LESSO 联塑

CHINA LESSO GROUP HOLDINGS LIMITED

中國聯塑集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2128)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

The Board is pleased to announce the consolidated financial results of the Group for the year ended 31 December 2022.

HIGHLIGHTS

Compared to the last year consolidated financial results:

- Revenue decreased by 4.0% to RMB30,767 million
- Gross profit decreased by 2.4% to RMB8,241 million
- Profit for the year decreased by 16.7% to RMB2,515 million
- Basic earnings per share was RMB0.82, decreased by 17.2%
- The payment of a final dividend of HK30 cents per share is recommended for the year ended 31 December 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
REVENUE	3	**30,767,211**	32,057,584
Cost of sales		**(22,525,788)**	(23,609,891)
Gross profit		**8,241,423**	8,447,693
Other revenue, income and gains	3	**668,454**	1,433,071
Selling and distribution expenses		**(1,461,755)**	(1,493,378)
Administrative expenses		**(1,569,099)**	(1,506,939)
Impairment losses on financial and contract assets		**(465,548)**	(1,329,541)
Other expenses		**(1,614,451)**	(1,441,493)
Finance costs	4	**(681,084)**	(546,149)
Share of results of associates		**71,094**	242,740
Share of result of a joint venture		**1,390**	1,278
PROFIT BEFORE TAX	5	**3,190,424**	3,807,282
Income tax expense	6	**(675,524)**	(788,693)
PROFIT FOR THE YEAR		**2,514,900**	3,018,589
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Debt instruments at fair value through other comprehensive income:			
Changes in fair value, net of tax		**317,013**	(315,985)
Share of other comprehensive income of an associate, net of tax		**(1,039)**	2,594
Exchange differences on translation of foreign operations		**(715,543)**	(327,957)
		(399,569)	(641,348)

	Note	**2022** *RMB'000*	2021 *RMB'000*
Items that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income		**(406,280)**	(267,295)
Re-measurement gain on defined benefit plan, net of tax		**–**	551
		(406,280)	(266,744)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(805,849)**	(908,092)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,709,051**	2,110,497
Profit attributable to:			
Owners of the Company		**2,517,322**	3,044,159
Non-controlling interests		**(2,422)**	(25,570)
		2,514,900	3,018,589
Total comprehensive income attributable to:			
Owners of the Company		**1,712,694**	2,185,919
Non-controlling interests		**(3,643)**	(75,422)
		1,709,051	2,110,497
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	*8*	**RMB0.82**	RMB0.99

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**13,882,250**	12,331,567
Right-of-use assets		**2,474,880**	2,378,954
Investment properties		**8,027,487**	7,809,639
Deposits paid for the purchase of land, property, plant and equipment		**1,986,003**	1,043,250
Goodwill		**541,878**	495,857
Other intangible assets		**438,833**	547,836
Interests in associates		**2,696,897**	2,618,990
Interest in a joint venture		**14,191**	12,801
Other financial assets	*9*	**2,602,197**	2,031,511
Loan receivables	*10*	**42,473**	86,400
Other non-current assets		**1,689,328**	385,376
Contract assets		**42,284**	39,980
Deferred tax assets		**520,858**	349,105
Total non-current assets		**34,959,559**	30,131,266
CURRENT ASSETS			
Inventories	*11*	**6,499,986**	6,881,329
Contract assets		**553,288**	576,901
Other financial assets	*9*	**682,907**	822,696
Loan receivables	*10*	**1,096,843**	1,152,292
Trade and bills receivables	*12*	**4,873,943**	4,212,442
Prepayments, deposits and other receivables		**2,924,308**	2,130,992
Cash and bank deposits		**7,361,770**	7,646,249
		23,993,045	23,422,901
Asset held for sale		**–**	929,022
Total current assets		**23,993,045**	24,351,923

	Note	**2022**	2021
		RMB'000	*RMB'000*
CURRENT LIABILITIES			
Contract liabilities		**3,489,765**	3,249,079
Trade and bills payables	*13*	**8,036,239**	7,545,637
Other payables and accruals		**2,182,777**	1,697,228
Tax payable		**367,752**	360,574
Borrowings	*14*	**7,257,639**	7,279,814
Convertible loans	*15*	**–**	624,430
Lease liabilities		**107,670**	77,670
Other financial liabilities		**5,230**	29,171
Total current liabilities		**21,447,072**	20,863,603
NET CURRENT ASSETS		**2,545,973**	3,488,320
TOTAL ASSETS LESS CURRENT LIABILITIES		**37,505,532**	33,619,586
NON-CURRENT LIABILITIES			
Borrowings	*14*	**12,778,043**	9,879,291
Lease liabilities		**470,736**	414,698
Other long-term payables		**8,903**	10,385
Provision for long-term employee benefits		**6,387**	5,219
Other financial liabilities		**–**	42,188
Deferred tax liabilities		**1,407,542**	1,200,818
Deferred income		**244,126**	260,224
Total non-current liabilities		**14,915,737**	11,812,823
Net assets		**22,589,795**	21,806,763
EQUITY			
Share capital	*16*	**135,344**	135,344
Reserves		**21,658,909**	20,635,797
Equity attributable to owners of the Company		**21,794,253**	20,771,141
Non-controlling interests		**795,542**	1,035,622
Total equity		**22,589,795**	21,806,763

NOTE:

1.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, other financial assets, asset held for sale and other financial liabilities which have been measured at fair value. These consolidated financial statements are presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's consolidated financial statements.

Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

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

2. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of building materials and home improvement products; sale of products and provision of services relating to new energy business; the provision of renovation and installation works, environmental engineering and other related services, logistics 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 resource 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, gain on early repayment of convertible loans, investment income, gain on disposal of subsidiaries, loss on disposal/deemed disposal of associates, 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, asset held for sale 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 the PRC and foreign countries.

During the years ended 31 December 2022 and 2021, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

Operating segment information for the year ended 31 December 2022

	Southern China *RMB'000*	Southwestern China *RMB'000*	Central China *RMB'000*	Eastern China *RMB'000*	Northern China *RMB'000*	Northwestern China *RMB'000*	Northeastern China *RMB'000*	Outside China *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Segment revenue:										
Sale of goods relating to building materials and home improvement business	13,967,364	2,601,914	3,021,170	1,979,690	2,320,939	1,654,149	732,104	1,267,342	-	27,544,672
Sales of goods and services income relating to new energy business	378,104	87,244	4,098	88,590	25,301	-	3,609	2,432	-	589,378
Contract revenue from renovation and installation works	934,616	31,898	75,167	213,131	34,693	23,874	3,531	42,286	-	1,359,196
Income from environmental engineering and other related services	146,650	2,336	10,870	136,770	2,465	791	71	48,373	-	348,326
Logistics and other related services	97,789	-	4	80,321	-	-	-	515,015	-	693,129
Financial service income	64,129	4,995	996	12,536	160	76	92	-	-	82,984
Property rental and other related services	14,363	16	11	392	36	-	-	134,708	-	149,526
Revenue from external customers	15,603,015	2,728,403	3,112,316	2,511,430	2,383,594	1,678,890	739,407	2,010,156	-	30,767,211
Intersegment revenue	4,908,443	441,301	497,559	364,660	550,379	271,166	176,363	1,154,232	(8,364,103)	-
Total	20,511,458	3,169,704	3,609,875	2,876,090	2,933,973	1,950,056	915,770	3,164,388	(8,364,103)	30,767,211
Segment results:	4,474,948	694,161	946,675	551,883	658,172	372,585	160,212	418,434	(35,647)	8,241,423
Reconciliations:										
Interest income										174,867
Gain on fair value changes of investment properties										120,936
Loss on fair value changes of financial instruments at FVTPL										(283,759)
Gain on fair value changes of other financial liabilities										59,552
Gain on early repayment of convertible loans										3,862
Investment income										22,374
Gain on disposal of subsidiaries										8,510
Loss on disposal of associates										(30,649)
Gain from a bargain purchase										30
Exchange gain										40,018
Finance costs (other than interest on lease liabilities)										(652,091)
Share of results of associates										71,094
Share of result of a joint venture										1,390
Unallocated income and expenses										(4,587,133)
Profit before tax										3,190,424
Segment assets:	27,042,591	1,669,502	2,059,517	2,135,323	1,012,331	1,062,153	499,670	9,592,697	-	45,073,784
Reconciliations:										
Interests in associates										2,696,897
Interest in a joint venture										14,191
Other financial assets										3,285,104
Deferred tax assets										520,858
Cash and bank deposits										7,361,770
Total assets										58,952,604

	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
Other segment information:										
Write-down of inventories to net realisable value, net	**30,924**	**2,293**	**2,125**	**(781)**	**1,527**	**335**	**715**	**8,748**	**-**	**45,886**
Depreciation and amortisation	**1,419,757**	**84,510**	**48,578**	**76,657**	**54,683**	**45,946**	**20,056**	**163,932**	**-**	**1,914,119**
Impairment of other intangible assets	**66,875**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**66,875**
Reversal of impairment of loan receivables, net	**(156,104)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(156,104)**
Impairment of long-term loan receivables	**50,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**50,000**
Reversal of impairment of contract assets, net	**(3,207)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,207)**
Impairment of trade and bills receivables, net	**470,924**	**13,999**	**(6,453)**	**(12,748)**	**61,289**	**1,386**	**(6,110)**	**24,769**	**-**	**547,056**
Impairment of prepayments, net	**1,945**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,945**
Impairment of other receivables, net	**24,056**	**-**	**-**	**-**	**-**	**-**	**-**	**3,747**	**-**	**27,803**
Capital expenditure#	**3,235,083**	**87,441**	**217,625**	**77,180**	**65,495**	**157,687**	**18,203**	**1,128,375**	**-**	**4,987,089**

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 amounted to RMB23,684,000.

