Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

LESSO 联塑

CHINA LESSO GROUP HOLDINGS LIMITED

中國聯塑集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2128)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

The Board is pleased to announce the unaudited consolidated financial results of the Group for the six months ended 30 June 2018.

HIGHLIGHTS

Compared to the financial results for the six months ended 30 June 2017:

- Revenue increased by 16.4% to RMB10,448 million
- Gross profit increased by 10.6% to RMB2,721 million
- Profit attributable to owners of the Company increased by 7.2% to RMB1,041 million
- Basic earnings per share was RMB0.34, increased by 9.7%
- An interim dividend of HK10 cents per share is declared for the six months ended 30 June 2018

* *For identification purposes only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	2A	**10,448,302**	8,977,047
Cost of sales		**(7,727,083)**	(6,515,743)
Gross profit		**2,721,219**	2,461,304
Other revenue, income and gains	3	**118,828**	82,504
Selling and distribution expenses		**(511,197)**	(459,483)
Administrative expenses		**(473,807)**	(442,264)
Other expenses		**(404,811)**	(318,683)
Finance costs	4	**(179,961)**	(98,957)
Share of results of associates		**28,721**	–
Share of results of joint ventures		**167**	253
PROFIT BEFORE TAX	5	**1,299,159**	1,224,674
Income tax expense	6	**(294,051)**	(274,001)
PROFIT FOR THE PERIOD		**1,005,108**	950,673
OTHER COMPREHENSIVE INCOME/ (EXPENSE)			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
Changes in fair value		**–**	(158,107)
Reclassification adjustment for gains on disposal		**–**	(1,143)
Changes in fair value of debt instruments at fair value through other comprehensive income		**(4,501)**	–
Share of other comprehensive income of an associate, net of tax		**601**	–
Exchange differences on translation of foreign operations		**(98,016)**	141,335
		(101,916)	(17,915)

	Note	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Items that will not to be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income		**(346,766)**	–
OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD		**(448,682)**	(17,915)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**556,426**	932,758
Profit for the period attributable to:			
Owners of the Company		**1,041,194**	971,042
Non-controlling interests		**(36,086)**	(20,369)
		1,005,108	950,673
Total comprehensive income for the period attributable to:			
Owners of the Company		**594,605**	950,248
Non-controlling interests		**(38,179)**	(17,490)
		556,426	932,758
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	8	**RMB0.34**	RMB0.31

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	**30 June 2018 *RMB'000* (Unaudited)**	31 December 2017 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**7,171,787**	7,156,134
Prepaid land lease payments		**1,249,757**	1,266,216
Investment properties		**4,108,927**	4,038,900
Deposits paid for the purchase of land, property, plant and equipment		**1,778,226**	1,024,497
Goodwill		**85,309**	85,309
Other intangible assets		**171,320**	172,332
Interests in associates		**899,440**	41,324
Interests in joint ventures		**9,187**	9,024
Available-for-sale investments	9A	**–**	1,582,208
Other financial assets	9B	**1,679,581**	–
Loan receivables	10	**208,182**	228,710
Other non-current assets		**706**	150,591
Contract assets		**70,813**	–
Deferred tax assets		**76,522**	69,908
Total non-current assets		**17,509,757**	15,825,153
CURRENT ASSETS			
Inventories	11	**3,816,215**	3,227,742
Amounts due from customers for contract work		**–**	269,239
Contract assets		**570,868**	–
Other financial assets	9B	**300,000**	–
Loan receivables	10	**475,890**	561,206
Trade and bills receivables	12	**2,230,763**	2,024,608
Prepayments, deposits and other receivables		**2,113,888**	1,613,307
Cash and bank deposits		**5,250,975**	4,452,370
Total current assets		**14,758,599**	12,148,472

	Note	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
CURRENT LIABILITIES			
Amounts due to customers for contract work		–	101,555
Contract liabilities		**1,420,524**	–
Trade and bills payables	13	**4,515,668**	3,021,085
Other payables and accruals		**550,250**	1,892,922
Tax payable		**154,744**	180,973
Borrowings	14	**5,331,026**	2,877,256
Total current liabilities		**11,972,212**	8,073,791
NET CURRENT ASSETS		**2,786,387**	4,074,681
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,296,144**	19,899,834
NON-CURRENT LIABILITIES			
Borrowings	14	**5,678,951**	5,442,119
Other long-term payables		**39,749**	92,572
Deferred tax liabilities		**494,880**	444,640
Deferred income		**179,753**	137,012
Total non-current liabilities		**6,393,333**	6,116,343
Net assets		**13,902,811**	13,783,491
EQUITY			
Share capital	15	**135,344**	135,344
Reserves		**13,492,543**	13,354,571
Equity attributable to owners of the Company		**13,627,887**	13,489,915
Non-controlling interests		**274,924**	293,576
Total equity		**13,902,811**	13,783,491

Note:

1.1. BASIS OF PREPARATION

These condensed consolidated financial statements of the Group for the six months ended 30 June 2018 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. They have been prepared under the historical cost convention, except for investment properties and other financial assets which have been measured at fair value. These condensed consolidated financial statements are presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these condensed consolidated financial statements are the same as those used in the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) as disclosed in note 1.2 below.

These condensed consolidated financial statements do not include all information and disclosures required in the Group's annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017.

