

# 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. HK

INNOVATION THROUGH  
ADVANCEMENT

穩健增長 拓展求新

## 2018 Interim Results

## Corporate Presentation



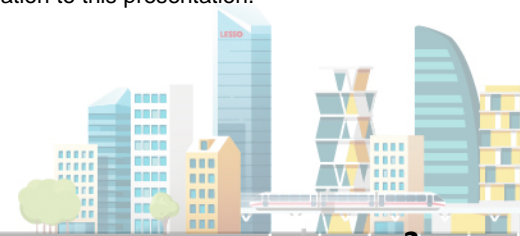
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# Agenda



## 01 Results Highlights



## 02 Financial Review



## 03 Business Review



## 04 Outlook



# Results Highlights

- ❖ Achieved steady growth in 1H2018
  - ❖ Revenue: **RMB10,448 million, +16.4%**
  - ❖ Gross profit: **RMB2,721 million, +10.6%**
  - ❖ Profit attributable to the owners of the Company: **RMB 1,041 million, +7.2%**
- ❖ 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 : **985,418 tonnes, +13.3%**
  - ❖ Revenue: **RMB9,400 million, +17.0%**
- ❖ Continued to expand its environmental protection business and won many large-scale contracts from different sectors
- ❖ Acquired 26.28% equity of Xingfa Aluminium Holdings Limited which became the associate company of the Group, creating long-term commercial synergies
- ❖ The Board of Directors announced payment of an interim dividend of HK10 cents per share (1H2017: Nil)



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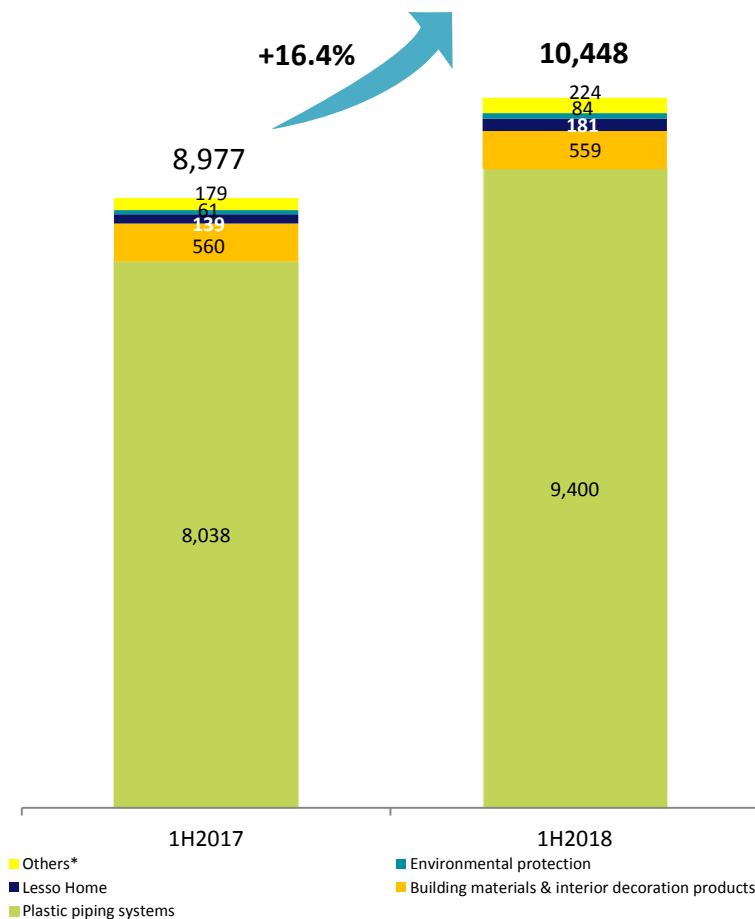
## 04 Outlook



# Steady revenue growth

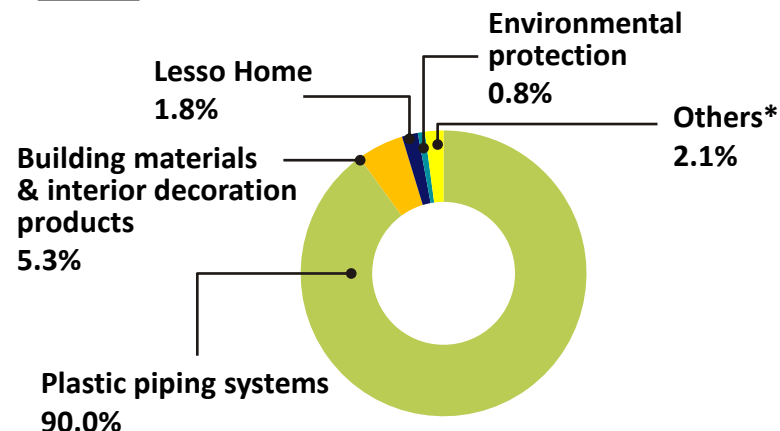
## Total revenue

(RMB million)