Operating segment information for the year ended 31 December 2021

	Southern China RMB'000	Southwestern China RMB'000	Central China RMB'000	Eastern China RMB'000	Northern China RMB'000	Northwestern China RMB'000	Northeastern China RMB'000	Outside China RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:										
Sale of goods relating to building materials and home improvement business	15,801,237	2,892,765	3,258,939	1,988,684	2,613,559	1,625,439	905,893	989,837	–	30,076,353
Contract revenue from renovation and installation works	1,005,358	58,903	103,290	202,750	47,362	9,208	6,324	15,358	–	1,448,553
Income from environmental engineering and other related services	142,100	5,769	16,667	121,171	3,819	41	95	11,267	–	300,929
Financial service income	74,833	10,514	1,416	25,148	2,083	31	93	–	–	114,118
Property rental and other related services	12,232	–	–	–	–	–	–	105,399	–	117,631
Revenue from external customers	17,035,760	2,967,951	3,380,312	2,337,753	2,666,823	1,634,719	912,405	1,121,861	–	32,057,584
Intersegment revenue	5,519,677	499,366	667,011	546,866	641,187	262,306	203,819	935,066	(9,275,298)	–
Total	22,555,437	3,467,317	4,047,323	2,884,619	3,308,010	1,897,025	1,116,224	2,056,927	(9,275,298)	32,057,584

	Southern China RMB'000	Southwestern China RMB'000	Central China RMB'000	Eastern China RMB'000	Northern China RMB'000	Northwestern China RMB'000	Northeastern China RMB'000	Outside China RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment results:	4,863,385	745,566	916,358	473,152	677,323	369,776	205,840	289,901	(93,608)	8,447,693
Reconciliations:										
Interest income										101,341
Gain on fair value changes of investment properties										916,828
Gain on fair value changes of financial instruments at FVTPL										199,224
Gain on fair value changes of other financial liabilities										8,048
Investment income										5,508
Gain from bargain purchase										26,217
Loss on deemed disposal of associates										(56,491)
Exchange loss										(48,560)
Finance costs (other than interest on lease liabilities)										(536,236)
Share of results of associates										242,740
Share of result of a joint venture										1,278
Unallocated income and expenses										(5,500,308)
Profit before tax										3,807,282
Segment assets:	23,144,419	1,694,292	2,071,075	2,298,299	1,128,725	950,928	568,995	8,216,082	–	40,072,815
Reconciliations:										
Interests in associates										2,618,990
Interest in a joint venture										12,801
Other financial assets										2,854,207
Deferred tax assets										349,105
Cash and bank deposits										7,646,249
Asset held for sale										929,022
Total assets										54,483,189
Other segment information:										
Write-back of inventories to net realisable value, net	(39,055)	4,298	(200)	(2,272)	(372)	(138)	103	18,632	–	(19,004)
Depreciation and amortisation	956,482	78,872	74,893	60,609	49,893	40,980	23,565	80,829	–	1,366,123
Impairment of property, plant and equipment	22,088	–	–	469	–	–	4,393	(167)	–	26,783
Impairment of goodwill	24,869	–	–	–	–	–	–	–	–	24,869
Impairment of other intangible assets	1,320	–	–	–	–	–	–	–	–	1,320
Impairment of loan receivables	329,279	–	–	–	–	–	–	–	–	329,279
Impairment of contract assets, net	20,431	–	–	–	–	–	60	–	–	20,491
Impairment of trade and bills receivables, net	887,819	6,371	12,988	22,022	15,969	5,461	14,224	13,093	–	977,947
Impairment of prepayments, net	71	25	1,090	15	236	11	–	–	–	1,448
Impairment of other receivables, net	1,914	–	–	–	–	–	–	(90)	–	1,824
Capital expenditure#	3,485,780	148,279	620,006	211,507	143,299	123,540	23,349	1,873,239	(77,846)	6,551,153

\# 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 amounted to RMB1,141,624,000.

3. REVENUE, OTHER REVENUE, INCOME AND GAINS

Revenue

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

By revenue nature:

	2022			2021		
	Goods transferred at a point in time ***RMB'000***	**Services transferred over time** ***RMB'000***	**Total** ***RMB'000***	Goods transferred at a point in time *RMB'000*	Services transferred over time *RMB'000*	Total *RMB'000*
Revenue from contracts with customers:						
Sale of goods relating to building materials and home improvement business	**27,544,672**	**–**	**27,544,672**	30,076,353	–	30,076,353
Sale of goods and services income relating to new energy business	**566,244**	**23,134**	**589,378**	–	–	–
Contract revenue from renovation and installation works	**–**	**1,359,196**	**1,359,196**	–	1,448,553	1,448,553
Income from environmental engineering and other related services	**–**	**348,326**	**348,326**	–	300,929	300,929
Logistics and other related services	**–**	**693,129**	**693,129**	–	–	–
Sub-total	**28,110,916**	**2,423,785**	**30,534,701**	30,076,353	1,749,482	31,825,835
Financial service income			**82,984**			114,118
Property rental and other related services			**149,526**			117,631
Total			**30,767,211**			32,057,584

By geographical locations:

	2022			2021		
	Goods transferred at a point in time	**Services transferred over time**	**Total**	Goods transferred at a point in time	Services transferred over time	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from contracts with customers:						
Mainland China	**26,841,142**	**1,818,111**	**28,659,253**	29,086,516	1,722,857	30,809,373
Outside China	**1,269,774**	**605,674**	**1,875,448**	989,837	26,625	1,016,462
Sub-total	**28,110,916**	**2,423,785**	**30,534,701**	30,076,353	1,749,482	31,825,835
Financial service income			**82,984**			114,118
Property rental and other related services			**149,526**			117,631
Total			**30,767,211**			32,057,584

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2022	2021
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**3,089,455**	1,414,239
Contract revenue from renovation and installation works	**55,310**	24,204
Income from environmental engineering and other related services	**147**	1,041
	3,144,912	1,439,484

Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 360 days from delivery or is settled on an advance receipt basis depending on the market conditions, market tactics and relationships with the customers.

Renovation, installation and engineering services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days from the date of billing. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

Logistics and other related services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days upon completion of services or is settled on an advance receipt basis depending on the relationships with the customers.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) at the end of the reporting period are as follows:

	2022	2021
	RMB'000	*RMB'000*
Amounts expected to be recognised as revenue:		
Not more than 1 year	**1,192,544**	1,435,765
Over 1 year	**219,791**	588,242
	1,412,335	2,024,007

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

Other revenue, income and gains

	2022	2021
	RMB'000	*RMB'000*
Bank interest income	**95,322**	93,200
Interest income from other loan receivables	**12,080**	4,644
Interest income from other financial assets	**32,362**	3,497
Interest income from long-term lease receivables	**35,103**	–
Total interest income	**174,867**	101,341
Government grants and subsidies	**115,070**	72,271
Gain on fair value changes of investment properties	**120,936**	916,828
Gain on fair value changes of financial instruments at FVTPL	**–**	199,224
Gain on fair value changes of other financial liabilities	**59,552**	8,048
Gain on early repayment of convertible loans	**3,862**	–
Investment income	**22,374**	5,508
Gain on disposal of items of other intangible assets and property, plant and equipment	**16,976**	–
Gain on disposal of subsidiaries	**8,510**	–
Gain on termination of right-of-use assets	**2,145**	396
Gain from a bargain purchase	**30**	26,217
Rental income	**17,516**	21,034
Exchange gain	**40,018**	–
Others	**86,598**	82,204
	668,454	1,433,071

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

	2022	2021
	RMB'000	*RMB'000*
Interest expenses on bank and other loans	**700,841**	565,142
Interest expenses on lease liabilities	**28,993**	9,913
	729,834	575,055
Less: Interest capitalised	**(48,750)**	(28,906)
	681,084	546,149

5. PROFIT BEFORE TAX

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

	2022	2021
	RMB'000	*RMB'000*
Cost of inventories relating to building materials and home improvement business	**20,033,849**	22,336,356
Cost of goods and services relating to new energy business	**511,322**	–
Direct cost of renovation and installation works	**1,052,753**	1,074,442
Direct cost of environmental engineering and other related services	**229,760**	179,458
Direct cost of logistics and other related services	**592,545**	–
Direct cost of financial services	**2,681**	4,965
Direct cost of property rental and other related services	**56,992**	33,674
Write-down/(write-back) of inventories to net realisable value, net	**45,886**	(19,004)
Depreciation of property, plant and equipment	**1,664,727**	1,220,264
Depreciation of right-of-use assets	**185,212**	108,338
Amortisation of other intangible assets	**64,180**	37,521
Total depreciation and amortisation	**1,914,119**	1,366,123
Research and development costs	**1,219,208**	1,215,499
(Gain)/loss on disposal of items of other intangible assets and property, plant and equipment	**(16,976)**	51,789
Impairment of property, plant and equipment	**–**	26,783
Changes in fair value of investment properties	**(120,936)**	(916,828)
Loss on disposal/deemed disposal of associates	**30,649**	56,491
Loss/(gain) on fair value changes of financial instruments at FVTPL	**283,759**	(199,224)
Gain on fair value changes of other financial liabilities	**(59,552)**	(8,048)
Gain on early repayment of convertible loans	**(3,862)**	–
Gain on disposal of subsidiaries	**(8,510)**	–
Gain from a bargain purchase	**(30)**	(26,217)
Gain on termination of right-of-use assets	**(2,145)**	(396)
Impairment of goodwill	**–**	24,869
Impairment of other intangible assets	**66,875**	1,320
(Reversal of impairment)/impairment of loan receivables, net	**(156,104)**	329,279
Impairment of long-term loan receivables	**50,000**	–
(Reversal of impairment)/impairment of contract assets, net	**(3,207)**	20,491
Impairment of trade and bills receivables, net	**547,056**	977,947
Impairment of prepayments, net	**1,945**	1,448
Impairment of other receivables, net	**27,803**	1,824
Foreign exchange differences, net	**(40,018)**	48,560

6. INCOME TAX EXPENSE

	2022	2021
	RMB'000	*RMB'000*
Current tax		
PRC	**673,647**	602,213
Hong Kong	**3,896**	1,331
Other jurisdictions	**44,399**	221,692
	721,942	825,236
(Over)/under provision in prior years		
PRC	**(34,863)**	(82,311)
Hong Kong	**896**	43
Other jurisdictions	**–**	(54)
	(33,967)	(82,322)
Deferred tax	**(12,451)**	45,779
Total tax charge for the year	**675,524**	788,693

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

Hong Kong profits tax has been provided at the rate of 16.50% (2021: 16.50%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2021: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.50% (2021: 16.50%).

