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 2014

The Board is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2014.

**HIGHLIGHTS**

Compared to the last year financial results:

- Revenue increased by 13.4% to RMB14,823 million
- Gross profit increased by 16.4% to RMB3,801 million
- Profit for the year increased by 7.1% to RMB1,540 million
- Basic earnings per share was RMB0.50, increased by 4.2%
- The payment of a final dividend of HK13 cents per share is recommended for the year ended 31 December 2014

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

*Year ended 31 December 2014*

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **REVENUE** | 3 | **14,822,772** | 13,070,547 |
| Cost of sales | | **(11,022,038)** | (9,804,979) |
| Gross profit | | **3,800,734** | 3,265,568 |
| Other revenue, income and gains | 3 | **116,116** | 155,475 |
| Selling and distribution expenses | | **(769,676)** | (722,790) |
| Administrative expenses | | **(581,418)** | (503,959) |
| Other expenses | | **(486,290)** | (276,170) |
| Finance costs | 4 | **(233,071)** | (151,003) |
| Share of profit of a joint venture | | **398** | 390 |
| **PROFIT BEFORE TAX** | 5 | **1,846,793** | 1,767,511 |
| Income tax expense | 6 | **(306,435)** | (329,895) |
| **PROFIT FOR THE YEAR** | | **1,540,358** | 1,437,616 |
| **OTHER COMPREHENSIVE (EXPENSE)/ INCOME** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of foreign operations | | **(1,170)** | 6,260 |
| Changes in fair value of available-for-sale investments | | **222** | – |
| **OTHER COMPREHENSIVE (EXPENSE)/ INCOME FOR THE YEAR** | | **(948)** | 6,260 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **1,539,410** | 1,443,876 |

| | Note | **2014** | 2013 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Profit attributable to: | | | |
| Owners of the Company | | **1,554,024** | 1,449,261 |
| Non-controlling interests | | **(13,666)** | (11,645) |
| | | **1,540,358** | 1,437,616 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **1,551,351** | 1,455,556 |
| Non-controlling interests | | **(11,941)** | (11,680) |
| | | **1,539,410** | 1,443,876 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY** | *8* | | |
| Basic | | **RMB0.50** | RMB0.48 |
| Diluted | | **RMB0.50** | RMB0.47 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2014*

| | | 2014 | 2013 |
|---|---|---|---|
| | *Notes* | ***RMB'000*** | *RMB'000* |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **5,263,614** | 4,452,109 |
| Prepaid land lease payments | | **1,087,126** | 996,690 |
| Other intangible assets | | **35,405** | 33,927 |
| Deposits paid for the purchase of land, property, plant and equipment | | **729,051** | 169,870 |
| Interest in a joint venture | | **6,074** | 5,676 |
| Held-to-maturity investments | *9* | **30,383** | 231,650 |
| Available-for-sale investments | *10* | **39,466** | – |
| Deferred tax assets | | **13,577** | 9,162 |
| Total non-current assets | | **7,204,696** | 5,899,084 |
| **CURRENT ASSETS** | | | |
| Inventories | *11* | **2,210,038** | 2,434,049 |
| Trade and bills receivables | *12* | **1,303,576** | 1,037,629 |
| Prepayments, deposits and other receivables | | **571,942** | 720,352 |
| Held-to-maturity investments | *9* | **30,374** | 17,351 |
| Cash and bank deposits | | **3,198,902** | 2,189,242 |
| Total current assets | | **7,314,832** | 6,398,623 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | *13* | **973,387** | 861,416 |
| Other payables and accruals | | **1,564,290** | 1,252,674 |
| Bank loans and other borrowings | *14* | **1,158,729** | 1,080,092 |
| Tax payable | | **113,440** | 103,638 |
| Total current liabilities | | **3,809,846** | 3,297,820 |
| **NET CURRENT ASSETS** | | **3,504,986** | 3,100,803 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **10,709,682** | 8,999,887 |

| | Notes | **2014** | 2013 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **NON-CURRENT LIABILITIES** | | | |
| Bank loans and other borrowings | *14* | **2,021,105** | 1,607,024 |
| Deferred tax liabilities | | **68,542** | 78,418 |
| Deferred income | | **70,312** | 58,502 |
| Total non-current liabilities | | **2,159,959** | 1,743,944 |
| **Net assets** | | **8,549,723** | 7,255,943 |
| **EQUITY** | | | |
| Issued capital | *15* | **135,686** | 134,316 |
| Reserves | | **8,409,773** | 7,105,422 |
| Equity attributable to owners of the Company | | **8,545,459** | 7,239,738 |
| Non-controlling interests | | **4,264** | 16,205 |
| Total equity | | **8,549,723** | 7,255,943 |

# NOTES TO FINANCIAL STATEMENTS

## 1.1 BASIS OF PREPARATION

These 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 and accounting principles generally accepted in Hong Kong. These financial statements also include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance (Cap 32). These financial statements have been prepared under the historical cost convention, except for available-for-sale investments which have been measured at fair value. These 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 and a new interpretation for the first time for the current year's consolidated financial statements.

| | |
|---|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) | Investment Entities |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKAS 36 | Recoverable Amount Disclosures for Non-Financial Assets |
| Amendments to HKAS 39 | Novation of Derivatives and Continuation of Hedge Accounting |
| HK(IFRIC)-Int 21 | Levies |
| Amendments to HKFRS 2 Included in Annual Improvements 2010-2012 Cycle | Definition of Vesting Condition[1] |
| Amendments to HKFRS 3 Included in Annual Improvements 2010-2012 Cycle | Accounting for Contingent Consideration in a Business Combination[1] |
| Amendments to HKFRS 13 Included in Annual Improvements 2010-2012 Cycle | Short-term Receivables and Payables |
| Amendments to HKFRS 1 Included in Annual Improvements 2011-2013 Cycle | Meaning of Effective HKFRSs |

[1] Effective from 1 July 2014

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

## 2. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of plastic pipes and pipe fittings. For management purposes, the Group's businesses are organised by geographical areas based on the location of the customers and assets are attributable to the geographical unit based on the location of the assets. The Group has eight reportable operating segments as follows:

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

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

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

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

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

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

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

(viii) Outside China.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that exchange differences, finance costs, interest income, gain on early redemption of held-to-maturity investments, investment income, share of result of a joint venture and other unallocated income and expenses are excluded from such measurement.

