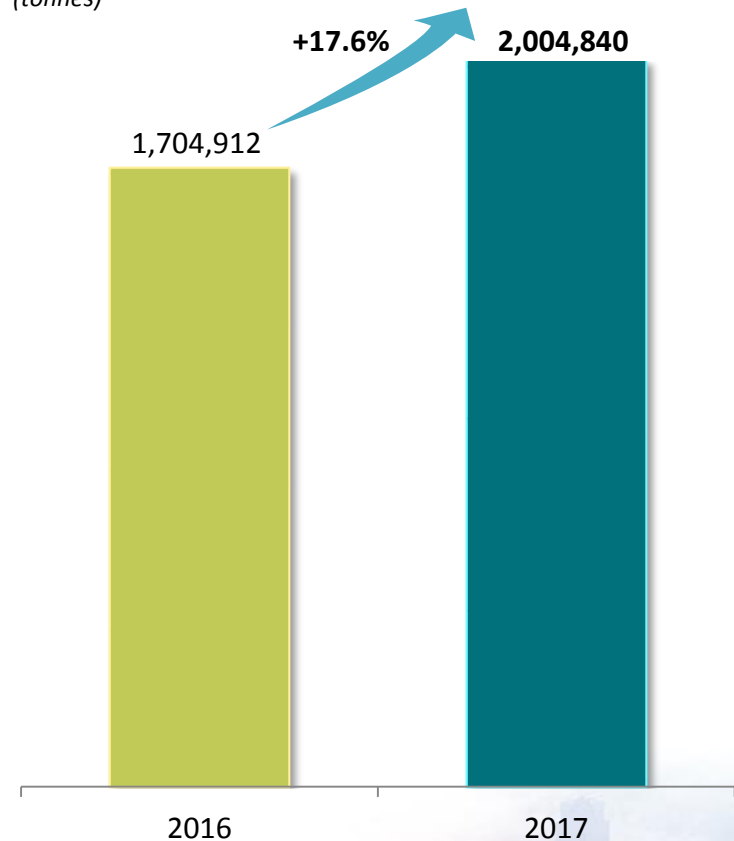
Segment revenue

(RMB million)



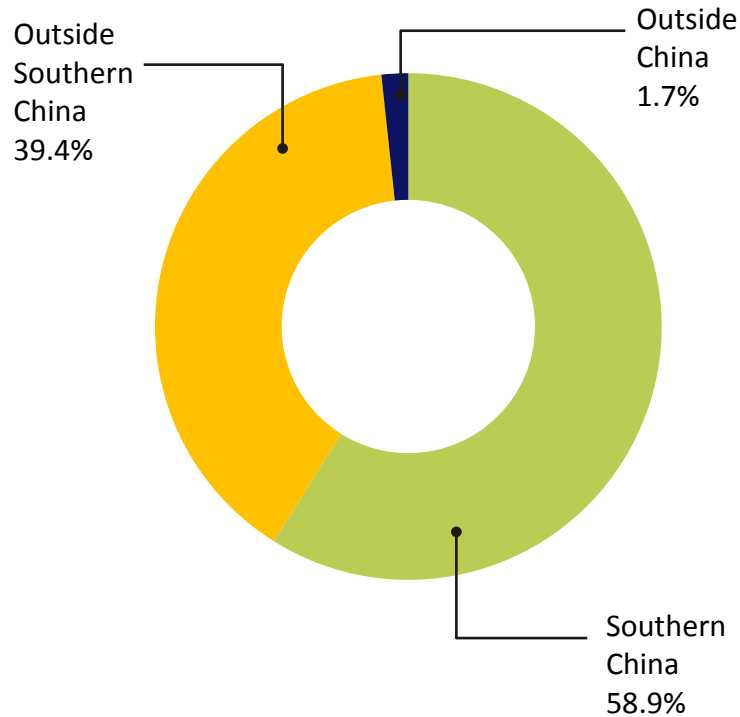
Segment sales volume

(tonnes)