PRC corporate income tax

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

Certain of the Group's PRC subsidiaries are qualified as High and New Technology Enterprises and are entitled to a preferential corporate income tax rate of 15.00% during both years.

Income tax for other jurisdictions

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

During the year, income tax of other jurisdictions mainly arose from US (2021: Australia and Canada) for the Group's disposal of investment properties.

7. DIVIDENDS

	2022 HK$ per share	2022 HK$'000	2021 HK$ per share	2021 HK$'000
2022 interim dividend paid (2021: 2021 interim dividend paid)	**–**	**–**	0.12	372,290
Less: Dividends for shares held for share award scheme	**–**	**–**	0.12	(2,759)
		–		369,531
2021 final dividend paid (2021: 2020 final dividend paid)	**0.26**	**806,629**	0.38	1,178,919
Less: Dividends for shares held for share award scheme	**0.26**	**(5,978)**	0.38	(8,737)
		800,651		1,170,182
		800,651		1,539,713
Equivalent to		**RMB649,336,000**		RMB1,278,424,000

Subsequent to the end of the reporting period, a final dividend of HK30 cents in respect of the year ended 31 December 2022 per ordinary share in aggregate of HK$923,828,000 has been declared by the Board to the owners of the Company whose names appear on the Company's register of members on 19 May 2023 (2021: final dividend of HK26 cents per ordinary share in aggregate of HK$800,651,000). The amount of the final dividend declared for the year ended 31 December 2022 is calculated based on the number of issued shares, less dividends for shares held for the share award scheme, at the date of approval of these consolidated financial statements.

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	2022 RMB'000	2021 RMB'000
Earnings		
Profit attributable to owners of the Company used in the basic and diluted earnings per share calculation	**2,517,322**	3,044,159

	Number of Shares	
	2022	2021
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 years ended 31 December 2022 and 2021, respectively.

9. OTHER FINANCIAL ASSETS

	Note	**2022** *RMB'000*	2021 *RMB'000*
Non-current			
Debt instruments at FVTOCI:	*(i)*		
Debt securities listed in Hong Kong		**–**	31,073
Debt securities listed in the PRC		**–**	142,500
		–	173,573
Debt instruments at FVTPL:			
Unlisted convertible loans	*(ii)*	**103,537**	64,530
Equity instruments at FVTOCI:			
Equity securities listed in the PRC		**681,491**	226,616
Equity securities listed in Hong Kong		**356,660**	352,133
Unlisted equity securities		**1,204,731**	889,641
		2,242,882	1,468,390
Equity instruments at FVTPL:			
Equity securities listed in the United Kingdom	*(iii)*	**43,165**	157,763
Unlisted equity securities	*(iv)*	**197,731**	150,775
		240,896	308,538
Funds at FVTPL:			
Stock funds		**14,882**	16,480
		2,602,197	2,031,511
Current			
Debt instruments at FVTOCI:			
Debt securities listed in Hong Kong	*(i)*	**33,580**	–

	Note	**2022**	2021
		RMB'000	*RMB'000*
Debt instruments at FVTPL:			
Wealth management product		**3,500**	30,000
Unlisted convertible loans	*(ii)*	**41,000**	40,000
		44,500	70,000
Equity instruments at FVTPL:			
Equity securities listed in the PRC		**588,065**	752,027
Derivative financial instruments:			
Forward currency contracts	*(v)*	**–**	669
Forward commodity contracts	*(vi)*	**16,762**	–
		16,762	669
		682,907	822,696
		3,285,104	2,854,207

Note:

(i) The debt securities carry fixed interest at rate of 5.65% (2021: ranging from 5.65% to 6.90%) per annum, payable semi-annually or annually in arrears and will mature in January 2023 (2021: from January 2023 to January 2026).

(ii) The convertible loans carry fixed interest at rates ranging from 6.00% to 10.00% (2021: 6.00% to 10.00%) per annum, and contained a right to convert the loans into ordinary shares of the issuers at the maturity date from June 2023 to September 2024 (2021: from May 2022 to September 2024).

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

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

(v) The Group has entered into various forward currency contracts to manage its exchange rate exposures. The forward currency contracts are not designated for hedge purposes and are measured at FVTPL. Changes in the fair value of non-hedging forward currency contracts amounting to RMB703,000 (2021: RMB669,000) were recognised in profit or loss during the year.

(vi) The Group has entered into various forward commodity contracts in order to protect itself from adverse movements in raw material prices. The forward commodity contracts are not designated for hedge purposes and are measured at FVTPL. Changes in the fair value of non-hedging forward commodity contracts amounting to RMB2,842,000 (2021: Nil) were recognised in profit or loss during the year.

(vii) During the year ended 31 December 2022, the Group received dividends in the amounts of RMB12,915,000 (2021: RMB5,508,000) from the equity instruments at FVTOCI.

10. LOAN RECEIVABLES

	2022	2021
	RMB'000	*RMB'000*
Non-current		
Finance lease receivables	**33,692**	53,400
Factoring receivables	**8,781**	33,000
	42,473	86,400
Current		
Finance lease receivables	**152,108**	153,857
Factoring receivables	**1,279,211**	1,471,059
Receivables from supply-chain financing services	**46,444**	64,400
	1,477,763	1,689,316
Less: Provision for impairment	**(380,920)**	(537,024)
	1,096,843	1,152,292
	1,139,316	1,238,692

(A) Finance lease receivables

	Minimum lease receivables		**Present value of minimum lease receivables**	
	2022	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Not more than 1 year	**154,947**	157,576	**152,108**	153,857
Over 1 year but within 5 years	**35,724**	56,913	**33,692**	53,400
	190,671	214,489	**185,800**	207,257
Less: Unearned finance income	**(4,871)**	(7,232)		
Present value of minimum lease receivables	**185,800**	207,257		

The Group's finance lease receivables are denominated in Renminbi. The effective interest rates of the receivables range from 5.61% to 10.02% (2021: 5.61% to 14.37%) per annum. There are no unguaranteed residual values of assets leased under finance leases and no contingent rent arrangements that needed to be recognised (2021: Nil).

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

	2022 RMB'000	2021 RMB'000
Not past due	**63,117**	84,574
Overdue	**122,683**	122,683
	185,800	207,257

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. There were no collected cash deposits at the end of the reporting period (2021: RMB1,310,000 have been included in "other payables and accruals" in the consolidated statement of financial position).

At the end of the reporting period, RMB70,031,000 (2021: RMB69,057,000) of the Group's finance lease receivables was impaired.

(B) Factoring receivables

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

Factoring receivables are secured by receivables and/or commercial bills originally owned by the customers. These receivables carry interest at rates ranging from 4.35% to 12.00% (2021: 6.00% to 14.00%) per annum.

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

	2022 RMB'000	2021 RMB'000
With a residual maturity of:		
Not more than 3 months	**44,270**	338,726
Over 3 months to 6 months	**47,724**	196,652
Over 6 months to 12 months	**667,607**	776,181
Over 12 months to 24 months	**8,781**	33,000
Overdue	**519,610**	159,500
	1,287,992	1,504,059

At the end of the reporting period, RMB309,145,000 (2021: RMB465,967,000) of the Group's factoring receivables was impaired, among which RMB135,256,000 (2021: RMB306,467,000) was provided for an individual customer group.

(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 the PRC. The credit period for each customer is generally within 365 days.

These receivables carry interest at rates ranging from 9.72% to 14.40% (2021: 9.60% to 14.40%) per annum.

Certain receivables from supply-chain financing services amounting to RMB44,700,000 (2021: RMB64,400,000) 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:

	2022	2021
	RMB'000	*RMB'000*
With a residual maturity of:		
Not more than 3 months	**23,920**	17,700
Over 3 months to 6 months	**20,780**	44,700
Overdue	**1,744**	2,000
	46,444	64,400

At the end of the reporting period, RMB1,744,000 (2021: RMB2,000,000) of the Group's receivables from supply-chain financing services was impaired.

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

11. INVENTORIES

	2022	2021
	RMB'000	*RMB'000*
Manufacturing and trading	**5,591,757**	6,145,376
Property development	**908,229**	735,953
	6,499,986	6,881,329

(A) Manufacturing and trading

	2022	2021
	RMB'000	*RMB'000*
Raw materials	**2,176,660**	2,275,798
Work in progress	**527,217**	583,073
Finished goods	**2,887,880**	3,286,505
	5,591,757	6,145,376

(B) Property development

	2022	2021
	RMB'000	*RMB'000*
Property under development	**908,229**	735,953

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

	2022	2021
	RMB'000	*RMB'000*
Trade receivables	**6,430,705**	4,478,861
Bills receivable	**235,992**	997,629
Less: Provision for impairment	**(1,792,754)**	(1,264,048)
	4,873,943	4,212,442

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

Trade and bills receivables are unsecured and interest-free.