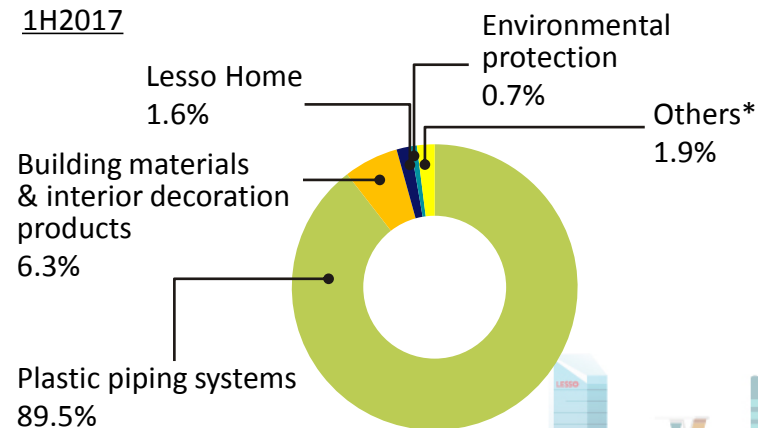


## Total revenue (by business segment)

1H2018

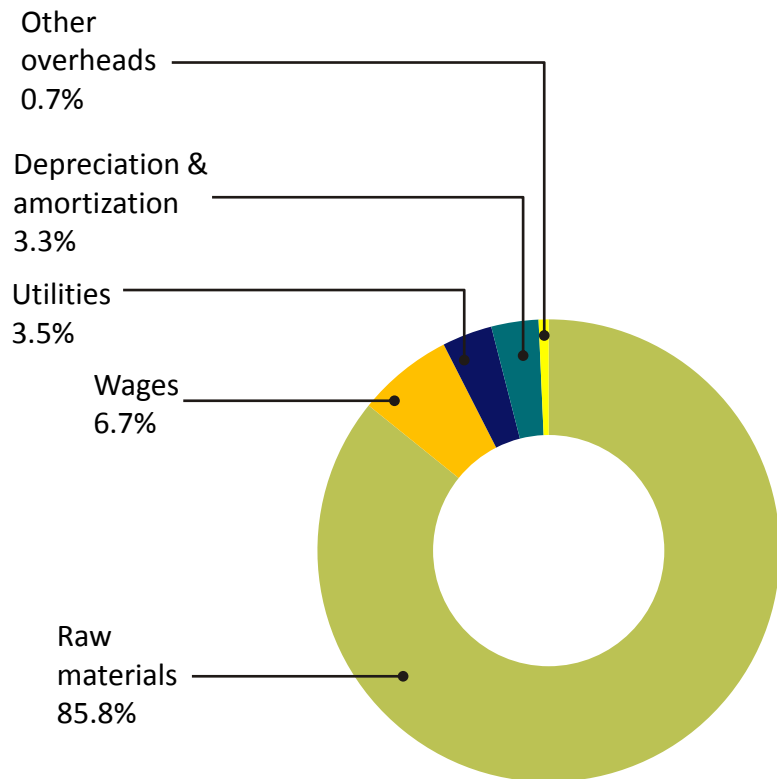


1H2017

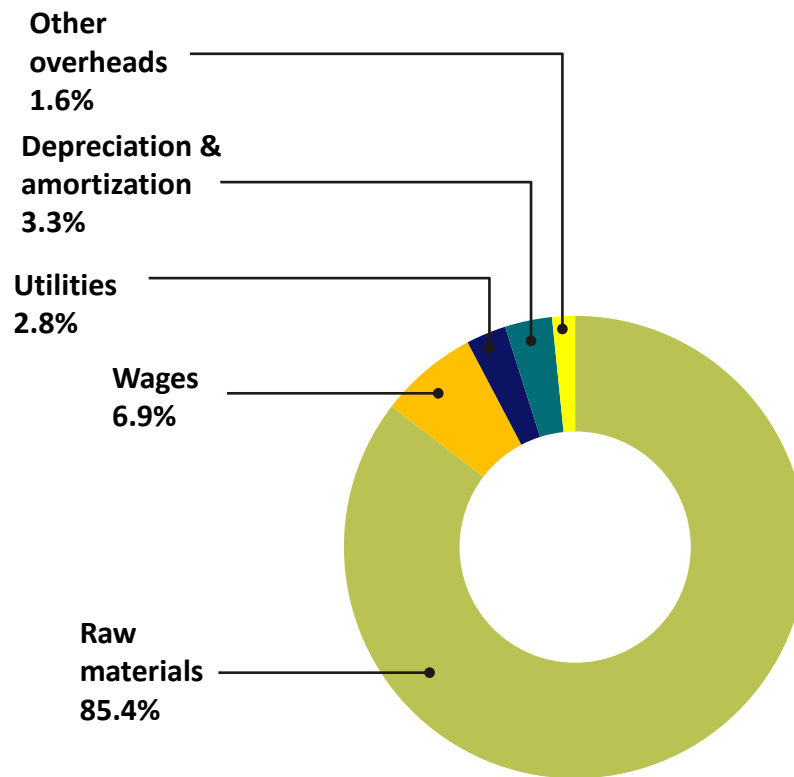


# Overall cost structure

1H2017



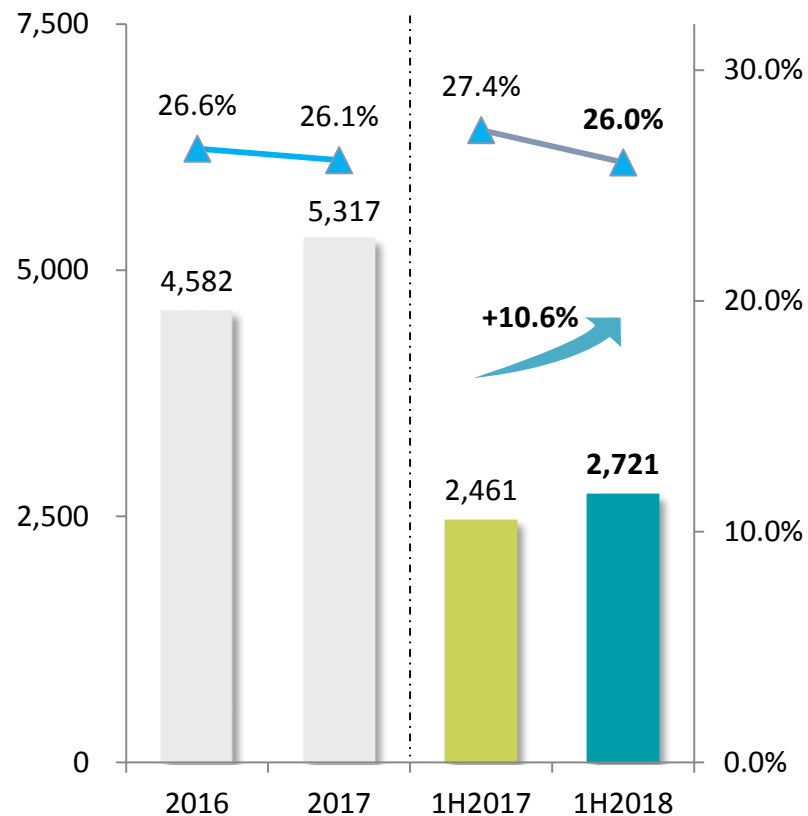
1H2018



# GP & NP continued to increase

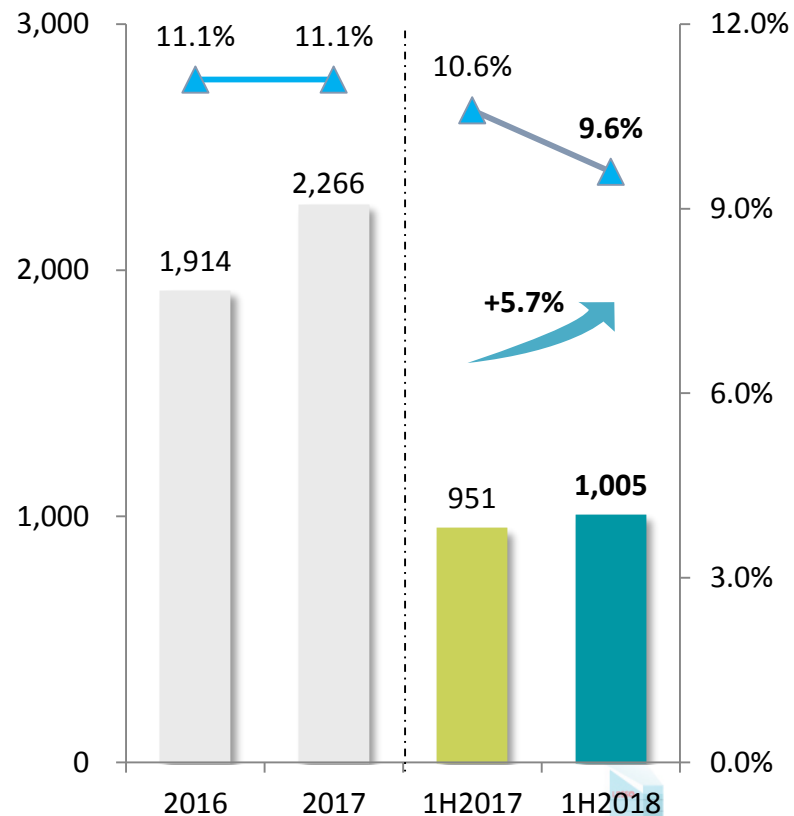
## GP & GP margin

(RMB million)