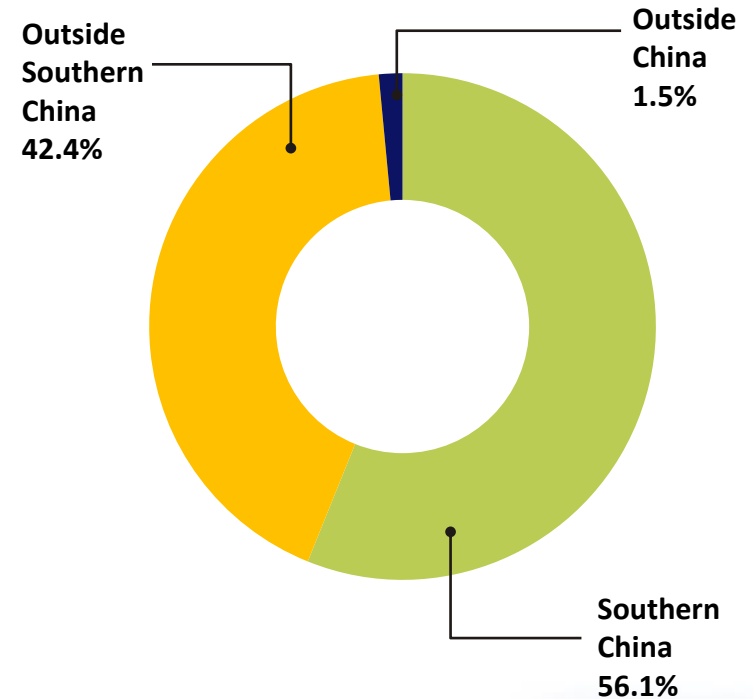


Plastic piping systems business: revenue breakdown by region

2016



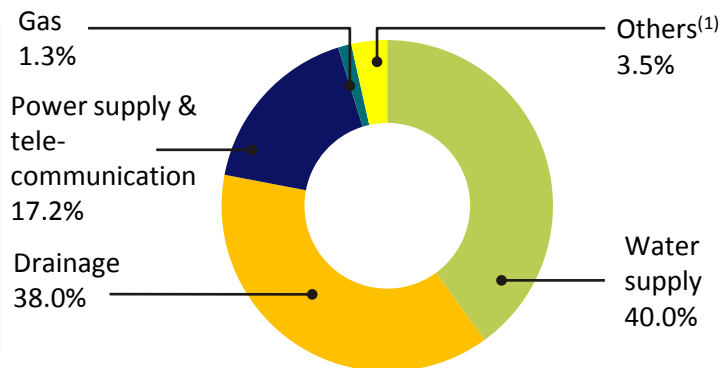
2017



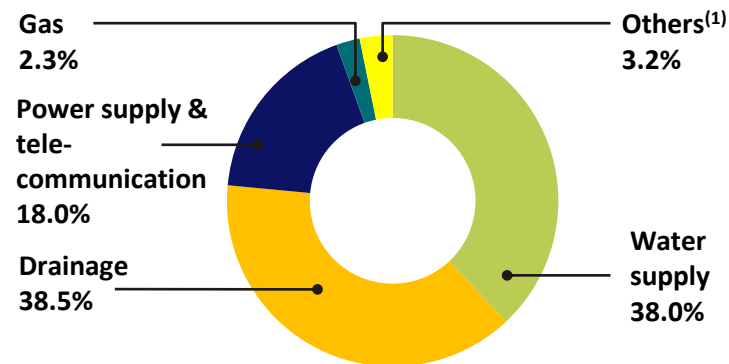
Plastic piping systems business: revenue analysis

By application

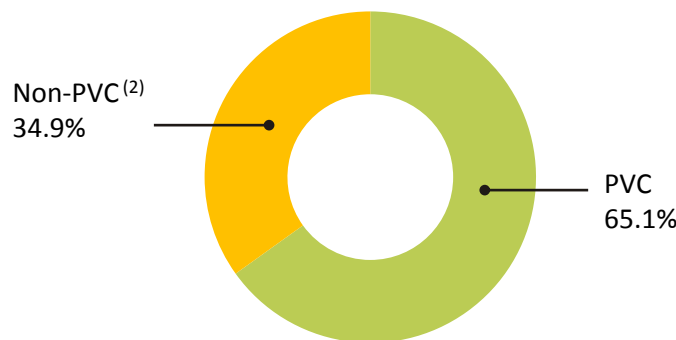
2016



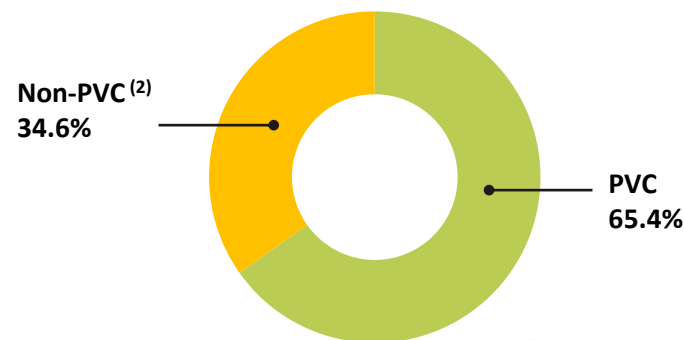
2017



By material



Total pipe products revenue:
RMB 14.75 billion



Total pipe products revenue:
RMB 18.11 billion

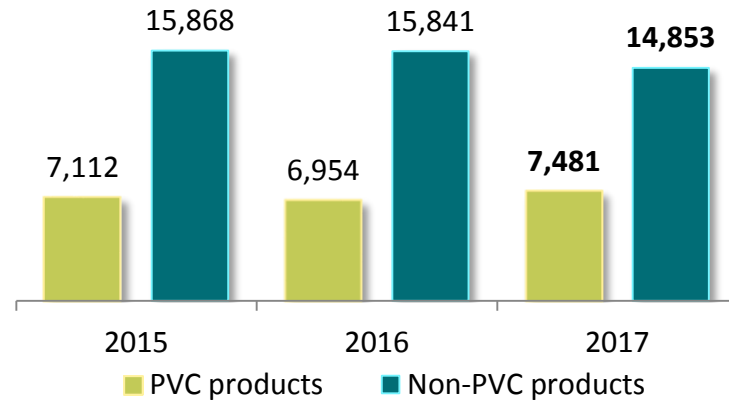
(1) Others include agricultural applications, floor heating and fire services