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

	2022	2021
	RMB'000	*RMB'000*
Not more than 3 months	**1,912,294**	1,699,679
Over 3 months to 6 months	**819,347**	739,355
Over 6 months to 12 months	**829,209**	1,033,348
Over 1 year to 2 years	**973,127**	544,819
Over 2 years to 3 years	**212,998**	174,842
Over 3 years	**126,968**	20,399
	4,873,943	4,212,442

13. TRADE AND BILLS PAYABLES

	2022	2021
	RMB'000	*RMB'000*
Trade payables	**2,395,833**	1,880,896
Bills payable	**5,640,406**	5,664,741
	8,036,239	7,545,637

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

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

	2022	2021
	RMB'000	*RMB'000*
Not more than 3 months	**4,450,477**	4,465,850
Over 3 months to 6 months	**2,382,825**	2,558,088
Over 6 months to 12 months	**1,077,242**	356,633
Over 1 year to 2 years	**62,797**	96,590
Over 2 years to 3 years	**17,776**	24,736
Over 3 years	**45,122**	43,740
	8,036,239	7,545,637

14. BORROWINGS

	2022	2021
	RMB'000	*RMB'000*
Current		
Unsecured bank loans	**6,764,902**	6,410,017
Current portion of long-term unsecured bank loans	**318,000**	699,774
Current portion of long-term unsecured other loans	**–**	601
Secured bank loans	**129,322**	100,496
Current portion of long-term secured bank loans	**10,933**	10,193
Other borrowings	**34,482**	58,733
	7,257,639	7,279,814
Non-current		
Unsecured bank loans	**3,411,533**	1,586,753
Unsecured syndicated bank loans	**9,088,342**	8,025,428
Secured bank loans	**278,168**	267,110
	12,778,043	9,879,291
	20,035,682	17,159,105
Analysed into borrowings repayable:		
Within one year or on demand	**7,257,639**	7,279,814
In the second year	**5,761,502**	794,426
In the third to fifth years, inclusive	**6,780,831**	8,907,353
More than five years	**235,710**	177,512
	20,035,682	17,159,105

Note:

(a) The effective interest rates of the Group's borrowings range from 2.80% to 6.37% (2021: 0.86% to 5.80%) per annum.

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

At 31 December 2021, the secured bank loans are secured by land and its concession rights of a subsidiary, machineries and equipment of a subsidiary, leasehold lands and buildings of subsidiaries, loan receivables of a subsidiary, the concession rights of a subsidiary and a 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, Canadian dollar and Baht which are equivalent to RMB7,264,407,000 (2021: RMB7,701,244,000), RMB3,297,713,000 (2021: RMB2,996,486,000), RMB9,251,835,000 (2021: RMB5,572,419,000), RMB179,124,000 (2021: RMB843,519,000), RMB504,000 (2021: RMB691,000) and RMB42,099,000 (2021: RMB44,746,000), respectively.

15. CONVERTIBLE LOANS

The convertible loans of US$60,000,000 (approximately equivalent to RMB410,415,000) drawn down on 22 May 2019 and US$40,000,000 (approximately equivalent to RMB279,489,000) drawn down on 29 November 2019 were repaid at maturity on 21 May 2022 and early repaid on 20 June 2022, respectively.

16. SHARE CAPITAL

Shares	**2022**	2021
Authorised:		
20,000,000,000 (2021: 20,000,000,000) ordinary shares of HK$0.05 each	**HK$1,000,000,000**	HK$1,000,000,000
Issued and fully paid:		
3,102,418,400 (2021: 3,102,418,400) ordinary shares of HK$0.05 each	**HK$155,120,920**	HK$155,120,920
Equivalent to	**RMB135,344,000**	RMB135,344,000

17. COMMITMENTS

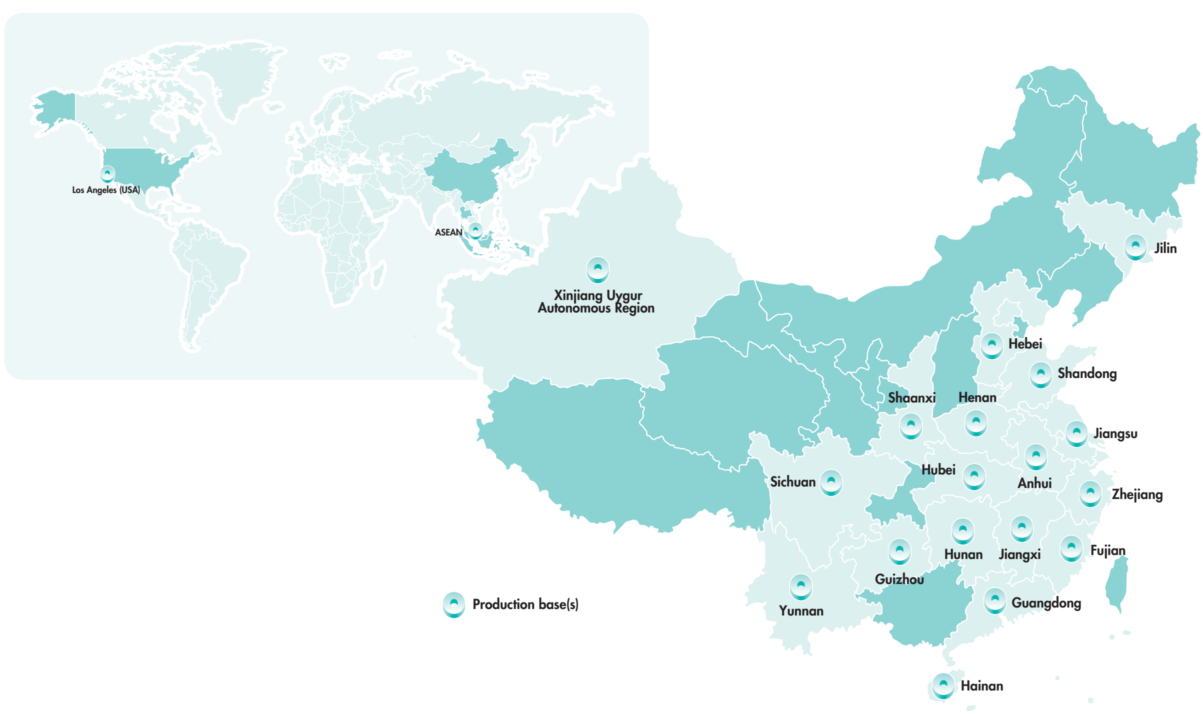
The Group had the following capital commitments at the end of the reporting period:

	2022	2021
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Property, plant and equipment and investment properties	**1,663,163**	2,544,225

CORPORATE PROFILE

China Lesso Group Holdings Limited (Stock Code of Hong Kong Stock Exchange: 2128) is a leading large-scale industrial group that manufactures piping and building materials in mainland China. China Lesso is one of the constituent stocks of the Hang Seng Composite MidCap Index and MSCI China index and is a stock eligible for trading through the Hong Kong Stock Exchange's Stock Connect. After more than 35 years of rapid development, the Group has evolved into a leader in the industry of building materials and home improvement. It provides high-quality products and services such as plastic piping, building materials and home improvement, new energy, 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 2,786 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 piping and building materials, China Lesso provides over 10,000 types of quality products, which are widely applied to such fields as home improvement, civil architecture, municipal water supply, drainage, energy management, electric power transmission, telecommunication, gas supply, fire services, environmental protection, agriculture and marine aquaculture.



CHAIRMAN'S STATEMENT

In 2022, given that the world experienced once-in-a-century changes and pandemic as well as geopolitical uncertainty, the downward pressure on the global economy increased. Affected by the pandemic and demand contraction, the business environment in the PRC has become higher complexity, severity, and uncertainty. In the face of the challenging international situation and domestic economic and social environment, China's GDP growth rate recorded a decline in 2022, with a year-on-year increase of 3.0% only to approximately RMB121 trillion.

As a leading large-scale industrial conglomerate that manufactures piping and building materials in mainland China, China Lesso capitalises on the Chinese government's favourable policies and the stable demand of the infrastructure and piping to continue developing its various business segments. However, the Group has faced challenges in its overall business performance due to the pandemic conditions and economic environment in the PRC, the fluctuation of raw material and energy prices, as well as the sluggish real estate and investment market. The Group's total revenue for the year was RMB30,767 million, representing a year-on-year decrease of 4.0%. Profit attributable to owners of the Company decreased by 17.3% to RMB2,517 million due to the negative market factors. The Board proposed payment of a final dividend of HK30 cents per share for the year ended 31 December 2022.

Despite numerous challenges, China Lesso forged ahead with perseverance and overcame difficulties with a forward-looking attitude under the collective efforts within the Group. The Group remains true to its original aspirations and is committed to providing high-quality products and services to customers and consumers, while fully seizing the opportunities for high-quality development in the industry.

Over the past three decades, China Lesso has continuously extended its industrial ecosystem chain from plastic piping business to building materials and home improvement business. At present, the Group's businesses cover pipes, building materials and home improvement, new energy, environmental protection, and supply chain service platforms. With the gradual improvement of its business layout, China Lesso has launched the strategic upgrade for its brand by revamping its brand positioning and image to interpret its increasingly rich brand value more comprehensively. With high-quality products and services that are international, professional, and competitive, the Group has earned the trust and recognition from the market and consumers.

Last year, the Group won multiple awards and rankings and further enhanced the Group's reputation and image in the industry and market, demonstrating its strong corporate strength. These awards and rankings included, "2022 Capital Market Influence Enterprise", "The 375th ranking of 2022 Fortune China 500","Top 500 Most valuable Chinese Brands", "Guangdong Provincial Government Quality Award- First-Class Team Nomination Award", and "Top Five Listed Companies by Investment Potential", etc..

In terms of business development and production capacity upgrade, China Lesso achieved multiple breakthroughs in the past year. In August, the Group held a groundbreaking ceremony in Gansu, marking the official construction of Gansu Lesso, which will become an important production base and distribution center for China Lesso's strategic layout in the northwestern China, and an important part of the Group's efforts to speed up development and improve its nationwide strategic layout. In the same month, the Group's first extrusion workshop in Indonesia was put into operation, marking the plant as an engine for China Lesso's accelerated development in the Southeast Asian market, further improving its overseas market layout, and accelerating the pace of localisation development.