## NP & NP margin

(RMB million)

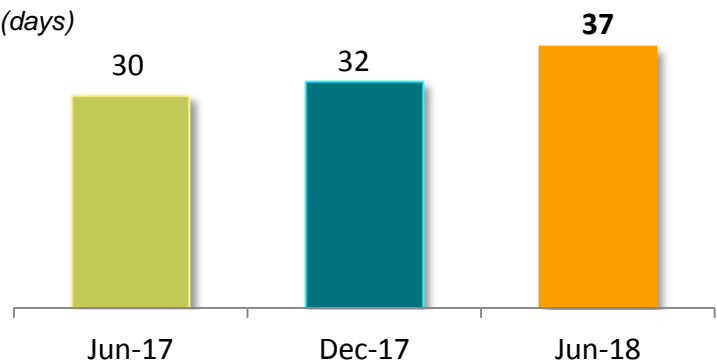




# Healthy and stable key financial indicators

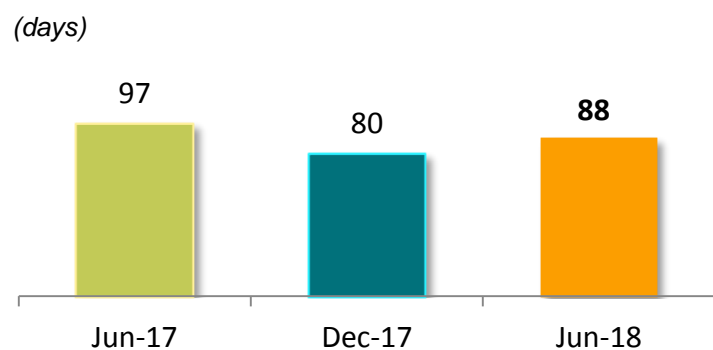
## Trade receivable days

(days)



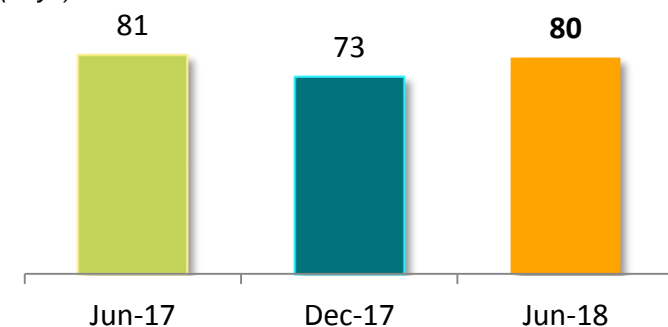
## Trade payable days

(days)



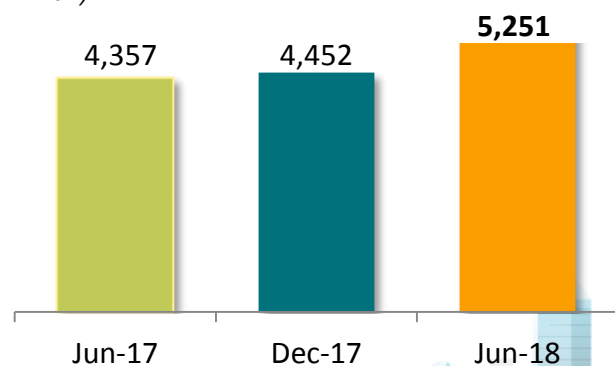
## Inventory turnover days

(days)



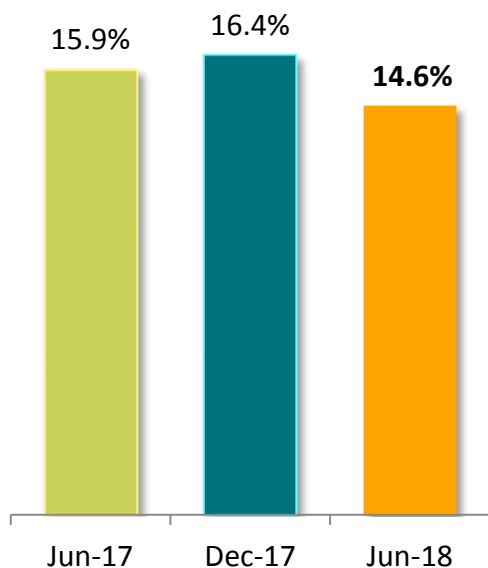
## Cash & bank deposits

(RMB million)