(2) Non-PVC includes PE, PP-R, etc

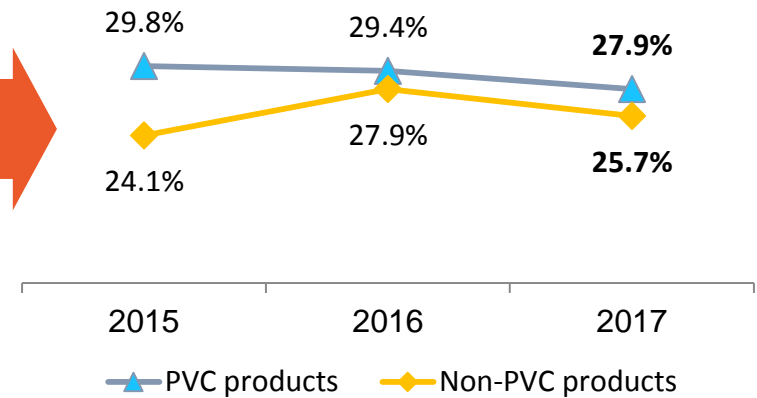
Plastic piping systems business: ASP & GP margin analysis

ASP per tonne – by material

(RMB)

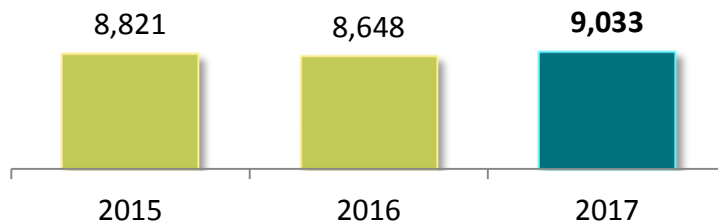


GP margin – by material

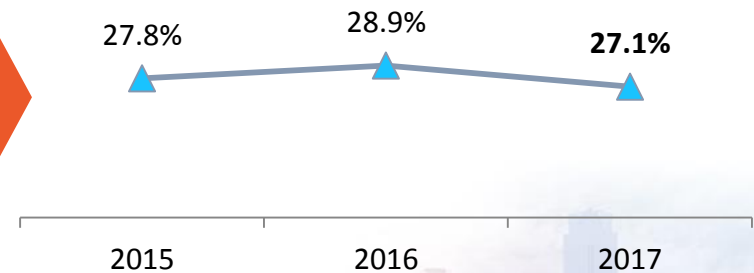


ASP per tonne - overall

(RMB)



GP margin - overall



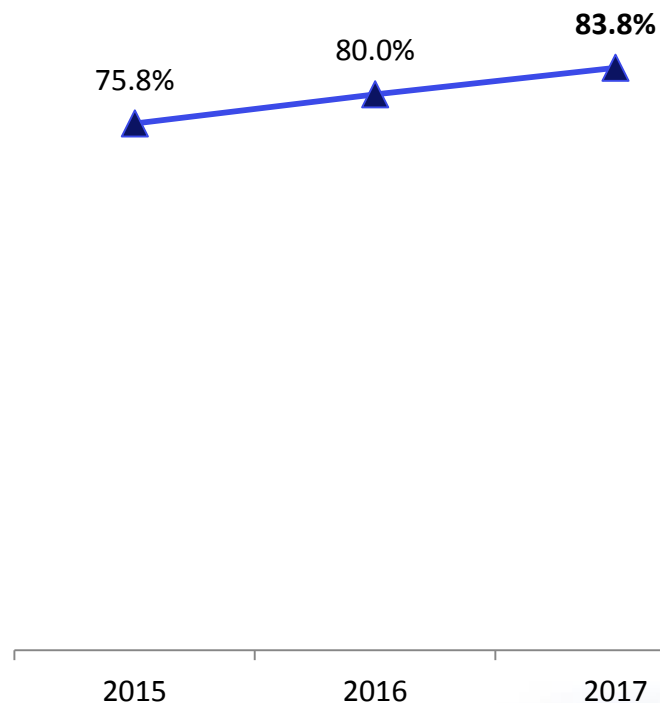
Plastic piping systems business: steady increase in production capacity & utilization rate

Annual designed production capacity

(million tonnes)