In terms of strategic cooperation, in addition to continuously deepening its cooperation with existing partners and customers, China Lesso entered into a strategic cooperation agreement with China Construction Sixth Engineering Division Corp., Ltd., with plans to actively engage in close collaboration and business interactions. On the other hand, the Group entered into a strategic cooperation agreement with Foshan Construction Development Group Co., Ltd. （佛山市建設發展集團有限公司） in respect of comprehensive cooperation in building materials products, raw material procurement, new energy, and green construction.

At the same time, the Group proposed a new vision of brand positioning upgrade towards the next decade, with "Envisioning the Better, Building the Future" as the brand slogan. "Envisioning the Better" expresses China's low-carbon, environmentally friendly, green construction, humanistic environment, and high-quality development, while "Building" refers to the industry where China Lesso is located, and "Future" represents the promising and sustainable development that China Lesso is striving for.

Looking ahead to 2023, it is a crucial year for the implementation of the "14th Five-Year Plan", which builds on the achievements of the previous plan and sets the tone for the future. Despite the complex and severe external environment and the high degree of uncertainty in the global economy, as the pandemic prevention and control moves to a new stage and production and living order accelerate its recovery, the endogenous driving force of economic growth will continue to accumulate and strengthen, and the overall Chinese economy will improve in 2023.

The management believes that China Lesso's business fundamentals have been continuously optimised over the years, and the Group has strong core competitiveness and enterprise resilience. Therefore, the management remains prudently optimistic about the Group's long-term prospects. The Group will further strengthen its management foundation and business fundamentals, improve quality and efficiency, and continuously enhance its operational quality and profitability. The Group will also focus on enhancing its core competitiveness by being more professional, focused, and dedicated to its business, and advancing towards the four development directions of pipeline and home improvement, intelligent manufacturing, green energy, and taking advantage of the trend. The Group will continue to explore industrial opportunities, promote intelligent manufacturing, and upgrade the Group towards intelligent and green-oriented development.

The Group will continue to fulfill its sustainable development philosophy and practices towards our shareholders, customers, business partners, environment, employees, and society. The Group will adhere to and promote the principles of "Shared Prosperity with Shareholders", "Getting to Know Our Customers", "Synergy with the Environment", "Being One with Employees", "Seeking Mutual Benefits with Partners" and "Playing an Active Role in the Community", and will actively interact with all stakeholders, provide value and contribution to them, and sustain a healthy, scenic living space.

Lastly, on behalf of the Board, I would like to express my heartfelt gratitude to all employees for their diligence and contributions, especially for their efforts and contributions during the period under the impact of the pandemic. China Lesso will work for better business performance and create greater value and win-win situation for our customers, employees, society and shareholders. We will continue to work towards our corporate goal of revitalising Chinese industry and building a world-class international business.

Wong Luen Hei
Chairman of the Board
Hong Kong, 20 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

In 2022, the global economy was overshadowed by heightened geopolitical tensions and the ongoing Covid-19 outbreak, and China faced multiple challenges in its economic recovery. Domestic consumer sentiment and investment performance were very weak due to the frequent outbreaks of Covid-19 pandemic in the PRC and a series of quarantine measures that have dealt a heavy blow to the economy. The triple pressure of shrinking demand, supply shock and weakening expectations has significantly dragged down the economic growth in the PRC. According to the National Bureau of Statistics, China's gross domestic product (GDP) growth rate dropped sharply in 2022, with a year-on-year growth of only 3.0% to approximately RMB121 trillion.

In 2022, in the face of complicated domestic and international situations, by adhering to the general fundamental strategy of "pursuing progress while ensuring stability", the Chinese government continued to promote the implementation of a package of policies for "stabilising the economy" with the effective successive measures and it gave full play to the role of the coordination mechanism for promoting effective investment in important projects, especially infrastructure investment, which undoubtedly played an important role in 2022 to reverse the downturn trend of growth rate in consecutive years. At the meeting held in April 2022, the Central Committee of Finance and Economics proposed the initiative of sparing no effort in expediting infrastructure construction and developing modern infrastructure systems. In December, the State Council issued the "Outline of Strategic Planning for Expanding Domestic Demand", which fully emphasised the important role of infrastructure in expanding domestic demand, and explicitly stated the strengthening of the construction of transportation, energy, water conservancy, logistics and other infrastructure, and the systematical layout of new infrastructure. In addition to the policy support, construction of various infrastructure projects across the country is in full swing, In fact, infrastructure investment maintained a relatively high growth rate in 2022, with a year-on-year increase of 9.4%, and remained its focus on traditional infrastructure such as transportation, water conservancy and municipal projects, driving the continuous and stable growth of the construction and pipeline industries.

The real estate industry encountered unprecedented challenges due to the resurgent Covid-19 pandemic and the economic downturn, serious suspension of many construction projects, coupled with the weakening of medium- and long-term housing demand momentum, resulting in sluggish sales and debt default crises among individual real estate developers. In view of this, the Central Government introduced policies to support the real estate industry during the year. Adhering to the principle that "Houses are for living in, not for speculation", the regulatory authorities have issued various favorable policies, with increasing policy supports in the areas ranging from demand side to enterprise side, including three consecutive responses from the China Banking and Insurance Regulatory Commission (CBIRC) on "the guaranteed delivery of housing" within 7 days, the issuance of "16 Measures" from People's Bank of China to support the real estate market, and the China Securities Regulatory Commission (CSRC)'s "3-pronged policy", being interest rate cuts, RRR reductions, reverse repurchases, etc., while also releasing space for local city-specific policies. Despite the continuous improvement in policies, the impact of the pandemic will last for a period of time, and the real estate market will still under pressure on adjustment in a short term, resulting in a certain degree of impact on the building materials and home improvement industry.

Since green industries and lifestyle have become a global trend affected by the booming tide of carbon neutrality, the PRC government made active efforts in the establishment of a sound economic system with green and low-carbon circular development, promoted a comprehensive green transformation of economic and social development, so as to create green production and lifestyle to ensure the achievement of "carbon emission peak" and "carbon neutrality" targets, which has led to a boom in the environmental protection and new energy industries with a promising future.

BUSINESS OVERVIEW

The year 2022 marked the 36th anniversary of China Lesso. As a leading enterprise in the global piping and building materials industry, the Group has always been operating under the business strategy of "taking quality as the lifeline, leading with technology and aiming for customer satisfaction". In addition to focusing on product quality and persisting in creativity, the Group placed emphasis on upgrading its businesses with smart technology and driving its own development with technology in response to changes, with an aim to creating high-value products and services for the society. Over the past year, China Lesso has worked hard and strived to be the industry leader, achieving a win-win situation in terms of brand and reputation and earning praise and recognition in the industry and community, such as the "2021 Best Green Syndicated Loan Award", "2022 Capital Market Influential Enterprise", "2022 Top Five Listed Companies of Supporting Supply Chain for Real Estate by Investment Potential", "2022 Preferred Suppliers for Top 500 Real Estate Developers by Overall Strength", and "2022 China House Champion Chart — Leading Brand in the Industry". The Group was also on the list of "China's Top 500 Brand Value" for nine consecutive years, and ranked "21st among Top 200 Enterprises in China Light Industry" and "7th among Top 100 Science & Technology Enterprises in China Light Industry". In addition, the Group also won the"First Prize of Guangdong Science and Technology Award in the category of Technology Invention Award" and the "Silver Award of 2022 Canton Fair Design Award (CF Award) for Building Materials and Home Decoration Category". These awards fully reflected the Group's outstanding performance in business reputation, scientific research and innovation, value creativity, brand awareness and market competitiveness.

The Group completed the brand strategy upgrade at the beginning of this year to fulfil its brand's commitment to "Sustaining a Healthy, Scenic Living Space". Looking ahead, the Group will maintain piping manufacturing as its core business while expanding its businesses of building materials and home improvement, environmental protection and new energy. The Group is committed to building a healthy urban environment and living space together with the government and various industries in society through technological innovation, while strengthening the practice of its slogan "Envisioning the Better, Building the Future", so as to provide high-quality products and services to residents around the world.

In order to support China's "2030 carbon emission peak, 2060 carbon neutrality" goal, China Lesso is firmly committed to a green, low-carbon and high-quality development path. The Group proactively set environmental management targets, fully recognised the various opportunities and challenges posed by climate change, and developed effective measures, such as integrating the concept of low-carbon and environmental protection into the whole process of operations, implementing energy saving and reducing consumption in various aspects such as product design, green factories, and low-carbon production. The Group has also reduced waste gas, waste water, industrial residue, and noise emissions, and improved the efficiency of resource utilisation, to reduce the impact on the environment, while at the same time making full use of its professional advantages to protect the environment and doing all that the Group can to develop green industries, so as to make contribution to the creation of green and livable cities.

The Group has incorporated green concepts into its production operations and its daily office activities, advocates paperless office, and encourages best practices to reduce the use of office supplies, thus effectively improving the efficiency of resource utilisation, and creating the harmonious and symbiotic development for environment and enterprise through green operation.

The Group's mission is to "Improve and Enhance the Living Quality". In addition to enhancing its ability to fulfil its social responsibility and strengthen its corporate governance and social responsibility management, the Group makes innovative management a new engine for its business development, and further improves the control of production process to reinforce its business foundation. All of these efforts will give impetus to green and sustainable urban development.