Segment assets exclude interest in a joint venture, held-to-maturity investments, available-for-sale investments, deferred tax assets, cash and bank deposits and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

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

During the years ended 31 December 2014 and 2013, 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 2014

| | Southern China | Southwestern China | Central China | Eastern China | Northern China | Northwestern China | Northeastern China | Outside China | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Segment revenue:** | | | | | | | | | | |
| Sales to external customers | 8,560,750 | 1,444,531 | 1,575,898 | 733,953 | 1,018,436 | 574,801 | 389,072 | 454,603 | – | 14,752,044 |
| Intersegment sales | 2,220,060 | 296,209 | 284,594 | 88,225 | 167,572 | 109,339 | 96,622 | 267,959 | (3,530,580) | – |
| | 10,780,810 | 1,740,740 | 1,860,492 | 822,178 | 1,186,008 | 684,140 | 485,694 | 722,562 | (3,530,580) | 14,752,044 |
| Revenue from construction contracts | 70,728 | – | – | – | – | – | – | – | – | 70,728 |
| Total | 10,851,538 | 1,740,740 | 1,860,492 | 822,178 | 1,186,008 | 684,140 | 485,694 | 722,562 | (3,530,580) | 14,822,772 |
| **Segment results** | 2,820,806 | 392,196 | 465,285 | 170,528 | 287,653 | 116,226 | 83,924 | 54,003 | (589,887) | 3,800,734 |
| Reconciliations: | | | | | | | | | | |
| Exchange loss | | | | | | | | | | (6,578) |
| Finance costs | | | | | | | | | | (233,071) |
| Interest income | | | | | | | | | | 74,116 |
| Gain on early redemption of held-to-maturity investments | | | | | | | | | | 3,194 |
| Investment income | | | | | | | | | | 1,793 |
| Share of profit of a joint venture | | | | | | | | | | 398 |
| Unallocated income and expenses | | | | | | | | | | (1,793,793) |
| Profit before tax | | | | | | | | | | 1,846,793 |
| **Segment assets** | 6,613,198 | 970,751 | 1,017,488 | 558,227 | 556,917 | 586,614 | 492,050 | 405,507 | – | 11,200,752 |
| Reconciliations: | | | | | | | | | | |
| Interest in a joint venture | | | | | | | | | | 6,074 |
| Held-to-maturity investments | | | | | | | | | | 60,757 |
| Available-for-sale investments | | | | | | | | | | 39,466 |
| Deferred tax assets | | | | | | | | | | 13,577 |
| Cash and bank deposits | | | | | | | | | | 3,198,902 |
| **Total assets** | | | | | | | | | | 14,519,528 |
| **Other segment information:** | | | | | | | | | | |
| Depreciation and amortisation | 222,545 | 35,538 | 50,845 | 25,272 | 29,862 | 39,052 | 29,629 | 7,037 | – | 439,780 |
| Impairment of trade receivables, net | 696 | – | 1,975 | – | (465) | – | – | 3,420 | – | 5,626 |
| Write-down of inventories to net realisable value | 31,000 | – | – | – | – | – | – | 2,380 | – | 33,380 |
| Capital expenditure# | 702,074 | 63,795 | 177,789 | 77,727 | 62,730 | 208,798 | 34,812 | 59,805 | (24,018) | 1,363,512 |

# Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments and other intangible assets.

**Operating segment information for the year ended 31 December 2013**

| | 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:** | | | | | | | | | | |
| Sales to external customers | 7,847,960 | 1,318,881 | 1,307,612 | 659,740 | 874,806 | 471,552 | 303,309 | 228,372 | – | 13,012,232 |
| Intersegment sales | 1,382,313 | 256,546 | 393,213 | 75,151 | 136,046 | 99,519 | 89,799 | 327,938 | (2,760,525) | – |
| | 9,230,273 | 1,575,427 | 1,700,825 | 734,891 | 1,010,852 | 571,071 | 393,108 | 556,310 | (2,760,525) | 13,012,232 |
| Revenue from construction contracts | 58,315 | – | – | – | – | – | – | – | – | 58,315 |
| Total | 9,288,588 | 1,575,427 | 1,700,825 | 734,891 | 1,010,852 | 571,071 | 393,108 | 556,310 | (2,760,525) | 13,070,547 |
| **Segment results** | 2,283,550 | 363,984 | 428,642 | 156,513 | 227,889 | 113,142 | 66,354 | 97,964 | (472,470) | 3,265,568 |
| Reconciliations: | | | | | | | | | | |
| Exchange gain | | | | | | | | | | 44,009 |
| Finance costs | | | | | | | | | | (151,003) |
| Interest income | | | | | | | | | | 70,586 |
| Gain on early redemption of held-to-maturity investments | | | | | | | | | | 2,864 |
| Share of profit of a joint venture | | | | | | | | | | 390 |
| Unallocated income and expenses | | | | | | | | | | (1,464,903) |
| Profit before tax | | | | | | | | | | 1,767,511 |
| **Segment assets** | 5,553,271 | 778,407 | 995,223 | 547,182 | 512,218 | 671,442 | 555,901 | 230,982 | – | 9,844,626 |
| Reconciliations: | | | | | | | | | | |
| Interest in a joint venture | | | | | | | | | | 5,676 |
| Held-to-maturity investments | | | | | | | | | | 249,001 |
| Deferred tax assets | | | | | | | | | | 9,162 |
| Cash and bank deposits | | | | | | | | | | 2,189,242 |
| **Total assets** | | | | | | | | | | 12,297,707 |
| **Other segment information:** | | | | | | | | | | |
| Depreciation and amortisation | 181,813 | 31,641 | 40,011 | 21,321 | 28,550 | 27,318 | 22,876 | 6,808 | – | 360,338 |
| Impairment of trade receivables, net | 12,750 | – | (359) | – | 8,180 | – | – | 1,574 | – | 22,145 |
| Write-down of inventories to net realisable value | 9,591 | – | – | – | – | – | – | 257 | – | 9,848 |
| Capital expenditure# | 1,016,603 | 126,297 | 148,415 | 150,892 | 68,283 | 64,057 | 42,554 | 17,671 | (16,910) | 1,617,862 |

# Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments and other intangible assets.

## 3. REVENUE, OTHER REVENUE, INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts (net of value-added tax, if any), and an appropriate proportion of contract revenue from construction contracts during the year.