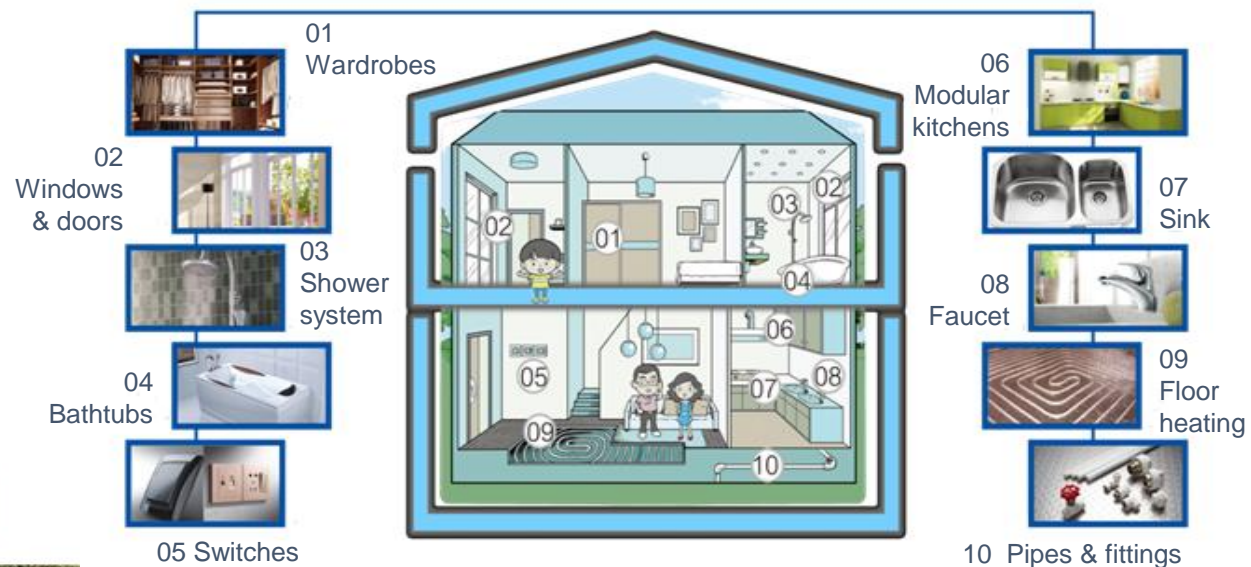
Average utilization rate



Building materials & interior decoration products

Progress

- ❖ Revenue increased by 34.0% year-on-year to RMB1,356 million, accounting for 6.7% of the Group's total revenue
- ❖ Captured the opportunities of new urbanization and dedicated to expand product range
- ❖ A diversified product line including sanitary ware products, integrated kitchens, systems of doors and windows, and decorative boards, etc., enable to provide comprehensive and supplementary services including design, decoration and construction services, achieving synergies with the existing businesses of other product lines
- ❖ Provides property developers with integrated building materials and interior decoration products, as well as the solution for their residential property projects



Environmental protection business

Progress

- ❖ Actively expanded environmental protection business and achieved a breakthrough result, winning many large-scale contracts, including those of municipal sewerage system, river treatment, soil restoration, underground pipeline utility tunnel, sponge city, installation of integrated water purifiers and other fields
- ❖ Creates long term commercial synergies with plastic piping business
- ❖ Strives to become a one-stop environmental protection service provider, so as to contribute to the green life of residents



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Lesso Home

Vision

- ❖ Build the dream home for people around the world
- ❖ Become the world's top choice for home furnishing products
- ❖ LESSO HOME, BETTER HOME

Objectives

- ❖ Become the world's leading one-stop platform for sales of home furnishing and building material products
- ❖ Develop an e-commerce platform to facilitate simple and convenient global trading



Lesso Home

Customer Experience is of Paramount Importance

One-stop “Specialized Markets”

One-stop Specialized Markets for home furnishing and building material products which serve both the trade and the consumer, as well as meeting the needs of the local communities

Warehouse Showrooms / Service Centres

A worldwide network of warehouse showrooms /service centers that shows products 7/24 and provides comprehensive services before and after sales