Revenue by Region#

	Revenue			% of total revenue	
	2022	2021		**2022**	2021
	RMB million	*RMB million*	Change		
Southern China	**15,603**	17,036	*(8.4)%*	**50.7%**	53.1%
Southwestern China	**2,728**	2,968	*(8.1)%*	**8.9%**	9.3%
Central China	**3,112**	3,380	*(7.9)%*	**10.1%**	10.5%
Eastern China	**2,511**	2,338	*7.4%*	**8.2%**	7.3%
Northern China	**2,384**	2,667	*(10.6)%*	**7.7%**	8.3%
Northwestern China	**1,679**	1,635	*2.7%*	**5.5%**	5.1%
Northeastern China	**739**	912	*(19.0)%*	**2.4%**	2.9%
Outside China	**2,011**	1,122	*79.2%*	**6.5%**	3.5%
Total	**30,767**	32,058	*(4.0)%*	**100.0%**	100.0%

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

For the year ended 31 December 2022, the number of the Group's independent and exclusive first-tier distributors across the country increased to 2,786 (2021: 2,603). Southern China remained the Group's major revenue-contributing market, whose revenue accounted for 50.7% of the Group's total revenue (2021: 53.1%), while the revenue from other regions accounted for 49.3% (2021: 46.9%).

Revenue by Business Unit

	Revenue			% of total revenue	
	2022	2021		**2022**	2021
	RMB million	*RMB million*	Change		
Plastic piping systems	**25,607**	27,457	*(6.7)%*	**83.2%**	85.6%
Building materials and home improvement	**2,705**	2,751	*(1.7)%*	**8.8%**	8.6%
Others#	**2,455**	1,850	*32.7%*	**8.0%**	5.8%
Total	**30,767**	32,058	*(4.0)%*	**100.0%**	100.0%

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

Despite the uncertainties in the global economic recovery and the further intensification of market competition in 2022, China Lesso continued to adhere to the principle of developing business with prudence, with more focus on refining its business. Leveraging its expertise in piping production, the Group kept expanding upstream and downstream production chains to emerge from an enterprise that only manufactured pipes into a global brand ecosystem that covers the diversified industries of piping system, building materials and home improvement, environmental protection, agricultural applications, supply chain services platform and new energy, to achieve synergies among its various business segments and broaden its revenue base. The Group has also established a dual-cycle growth model and actively expanded overseas markets to ensure its sound and healthy development.

During the reporting period, the business development of China Lesso was affected to a certain extent by the complicated and changing macro environment, the recurring Covid-19 pandemic at home and abroad, and the downturn of the real estate industry in the PRC. In particular, the quarantine measures imposed by many regions in the PRC due to the serious outbreak of Covid-19 pandemic in the fourth quarter, resulted in the suspension of production at some of the Group's production bases, which severely affected production operations and logistics transportation. However, with the "preventing pandemic and promoting production" becoming the norm, the Group has maintained a stable business development by actively deploying various tasks in accordance with the government's relevant pandemic prevention requirements and the spirit of innovation of all staff despite the difficulties. The Group's revenue was RMB30,767 million (2021: RMB32,058 million). Gross profit was RMB8,241 million (2021: RMB8,448 million) and gross profit margin was 26.8% (2021: 26.4%), mainly due to the timely adjustment on selling prices of the Group's products for addressing the fluctuation of the raw material's price, allowing the gross profit margin to maintain at a reasonable and healthy level.

On the one hand, the Group actively promoted automation transformation and smart production by upgrading production technology and equipment, while formulated and adopted effective procurement strategies to control the costs of raw materials and production, thereby maximising the benefits from economies of scale. In addition, the Group has been able to achieve stable business development and profitability by enhancing its operational efficiency, optimising its product portfolio and increasing its market share.

During the reporting period, the Group's EBITDA increased by 1.2% year-on-year to RMB5,786 million (2021: RMB5,720 million), and the EBITDA margin was 18.8% (2021: 17.8%). Profit before tax decreased by 16.2% year-on-year to RMB3,190 million (2021: RMB3,807 million). Net profit margin was 8.2% (2021: 9.4%). Profit attributable to owners of the Company decreased by 17.3% year-on-year to RMB2,517 million (2021: RMB3,044 million). The decrease in profit was mainly attributable to factors such as the impairment provision for the Group's receivables from customers, interest rate increase on borrowings, and increase in the consolidated cost of products due to significant price fluctuations of raw materials and energy. Basic earnings per share was RMB0.82 (2021: RMB0.99). The effective tax rate was 21.2% (2021: 20.7%).

To express gratitude to the Shareholders for their support and to share with them the fruits of the Group's endeavours, the Board recommended the payment of a final dividend of HK30 cents per share for the year ended 31 December 2022 (2021: HK26 cents per share).

BUSINESS REVIEW AND OUTLOOK

Plastic Piping Systems

In 2022, given the consistent introduction of growth stabilisation policies by the central government, the prosperity of infrastructure sector, as an important pillar of growth stabilisation, continued to improve, especially under the Chinese government's strategy of starting investment in certain infrastructure projects moderately ahead of schedule, urban renovation of old communities and the construction of oil and gas pipeline network and water network have brought a lot of incremental demand for infrastructure investment. China Lesso, which has been deeply engaged in the piping industry for 36 years, has fully captured the development opportunities brought by the new infrastructure to continuously develop the piping systems and accelerate the development of smart pipeline networks. At the same time, the Group continued to strengthen strategic partnerships with government departments, leading central government-owned enterprises and state-owned enterprises in the infrastructure sector, while proactively investing in national projects of strategic importance and urban redevelopment projects, to achieve synergies and lead the transformation of the pipeline industry, thus further consolidating the Group's leading position in the piping system market.

Revenue by Region

	Revenue			% of revenue	
	2022	2021		**2022**	2021
Region	***RMB million***	*RMB million*	Change		
Southern China	**12,839**	14,106	*(9.0)%*	**50.1%**	51.4%
Other than Southern China	**11,750**	12,590	*(6.7)%*	**45.9%**	45.8%
Outside China	**1,018**	761	*33.8%*	**4.0%**	2.8%
Total	**25,607**	27,457	*(6.7)%*	**100.0%**	100.0%

Revenue by Product Application

	Revenue			% of revenue	
	2022	2021		**2022**	2021
	RMB million	*RMB million*	Change		
Water supply	**9,968**	10,358	*(3.8)%*	**38.9%**	37.7%
Drainage	**9,677**	10,386	*(6.8)%*	**37.8%**	37.8%
Power supply and telecommunications	**4,206**	4,801	*(12.4)%*	**16.4%**	17.5%
Gas transmission	**461**	473	*(2.6)%*	**1.8%**	1.7%
Others#	**1,295**	1,439	*(9.9)%*	**5.1%**	5.3%
Total	**25,607**	27,457	*(6.7)%*	**100.0%**	100.0%

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

During the year, the plastic piping systems business recorded revenue of RMB25,607 million (2021: RMB27,457 million), accounting for 83.2% of the total revenue of the Group (2021: 85.6%).

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

	Average selling price			Sales volume			Revenue		
	2022	2021		**2022**	2021		**2022**	2021	
	RMB	*RMB*	Change	***Tonne***	*Tonne*	Change	***RMB million***	*RMB million*	Change
PVC products	**8,825**	9,143	*(3.5)%*	**1,776,304**	1,853,687	*(4.2)%*	**15,675**	16,949	*(7.5)%*
Non-PVC products#	**16,122**	15,118	*6.6%*	**616,069**	695,068	*(11.4)%*	**9,932**	10,508	*(5.5)%*
Total	**10,704**	10,773	*(0.6)%*	**2,392,373**	2,548,755	*(6.1)%*	**25,607**	27,457	*(6.7)%*

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

There was a decrease in market demand due to the impact of many factors such as the suspension of construction projects, logistics delays, and quarantine policies on the industry as a result of the frequent COVID-19 outbreaks in the PRC, especially the resurgent pandemic conditions in various places in the fourth quarter. The Group's certain production bases had to suspend production and affected shipments, which has affected the sales of the Group's plastic pipes and pipe fittings to a certain extent. During the year, sales volume of the plastic piping systems decreased by 6.1%. In terms of product materials, sales volume of PVC products decreased by 4.2% to 1,776,304 tonnes (2021: 1,853,687 tonnes), while that of non PVC products decreased by 11.4% to 616,069 tonnes (2021: 695,068 tonnes). Revenue from sales of PVC products and non-PVC products decreased by 7.5% to RMB15,675 million (2021: RMB16,949 million) and 5.5% to RMB9,932 million (2021: RMB10,508 million) respectively.

During the reporting period, despite the overall decline in sales volume of the Group, the gross profit margin was maintained at a reasonable and healthy level due to the gradual decline in raw material prices in the second half of the year and the adoption of effective procurement strategies by the Group to actively control the costs of raw materials and manufacturing, as well as the timely adjustments to the selling prices, so as to maximise its economies of scale. The Group decreased the average selling price of its plastic piping system by 0.6% to RMB10,704 per tonne (2021: RMB10,773 per tonne). The gross profit margin of its plastic piping system business was 27.5% (2021: 25.9%).

The Group has been embracing intelligentization in order to keep up with the times and to conduct the upgrading of its business. Therefore, the Group has been expediting the adoption of smart manufacturing by proactively building 21 smart factories across the world that integrate "Internet of Things, smart control and automated production". During the reporting period, the Group's annual designed capacity for manufacturing plastic piping systems expanded from 3.20 million tonnes at the end of 2021 to 3.26 million tonnes at the end of 2022, and the capacity utilisation rate during the year was approximately 74.4%.

Always adhering to the green development philosophy, China Lesso advocates low energy consumption and high energy efficiency production, and is committed to leading the industry towards green and sustainable development through technological innovation. During the reporting period, Guangdong Liansu Technology Industrial Co., Ltd., a subsidiary of the Group, was successfully selected as the 2021 National Green Factory, fully demonstrating the government's recognition of the Group's effort to promote green development in the industry. In addition, with the spirit of innovation, the Group has been actively promoting the innovation of pipeline technology and continuously developing new products that accommodate market demands by synchronising the global scientific research force and continuously increasing the investment in innovation, research and development. It has achieved quality improvement, cost reduction and efficiency increase, and promoted the innovative development of the industry while improving its competitiveness, so as to make positive contribution to the improvement of people's living standard.