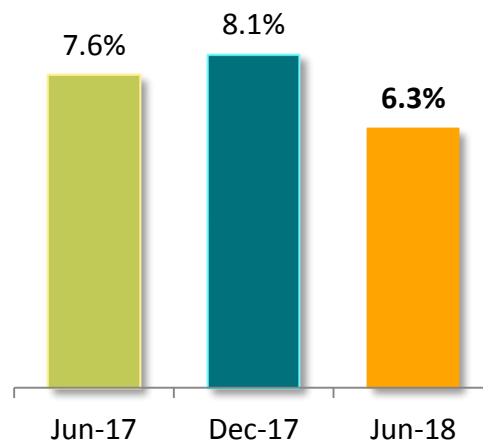


# Remained stable in return ratios

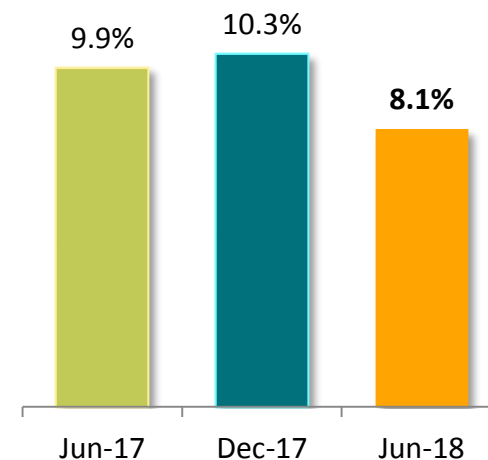
**Return on equity<sup>(1)</sup>**



**Return on assets<sup>(2)</sup>**



**Return on invested capital<sup>(3)</sup>**



(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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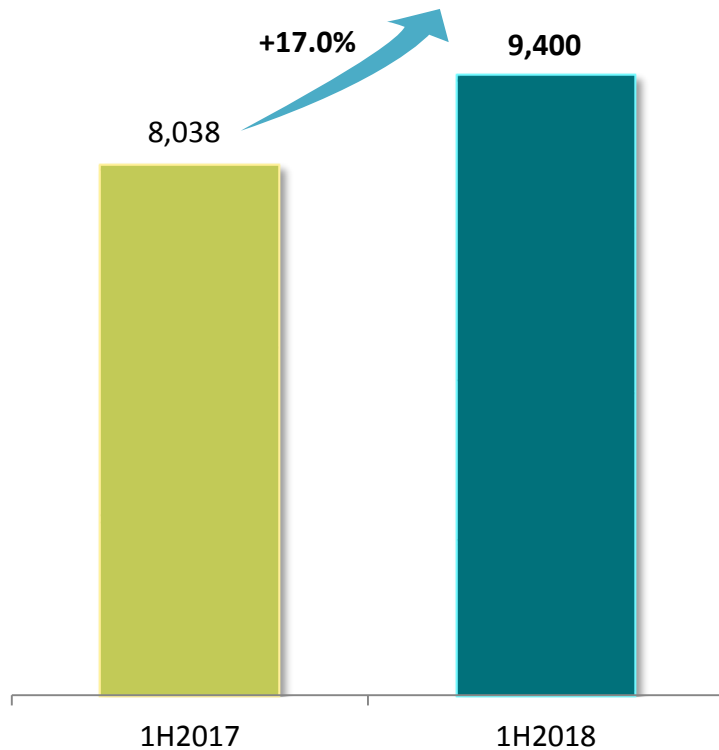
## 04 Outlook



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

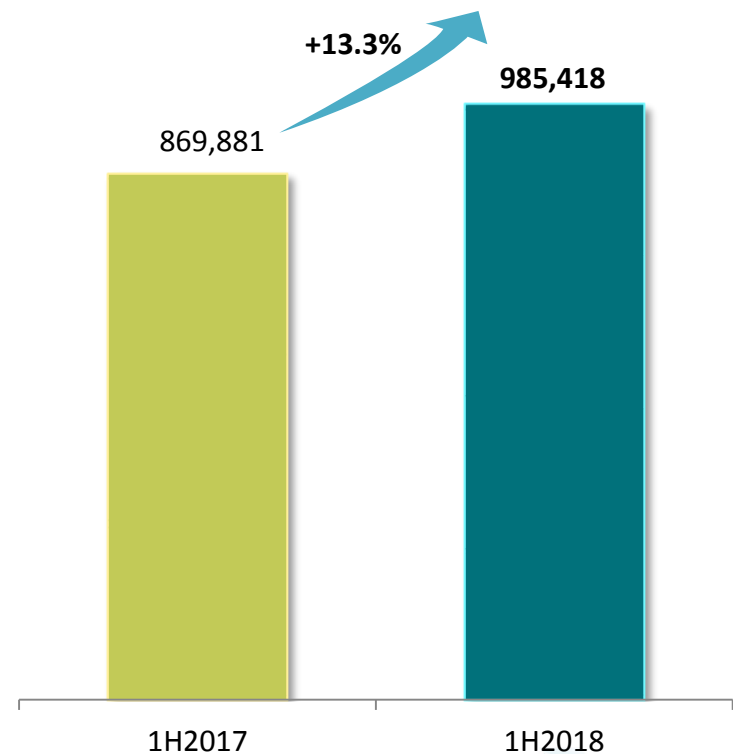
Segment revenue

(RMB million)



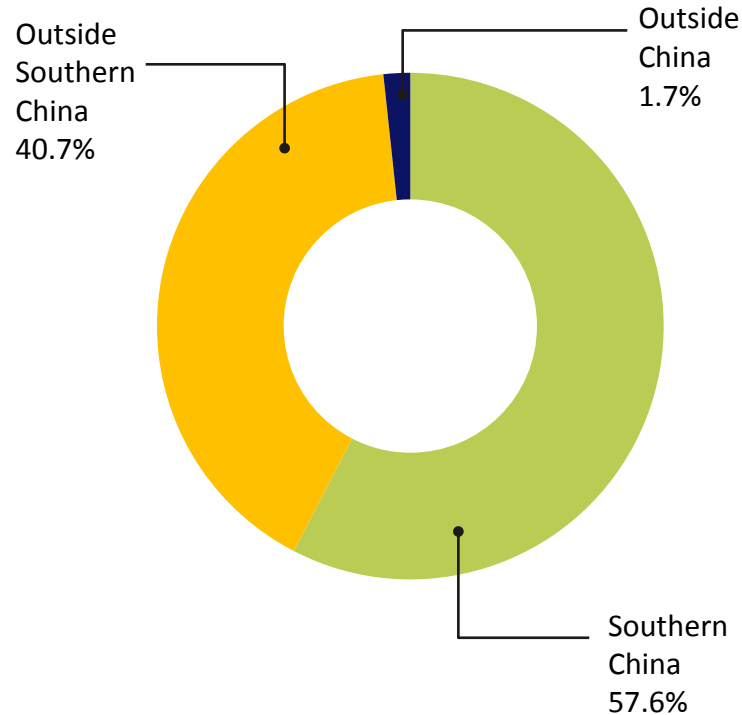
Segment sales volume

(tonnes)