Products

Customer-oriented approach

Services

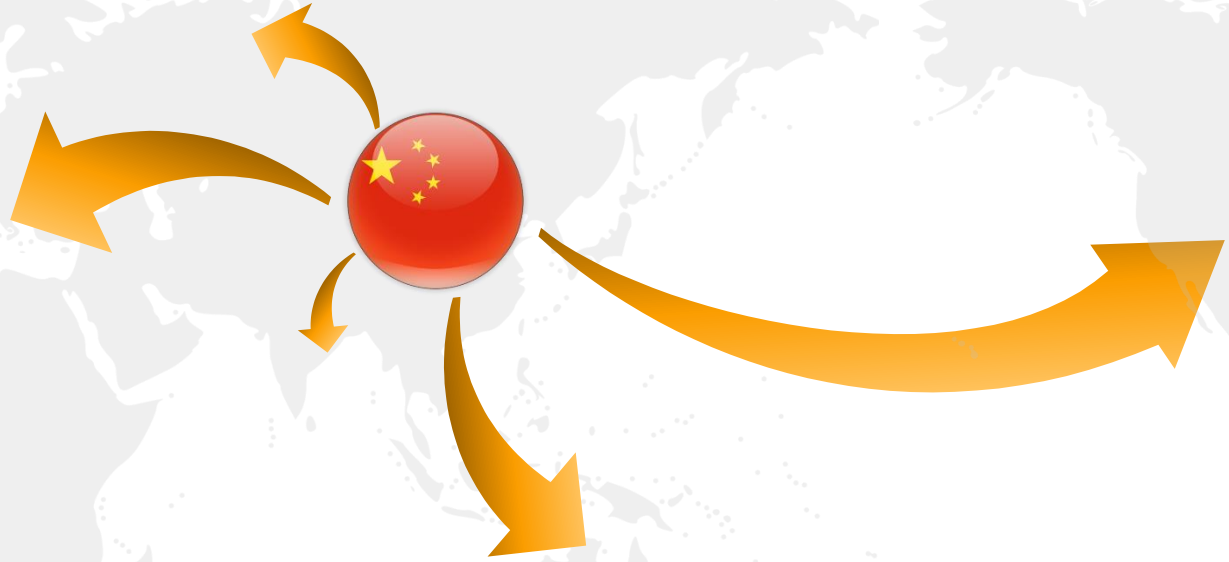
Pricing

The Lesso Home website

The Lesso Home online platform reduces transaction costs for both the manufacturers and customers

Lesso Home

Lesso Home BUILDS CHINESE BRANDS



- ❖ Following the government's "Belt and Road Initiative", Lesso Home helps Chinese building material and home furnishing makers in exhibiting, selling and delivering their products to target customers in the world
- ❖ Lesso Home will provide value-added services as big data analytics, storage and logistics, delivery, customer services and online promotion, etc.

Lesso Home

Planned Specialised Markets and Warehouse Showrooms

- ❖ Lesso Home has already reserved 12 properties in 8 cities in 5 countries, including the United States, Canada, Australia, United Arab Emirates and Thailand, with a total land area of over 2 million sq.m. and expected GFA over 4 million sq.m. for the One-Stop Specialized Markets for home furnishing



Criteria for choosing locations for our Specialized Markets

- ✓ *Economic and political stability*
- ✓ *Huge demand for Chinese-made building materials and home furnishings*
- ✓ *Dynamic market*

- ✓ *Potential increase in land value*
- ✓ *Independent and efficient management of the properties*
- ✓ *Proving to potential tenants that we can use Chinese materials to build them*

Advantages of building our own Specialized Markets

Lesso Home

Profit Model

1

Trade of home-furnishing products

2

Rental income from tenants of the
Specialized Markets

3

Offline value-added services, including
storage and logistics, delivery,
insurance, financing

4

Other value-added services

Lesso Home

Competitive Advantages

- ❖ We are the leading group in the home furnishing and building materials industry in China for more than 30 years, with extensive network covering major cities in China and over 30 countries
- ❖ We have more than 10 years of overseas sales experience, having obtained Class A certification for customs and commodity inspection
- ❖ Lesso Home has been included in China's "Belt and Road" policy framework
- ❖ We have a team of professional, experienced, and multinational experts

Value

	Traditional Foreign Trade Model	Lesso Home
Operation Pressure	Heavy	<i>Light</i>
Transaction Cost	High	<i>Low</i>
Efficiency	Low	<i>High</i>
Entry Barrier of Financing	High	<i>Low</i>
Cost of Credit	High	<i>Low</i>



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Future prospects

Expand Production Capacity and Improve Productivity



- ❖ The **new production base in Hunan** commenced operation in **2H2017** and increased the annual designed capacity of plastic pipes and pipe fittings by 200,000 tonnes to **2.4 million tonnes** at the end of 2017. The Group will actively develop **intelligent factories** in future
- ❖ Further improve the mechanical equipment and auxiliary facilities in existing production bases so as to raise the level of **automation** and accelerate production

Press Ahead with R&D to Improve Product Quality



- ❖ Strive to enhance its competitiveness in the **research and development of products and technologies**, accelerate the transformation and the upgrading of its businesses, and proactively expand its distribution network and market coverage
- ❖ A leading R&D team focuses on **cutting-edge technologies**, so as to secure its technological leadership among peers with the aim of offering a **diverse range of quality products** to the customers

Develop Environmental Protection Business to Achieve Synergies



- ❖ Actively grasp opportunities to develop environmental protection business and **form public-private partnerships**
- ❖ Exert itself to foster new growth drivers to pursue **cross-segment synergies and income diversification**

Develop “Lesso Home” Business



- ❖ Speed up the construction of **“Lesso Home”** Specialized Markets around the world, and commence operation as soon as possible
- ❖ Plan to open a “Lesso Home” in **New York** to serve target buyers and customers in North America in 2018