An analysis of the Group's revenue, other revenue, income and gains is as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Sale of goods | **14,752,044** | 13,012,232 |
| Revenue from construction contracts | **70,728** | 58,315 |
| | **14,822,772** | 13,070,547 |
| **Other revenue, income and gains** | | |
| Bank interest income | **36,378** | 23,067 |
| Interest income from held-to-maturity investments | **37,738** | 47,519 |
| Total interest income | **74,116** | 70,586 |
| Government grants and subsidies | **22,157** | 20,769 |
| Gain on early redemption of held-to-maturity investments | **3,194** | 2,864 |
| Investment income | **1,793** | – |
| Exchange gain | **–** | 44,009 |
| Others | **14,856** | 17,247 |
| | **116,116** | 155,475 |

Government grants and subsidies mainly represented 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

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest on: | | |
| Bank loans | **72,701** | 16,082 |
| The Senior Notes | **67,600** | 134,921 |
| Total interest expenses | **140,301** | 151,003 |
| Premium and unamortised issuance expenses arising from the early redemption of the Senior Notes | **92,770** | – |
| | **233,071** | 151,003 |

## 5. PROFIT BEFORE TAX

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

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Cost of inventories sold | **10,925,108** | 9,745,014 |
| Direct cost of construction work | **63,550** | 50,117 |
| Depreciation | **408,915** | 336,839 |
| Amortisation of prepaid land lease payments | **21,608** | 18,193 |
| Amortisation of other intangible assets | **9,257** | 5,306 |
| Total depreciation and amortisation | **439,780** | 360,338 |
| Research and development costs[#] | **457,850** | 244,202 |
| Loss/(gain) on disposal of items of land, other intangible assets and property, plant and equipment | **6,690** | (5,776) |
| Gain from a bargain purchase | **–** | (157) |
| Write-down of inventories to net realisable value | **33,380** | 9,848 |
| Impairment of trade receivables, net[#] | **5,626** | 22,145 |
| Foreign exchange differences, net | **6,578** | (44,009) |

[#] Research and development costs and the impairment of trade receivables, net are included in the "other expenses" in profit or loss.

## 6. INCOME TAX EXPENSE

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Current Tax | | |
| Hong Kong | **1,999** | 2,158 |
| PRC | **368,442** | 346,087 |
| Other jurisdiction | **442** | – |
| | **370,883** | 348,245 |
| Overprovision in prior years | | |
| PRC | **(50,157)** | (26,546) |
| Deferred Tax | **(14,291)** | 8,196 |
| Total tax charge for the year | **306,435** | 329,895 |

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 16.5% on the estimated assessable profits arising in Hong Kong for both years.

**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.

**Income tax for other jurisdictions**

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

## 7. DIVIDENDS

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Dividends recognised as distributions during the year: 2013 final – HK12 cents (2013: 2012 final – HK12 cents) per ordinary share | **295,460** | 291,809 |

Subsequent to the end of the reporting period, final dividend of HK13 cents in respect of the year ended 31 December 2014 (2013: final dividend of HK12 cents in respect of the year ended 31 December 2013) per ordinary share has been proposed by the directors and is subject to approval by the Shareholders at the forthcoming annual general meeting.

## 8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Profit attributable to owners of the Company used in the basic and diluted earnings per share calculation | **1,554,024** | 1,449,261 |

| | **Number of Shares** | |
|---|---|---|
| | **2014** | 2013 |
| **Shares** | | |
| Weighted average number of ordinary shares of the Company in issue used in the basic earnings per share calculation | **3,099,037,511** | 3,050,089,873 |
| Effect of dilution – weighted average number of ordinary shares: share options | **6,541,402** | 38,037,067 |
| | **3,105,578,913** | 3,088,126,940 |

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2014 includes 3,075,731,740 ordinary shares in issue as at 31 December 2013 (2013: 3,033,602,350 ordinary shares in issue as at 31 December 2012) and 23,305,771 shares (2013: 16,487,523 shares) derived from the weighted average of 34,523,660 ordinary shares (2013: 42,129,390 ordinary shares) issued upon the exercise of share options.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to owners of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

## 9. HELD-TO-MATURITY INVESTMENTS

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Debt securities, at amortised cost: | | |
| Listed in Hong Kong | **24,072** | – |
| Listed in Singapore | **36,685** | 249,001 |
| | **60,757** | 249,001 |
| Analysed for reporting purpose as: | | |
| Non-current assets | **30,383** | 231,650 |
| Current assets | **30,374** | 17,351 |
| | **60,757** | 249,001 |

The held-to-maturity investments represent debt securities. These securities carry fixed interest at 8% to 13% (2013: 9.38% to 13.75%) per annum, payable semi-annually in arrears, and will mature from October 2015 to March 2019 (2013: March 2014 to April 2018).

As at 31 December 2014, the fair value of the debt securities based on the quoted market price provided by a leading global financial market data provider was RMB58,927,000 (2013: RMB260,137,000).

## 10. AVAILABLE-FOR-SALE INVESTMENTS

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Listed equity investments, at fair value | | |
| Hong Kong | **39,466** | – |

The available-for-sale investments represent non-cumulative preference shares of counterparties with Ba2 credit rating. These preference shares have no maturity date.

## 11. INVENTORIES

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **931,957** | 1,159,341 |
| Work in progress | **256,227** | 231,976 |
| Finished goods | **1,021,854** | 1,042,732 |
| | **2,210,038** | 2,434,049 |

## 12. TRADE AND BILLS RECEIVABLES

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **1,127,901** | 854,518 |
| Bills receivable | **216,231** | 218,041 |
| Less: Provision for impairment | **(40,556)** | (34,930) |
| | **1,303,576** | 1,037,629 |

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

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **722,607** | 609,315 |
| 4 to 6 months | **302,968** | 284,077 |
| 7 to 12 months | **173,891** | 103,761 |
| 1 to 2 years | **93,031** | 36,359 |
| 2 to 3 years | **9,435** | 3,350 |
| Over 3 years | **1,644** | 767 |
| | **1,303,576** | 1,037,629 |

## 13. TRADE AND BILLS PAYABLES

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **373,925** | 349,495 |
| Bills payable | **599,462** | 511,921 |
| | **973,387** | 861,416 |

The trade payables are interest-free. The average credit period for trade purchases is 30 to 90 days.