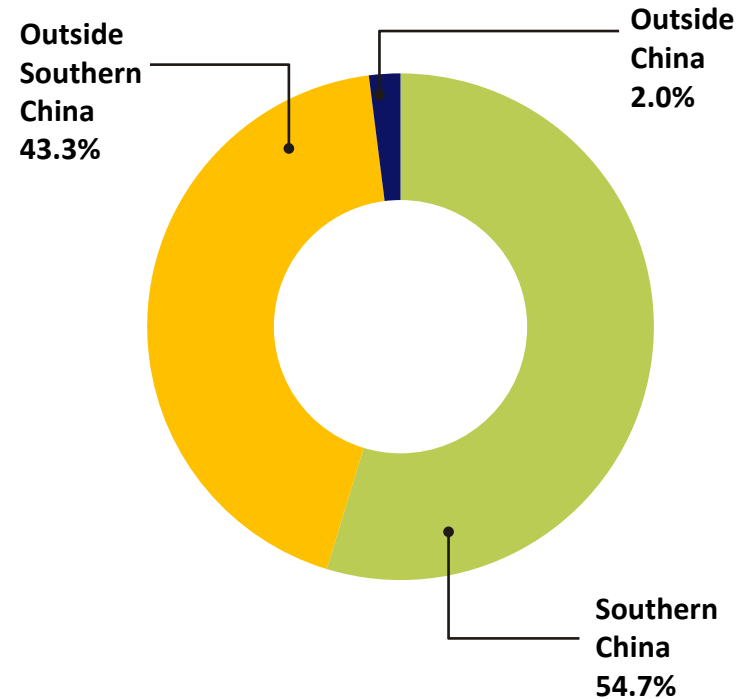


# Plastic piping systems business: revenue breakdown by region

1H2017



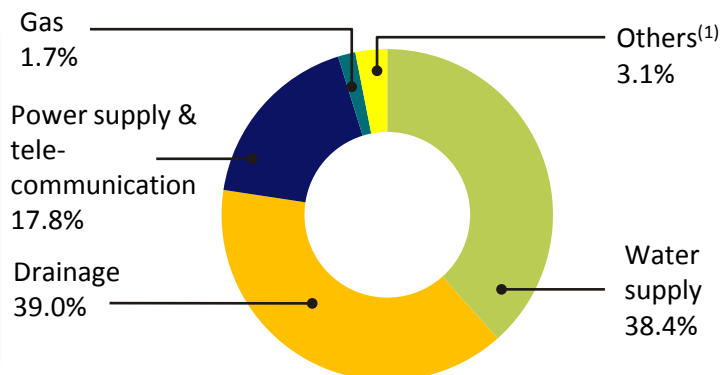
1H2018



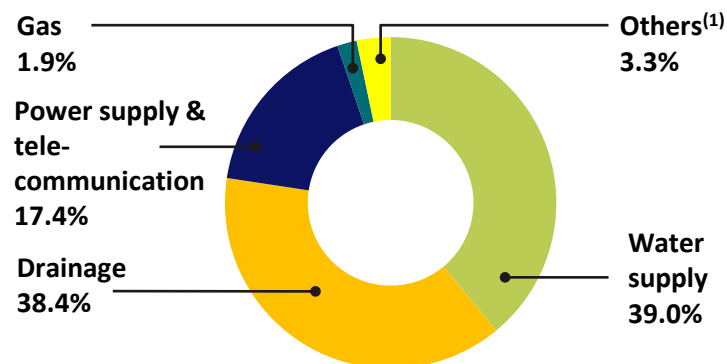
# Plastic piping systems business: revenue analysis

**By application**

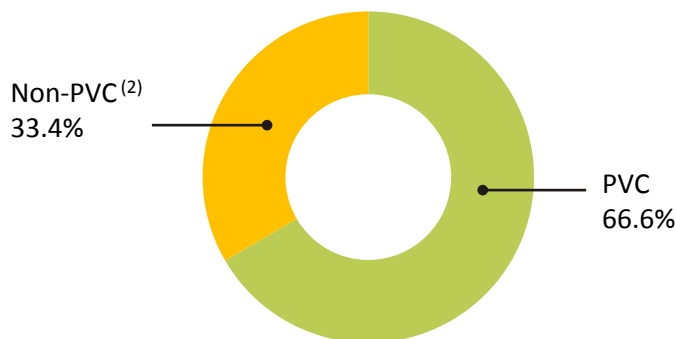
1H2017



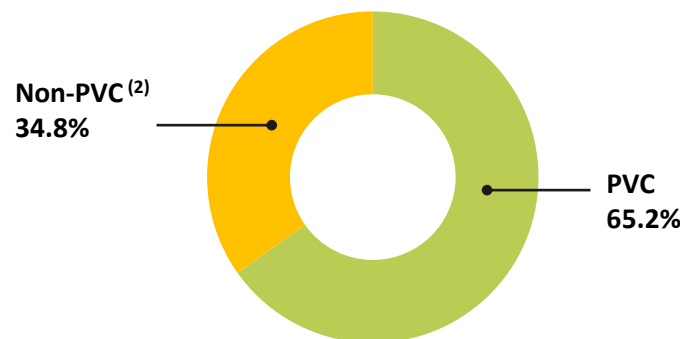
1H2018



**By material**



Total pipe products revenue:  
RMB 8.038 billion



Total pipe products revenue:  
RMB 9.4 billion

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

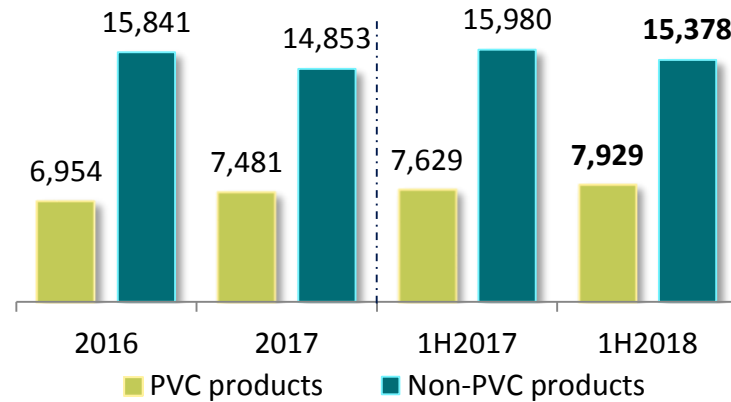
(2) Non-PVC includes PE, PP-R, etc



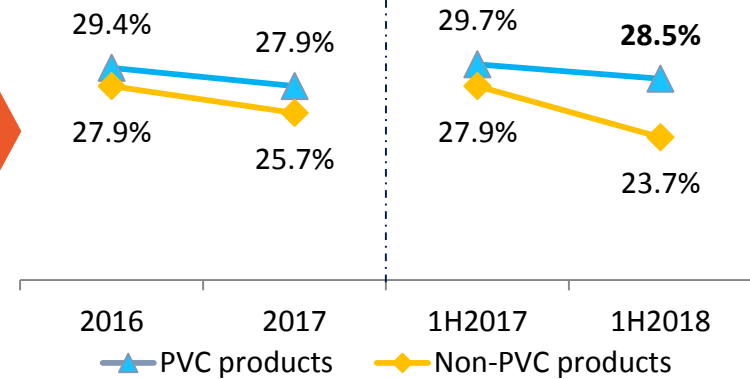
# Plastic piping systems business: ASP & GP margin analysis

## ASP per tonne – by material

(RMB)

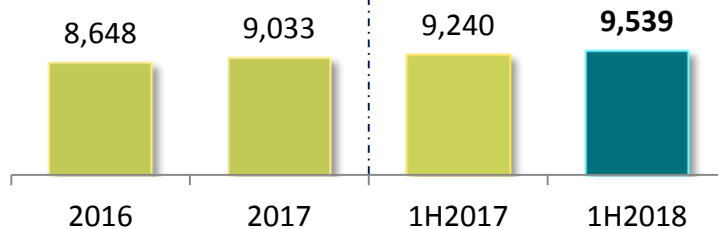


## GP margin – by material

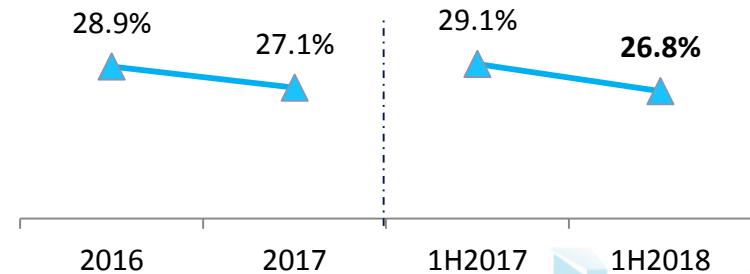


## ASP per tonne - overall

(RMB)