1.2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC) Interpretation 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 40	Transfers of Investment Property
Annual improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as further explained below, the application of these new and revised standards in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

HKFRS 15

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption and it elected to apply that method only to those contracts that were not completed at the date of initial application. The comparative information for each of the primary financial statements would be presented based on the requirements of HKAS 11, HKAS 18 and related interpretations.

The effect of the adoption of HKFRS 15 are further explained as below.

(a) *Rendering of environmental engineering services*

The Group has environmental engineering business activity in providing design, survey and construction services, which are sold bundled together in one contract. Prior to the adoption of HKFRS 15, contract consideration was recognised as revenue over the percentage of completion. Upon the adoption of HKFRS 15, the Group assessed that there are three performance obligations from design, survey and construction respectively because the promises to provide those services are capable of being distinct and separately identifiable. The contract consideration has then been allocated to each of the services based on their stand-alone selling prices and recognise as revenue over time under HKFRS 15.

(b) *Contract assets and contract liabilities*

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customers. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations.

The excess of cumulative revenue recognised in profit or loss over the cumulative billings to customers is recognised as contract assets. Contract assets are rights to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditional on something other than the passage of time.

The excess of cumulative billings to customers over the cumulative revenue recognised in profit or loss is recognised as contract liabilities. Contract liabilities are obligations to transfer goods or services to customer for which the Group has received consideration, or for which an amount of consideration is due from the customer.

Upon the adoption of HKFRS 15, the Group’s receivables arising from concession operating right represented contracts assets under HKFRS 15. Accordingly, they are reclassified to contract assets from other non-current assets and prepayments, deposits and other receivables for the current portion.

Advance receipt is normally required for sales to independent distributors. Prior to the adoption of HKFRS 15, deferred revenue arose from advance receipt was recognised in the statement of financial position within other payables and accruals. Upon the adoption of HKFRS 15, the Group reclassified it to contract liabilities from other payable and accruals.

(c) *Presentation and disclosure requirements HKAS 34.114*

As required for the condensed consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to note 2A for the disclosure of disaggregated revenue.

HKFRS 9

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together two aspects of the accounting for financial instruments: classification and measurement and impairment.

The Group has applied the transition provision set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. There is no difference between carrying amounts as at 31 December 2017 and the carryings as at 1 January 2018 that should be recognised in the opening retained profits and other components of equity, without restating comparative information.

(i) Classification and measurement

Under HKFRS 9, debt financial instruments are subsequently measured at amortised cost or fair value through other comprehensive income ("FVTOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt instruments are as follows:

– Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's loan receivables, trade and bills receivables, contract assets and financial assets included in prepayments, deposits and other receivables.

– Debt instruments at FVTOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's quoted debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under HKAS 39, the Group's quoted debt insturments were classified as available-for-sale ("AFS") financial assets.

– Financial assets at fair value through profit or loss ("FVTPL") include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

Other financial assets are classified and subsequently measured, as follows:

– Equity instruments at FVTOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVTOCI are not subject to an impairment assessment under HKFRS 9. Both unquoted equity instruments and quoted equity instruments are measured at fair value, and fair value changes are recognised in other comprehensive income ("OCI") and will not be reclassified to profit or loss. Under HKAS 39, the Group's unquoted equity instruments were measured at cost less impairment loss under which were recognised in profit or loss.

The assessment of the Group's business model was made as of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets. The Group selected not to adjust the comparative information as at 31 December 2017 and recognised no transition adjustments, against the opening balance of equity as at 1 January 2018.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39.

(ii) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

As at 30 June 2018, the Group has applied the simplified approach and recorded lifetime ECLs on trade receivables and contract assets, and general approach and recorded 12-month ECLs on other financial assets, loan receivables and financial assets included in prepayments, deposits and other receivables. The Group determined that there are no significant financial impact arising from these changes.

2A. DISAGGREGATION OF REVENUE

By revenue nature:

	Six months ended 30 June 2018			Six months ended 30 June 2017		
	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:						
Sale of goods	**10,167,647**	**–**	**10,167,647**	8,820,887	–	8,820,887
Contract revenue from renovation and installation works	**–**	**122,689**	**122,689**	–	75,329	75,329
Income from environmental engineering and other related services	**–**	**84,418**	**84,418**	–	60,835	60,835
	10,167,647	**207,107**	**10,374,754**	8,820,887	136,164	8,957,051
Financial service income			**35,065**			19,996
Property rental and other related services			**38,483**			–
Total			**10,448,302**			8,977,047

By geographical locations:

	Six months ended 30 June 2018			Six months ended 30 June 2017		
	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	**9,802,964**	**207,107**	**10,010,071**	8,510,152	136,164	8,646,316
Outside China	**364,683**	**–**	**364,683**	310,735	–	310,735
	10,167,647	**207,107**	**10,374,754**	8,820,887	136,164	8,957,051
Financial service income			**35,065**			19,996
Property rental and other related services			**38,483**			–
Total			**10,448,302**			8,977,047

2B. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

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

(viii) Outside China.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, loss on fair value changes of derivative financial instruments, gain on disposal of available-for-sale investments, gain on disposal of held-to-maturity investments, gain on disposal of subsidiaries, exchange differences, finance costs, share of results of associates and joint ventures and other unallocated income and expenses are excluded from such measurement.