Q&A



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Appendix: financial summary

Statement of profit and loss

(RMB million)	2015	2016	2017
Revenue	15,264	17,221	20,360
Gross profit	3,938	4,582	5,317
EBITDA	2,653	3,125	3,831
EBIT	2,152	2,532	3,184
Net profit	1,618	1,914	2,266

Statement of financial position

(RMB million)	2015	2016	2017
Cash & bank deposits	3,894	3,886	4,452
Total assets	16,649	22,195	27,974
Total debts	3,241	4,695	8,319
Total equity	9,865	11,538	13,783

Ratio analysis

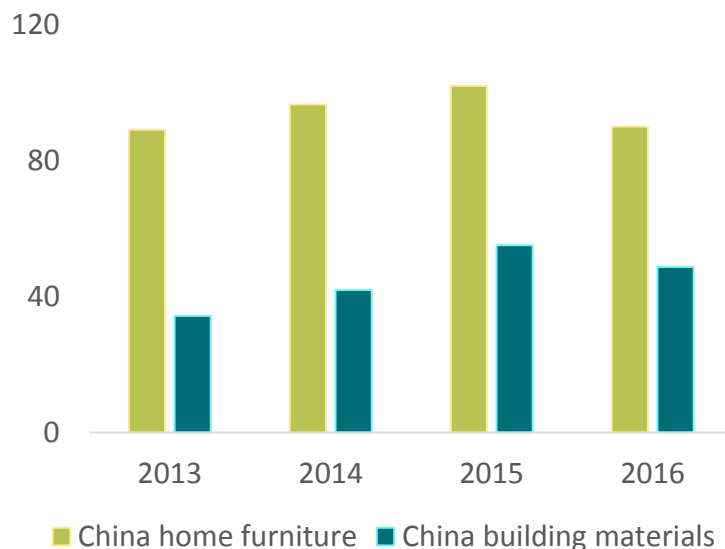
Profit ratio (%)	2015	2016	2017
Gross profit margin	25.8%	26.6%	26.1%
EBITDA margin	17.4%	18.1%	18.8%
EBIT margin	14.1%	14.7%	15.6%
Net profit margin	10.6%	11.1%	11.1%
Growth rate (%)			
Revenue	3.0%	12.8%	18.2%
Gross profit	3.6%	16.4%	16.0%
EBITDA	5.3%	17.8%	22.6%
EBIT	3.5%	17.7%	25.8%
Net profit	5.1%	18.2%	18.4%
Liability ratio (times)			
EBITDA/ financing costs	30.38x	29.19x	16.71x
Total debts/ (total debts + total equity)	24.7%	28.9%	37.6%

Appendix: Lesso Home

Industry review of building materials & interior decoration products

Export Amount

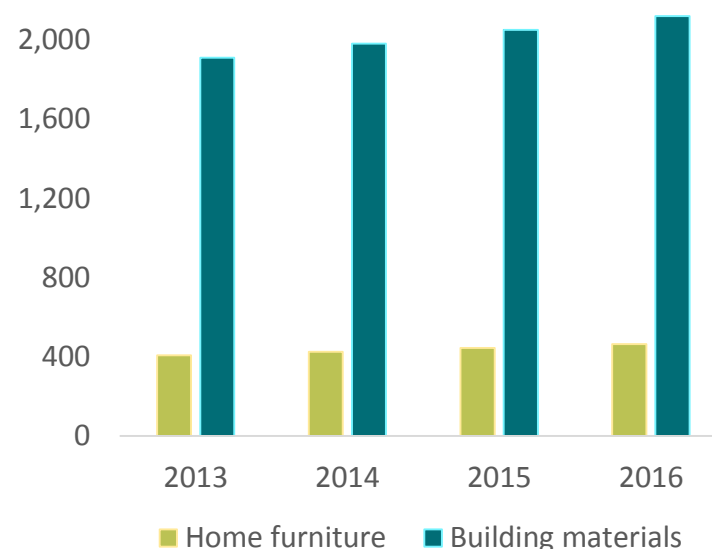
(USD\$ billion)



**China's total annual
export exceeds 100 billion
US dollars**

Global Consumption Amount

(USD\$ billion)



**Annual global
consumption exceeds
trillions of dollars**

Appendix: Industry outlook

Favorable policies from the Chinese Government



Sponge City

- ❖ **370 cities** have put forward special plans for the construction
- ❖ Having **20%** of the area of the cities constructed to meet the requirements of Sponge City by the year 2020



Underground Pipeline Utility Tunnel

- ❖ Construction of **738 kilometers** of the tunnels having started, and more than **RMB 40 billion** being invested as of **April 2017**
- ❖ The piping infrastructure in **Xiongan New Area** is a new highlight and is expected to reach **RMB100 billion** of market size
- ❖ Aimed at having **2%** of the total lengths of urban streets and roads built with underground pipeline utility tunnels by the year 2020