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

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **690,755** | 350,338 |
| 4 to 6 months | **267,183** | 505,157 |
| 7 to 12 months | **6,794** | 1,299 |
| 1 to 2 years | **4,993** | 3,867 |
| 2 to 3 years | **3,420** | 755 |
| Over 3 years | **242** | – |
| | **973,387** | 861,416 |

## 14. BANK LOANS AND OTHER BORROWINGS

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Current** | | |
| Unsecured bank loans | **1,114,898** | 693,025 |
| Current portion of long-term unsecured bank loans | **43,831** | 387,067 |
| | **1,158,729** | 1,080,092 |
| **Non-current** | | |
| Unsecured bank loans | **265,479** | 61,200 |
| Unsecured syndicated loans | **1,755,626** | – |
| The Senior Notes | **–** | 1,545,824 |
| | **2,021,105** | 1,607,024 |
| | **3,179,834** | 2,687,116 |

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Analysed into bank loans repayable: | | |
| Within one year or on demand | **1,158,729** | 1,080,092 |
| In the second year | **56,107** | 61,200 |
| In the third to fifth years, inclusive | **1,964,998** | – |
| | **3,179,834** | 1,141,292 |
| Analysed into other borrowings repayable: | | |
| In the third to fifth years, inclusive | **–** | 1,545,824 |
| | **3,179,834** | 2,687,116 |

Notes:

(a) The effective interest rates on the Group's bank borrowings range from 1.17% to 5.60% (2013: 1.21% to 6.30%) per annum.

As at the end of the reporting period, the Group's bank borrowings are denominated in US dollar, HK dollar, Renminbi and other currencies at aggregate amounts of RMB2,395,795,000 (2013: RMB507,475,000), RMB734,015,000 (2013: RMB483,708,000), RMB50,000,000 (2013: RMB150,109,000) and RMB24,000 (2013: Nil), respectively.

(b) The Senior Notes were listed on the Singapore Exchange Securities Trading Limited. They carried interest at 7.875% per annum (effective interest rate at 8.63% per annum), payable semi-annually in arrears on 13 May and 13 November, and will mature on 13 May 2016 unless redeemed earlier. The Company can at its option redeem all or a portion of the Senior Notes at any time prior to the maturity date in accordance with the purchase agreement. For key terms of the redemption option, please refer to the Company's announcement on issuance of the Senior Notes dated 8 May 2011.

The Senior Notes were guaranteed by certain of the Company's subsidiaries and secured by a first-priority fixed charge over the shares of those subsidiaries providing such guarantee.

During the year, the Group has early redeemed the Senior Notes at a redemption price equal to 100% of the principal amount of the Senior Notes of US$258,880,000 (approximately RMB1,590,552,000 equivalent) plus the applicable premium of US$10,194,000 (equivalent to RMB67,354,000).

## 15. SHARE CAPITAL

| **Shares** | **2014** | 2013 |
|---|---|---|
| **Authorised:** | | |
| 20,000,000,000 (2013: 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:** | | |
| 3,110,255,400 (2013: 3,075,731,740) ordinary shares of HK$0.05 each | **HK$155,512,770** | HK$153,786,587 |
| Equivalent to | **RMB135,686,000** | RMB134,316,000 |

The following changes in the Company's issued share capital took place during the year:

| | Number of ordinary shares of HK$0.05 each | Nominal value of ordinary shares | |
|---|---|---|---|
| | | *HK$'000* | *RMB'000* |
| **Issued and fully paid:** | | | |
| As at 1 January 2013 | 3,033,602,350 | 151,680 | 132,660 |
| Upon exercise of the share options (note) | 42,129,390 | 2,106 | 1,656 |
| As at 31 December 2013 and 1 January 2014 | 3,075,731,740 | 153,786 | 134,316 |
| Upon exercise of the share options (note) | 34,523,660 | 1,726 | 1,370 |
| As at 31 December 2014 | 3,110,255,400 | 155,512 | 135,686 |

Note:

Pursuant to the exercise of the share options at the exercise price of HK$1.82 each granted by the Company, the Company issued a total of 34,523,660 ordinary shares (2013: 42,129,390 ordinary shares) of HK$0.05 each for a total cash consideration, before expenses, of approximately HK$62,833,000 (2013: HK$76,675,000) (approximately RMB49,874,000 (2013: RMB60,284,000) equivalent) during the year. The shares issued during the year rank pari passu in all respects with the then existing shares of the Company.

## 16. COMMITMENTS

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

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Contracted, but not provided for: | | |
| Land, property, plant and equipment | **347,681** | 454,881 |

## CHAIRMAN'S STATEMENT

In 2014, China's economy experienced a mild recovery with a steady growth against the backdrop of the gradual recovery of the global economy. The PRC government pressed ahead with urbanisation and construction of hydraulic engineering works in rural villages, and continued to update the obsolete piping systems and the infrastructural facilities, including those for water supply, drainage, power supply and telecommunications. These developments boosted the demand for pipes, building materials and interior decoration products. As a leading large-scale industrial group making building materials and interior decoration products in mainland China, China Lesso capitalised on the favourable government policies and the steady demand for pipes by leveraging its market leadership and brand influence, and thus recorded a steady growth in its business.

During the year, the Group's businesses made steady progress in their development and in terms of key performance indicators despite the uncertainties in both the economy and operating environments. The improvements met the management's expectations. The Group's revenue rose by 13.4% to RMB14,823 million in 2014 from RMB13,071 million in 2013. The gross profit increased by 16.4% to RMB3,801 million. Profit attributable to owners of the Company grew by 7.2% to RMB1,554 million. The Board proposed payment of a final dividend of HK13 cents per share for the year ended 31 December 2014.

During the year under review, the Group gradually raised the automation level of the production facilities of its existing production bases as planned to further enhance the production efficiency and to save costs. On the other hand, the Group increased the production capacity to meet its needs for development. The production bases in Hainan and Yunnan successively commenced production, providing solid support to the future development of the Group's plastic pipes and pipe fittings business.

In addition, the Group will continue to develop the business of building materials and interior decoration products, providing customers with a complete system of doors and windows, sanitary ware products and integrated kitchens. The year 2014 marks the fourth year of the country's "Twelfth Five-year Plan". It is believed that new opportunities will arise in the market for building materials and interior decoration products as the government speeds up the construction and renovation of the social security housing, the redevelopment of shanty areas and renovation of dilapidated rural housing.

Looking ahead to 2015, we expect China's economy and its overall market to maintain the momentum of steady growth. The Group believes that its business will continue to grow because it will benefit from the growing demand for plastic pipes and pipe fittings, building materials and interior decoration products thanks to the ongoing urbanisation, the updating of such infrastructural facilities as obsolete pipes, the pilot scheme for managing integrated subterranean piping systems for the urban areas throughout the country, the construction of irrigation systems for rural villages, social security housing and the redevelopment of shanty areas.