Segment assets exclude interests in associates, interests in joint ventures, available-for-sale investments, other financial assets, deferred tax assets, cash and bank deposits and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

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

During the six months ended 30 June 2018 and 2017, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

	Southern China *RMB'000*	Southwestern China *RMB'000*	Central China *RMB'000*	Eastern China *RMB'000*	Northern China *RMB'000*	Northwestern China *RMB'000*	Northeastern China *RMB'000*	Outside China *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Six months ended 30 June 2018										
Segment revenue:										
Sale of goods	5,506,143	1,190,759	1,253,591	551,722	685,425	394,558	220,766	364,683	–	10,167,647
Contact revenue from renovation and installation works	112,831	23	1,186	7,699	943	7	–	–	–	122,689
Income from environmental engineering and other related services	64,583	14,325	4,454	767	–	289	–	–	–	84,418
Financial service income	20,460	723	13,582	–	117	–	183	–	–	35,065
Property rental and other related service	5,570	–	–	–	–	–	–	32,913	–	38,483
Revenue from external customers	5,709,587	1,205,830	1,272,813	560,188	686,485	394,854	220,949	397,596	–	10,448,302
Intersegment revenue	1,833,960	226,661	207,508	149,337	177,792	74,895	46,970	372,356	(3,089,479)	–
Total	7,543,547	1,432,491	1,480,321	709,525	864,277	469,749	267,919	769,952	(3,089,479)	10,448,302
Segment results	1,873,613	381,574	403,415	129,450	216,630	100,780	58,030	98,085	(540,358)	2,721,219
Reconciliations:										
Interest income										50,301
Gain on disposal of subsidiaries										36,507
Exchange loss										(11,423)
Finance costs										(179,961)
Share of results of associates										28,721
Share of results of joint ventures										167
Unallocated income and expenses										(1,346,372)
Profit before tax										1,299,159
Other segment information:										
Depreciation and amortisation	220,365	33,063	30,819	32,724	21,827	17,465	9,670	7,378	–	373,311
Impairment of property, plant and equipment	–	–	–	22,715	–	–	–	–	–	22,715
Impairment of trade receivables, net	–	–	–	–	–	–	3,626	661	–	4,287
Capital expenditure#	323,966	46,189	55,477	73,142	29,485	12,527	2,343	36,067	(14,740)	564,456
As at 30 June 2018										
Segment assets	13,572,796	1,416,542	1,421,522	954,135	881,477	629,953	464,347	4,711,879	–	24,052,651

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

	Southern China RMB'000	Southwestern China RMB'000	Central China RMB'000	Eastern China RMB'000	Northern China RMB'000	Northwestern China RMB'000	Northeastern China RMB'000	Outside China RMB'000	Eliminations RMB'000	Consolidated RMB'000
Six months ended 30 June 2017										
Segment revenue:										
Sale of goods	5,072,244	857,179	901,923	622,274	580,450	297,364	178,718	310,735	–	8,820,887
Contract revenue from renovation and installation works	72,165	–	–	–	3,164	–	–	–	–	75,329
Income from environmental engineering and other related services	50,587	2,648	4,188	1,479	–	1,901	32	–	–	60,835
Financial service income	19,996	–	–	–	–	–	–	–	–	19,996
Revenue from external customers	5,214,992	859,827	906,111	623,753	583,614	299,265	178,750	310,735	–	8,977,047
Intersegment revenue	1,302,439	188,163	198,783	124,179	121,103	63,985	35,629	333,221	(2,367,502)	–
Total	6,517,431	1,047,990	1,104,894	747,932	704,717	363,250	214,379	643,956	(2,367,502)	8,977,047
Segment results	1,812,618	253,126	295,059	118,238	182,473	77,659	49,985	51,384	(379,238)	2,461,304
Reconciliations:										
Interest income										42,527
Gain on disposal of available-for-sale investments										1,070
Gain on disposal of held-to-maturity investments										3,378
Exchange gain										3,809
Finance costs										(98,957)
Loss on fair value changes of derivative financial instruments										(4,988)
Share of result of a joint venture										253
Unallocated income and expenses										(1,183,722)
Profit before tax										1,224,674
Other segment information:										
Write-back of inventories to net realisable value, net	–	–	–	–	–	–	–	(1,997)	–	(1,997)
Depreciation and amortisation	173,704	30,982	31,356	23,836	20,202	17,608	9,535	7,145	–	314,368
Impairment of property, plant and equipment	–	–	–	3,848	–	–	–	–	–	3,848
Capital expenditure#	242,968	46,495	28,061	64,208	18,695	9,743	3,684	1,101,230	(15,487)	1,499,597
As at 31 December 2017										
Segment assets	11,826,279	1,308,387	1,292,621	1,003,422	752,991	597,638	427,762	4,609,691	–	21,818,791

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

3. OTHER REVENUE, INCOME AND GAINS

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Bank interest income	**48,261**	36,840
Interest income from available-for-sale investments	**–**	4,072
Interest income from held-to-maturity investments	**–**	1,615
Interest income from other financial assets	**2,040**	–
Total interest income	**50,301**	42,527
Government grants and subsidies	**20,868**	16,193
Gain on disposal of available-for-sale investments	**–**	1,070
Gain on disposal of held-to-maturity investments	**–**	3,378
Gain on disposal of subsidiaries	**36,507**	–
Gain on sale of raw materials	**4,282**	3,274
Exchange gain	**–**	3,809
Others	**6,870**	12,253
	118,828	82,504