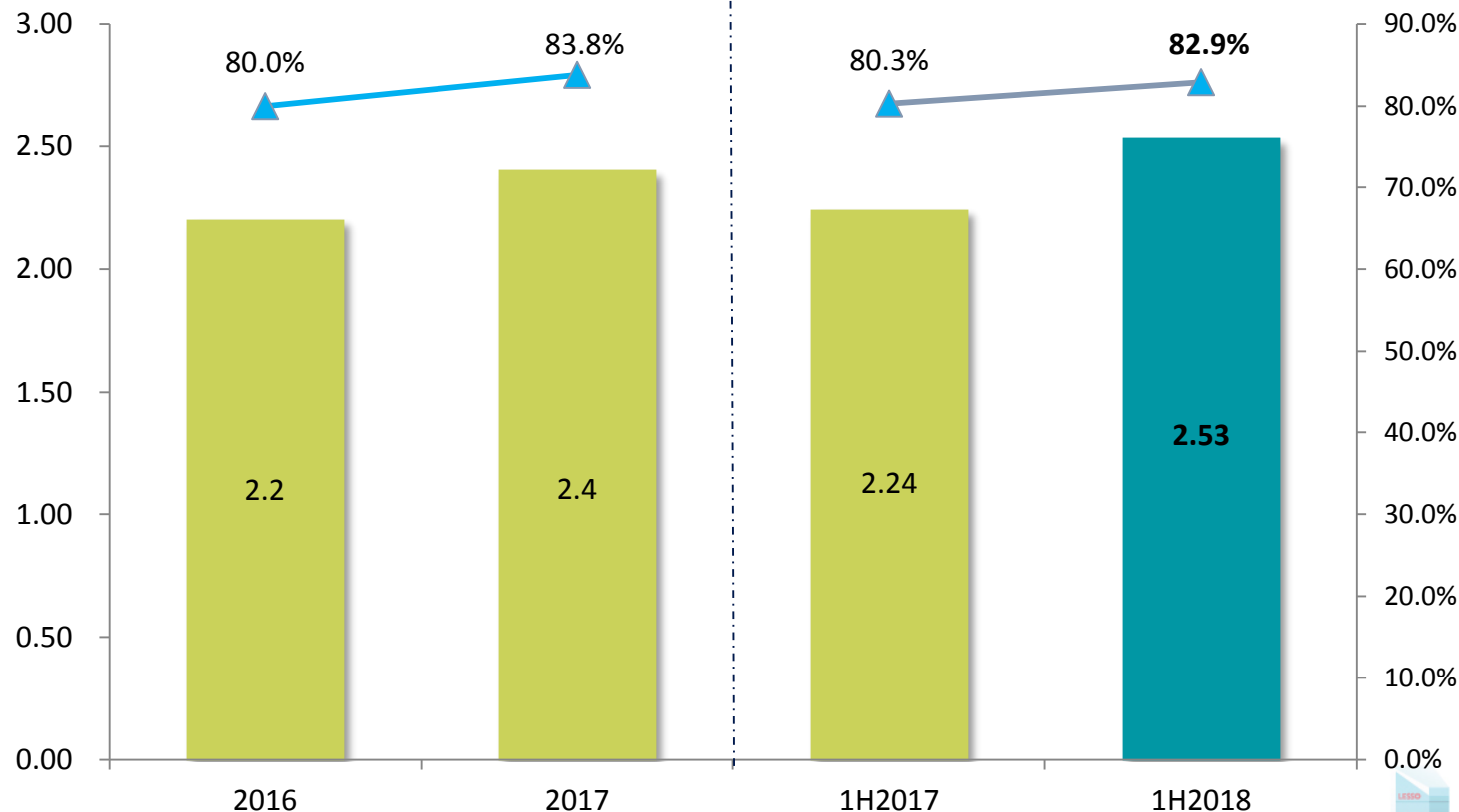
## GP margin - overall



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

Annual designed production capacity & Average utilization rate

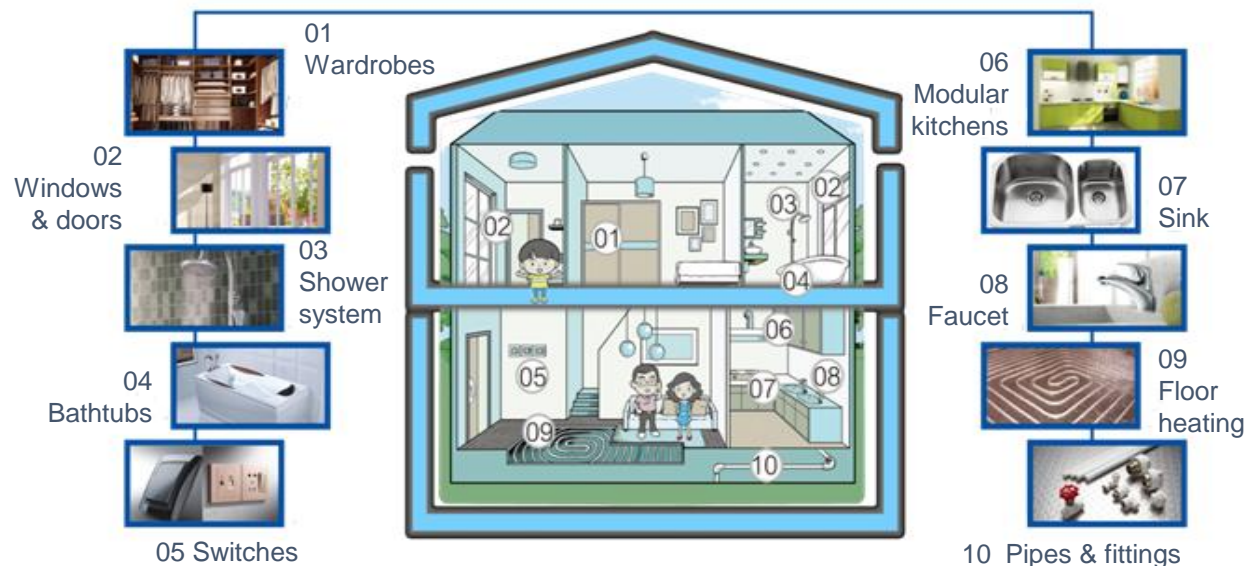
(million tonnes)