Under the circumstance of "rural revitalisation in line with national policies" , the Group leveraged its edge of the principal business and continued to provide high-standard pipeline application support for large-scale agricultural farming and marine aquaculture, and expanded into various fields of agriculture with its strong technical strength and advantages of pipeline product system, which has given new impetus to the transformation and upgrading of agriculture and sustainable development of green ecology, as well as enriching the Group's income sources and expanding its market share.

The overseas markets are slowly emerging from the shadow of the pandemic and are gradually opening up, as evidenced by the certain degree of recovery in business activities and demand in different regions. The Group continued to expand overseas markets with a focus on the Southeast Asia. It will tap into the domestic demand of such markets and capitalise on the infrastructure development there. In August, the Phase 1 of the production base in Indonesia was officially put into operation, becoming a driving force for the Group's accelerated development in the Southeast Asian market. With localised production of products, the Group will serve local customers more efficiently and enhance the brand awareness and influence of "Lesso" in the region. With the completion of the trial production and commissioning of the Phase 1 of the production base in Indonesia, the Group will further optimise its overseas layout, widen the service scope and sales pattern across China and radiating to the different parts of the world, and accelerate the pace of localised development in overseas market. Meanwhile, the production base in Cambodia was put into operation by the end of 2022. Furthermore, the Group is steadily pushing forward with the construction of production bases in such countries as Thailand, Malaysia, Philippines and Bangladesh, while the production base in Indonesia will proceed with the construction of the Phase II.

In 2023, investment in new infrastructure has become a strong support for stabilising economic growth in the post-pandemic era, and the investment in manufacturing has been driven by technological innovation and green transformation. As a result, the layout of new infrastructure development has been speeded up across the PRC and new infrastructure will continue to demonstrate emerging potential. The Group will fully grasp the market opportunities from the new infrastructure investment to expand its plastic piping systems business, thereby giving strong support to the development of urban infrastructure and projects on improving people's livelihood. In addition, the Group keeps on seeking various strategic partners, including government departments, central government-owned enterprises and private businesses. Such move will not only create mutual benefit and a win-win situation, but also help further consolidate the Group's market leadership.

In the future, the Group will continue to drive all-round development with innovation and breakthroughs, build the "benchmark factory" by strengthening technological innovation, developing intelligent products, promoting smart manufacturing, while maintaining and enhancing the existing product competitiveness, so as to build itself into a model enterprise of operational excellence. In addition to further strengthening the medium- and long-term capabilities, the Group is required to enhance its capabilities in external development and resource integration, and promote its upgrade towards intelligentization and greening, thereby strengthening its sustainable development capabilities. Overall, the management is fully confident about the future development of the plastic piping system business segment and believes that it will continue to deliver solid business performance to the Group.

BUILDING MATERIALS AND HOME IMPROVEMENT PRODUCTS

In 2022, the downward pressure on the economy still remained in the PRC real estate market since 2021. Affected by various internal and external factors, the dampened consumer confidence in housing purchase and weakening purchasing power have had a material impact on the property sales, resulting in a sharp decline in the prosperity of the real estate industry. In addition, the suspension of a number of pre-sale housing construction projects due to the COVID-19 pandemic, strained capital chains of developers and even collapsed, have led to a decrease in the number of new commercial housing projects and a slow progress for projects under construction. As a result, the scale of the real estate market was rapidly declining with myriad challenges ahead, which in turn affected the business development of the building materials and home improvement industry in the PRC to a certain extent. During the reporting period, revenue from the Group's building materials and home improvement business decreased by 1.7% year on year to RMB2,705 million, representing 8.8% of the Group's total revenue, due to the impact of the COVID-19 pandemic, the insufficient demand and purchasing power in the real estate market with no recovery signs in transaction volume.

As a number of large-scale private property developers were mired in financial difficulties, the Group has actively adjusted its business strategy to diversify its customer portfolio and proactively explored more infrastructure projects which were mainly undertaken by government and state-owned enterprises to reduce the proportion of private property customers, thereby minimising the Group's business risks. In addition, the Group further strengthened its relationship with premium real estate companies as its existing customers on the one hand, and vigorously explored the possibility of cross-sector collaboration with various industries on the other, in order to bring a more stable source of income for the building materials and home improvement business.

During the reporting period, the Group signed a strategic cooperation agreement with a B2B building materials procurement and trading platform and a well-known supply chain enterprise respectively, aiming to achieve a win-win situation of resource sharing, cost reduction and efficiency enhancement through its cooperation with different partners in various aspects.

Looking forward to 2023, as the impact of the pandemic subsides, it is expected that the domestic macro economy will achieve an overall improvement, and under the circumstance that China will continue to adhere to the principle that "Houses are for living in, not for speculation", with continuous improvement in the policies on both the supply and demand sides, the policy support is expected to further increase, thus gradual stabilisation and recovery on the real estate market is also expected to be seen. The Group will remain its focus on product quality and optimise one-stop integrated solution and services, while promoting green construction which is conducive to health and cultural development through diversified high-quality building materials and home improvement products and services. Meanwhile, the Group will strengthen its relationships with existing customers as well as actively explore new customers with strong capital strength to support sales growth. In addition, the Group will give full play to the synergy between the pipeline business and its building materials and home improvement business, step up the cultivation of technical talents, increase investment in scientific research and innovate and upgrade eco-friendly products, expecting to restore growth of the business of building materials and home improvement products as soon as possible.

Others

Environmental Protection Business

The environmental protection industry is not only the key for improving the quality of the ecological environment, but also an important support for the government to achieve the goal of carbon emission peak and carbon neutrality. With the continuous increase of the government's efforts in ecological environmental protection and governance, the environmental protection industry in the PRC saw an enhancement in its strategic position as its market potential has been expanded rapidly. Thus, the Group has been diligently developing its environmental protection business. However, COVID-19 pandemic continuously recurred and the downward pressure on the economy has been increased in 2022, coupled with the weakening investment sentiment, market development was hampered, and project implementation was curtailed or delayed, resulting in a decrease in hazardous waste production. During the reporting period, the Group's environmental protection business recorded a revenue of RMB348 million.

During the reporting period, the Group focused on expanding the environmental protection business by securing leading enterprises as new customers in the traditional industries. In the urban service sector, the Group mainly developed the markets of key regions and actively provided regional environmental consulting and design services, strengthening the traditional core business of the Group to lay a solid foundation for the sustainable development of its business in the future. In addition, the Group is committed to exploring new business development, mainly on the businesses of the treatment and operation of water environment, water ecology, and soil and mine remediation, thus aligning its development with national policies. In the future, the Group will continue to explore the opportunities of servicing government projects when developing the market, with a focus on such fields as the agricultural sectors, the treatment of soil, maintenance of water quality and provision of technical services, creating better conditions for its future development.

Besides, capitalising on the national policy adjustment of including aluminum ash into the list of hazardous waste, the Group successfully established its presence of environmental protection business in Jiangsu, Guangdong and Hunan provinces, among which the solid waste disposal base in Foshan was officially put into operation in July, and the project of the base for comprehensive utilisation of renewable resources in processing industry in Hunan Miluo （湖南汨羅加工行業再生資源綜合利用基地項目） also commenced its construction at the end of July, and is expected to be put into trial operation within 2023. The Hunan Miluo project is one of the preferred projects of the local government as well as a major strategic decision of the Group's environmental protection business to "deepen its regional presence and expand nationwide". In future, the Group will continue to develop the Chinese market to further expand its market shares. The Group not only marks a major step forward in its strategic objective of becoming a leading international and domestic integrated service provider in the environmental protection industry, but also lays the foundation for the Group's future development.

Supply Chain Service Platform Business

The supply chain service platform is a transnational platform tailor-made by the Group for the Chinese manufacturers engaged in the manufacturing of building materials and home improvement and consumer goods to step into overseas markets, with a focus on the Southeast Asian market. In addition to promoting the products, the Group also provides supporting services such as marketing, brand promotion and development planning consultation to these manufacturers. With the end of the international pandemic control and the expansion of the related businesses, in particular of the holding of Shenzhen EDA Cloud Technologies Co., Ltd., the supply chain services platform recorded an increase in revenue despite the fluctuation of global pandemic conditions. During the reporting period, revenue from the supply chain services platform business increased by 11.9% to RMB958 million.

In response to the rapid changes in the social environment and business model in recent years, the Group has been adjusting its business layout and optimising its operation management. The Group's current malls are located in four Southeast Asian countries, including Bangkok in Thailand, Tangerang in Indonesia, Yangon in Myanmar, and Phnom Penh in Cambodia, with the phase 1 of these properties being ready for rental and operation. The Dubai Logistics Centre and the Auburn project in Sydney are both in the pre-operational stage, with the Group taking the lead in the Dubai Logistics Centre by adopting the rental operation contracting model, which has achieved very good results.

Looking forward to 2023, with gradual recovery in consumer confidence, the management is confident that, the supply chain service platform business, as another major commercial real estate segment of the Group, will be developing steadily. Looking ahead, the Group plans to further expand the distribution network in Southeast Asia after taking into account the business development by driving the long-term development of such business segment.

New Energy Business

In 2022, China continued to deepen the supply-side reform in the photovoltaic industry and accelerated the advancement of smart manufacturing and modernisation of the industry, maintaining a stable and positive development momentum throughout the year, which strongly supported the smooth implementation of "carbon emission peak" and "carbon neutrality". As green and sustainable development have become a global consensus, the new energy industry has huge market potential. Therefore, the Group's actively developed the new energy industry, on the one hand, it can utilise the Group's excess production resources in a proper way and, on the other hand, leverage the Group's pipeline sales channels resources, which is also of great significance to the overall development in the future.