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

4. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Interest expenses on bank and other loans	**179,961**	100,241
Less: Interest capitalised	**–**	(1,284)
	179,961	98,957

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold	**7,542,257**	6,411,454
Direct cost of renovation and installation works	**107,900**	70,109
Direct cost of environmental engineering and other related services	**36,435**	35,669
Direct cost of financial services	**1,090**	508
Direct cost of property rental and other related services	**39,401**	–
Write-back of inventories to net realisable value, net	**–**	(1,997)
Depreciation	**354,041**	292,382
Amortisation of prepaid land lease payments	**14,062**	13,226
Amortisation of other intangible assets	**5,208**	8,760
Total depreciation and amortisation	**373,311**	314,368
Research and development costs	**353,126**	294,487
Loss on disposal of items of property, plant and equipment	**4,090**	7,588
Impairment of property, plant and equipment	**22,715**	3,848
Loss on fair value changes of derivative financial instruments	**–**	4,988
Gain on disposal of subsidiaries	**(36,507)**	–
Impairment of trade receivables, net	**4,287**	–
Foreign exchanges differences, net	**11,423**	(3,809)

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Current tax		
PRC	**280,755**	239,233
Overprovision in prior years		
PRC	**(30,145)**	(24,852)
Deferred tax	**43,441**	59,620
Total tax charge for the period	**294,051**	274,001

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

Hong Kong profits tax

The statutory rate of Hong Kong profits tax was 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax was made as the Group had no assessable profits arising in Hong Kong during the period (six months ended 30 June 2017: Nil).

PRC corporate income tax

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

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

Income tax for other jurisdictions

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

7. DIVIDENDS

	Six months ended 30 June			
	2018		2017	
	HK$ **per share**	***HK$'000***	*HK$* per share	*HK$'000*
2017 final dividend paid (2017: 2016 final dividend paid)	**0.18**	**558,435**	0.15	465,363
Equivalent to		**RMB456,633,000**		RMB411,288,000

Subsequent to the end of the reporting period, interim dividend of HK10 cents in respect of the six months ended 30 June 2018 per ordinary share amounting to in aggregate HK$310,242,000 has been declared by the Board to the owners of the Company whose names appear on the Company's register of member on 18 September 2018 (six months ended 30 June 2017: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit attributable to owners of the Company used in the basic and diluted earnings per share calculation	**1,041,194**	971,042

	Number of Shares Six months ended 30 June **2018**	2017
Shares		
Weighted average number of ordinary shares of the Company in issue used in the basic and diluted earnings per share calculation	**3,102,418,400**	3,102,418,400

The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 2018 includes 3,102,418,400 ordinary shares in issue as at 31 December 2017 (six months ended 30 June 2017: 3,102,418,400 ordinary shares in issue as at 31 December 2016).

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2018 and 2017, respectively.

9A. AVAILABLE-FOR-SALE INVESTMENTS

	Note	**30 June 2018** ***RMB'000***	31 December 2017 *RMB'000*
Listed investments:			
Debt securities listed in Hong Kong	(i)	–	7,935
Equity securities listed in PRC		–	412,318
Equity securities listed in Hong Kong		–	1,095,840
Non-cumulative redeemable preference shares listed in Hong Kong		–	33,635
Perpetual capital securities listed in Hong Kong		–	8,403
		–	1,558,131
Unlisted investments:			
Equity securities	(ii)	–	24,077
		–	1,582,208

Note:

(i) The debt securities carried fixed interest at rates ranging from 6.35% to 7.00% per annum, payable semi-annually in arrears and will mature from January 2020 to March 2020.

(ii) The unlisted equity securities were issued by private entities established in PRC. They were measured at cost less any impairment losses as at 31 December 2017 because the range of reasonable fair value estimates was so significant that the directors were of the opinion that their fair values cannot be measured reliably.

(iii) At 31 December 2017, certain of the Group's available-for-sale investments with an aggregate net carrying amount of RMB33,635,000 were pledged to a bank to secure the banking facility granted and the Group has not utilised this banking facility.

(iv) Upon the adoption the HKFRS 9, the Group has reclassified the available-for-sale investments to other financial assets.

9B. OTHER FINANCIAL ASSETS

	Note	**30 June 2018** *RMB'000*	31 December 2017 *RMB'000*
Non-current:			
Debt instruments at FVTOCI:	(i)		
Debt securities listed in Hong Kong		**49,305**	–
Equity instruments at FVTOCI:	(ii)		
Equity securities listed in PRC		**235,740**	–
Equity securities listed in Hong Kong		**930,463**	–
Non-cumulative redeemable preference shares listed in Hong Kong		**33,587**	–
Perpetual capital securities listed in Hong Kong		**8,142**	–
Unlisted equity securities		**422,344**	–
		1,630,276	–
		1,679,581	–
Current:			
Financial asset at FVTPL		**300,000**	–
		1,979,581	–

Note:

(i) The debt securities carry fixed interest at rates ranging from 5.65% to 7.25% per annum, payable semi-annually in arrears and will mature from January 2020 to January 2023. These debt securities were reclassified from available-for-sale investments to debt insturments at FVTOCI.