In the future, the Group will proactively take advantage of China's favorable policies and market opportunities by diversifying its product offerings, actively expanding its nationwide sales network and enhancing its production capacity. It will continue to develop the business of building materials and interior decoration products, and endeavor to fulfill its corporate mission of "Create a Relaxing Life for Dwellers" by developing itself into a leading large-scale industrial group that makes building materials and interior decoration products in the world. The Group will bring better returns to the Shareholders through pursuing sustainable and healthy development of its business.

The Group's consistent development hinges on the strong support from various parties. On behalf of the Board, I would like to take this opportunity to express our sincere gratitude to all the employees for their relentless efforts and contribution to the Group's development in the past year. I would also like to thank all of the Shareholders, investors, business partners and customers for their trust and support.

**Wong Luen Hei**
*Chairman*

Hong Kong, 16 March 2015

## MANAGEMENT DISCUSSION AND ANALYSIS

## CORPORATE OVERVIEW

China Lesso is a leading large-scale industrial group, making building materials and interior decoration products in mainland China. The Group has 20 production bases in 14 regions which support a nationwide sales network, providing a comprehensive range of diverse products and quality sales services for its customers.

Quality products, strong brand influence, advanced technologies in research and development and a wide sales network have reinforced the Group's market leadership in southern China and have allowed it to springboard into other local markets in the country. In addition to steady enhancing the core business of pipe business, the Group has been fostering growth drivers by pursuing the development of its new business of building materials and interior decoration products, namely those of systems of doors and windows, sanitary ware products and integrated kitchens.

## MARKET OVERVIEW

During the year under review, the government enacted a number of policies of accelerating the country's urbanisation process, construction of social security housing and redevelopment of shanty areas. These measures favoured the development of pipe industry. Specifically, the edict of the "State Planning for New Mode of Urbanisation for 2014 to 2020" stipulated that the country's urbanisation rate be raised to 60% in 2020 from the present 53.7%. Such a plan and the entailed renovation works have to be backed by enhanced piping systems, including those for telecommunications, the supply of power, heat and gas, water supply and drainage, the sewerage system, and those for the refuse disposal and fire services. Therefore, the acceleration of the new mode of urbanisation, the construction of urban piping systems and hydraulic engineering works will help boost the sustainable development of the pipe industry in the long term.

The government has also been pressing ahead with major hydraulic engineering works for saving and supplying water. The State Council has already mapped out a construction blueprint that includes 172 important hydraulic engineering works for the years 2014 and 2015 and the "Thirteenth Five-year Plan" that will span the period of 2016 to 2020. A total of RMB4 trillion will be invested in hydraulic engineering reform in the coming decade or RMB400 billion annually. When all the hydraulic engineering works are completed, the country will be able to supply 80 billion more cubic metres of water and save 26 billion cubic metres of water in agriculture annually while the irrigation area will be increased by more than 78 million Chinese mu, reinforcing the major hydraulic systems in mainland China. In February of 2015, the Central Government issued its Number One Document about the development of agriculture, rural villages and farmers' livelihood, reiterating its emphasis on enhancing the irrigation systems and hydraulic works for drinking water. This will further stimulate the rural areas' demand for pipes for water supply and drainage, and will boost the development of the pipe industry.

Meanwhile, the country's pilot scheme for managing integrated subterranean piping systems for the urban areas will be implemented in two phases in 2015 and 2016. The municipalities under the direct jurisdiction of the Central Government, provincial capitals and cities of other administrative levels which have been earmarked for such schemes will receive annual special subsidies of RMB500 million, RMB400 million and RMB300 million respectively from the Central Government. Cities of the pilot scheme will build integrated subterranean piping systems for the supply of water, heat, power, gas and those for telecommunications, television broadcast and drainage in their major districts under the unified planning, design, engineering work and maintenance with the aim of improving the quality of the country's overall urban subterranean piping systems. Another factor which shall lead to a steady growth in the demand for plastic pipes and pipe fittings is the government notice about work on saving water, which was jointly issued by the Ministry of Housing and Urban-rural Development and the National Development and Reform Commission to require the replacement and renovation of urban water supply piping systems which have been used for more than fifty years and are made of now obsolete materials.

Furthermore, the government will keep speeding up the redevelopment of shanty areas, renovation of dilapidated rural housing and construction of social security housing under the "Twelfth five-year Plan" despite the fluctuations in the property market during the year. In particular, a total of 36 million units of social security housing will be constructed by 2015, with total investment amounting to RMB4 trillion. This will boost the demand for building materials and interior decoration products such as systems of quality doors and windows, sanitary ware products and integrated kitchens in the long run.

## BUSINESS REVIEW

### Plastic Pipes and Pipe Fittings Business

As a mainstay operation of China Lesso, the plastic pipes and pipe fittings business is supplying over 10,000 kinds of pipes and pipe fittings which are widely applied to such fields as water supply, drainage, power supply and telecommunications, gas transmission, agriculture, floor heating and fire services. Through a wide distribution network, the Group provides quality products and comprehensive services for its customers. During the year under review, the Group actively seized the market opportunity by expanding its sales network with its brand influence and by improving its product portfolio, and thus achieved a steady progress in business and satisfactory results in sales volume and revenue.

The table below sets out the breakdown of revenue from plastic pipes and pipe fittings business by product application for 2014 and 2013:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | ***RMB million*** | ***% of total revenue*** | *RMB million* | *% of total revenue* |
| Water supply | **5,315** | **38.7%** | 4,822 | 39.5% |
| Drainage | **5,217** | **38.0%** | 4,637 | 38.0% |
| Power supply and telecommunications | **2,344** | **17.1%** | 2,139 | 17.5% |
| Gas transmission | **242** | **1.8%** | 186 | 1.5% |
| Others# | **615** | **4.4%** | 431 | 3.5% |
| Total | **13,733** | **100.0%** | 12,215 | 100.0% |

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

The plastic pipes and pipe fittings business' sales volume rose by 12.5% to 1.43 million tonnes in 2014 from 1.27 million tonnes in 2013, with revenue up by 12.4% to RMB13,733 million in 2014 from RMB12,215 million in 2013. In particular, sales volume of PVC products grew by 12.2% to 1.13 million tonnes while that of non-PVC products increased by 13.5% to 300,000 tonnes. Revenue from the sales of PVC products amounted to RMB8,819 million, accounting for 64.2% of the revenue of the plastic pipes and pipe fittings business.