The Plan for “Beautiful Village”

- ❖ Strengthening rural infrastructure construction was also prioritized among the tasks of the year **in the 2017 Report on the Work of the Government by the State Council**
- ❖ Advance the **integration of urban and rural communities**



Action Plan for Prevention & Control of Water Pollution

- ❖ Requires a total investment of approximately **RMB4.6 trillion** reach completion
- ❖ In 2018, the Report On the Work of the Government of China's Two Sessions indicated that 122 major water conservancy projects were started, and investment in water conservancy construction reached **RMB1 trillion**



“Belt & Road” Initiative

- ❖ The Chinese government stepped up its efforts to increase investment in industries so as to facilitate trade for **“Belt and Road” Initiative**
- ❖ Huge potential for **infrastructure construction** among many countries and regions covered by the Belt and Road Initiative

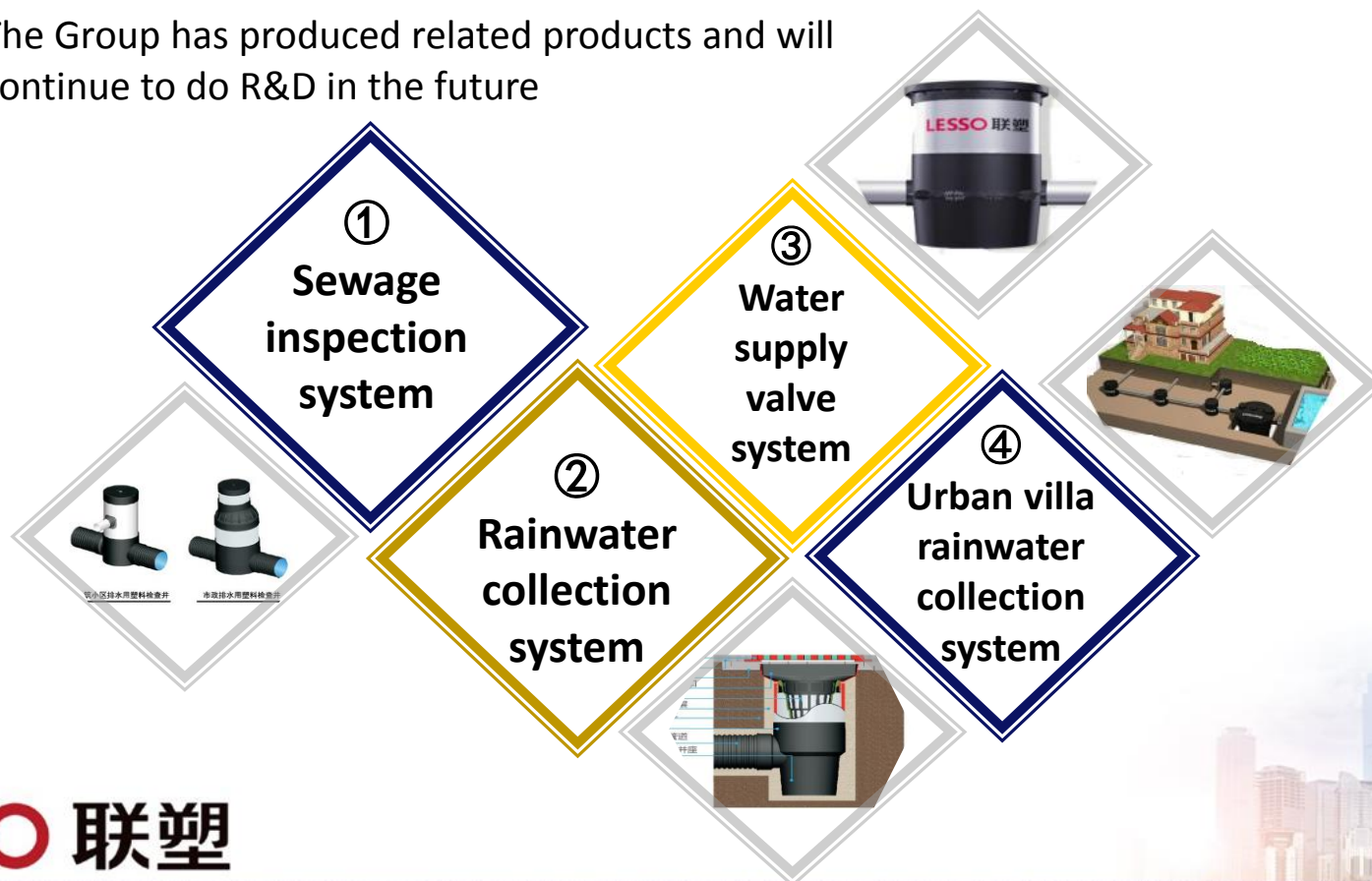
Appendix: Product application of plastic piping systems (Introduction of Sponge City)