(ii) The Group elected to present in OCI for the fair value changes of all its equity instruments previously classified as available-for-sale investments. These insturments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, RMB1,574,273,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI, of which RMB24,077,000 related to unquoted equity investments previously measure at cost less impairment under HKAS 39. No fair value change related to those investments previously carried at cost less impairment was adjusted to equity instruments at FVTOCI and FVTOCI reserve as at 1 January 2018. No fair value change relating to those investments accumulated in FVTOCI reserve as at 30 June 2018.

(iii) At the end of the reporting period, certain of the Group's other financial assets with an aggregate net carrying amount of RMB33,587,000 were pledged to a bank to secure the banking facility granted, and the Group has not utilised this banking facility.

10. LOAN RECEIVABLES

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Non-current:		
Finance lease receivables	**208,182**	228,710
Current:		
Finance lease receivables	**106,682**	109,677
Factoring receivables	**312,208**	321,929
Receivables from supply-chain financing services	**57,000**	129,600
	475,890	561,206
	684,072	789,916

(A) Finance lease receivables

	Minimum lease receivables		Present value of minimum lease receivables	
	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*	**30 June 2018** *RMB'000*	31 December 2017 *RMB'000*
Not more than 1 year	**126,587**	117,912	**106,682**	109,677
Over 1 year but within 5 years	**229,496**	272,151	**208,182**	228,710
	356,083	390,063	**314,864**	338,387
Less: Unearned finance income	**(41,219)**	(51,676)		
Present value of minimum lease receivables	**314,864**	338,387		

The Group's finance lease receivables are denominated in Renminbi. The effective interest rates of the receivables range from 5.89% to 12.70% (31 December 2017: 5.89% to 12.70%) per annum. There are no unguaranteed residual value of assets leased under finance leases and no contingent rent arrangement that needed to be recognised (31 December 2017: Nil).

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

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Neither past due nor impaired	**314,864**	338,387

The receivables are secured by assets leased under finance leases and cash deposits (where applicable).

Cash deposits from certain finance lease customers are collected upfront based on a certain percentage of the entire value of the lease contracts. When the lease contract expires and all related liabilities and obligations are fulfilled by the customer, 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. The collected cash deposit of RMB25,613,000 (31 December 2017: RMB22,164,000) has been included in other long-term payables in the condensed consolidated statement of financial position.

(B) Factoring receivables

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

Factoring receivables are secured by receivables and/or commercial bills originally owned by the customers. These receivables carry interest at rates ranging from 4.00% to 6.50% (31 December 2017: 4.50% to 6.00%) per annum.

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

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
With a residual maturity of:		
Not more than 3 months	**118,900**	44,700
Over 3 months to 6 months	**122,229**	125,000
Over 6 months to 12 months	**71,079**	152,229
	312,208	321,929

At the end of the reporting period, none of the Group's factoring receivables was either past due or impaired (31 December 2017: Nil).

(C) Receivables from supply-chain financing services

The Group's receivables from supply-chain financing services arise from the provision of supply-chain financing services to companies located in PRC. The credit period granted to each customer is generally within 30 to 180 days.

These receivables carry interest at rates ranging from 5.40% to 7.20% (31 December 2017: 5.40% to 7.20%) per annum.

Certain receivables from supply-chain financing services amounting to RMB10,600,000 (31 December 2017: RMB50,000,000) are secured by certain equity interests of companies and personal guarantees.

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

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
With a residual maturity of:		
Not more than 3 months	**32,300**	95,600
Over 3 months to 6 months	**24,700**	34,000
	57,000	129,600

At the end of the reporting period, none of the Group's receivables from supply-chain financing services was either past due or impaired (31 December 2017: Nil).

The directors believe that no provision for impairment is necessary for loan receivables (31 December 2017: Nil) as no ECLs is expected to arise from all possible default events within twelve months after the reporting date, after taking into consideration of the Group's historical credit loss experience and credit risk factors specific to the debtors.

11. INVENTORIES

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
Manufacturing and trading	**3,694,200**	3,099,969
Property development	**122,015**	127,773
	3,816,215	3,227,742

(A) Manufacturing and trading

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
Raw materials	**1,648,522**	1,445,320
Work in progress	**301,238**	297,190
Finished goods	**1,744,440**	1,357,459
	3,694,200	3,099,969

(B) Property development

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
Property under development	**122,015**	127,773

The property under development is expected to be completed and available for sale in more than twelve months after the end of the reporting period.

12. TRADE AND BILLS RECEIVABLES

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Trade receivables	**2,306,035**	1,981,994
Bills receivable	**74,076**	187,675
Less: Provision for impairment	**(149,348)**	(145,061)
	2,230,763	2,024,608

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

Trade and bills receivables are unsecured and interest-free.