During the year under review, the material costs stabilised following a decline. In the fourth quarter of 2014, the Group conducted promotional sales of certain products, which resulted in a slight decrease in the average selling price. The average cost of plastic pipes and pipe fittings slightly declined by 1.4% to RMB7,023 per tonne in 2014 from RMB7,124 per tonne in 2013, while the average selling price slightly decreased by 0.1% to RMB9,593 per tonne in 2014 from RMB9,598 per tonne in 2013. In particular, the average selling price of the PVC products decreased by 2.4% year-on-year to RMB7,833 per tonne while that of the non-PVC products increased by 3.9% year-on-year to RMB16,073 per tonne.

The table below sets out the breakdown of sales volume, revenue and average selling price by product material for 2014 and 2013:

| | **2014** | | | 2013 | | | Change in | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Sales volume** *Tonne* | **Revenue** *RMB million* | **Average selling price** *RMB* | Sales volume *Tonne* | Revenue *RMB million* | Average selling price *RMB* | Sales volume | Revenue | Average selling price |
| Plastic pipes and pipe fittings | | | | | | | | | |
| – PVC[a] | **1,125,911** | **8,819** | **7,833** | 1,003,362 | 8,049 | 8,022 | 12.2% | 9.6% | (2.4)% |
| – Non-PVC[b] | **305,725** | **4,914** | **16,073** | 269,269 | 4,166 | 15,472 | 13.5% | 18.0% | 3.9% |
| | **1,431,636** | **13,733** | **9,593** | 1,272,631 | 12,215 | 9,598 | 12.5% | 12.4% | (0.1)% |
| Construction contracts | **N/A** | **71** | **N/A** | N/A | 58 | N/A | N/A | 22.4% | N/A |
| Others[c] | **N/A** | **1,019** | **N/A** | N/A | 798 | N/A | N/A | 27.7% | N/A |
| Total | **N/A** | **14,823** | **N/A** | N/A | 13,071 | N/A | N/A | 13.4% | N/A |

Notes:

(a) "PVC" refers to material used in the manufacture of plastic pipes and pipe fittings with high mechanical strength and hardness.

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

(c) "Others" include ancillary, building materials and interior decoration products, and other materials. Sales volumes for "others" are measured in units rather than tonnes and the size of the units may vary with different products.

**Sales Network**

The Group has a sales network which strategically spans China. As at 31 December 2014, the number of the Group's independent and exclusive tier-one distributors rose to 2,000 all over the country. Southern China remained the Group's major market, and its output, sales and revenue there has been boosted by the commenced operation of its production base in Hainan. The Group was vigorously increase the market penetration of its products in southern China to consolidate its market leadership there, and was actively expanding its business presence beyond the region to increase its overall sales with a geographically more balanced source of income. During the year under review, the Group's sales and revenues in all the regions under its market coverage grew consistently. The ratio of the Group's revenues from southern China to those from elsewhere in the country stood at 58.2% and 41.8%, which met its expectations.

The table below sets out the breakdown of revenue by operating region for 2014 and 2013:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| **Region#** | ***RMB million*** | ***% of total revenue*** | *RMB million* | *% of total revenue* |
| Southern China | **8,631** | **58.2%** | 7,906 | 60.5% |
| Southwestern China | **1,445** | **9.7%** | 1,319 | 10.1% |
| Central China | **1,576** | **10.6%** | 1,308 | 10.0% |
| Eastern China | **734** | **5.0%** | 660 | 5.0% |
| Northern China | **1,018** | **6.9%** | 875 | 6.7% |
| Northwestern China | **575** | **3.9%** | 472 | 3.6% |
| Northeastern China | **389** | **2.6%** | 303 | 2.3% |
| Outside China | **455** | **3.1%** | 228 | 1.8% |
| Total | **14,823** | **100.0%** | 13,071 | 100.0% |

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

**Raising Utilisation Rate and Production Efficiency**

The Group has been actively increasing the automation of its production bases and raising the utilisation rate of their production equipment and their production efficiency. During the year under review, the Group continued to optimise the equipment at its production bases to raise utilisation rate and reduce production costs to enhance the overall production efficiency and achieve economies of scale. These measures resulted in profit of healthy and acceptable level. On the other hand, the production bases in Hainan and Yunnan successively commenced production, boosting the annual designed production capacity of the Group's plastic pipes and pipe fittings business to 2.0 million tonnes by the end of 2014 from 1.8 million tonnes at the end of 2013. The capital expenditure (excluding business combinations) for 2014 totalled approximately RMB1.26 billion, and was mainly used for constructing new production bases in Hainan and Yunnan as well as for updating the facilities at and the automation of the existing production bases.

**Business of Building Materials and Interior Decoration Products**

The Group has been developing the business of new types of building materials and interior decoration products since 2012. The business mainly provides major property developers with various types of integrated building materials and interior decoration products as well as total solution to their residential property projects, including systems of quality doors and windows, sanitary ware products and integrated kitchens. The Group believes that the ongoing urbanisation, redevelopment of villages in urban areas, construction of social security housing and redevelopment of shanty areas, coupled with the recovering property market, will stimulate the demand for building materials and interior decoration products. This business enjoys synergy with the Group's other existing product lines and will become another growth driver of the Group.

**Prospects**

Looking ahead to 2015, although China is still facing the risk of an economic downturn, it is predicted that the country's economy will make a steady progress and the operating environment will be improving. It is because the Central Government has set the goal of achieving a steady growth in economy for the year, and has recently lowered both the reserve requirement ratio for financial institutions and the prime rate, which bode well for the national economy. The Group believes that the government's policies on urbanisation, reinforcement in construction of irrigation systems for rural villages and enormous investment in renovation of urban drainage system will greatly boost the demand for plastic pipes.

According to the meeting minutes of the Plastic Pipe Professional Committee of the China Plastics Processing Industry Association, the country's plastic pipe output rose by 7.5% in 2014. Presently, plastic pipes account for 40% of the total number of pipes which are used and made of all kinds of materials. However, it is believed that plastic pipes, which are now mainly applied to urban piping systems, piping systems for agriculture, drinking water, irrigation and drainage, will be used in more other fields.