# Building materials & interior decoration products

## Progress



- ❖ Though real estate regulations continuously exerted downward pressure on the market and slow-downed the investment in the real estate market, revenue was able to keep at a similar level of last year of RMB559 million
- ❖ Diversified product lines 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 piping systems product lines
- ❖ Captured the opportunities of new urbanization and dedicated to expand product range
- ❖ Home redecoration will give impetus to business growth



# Environmental protection business

## Progress

- ❖ Continued to expand environmental protection business and actively capitalized on municipal projects in various fields, including municipal sewerage system, river treatment, soil restoration, underground pipeline utility tunnel, sponge city, installation of integrated water purifiers and other fields
- ❖ Diversified environmental protection business creates long term commercial synergies with plastic piping systems business
- ❖ Strives to become a one-stop environmental protection service provider, so as to contribute to the green life of residents



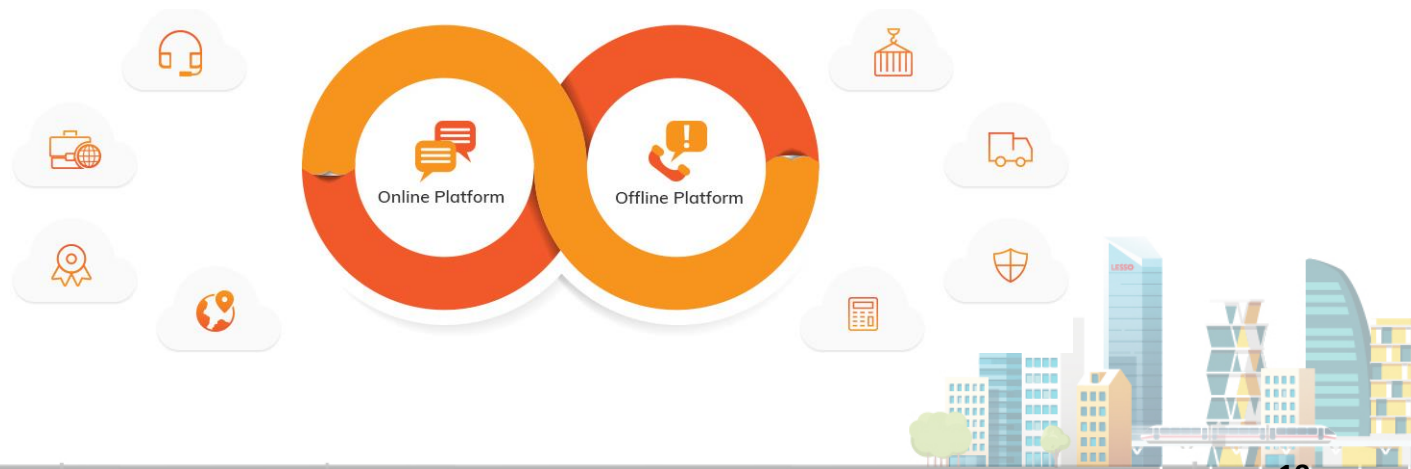
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# Lesso Home

## Progress

- ❖ Following the government's "Belt and Road Initiative", promoted Lesso Home with the mode of the "One-Stop Specialized Market for Home Furnishing Products" in the overseas markets
- ❖ Helps Chinese building material and home furnishing makers in building a cross-border platform and exhibiting, selling and delivering their products to target customers around the world
- ❖ Lesso Home has already reserved properties in the United States, Canada, Australia, United Arab Emirates and Thailand



# Agenda



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# Future Prospects

## Achieve Centralized Automated and Intelligent Production to Enhance Efficiency



- ❖ Actively develop **intelligent factories** and **upgrade facilities**
- ❖ Further improve the mechanical equipment and auxiliary facilities in existing production bases so as to raise the level of **automation** and accelerate production

## Focus on R&D to Improve Product Quality



- ❖ Strive to enhance its **competitiveness** in the **R&D of products and technologies**, accelerate the **transformation** and the **upgrading** of its businesses, and proactively expand its **distribution network** and **market coverage**
- ❖ Continue to increase **investment** in **R&D innovation**, 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



- ❖ 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**



Q&A



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# Appendix: financial summary

## Statement of profit and loss

(RMB million)	2016	2017	1H2017	1H2018
Revenue	17,221	20,360	8,977	10,448
Gross profit	4,582	5,317	2,461	2,721
EBITDA	3,125	3,831	1,638	1,852
EBIT	2,532	3,184	1,324	1,479
Net profit	1,914	2,266	951	1,005

## Statement of financial position

(RMB million)	2016	2017	1H2017	1H2018
Cash & bank deposits	3,886	4,452	4,357	5,251
Total assets	22,195	27,974	25,189	32,268
Total debts	4,695	8,319	7,305	11,010
Total equity	11,538	13,783	12,085	13,903

## Ratio analysis

Profit ratio (%)	2016	2017	1H2017	1H2018
Gross profit margin	26.6%	26.1%	27.4%	26.0%
EBITDA margin	18.1%	18.8%	18.2%	17.7%
EBIT margin	14.7%	15.6%	14.7%	14.2%
Net profit margin	11.1%	11.1%	10.6%	9.6%
Growth rate (%)				
Revenue	12.8%	18.2%	22.6%	16.4%
Gross profit	16.4%	16.0%	12.7%	10.6%
EBITDA	17.8%	22.6%	8.4%	13.1%
EBIT	17.7%	25.8%	8.0%	11.7%
Net profit	18.2%	18.4%	4.6%	5.7%
Liability ratio (times)				
EBITDA/ financing costs	29.19x	16.71x	16.55x	10.29x
Total debts/ (total debts + total equity)	28.9%	37.6%	0.38x	0.44x

# Industry Outlook



## Favorable Policies from the Chinese Government

### Natural gas Transmission

1



- ❖ The “Clean Winter Heating Plan for Northern China (2017-2021)” : **plans to add eight main pipes and 4,300 km of branch pipes** in six provinces in Northern China
- ❖ Huge room for development in the **pipe construction market**

### Planning of pipes and pipeline networks

2



- ❖ Under “The 13<sup>th</sup> Five-year Plan”, Government targets to add **93,000 km** of new pipelines to the water supply network, **95,000 km** of new pipelines to the sewage network, replace **23,000 km** of old pipelines of the sewage network, add **41,000 km** of new pipelines to the centralized heating network, build **137,000 km** of new gas pipelines, and construct **112,400 km** of urban rainwater drainage pipelines
- ❖ 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”

3



- ❖ 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

4



- ❖ Requires a total investment of approximately **RMB4.6 trillion** reach completion
- ❖ Various local governments continued to implement the Action Plan, such as **Shanghai and Guangdong Province government**
- ❖ 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