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

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Not more than 3 months	**931,907**	1,063,621
Over 3 months to 6 months	**343,846**	438,828
Over 6 months to 12 months	**633,279**	248,608
Over 1 year to 2 years	**210,479**	173,230
Over 2 years to 3 years	**87,373**	90,318
Over 3 years	**23,879**	10,003
	2,230,763	2,024,608

13. TRADE AND BILLS PAYABLES

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Trade payables	**930,624**	918,375
Bills payable	**3,585,044**	2,102,710
	4,515,668	3,021,085

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

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

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Not more than 3 months	**2,822,311**	1,914,118
Over 3 months to 6 months	**1,619,026**	357,082
Over 6 months to 12 months	**21,164**	702,632
Over 1 year to 2 years	**22,043**	20,587
Over 2 years to 3 years	**7,709**	5,465
Over 3 years	**23,415**	21,201
	4,515,668	3,021,085

14. BORROWINGS

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Current		
Unsecured bank loans	**5,258,719**	2,698,795
Current portion of long term unsecured bank loans	**71,534**	70,624
Current portion of long term secured bank loans	**773**	–
Secured bank loans	**–**	105,500
Secured other loans	**–**	2,337
	5,331,026	2,877,256
Non-current		
Unsecured bank loans	**605,964**	422,168
Unsecured syndicated loans	**5,039,460**	4,988,151
Secured bank loans	**33,527**	19,800
Loans from non-controlling interests	**–**	12,000
	5,678,951	5,442,119
	11,009,977	8,319,375
Analysed into borrowings repayable:		
Within one year or on demand	**5,331,026**	2,877,256
In the second year	**329,853**	338,236
In the third to fifth years, inclusive	**5,330,447**	5,092,722
More than five years	**18,651**	11,161
	11,009,977	8,319,375

Note:

(a) The effective interest rates of the Group's borrowings range from 2.83% to 5.32% (31 December 2017: 1.60% to 6.00%) per annum.

(b) At the end of reporting period, the secured bank loans are secured by the concession rights of a subsidiary and personal guarantee provided by a shareholder of that subsidiary.

At 31 December 2017, the secured bank loans are secured by: (i) the concession rights of a subsidiary and personal guarantee provided by a shareholder of that subsidiary; (ii) certain commercial bills received by the Group during its provision of factoring services; and (iii) certain receivables from supply-chain financing services.

(c) The loans from non-controlling interests were unsecured, interest-free and would mature in September 2019. During the period, the loans from non-controlling interests were disposed through the disposal of the subsidiary of the Group.

(d) At the end of the reporting period, the Group's borrowings denominated in US dollar, HK dollar, Renminbi, Australian dollar and Canadian dollar which are equivalent to RMB5,769,201,000 (31 December 2017: RMB5,213,421,000), RMB2,574,846,000 (31 December 2017: RMB1,254,263,000), RMB1,952,834,000 (31 December 2017: RMB1,108,835,000), RMB515,806,000 (31 December 2017: RMB537,423,000) and RMB197,290,000 (31 December 2017: RMB205,433,000), respectively.

15. SHARE CAPITAL

	30 June 2018	31 December 2017
Authorised:		
20,000,000,000 (31 December 2017: 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 (31 December 2017: 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

16. COMMITMENTS

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

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Contracted, but not provided for:		
Land, property, plant and equipment and investment properties	**965,327**	636,381
Investment in a joint venture	**23,520**	23,520
	988,847	659,901

CORPORATE OVERVIEW

China Lesso is a leading large-scale industrial group which produces building materials and interior decoration products in mainland China. The Group established 22 advanced production bases in 16 regions within China and foreign countries to support a nationwide sales network. The Group strives to refine its strategic planning and sales network, offering a comprehensive range of diverse industrial products and quality sales services.

The Group continued to reinforce its leading position in the Chinese market, especially in Southern China, on the strength of its quality products, advanced technologies in research and development and a wide sales network. In recent years, the Group has been actively developing business in other local markets and overseas markets. While steadily upgrading the core business of plastic piping systems, the Group has also expanded the business of building materials and interior decoration products, including systems of doors and windows, sanitary ware products and integrated kitchens, thereby providing all-in-one solution that includes cost-effective building materials, interior decoration products and services for its customers.

The brand name LESSO of China Lesso represents the key elements of the Group's corporate culture: "Link, Easiness, Safety, Sharing and Openness", and demonstrates its commitment to "Creating a Relaxing Life for Dwellers". Since it was established over 30 years ago, China Lesso has been consistently consolidating its strong brand position and reputation, and has received quality accreditations from many national and professional institutions, including "The Most Trusted Brand by Consumers in 2018", "Influential Brand in China's Interior Decoration Industry", "Annual Innovative Brand in China's Interior Decoration Industry", "Award for Craftsmanship in China's Interior Decoration Industry for 2017", "China's Top 100 Companies Award", "Award for Benchmark Company in Quality Manufacturing in Foshan", and "Top 10 Companies Award in China's Light Industry and Plastics Industry". The Group's leading brand position reflects its strong capabilities to conduct product research and development and to ensure excellent product quality. This has laid a foundation for the Group's strong business presence in mainland China and overseas markets, and gave the impetus to the further expansion of China Lesso's sales network.

MARKET REVIEW

In the first half of 2018, the global economy continued to be clouded by a number of uncertainties as protectionism reared its head and geopolitical risks increased. Meanwhile, the Chinese government tightened its regulation of the country's overheated property market in an attempt to cool it. During the period under review, the Chinese government continued to press on with its policies on energy conservation and environmental protection, and speeded up multiple large-scale municipal projects and urban infrastructure construction. This drove up the demand for pipes and pipe fittings consistently.