- ❖ Sponge City - A new concept of urban rain flood management, which is mainly a set of water resources management strategies and methods
- ❖ The concept of "Sponge City" is to enhance the city's water storage capacity and construct a modern sewer system and infrastructure to facilitate the accumulation, infiltration, and purification of rainwater in urban areas
- ❖ The General Office of the State Council has issued the "Guiding Opinions on Advancing the Construction of Sponge City" in October 2015, and deployed to promote the development of the Sponge City
- ❖ The annual investment in 2015-2020 is expected to reach RMB400 billion

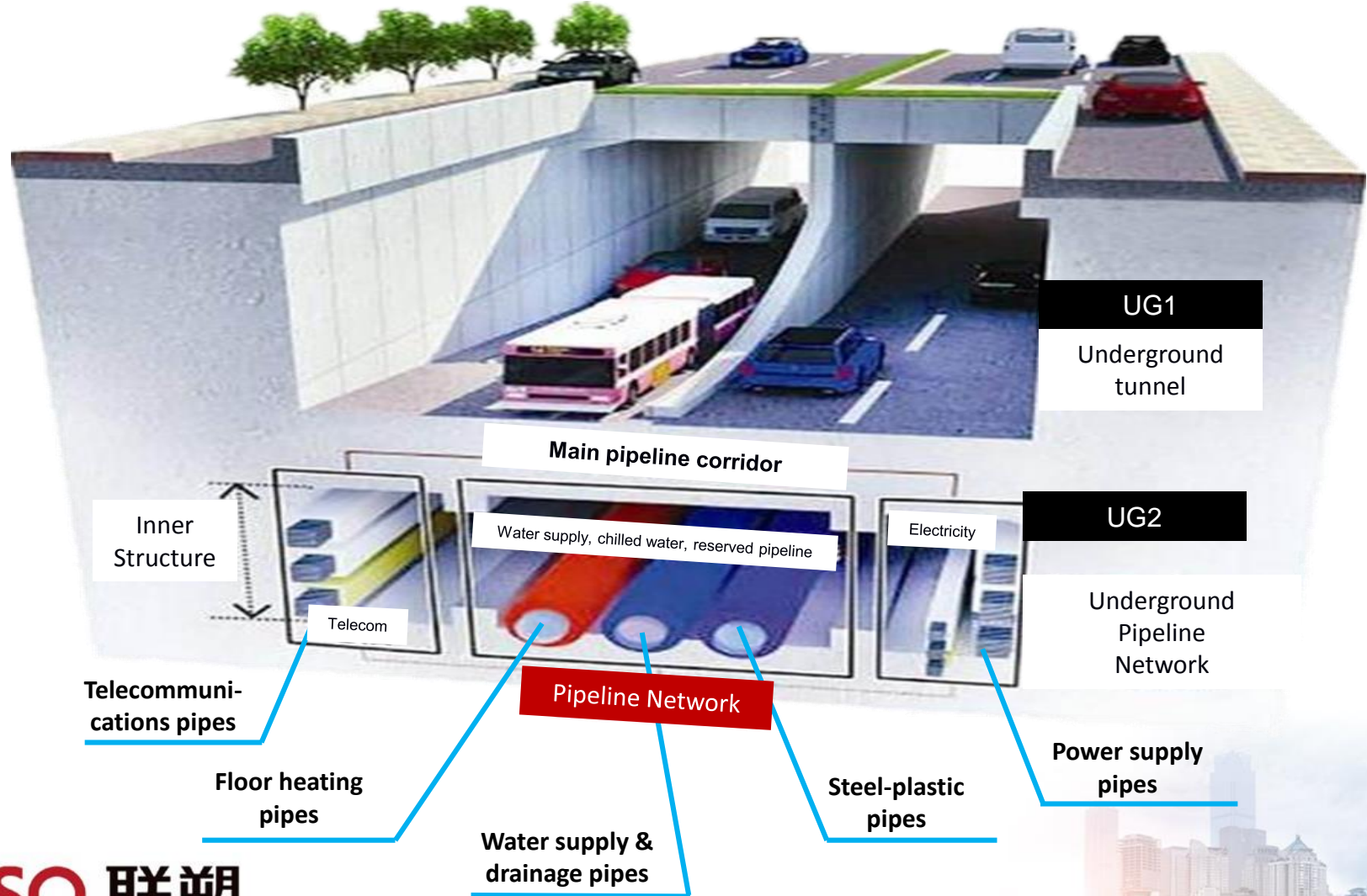


Appendix: Product application of plastic piping systems (Sponge City)

- ❖ The Group vigorously promotes its core plastic piping systems business, and produce and enhance related products in cope with the sewage inspection system, rainwater collection system, water supply valve system and urban villa rainwater collection system
- ❖ The Group has produced related products and will continue to do R&D in the future



Appendix: Product application of plastic piping systems (Urban Underground Pipeline Network)



Appendix: Distribution of production bases in China