The Group will continue to optimise its business mix and diversify its product offerings to consolidate and enhance its leading position in the industry, and strengthen its core competencies. It has mapped out the following strategies to achieve these objectives:

*Enhancing production capacity to gear up for business development*

The Group will pursue the strategy of automating its production bases. It has also earmarked about RMB1.1 billion for total capital expenditure for 2015 and the sum will be mainly spent on the construction of a production base in Shandong as well as the automation and enhancement of equipment in existing production bases. The move will help the Group further enhance the economies of scale, raise the utilisation rate and reduce wastage in production, thus effectively managing production cost and enhancing the overall production efficiency.

*Developing and consolidating nationwide sales network*

The Group has been maintaining its market dominance in southern China, and will continue to consolidate its leadership and raise its market penetration there. It will also endeavor to enhance the awareness and reputation of its brand. Moreover, the Group has been actively developing the markets of the southwestern, central and northern parts of China in recent years by fully leveraging its brand influence, segmenting the market and further building up its sales network, with the aim of increasing its revenues and profitability. The moves will also enable the Group to tap more markets with potential for growth and will lead to a more geographically balanced source of income.

*Developing business of building materials and interior decoration products into future growth driver*

The Group has been engaged in the business of building materials and interior decoration products since 2012, providing customers with a complete system of doors and windows, sanitary ware products and integrated kitchens. The Group will continue to form partnerships with sizeable property developers, and will expand its distribution network to provide the customers with integrated building materials, interior decoration products and services which will become another growth driver of the Group.

*Establishment of Lesso Mall, a platform for developing new business of both online and offline sales of hardware, electrical equipment and building materials*

In order to reinforce and take the Group's advantage in sales and distribution channels and to diversify its businesses, it established "Lesso Mall" in early 2015, being a diversified and competitive platform to conduct both online and offline sales and display a wide range of products, including hardware, electrical equipment and building materials. Lesso Mall provides distributors with an integrated service that encompasses procurement, supply and sales. The Group believes that the business platform has good prospects as an extension of its business.

## CONCLUSION

As a manufacturer of the most comprehensive range of building materials and interior decoration products in China, China Lesso is confident about the prospect of its businesses of pipes and pipe fittings, building materials and interior decoration products. The Group will endeavour to fulfill its corporate mission of "Create a Relaxing Life for Dwellers" by developing itself into a leading large-scale industrial group that makes building materials and interior decoration products in the world. It aims to provide more products of high price-performance ratio for customers, enabling a comfortable and quality life at home for them.

## RESULTS PERFORMANCE

For the year ended 31 December 2014, the Group's businesses continued their healthy and steady growths. The Group's revenue rose by 13.4% year-on-year to RMB14,823 million. In particular, the sales volume of such core products as plastic pipes and pipe fittings continued to grow, and increased by 12.5% year-on-year to 1.43 million tonnes. The gross profit rose by 16.4% to RMB3,801 million, with a gross profit margin slightly up by 0.6 percentage points to 25.6%, which was maintained at a healthy and reasonable level.

During the year under review, the Group entered into agreements with a number of banks to obtain syndicated term loan facilities in the aggregate amount of US$290 million, so as to optimise the its debt structure and reduce financing cost. The Group redeemed its Senior Notes in the principal amount of approximately US$259 million, and recorded a one-off premium and unamortised issuance expenses arising from early redemption of the Senior Notes of RMB92.77 million. Nevertheless, the Group believes that the earlier redemption of the notes will improve its balance sheet and financial structure and will save its financing costs in the long term.

Moreover, the exchange rates between Renminbi and HK dollar and the US dollar were fluctuating, resulting in an exchange loss of approximately RMB6.58 million for the Group during the year (2013: an exchange gain of approximately RMB44.01 million). However, the exchange loss will not have any negative impact on the profitability of the Group's core business and cash flows.

The Group's EBITDA was RMB2,520 million, representing an increase of 10.6% year-on-year. The EBITDA ratio was 17.0% (2013: 17.4%), which was kept at a healthy and reasonable level. The Group's effective tax rate decreased to 16.6% in 2014 from 18.7% in 2013. The Group's profit before tax increased by 4.5% year-on-year to RMB1,847 million and profit attributable to the owners of the Company increased by 7.2% to RMB1,554 million. Basic earnings per share increased by 4.2% year-on-year to RMB0.50.

As a token of gratitude to the Shareholders for their support in the past year, the Board proposed payment of final dividend of HK13 cents per share for the year ended 31 December 2014 (2013: HK12 cents).

## 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.

As at 31 December 2014, the Group had total debts (i.e. total bank loans and other borrowings) of approximately RMB3,180 million, of which 75.3% was denominated in US dollar, 23.1% was denominated in HK dollar and 1.6% was denominated in Renminbi. The Group's borrowings are subject to floating rates ranging from 1.17% to 5.60% per annum with maturity periods ranging from within one year to four years.

As at 31 December 2014, the Group's current assets and current liabilities were approximately RMB7,315 million and RMB3,810 million respectively. The Group's current ratio (that is, the ratio of current assets to current liabilities) decreased to 1.92 from 1.94 as at 31 December 2013, while the quick ratio (that is, the ratio of current assets less inventories to current liabilities) increased to 1.34 from 1.20 as at 31 December 2013. The Group's total equity increased to approximately RMB8,550 million. The Group's gearing ratio (calculated on the basis of the total debts divided by the sum of total debts and total equity) stood at a healthy level of 27.1%.

With cash and bank deposits, including restricted cash, of approximately RMB3,199 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 other than borrowings denominated in US dollar and HK dollar. No hedging has been arranged on the above-mentioned exposure.

## CHARGE ON ASSETS

As at 31 December 2014, certain of the Group's held-to-maturity investments with an aggregate net carrying amount of approximately RMB30 million (2013: approximately RMB243 million) and available-for-sale investments with an aggregate net carrying amount of approximately RMB5 million (2013: Nil) were pledged to a bank to secure the banking facility granted to the Company. The Company has not utilised this banking facility as at 31 December 2014.

## CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any significant contingent liabilities.

## HUMAN RESOURCES

As at 31 December 2014, the Group employed a total of approximately 7,700 employees including directors. Total staff costs were RMB662 million during the year. 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 may be paid to employees based on individual performance. Other benefits to employees include medical insurance, retirement scheme and training programmes.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

## CHANGES ON THE COMPOSITION OF THE BOARD

Up to the date of this announcement, Mr. Gao Lixin has resigned as an independent non-executive director and a member of the nomination committee of the Company; and Ms. Lan Fang has been appointed as an independent non-executive director and a member of the nomination committee of the Company, all with effect from 1 January 2015.

## AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting policies adopted by the Group and the audited consolidated financial statements of the Group for the year ended 31 December 2014.

## 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 standard 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, comply with increasingly stringent regulatory requirements and fulfill its commitment of pursuing excellent corporate governance. In the opinion of the directors, the Company complied with all the applicable code provisions of the Code during the year.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

## COMPLIANCE AND ENFORCEMENT OF THE NON-COMPETE UNDERTAKINGS FROM CONTROLLING SHAREHOLDER

None of the directors or substantial shareholder of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group. The controlling Shareholder being New Fortune and Mr. Wong Luen Hei (the "Controlling Shareholder"), has entered into a deed of non-competition in favour of the Group dated 14 May 2010 (the "Deed of Non-Competition").

The directors are of the view that the Group's measures adopted by the Company in respect of the enforceability of the Deed of Non-Competition are adequate to safeguard the effectiveness of the non-competition undertakings. The independent non-executive directors have reviewed the compliance of the Deed of Non-Competition, including any potential conflicts of interest and competition arising from the taking up by the Controlling Shareholder of opportunities rejected by the Group pursuant to the Deed of Non-Competition. Based on the confirmation from the Controlling Shareholder, the independent non-executive directors are of the view that the Deed of Non-Competition has been complied with and has been effectively enforced.

## DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

On 3 March 2014, the Company as borrower entered into a facility agreement (the "Facility Agreement I") in relation to a syndicated term loan facility in the amount of US$135 million at an interest rate of LIBOR plus 2.00% per annum with, among others, Taipei Fubon Commercial Bank Co., Ltd. and CTBC Bank Co., Ltd. as mandated lead arrangers, and a syndicate of nine lenders, for the purpose of refinancing the Group's existing financial indebtedness. The loan made thereunder is repayable 36 months after the same has been made.

On 26 June 2014, the Company as borrower entered into a facility agreement (the "Facility Agreement II") in relation to a syndicated term loan facility in the amount of US$155 million at an interest rate of LIBOR plus 2.20% per annum with a syndicate of three lenders, independent licensed banks in Hong Kong, for general corporate requirements (including the refinancing of the Group's existing financial indebtedness). The loan made thereunder is repayable 42 months after the same has been made.

Pursuant to the Facility Agreement I and Facility Agreement II (collectively the "Facility Agreements"), save for additional requirement that Mr. Wong Luen Hei (being the Controlling Shareholder) and his family (collectively, the "Wong Family") shall remain to have effective management control over the Company set out in the Facility Agreement I, the Facility Agreements require that the Wong Family shall collectively maintain, directly or indirectly, at least 55% of beneficial shareholding interest in the issued share capital of the Company, carrying at least 55% of the voting rights, free from any security. Otherwise, a lender shall not be obliged to fund the loans made under the Facility Agreements, and the total commitments under the Facility Agreements may be liable to be cancelled and the outstanding loans with interest and all other amounts accrued under the Facility Agreements or other related financial documents may be due and payable to the lenders immediately.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2014, save for the Company's redemptions of the principal amount of US$259 million of the Senior Notes as disclosed in the announcements dated 14 May 2014 and 29 July 2014, the Company or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

## ACQUISITIONS OF SUBSIDIARIES

During the year, the Group entered into the sale and purchase agreements to acquire 100% equity interest in Heshan Starcorp Plastic Co., Ltd.* ("Heshan Starcorp") and Anhui Xin Hua Lian New Material Co., Ltd* ("Xin Hua Lian"), at a cash consideration of RMB31.86 million and RMB30 million respectively.

Heshan Starcorp is principally engaged in the manufacture and sale of plastic products. Xin Hua Lian is principally engaged in the manufacture and sale of inorganic nonmetallic materials. The acquisitions allow the Group to expand its production capacity on plastic resins processing and inorganic nonmetallic materials.

## PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK13 cents per share for the year ended 31 December 2014 (the "Proposed Final Dividend") to the Shareholders whose names appear on the register of members of the Company on Tuesday, 26 May 2015, subject to the Shareholders' approval at the forthcoming annual general meeting of the Company to be held on Friday, 15 May 2015 (the "2015 AGM"). It is expected that the Proposed Final Dividend will be paid on Monday, 1 June 2015.

## CLOSURE OF REGISTER OF MEMBERS

### (I) For determining the entitlement to attend and vote at the 2015 AGM

The register of members of the Company will be closed from Tuesday, 12 May 2015 to Friday, 15 May 2015, both dates inclusive, during this period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2015 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 Monday, 11 May 2015.

**(II) For determining the entitlement to the proposed final dividend**

The register of members of the Company will be closed from Thursday, 21 May 2015 to Tuesday, 26 May 2015, 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 Wednesday, 20 May 2015.

**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 2014 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**
**Zuo Manlun**
*Chief Executive*

Hong Kong, 16 March 2015

*As at the date of this announcement, the executive directors of the Company are Mr. Wong Luen Hei, Mr. Zuo Manlun, Ms. Zuo Xiaoping, Mr. Lai Zhiqiang, Mr. Kong Zhaocong, Mr. Chen Guonan, Dr. Lin Shaoquan, Mr. Huang Guirong, Mr. Luo Jianfeng; the non-executive director of the Company is Mr. Lin Dewei; and the independent non-executive directors of the Company are Dr. Bai Chongen, Mr. Fung Pui Cheung, Mr. Wong Kwok Ho Jonathan, Mr. Cheung Man Yu and Ms. Lan Fang.*

## 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 |
| "EBITDA" | earnings before interest, taxes, depreciation and amortisation |
| "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 |
| "Macau" | Macau Special Administrative Region of the PRC |
| "Model Code" | the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |
| "N/A" | not applicable |
| "New Fortune" | New Fortune Star Limited |
| "PE" | polyethylene |
| "PP-R" | polypropylene random |
| "PVC" | polyvinyl chloride |
| "RMB" | Renminbi, the lawful currency of the PRC |

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|---|---|
| "Senior Notes" | US$300 million 7.875% senior notes due 2016 issued by the Company |
| "Share(s)" | share(s) of a nominal value of HK$0.05 each in the capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) of the Company |
| "State Council" | The State Council of the PRC |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Taiwan" | the Republic of China |
| "tonne(s)" | a unit measuring weight, equal to 1,000 kilograms |
| "US" | the United States of America |
| "US$" | 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 business, industry and markets in which China Lesso operates.