During the period under review, various local governments in China continued to implement the "Action Plan for Prevention and Control of Water Pollution". For example, the Shanghai Municipal Government issued the "Assessment Requirements for Implementing the Action Plan for Prevention and Control of Water Pollution in Shanghai (on a Trial Basis)" in March 2018. In the same month, the Guangdong Provincial Government also sought opinions on the "Implementation of Water Pollution Prevention and Control in Guangdong Province for 2018" in order to speed up the improvement of water environment and water quality and meet the annual targets of water pollution prevention and control on schedule. The move added impetus to the replacement of local pipeline networks, thus increasing the demand for the output of the pipeline industry. According to data from the Ministry of Environmental Protection, the "Action Plan for Prevention and Control of Water Pollution" will require a total investment of about RMB4.6 trillion, and the increased investment in pollutant treatment is estimated to be able to add about RMB1.9 trillion to the output value of the environmental protection industry.

According to the forecast of the "Development Proposal on the PRC's Plastic Industry for the 13th Five-year Plan Period (2016–2021)", China's production volume of plastic pipes during the period of "The 13th Five-year Plan" will maintain at an annual growth rate of approximately 3%. In 2020, it is expected that China's production volume of plastic pipes will reach 16 million tonnes. In addition, under "The Program for Construction of the National Urban Municipal Infrastructure of the 13th Five-year Plan", targets have been set for the development of the facilities for national water supply, heating, drainage and waterlogging prevention. Under the Program, China plans to add 93,000 kilometres ("km") of new pipelines to the water supply network, 95,000 km of new pipelines to the drainage network, replace 23,000 km of old pipelines of the drainage network, add 41,000 km of new pipelines to the centralised heating network, build 137,000 km of new gas pipelines, and construct 112,400 km of urban rainwater pipelines during the period of "The 13th Five-year Plan". These large-scale infrastructure projects will give momentum to the new mode of urbanisation and regional economic development, and will generate enormous demand for pipes, thus benefiting the industry.

The "Program for Developing National Marine Economy under the 13th Five-year Plan" was introduced by the Chinese government to adjust and improve the traditional marine industries, promote comprehensive, regional development of the marine industries primarily in the form of marine ranch construction, vigorously develop the aquaculture in sea water in a healthy manner and support the deep-water aquaculture cage that can withstand winds and waves. All these measures are aimed at sustainable development in the marine fishery industry. The move to improve the marine industries is expected to enlarge the plastic pipe market and present new opportunities for expanding the scope of the applications of pipes.

At the 5th Plenary Session of the 16th Central Committee, the government announced the "Beautiful Rural Villages Programme" which was aimed at promoting the modernisation of agriculture and construction of a new type of rural villages. The programme entails the improvement of the ecology of the rural villages, environment protection and pollutant treatment. In addition, the state also indicated that it would foster the development of high-quality agriculture in the future so as to revitalise the rural villages. To attain this goal, the government will actively develop the infrastructure of the backward rural areas including facilities for water supply, power supply, gas supply, drainage ditches, sewage collection network and sewage treatment facilities, etc. Under such policy, urban and rural areas can become more integrated.

China's natural gas transmission industry has been developing rapidly. The construction of West-East Gas Pipeline Project, Sichuan-East Gas Pipeline Project and other projects of the same type have been in full swing under the state's energy policies. According to the "Clean Winter Heating Plan for Northern China (2017–2021)", there are currently a total of sixteen main pipes in six provinces and cities including Beijing, Tianjin, Hebei, Shandong, Henan and Shanxi, with a total gas transmission volume of approximately 94 billion cubic meters per year. From 2017 to 2021, China plans to add eight main pipes. After the completion of construction and commencement of operation, the supply capacity will increase by approximately 75 billion cubic meters per year. In addition, there are currently about 13,000 km of branch pipes in six provinces and cities, with a plan to add 4,300 km from 2017 to 2021. These demonstrate the huge room for development in the pipe construction market.

The Chinese government adhered to the principle of "housing is for living in, not for speculation" and stressed that the fundamentals of the real estate market regulation remained unchanged. The Chinese government continued with its regulation of the real estate industry to curb property speculation. It adopted a series of measures to stabilise housing prices, restrain rent increases, make the property sector deleverage, minimise risks, restructure the industry and manage the market's expectations. These regulatory policies have slowed the growth of investment in real estate, which, in turn, resulted in a sluggish market for building materials and interior decoration in the first half of 2018. However, on the back of the further progress in the restructuring of the supply side and the advances in the new mode of urbanisation, the second-hand homes which have been completed for less than five years and the redecoration of other types of homes in core cities will present a new opportunity for the industry of building materials and interior decoration.

In terms of the development of overseas market, China and the countries covered by its "Belt and Road Initiative" continued to cooperate in infrastructure construction and establish more close trade relations on one hand. The Chinese government also continued to increase its support to various industries on the other hand, thus resulting overseas market became as new business growth driver for Chinese companies. Many countries and regions covered by the "Belt and Road Initiative" are still in the early stages of urbanisation. This implies huge room for infrastructure construction, hence massive demand for piping systems, building materials, hard ware and electrical equipment.

RESULTS AND PERFORMANCE

The plastic piping systems business is the mainstay operation of China Lesso. During the period under review, the Group has actively capitalised on the various infrastructure and public projects initiated by the government, and continued to develop its plastic piping systems business to maintain its steady growth. The Group also steadily developed its building materials and environmental protection business. In the first half of 2018, China Lesso's revenue increased by 16.4% year on year to RMB10,448 million (1H 2017: RMB8,977 million). On the back of the Group's economies of scale, expanded production capacity and effective cost control, the gross profit rose by 10.6% year on year to RMB2,721 million (1H 2017: RMB2,461 million). Gross profit margin remained at a healthy level of 26.0% (1H 2017: 27.4%).