5



- ❖ 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

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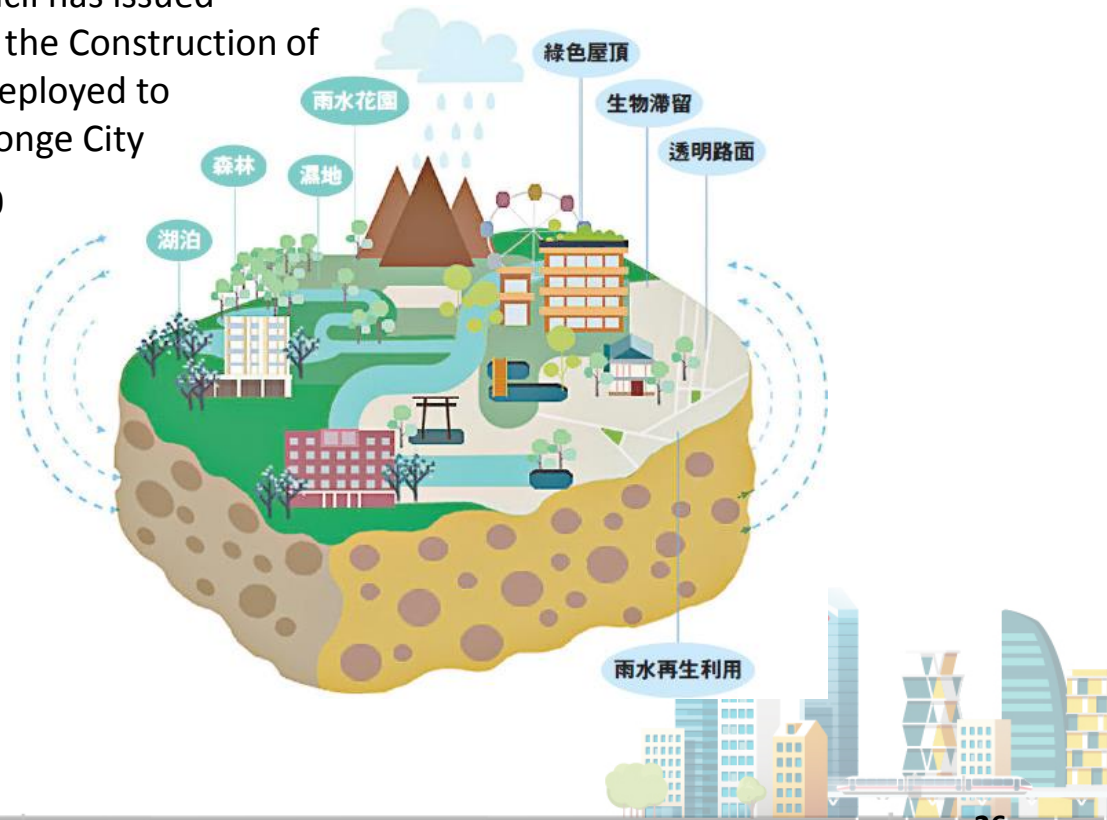


# Appendix: Distribution of production bases in China



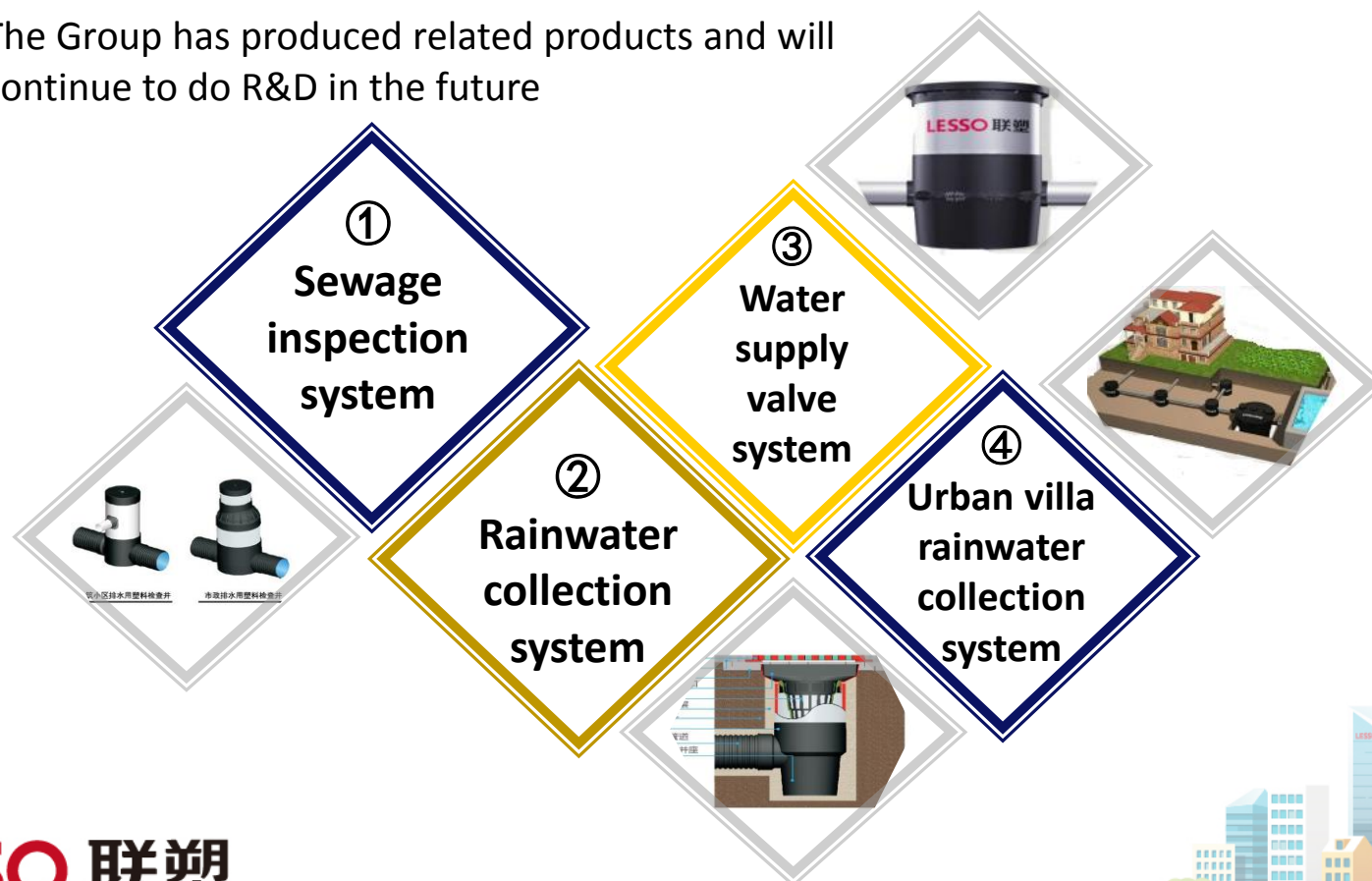
# Appendix: Product application of plastic piping systems (Introduction of Sponge City)

- ❖ 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 sewage 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)