In early January 2022, the Group announced that Guangdong Lesso Banhao New Energy Technology Group Co., Ltd. ("Lesso Banhao") has entered into the photovoltaic industry to develop a new growth engine for the Group. During the reporting period, the Group successfully entered into strategic cooperation agreements with a number of state-owned enterprises and central government-owned enterprises, including China Construction Fourth Engineering Division Corp. Ltd., China Construction Fifth Engineering Division Corp., Ltd., Power Construction Corporation of China, and CLP Engineering Limited to jointly explore the photovoltaic market. The management expects the Company and its strategic partners to fully utilise their respective strengths to work with each other for mutual support, synergistic development and mutual benefits in various aspects of the photovoltaic industry, so as to provide strong impetus to the restructuring of energy source and the green, low-carbon development.

The first production line of Lesso Banhao started a trial run in April 2022, with the commencement of product certification, and its products were officially launched for sale in July 2022. Lesso Banhao has been gradually establishing a comprehensive production, supply and sales system with four production bases in China and Indonesia, demonstrating a strong supply capacity. In addition, supported by the extensive sales and marketing channels of China Lesso across the PRC, Lesso Banhao has more than 500 distributors, over 1,000 stores and nearly 100 specialty stores for the sales of its photovoltaic products. The Group has also set up overseas sales centers and formed sales teams in 16 countries to expand into various overseas markets.

As of 31 December 2022, Lesso Banhao has participated in the construction of 90 photovoltaic power station projects, of which 78 projects in the PRC and 12 projects in overseas market. Lesso Banhao has invested 16 power stations with an installed capacity of up to 12.5MW. During the reporting period, Lesso Banhao has recorded RMB589 million of revenue and laying a solid foundation for its future development.

Although the new energy business is still at an early stage of development and contributes an insignificant percentage to the Group's revenue, the management believes that with the increasing investment and policy support from the government in the new energy industry, a high growth trend with huge business potential in the photovoltaic industry has been formed. Therefore, Lesso Banhao will actively develop competitive production capacity and enhance its technology development capability. Furthermore, it will continue to strengthen partnership with central government-owned and state-owned power investment enterprises nationwide to explore new modes of cooperation, and secure more major resource development projects by cooperating with government, while making every effort to build a new channel construction and marketing network for new energy business, with a view to eventually expanding its new energy business in scale to become a major driving force for the Group's future revenue.

SUMMARY

2023 will be a year with opportunities and challenges. Though the macro environment, is expected to be improved, given high uncertainty remains in the current global economy, China Lesso will continue to adhere to the development principle of sound operation, and focus on the development of new business opportunities under the directions of "following the trend with a focus on piping system and home improvement, smart manufacturing and green energy", while actively expanding its core businesses. The Group will strive to create a strong, stable and healthy business growth point, strengthen its management foundation to improve quality and efficiency and keep enhancing the quality of its operations and profitability, so as to generate long-term returns for Shareholders.

CAPITAL EXPENDITURE

During the reporting period, the Group's capital expenditure was approximately RMB4,987 million, which was primarily used for improvement of automated facilities in production bases, expansion of the existing production bases, 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 RMB20,614 million, of which 36.3% was denominated in US dollar, 16.0% was denominated in HK dollar, 46.4% was denominated in RMB, 0.9% was denominated in Australian dollar and 0.4% was denominated in other currencies. The Group's borrowings are subject to effective interest rates ranging from 2.80% to 6.37% 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 47.7%.

At the end of the reporting period, the Group's total equity increased to RMB22,590 million. The Group's current assets and current liabilities were RMB23,993 million and RMB21,447 million, respectively. The Group's Current Ratio decreased to 1.12 from 1.17 as at 31 December 2021, while Quick Ratio decreased to 0.82 from 0.84 as at 31 December 2021.

The Board believes the Group will be able to continue to generate positive cash flows from its operations. With cash and bank deposits, including restricted cash, of RMB7,362 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 land and its concession rights of a subsidiary, leasehold lands and buildings of subsidiaries, loan receivables of a subsidiary, the guarantee provided by shareholders of a subsidiary, the 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 19,690 employees including directors. Total staff costs were RMB2,409 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 the reporting period, the Group held 26.1% equity interest in Xingfa Aluminium Holdings Limited ("Xingfa Aluminium") (Stock Code: 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 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 RMB16,933 million, and profit attributable to the shareholders of Xingfa Aluminium was RMB458 million.

Investment Properties

At the end of the reporting period, the Group's investment properties were RMB8,027 million. Increase in investment properties was mainly attributable to the construction on certain investment properties under development of RMB1,422 million, exchange gain on translation of RMB243 million, and set-off with disposal of a vacant land in Texas, US of RMB332 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, Cambodia 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 RMB2,602 million (2021: RMB2,031 million) and RMB683 million (2021: RMB823 million), respectively. The investment portfolio is comprised of 50.8% in listed equity securities (issued by (i) PRC-based companies of: home improvement and furnishings shopping malls operating, chemical raw materials processing and property management; and (ii) United Kingdom based company of automotive manufacturer), 1.0% in listed debt securities, 5.0% in unlisted debt securities, 0.5% in stock funds and 42.7% in unlisted equity securities. Each of these investments has a carrying amount accounting to less than 5% for the Group's total assets as at 31 December 2022.

During the reporting period, the Group recognised a unrealised mark-to-market valuation loss of approximately RMB51 million due to volatility of the global capital market and recognised approximately RMB51 million of exchange loss on translation. Income from the portfolio amounted to approximately RMB55 million in the reporting period, representing dividend and interest incomes.

The Group will study the market and information of the prospective investees cautiously before investment decisions making. 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.

EVENT AFTER THE REPORTING PERIOD

On 27 February 2023, Guangdong Liansu Technology Industrial Co., Ltd, the subsidiary of the Company (the "Subsidiary"), acquired on the open market a total of 20,083,783 shares of Keda Industrial Group Co., Ltd. ("Keda") (stock code: 600499) ("Keda Shares"), which is listed on the Shanghai Stock Exchange, representing approximately 1.03% of the entire issued share capital of Keda as at 27 February 2023, at an aggregate consideration of approximately RMB323 million ("Acquisition").

Between 18 January 2023 and 24 February 2023, the Subsidiary acquired on the open market a total of 68,627,794 Keda Shares at an aggregate consideration of approximately RMB1,076 million ("Previous Acquisitions").

Together with the Previous Acquisitions, the Subsidiary was interested in an aggregate of 88,711,577 Keda Shares immediately following the Acquisition, representing approximately 4.55% of the entire issued share capital of Keda as at 27 February 2023. Keda will not be a subsidiary of the Company following the Acquisition.

For details, please refer to the announcement of the Company dated on 27 February 2023.

As at the date of this announcement, the Subsidiary was interested in 97,421,035 Keda Shares, representing 5.0% of the entire issued share capital of Keda as at the date of this announcement.

CORPORATE GOVERNANCE AND OTHER INFORMATION

AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting policies adopted by the Group and the annual results of the Group for the year ended 31 December 2022.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year that will be contained in the annual report. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

CORPORATE GOVERNANCE PRACTICES

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

In pursuit of good and high standards of corporate governance practices, the Board reviews the corporate governance practices of the Company from time to time so as to meet the expectations of the Shareholders for continual improvement, and fulfill its commitment of pursuing excellent corporate governance. In the opinion of the directors, the Company complied with all the applicable code provisions of the Code during the reporting period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CHANGE IN COMPOSITION OF BOARD COMMITTEE

Mr. Wong Luen Hei, the executive director of the Company, has ceased to be the chairman of the nomination committee of the Company (the "Nomination Committee") but remains as a member of the Nomination Committee and Ms. Lu Jiandong, an independent non-executive director of the Company, has replaced Mr. Wong Luen Hei as the chairlady of the Nomination Committee with effect from 30 August 2022.

Save as 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.

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.

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK30 cents per share for the year ended 31 December 2022 (the "Proposed Final Dividend") to the Shareholders whose names appear on the register of members of the Company on Friday, 19 May 2023, subject to the Shareholders' approval at the forthcoming annual general meeting of the Company to be held on Wednesday, 10 May 2023 (the "2023 AGM"). It is expected that the Proposed Final Dividend will be paid on Thursday, 25 May 2023.

The total dividend for 2022 amounts to a total of HK30 cents per share (2021: HK38 cents per share), which represents a payout ratio of 33.0% (2021: 31.7%) of the profit attributable to the Shareholders for the year ended 31 December 2022.

CLOSURE OF REGISTER OF MEMBERS

(A) for Determining the Entitlement to Attend, Speak and Vote at the 2023 AGM

The record date for determining the entitlement to attend, speak and vote at the 2023 AGM will be Wednesday, 10 May 2023. The register of members of the Company will be closed from Monday, 8 May 2023 to Wednesday, 10 May 2023, both dates inclusive, during this period no transfer of shares of the Company will be registered. In order to be eligible to attend, speak and vote at the 2023 AGM, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Friday, 5 May 2023.

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

The record date for the Proposed Final Dividend will be Friday, 19 May 2023. The register of members of the Company will be closed from Wednesday, 17 May 2023 to Friday, 19 May 2023, both dates inclusive, during this period no transfer of shares of the Company will be registered. In order to be eligible to receive the Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 16 May 2023.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkex.com.hk) and the Company (www.lesso.com). The 2022 annual report will be despatched to the Shareholders and available on the above websites in due course.

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

Hong Kong, 20 March 2023

As at the date of this announcement, the executive Directors 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 are Mr. Wong Kwok Ho Jonathan, Ms. Lan Fang, Dr. Tao Zhigang, Mr. Cheng Dickson and Ms. Lu Jiandong.

GLOSSARY

"Board"	the board of directors of the Company
"China" or "PRC"	the People's Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan
"Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Company" or "China Lesso"	China Lesso Group Holdings Limited
"Current Ratio"	the ratio of current assets to current liabilities
"EBITDA"	earnings before interest, taxes, depreciation and amortisation
"FVTOCI"	fair value through other comprehensive income
"FVTPL"	fair value through profit or loss
"Gearing Ratio"	the total debts divided by the sum of total debts and total equity
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong" or "HK"	Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PE"	polyethylene
"PP-R" 「PP-R」	polypropylene random 無規共聚聚丙烯

"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.