The table below sets out the breakdown of revenue by business unit for the six months ended 30 June 2018 and 2017:

	Revenue			% of total revenue	
	2018	2017		**2018**	2017
	RMB million	*RMB million*	***Change***		
Plastic piping systems	**9,400**	8,038	*17.0%*	**90.0%**	89.5%
Building Materials and Interior Decoration Products	**559**	560	*(0.2)%*	**5.3%**	6.3%
Others#	**489**	379	*29.0%*	**4.7%**	4.2%
Total	**10,448**	8,977	*16.4%*	**100.0%**	100.0%

“Others” includes businesses of environmental engineering and other related services, financial services and others.

For the six months ended 30 June 2018, the number of the Group’s independent and exclusive first-tier distributors nationwide increased to 2,172 (1H 2017: 2,150). Southern China remained the Group’s major revenue contributor, and revenue from Southern China and other regions accounted for 54.6% and 45.4% respectively (1H 2017: 58.1% and 41.9%) of the Group’s total revenue.

The table below sets out the breakdown of revenue by region for the six months ended 30 June 2018 and 2017:

	Revenue			% of total revenue	
	2018	2017		**2018**	2017
Region#	***RMB million***	*RMB million*	***Change***		
Southern China	**5,709**	5,215	*9.5%*	**54.6%**	58.1%
Southwestern China	**1,206**	860	*40.2%*	**11.5%**	9.6%
Central China	**1,273**	906	*40.5%*	**12.2%**	10.1%
Eastern China	**560**	624	*(10.2)%*	**5.4%**	6.9%
Northern China	**686**	584	*17.6%*	**6.6%**	6.5%
Northwestern China	**395**	299	*31.9%*	**3.8%**	3.3%
Northeastern China	**221**	179	*23.6%*	**2.1%**	2.0%
Outside China	**398**	310	*28.0%*	**3.8%**	3.5%
Total	**10,448**	8,977	*16.4%*	**100.0%**	100.0%

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

Over the years, the Group reduced the pressure which stemmed from rising raw materials and production costs by means of economies of scale, production automation and by increasing the utilisation rate of production facilities. Meanwhile, the Group actively enhanced operational efficiency, optimised its product portfolio and expanded market coverage, which contributed to the sustainable development and profitability of the Group.

The Group's EBITDA increased by 13.1% year on year to RMB1,852 million during the period under review (1H 2017: RMB1,638 million), and the EBITDA ratio was 17.7% (1H 2017: 18.2%). Profit before tax increased by 6.1% year on year to RMB1,299 million (1H 2017: RMB1,225 million). Profit attributable to owners of the Company increased by 7.2% year on year to RMB1,041 million (1H 2017: RMB971 million). Basic earnings per share increased by 9.7% year on year to RMB0.34 (1H 2017: RMB0.31). The effective tax rate stayed at 22.6% (1H 2017: 22.4%).

BUSINESS REVIEW

Plastic Piping Systems

The plastic piping systems business is the mainstay operation of the Group. The Chinese government continued to promote municipal projects and infrastructure construction, and carried out many infrastructure projects to propel healthy economic growth. This led to steady growth in demand for plastic pipes and pipe fittings. During the period under review, the Group actively capitalised on the various infrastructure and public projects initiated by the government, and boosted sales volume of plastic pipes and pipe fittings, thus attaining steady growth in the business.

The table below sets out the breakdown of revenue from plastic piping systems business by product application for the six months ended 30 June 2018 and 2017:

	Revenue			% of revenue	
	2018	2017		**2018**	2017
	RMB million	*RMB million*	***Change***		
Water supply	**3,667**	3,087	*18.8%*	**39.0%**	38.4%
Drainage	**3,608**	3,133	*15.2%*	**38.4%**	39.0%
Power supply and telecommunications	**1,633**	1,431	*14.1%*	**17.4%**	17.8%
Gas transmission	**184**	135	*35.7%*	**1.9%**	1.7%
Others#	**308**	252	*22.6%*	**3.3%**	3.1%
Total	**9,400**	8,038	*17.0%*	**100.0%**	100.0%

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

During the period under review, the revenue from the plastic piping systems business increased by 17.0% year on year to RMB9,400 million (1H 2017: RMB8,038 million), and accounted for 90.0% of the Group's total revenue (1H 2017: 89.5%).

The table below sets out the breakdown of revenue from plastic piping systems by region for the six months ended 30 June 2018 and 2017:

	Revenue			**% of revenue**	
	2018	2017		**2018**	2017
Region	***RMB million***	*RMB million*	***Change***		
Southern China	**5,142**	4,630	*11.1%*	**54.7%**	57.6%
Other than Southern China	**4,066**	3,272	*24.3%*	**43.3%**	40.7%
Outside China	**192**	136	*41.0%*	**2.0%**	1.7%
Total	**9,400**	8,038	*17.0%*	**100.0%**	100.0%

During the period under review, sales volume of the plastic piping systems increased by 13.3% year on year. In terms of product materials, sales volume of PVC products increased by 10.0% year on year to 772,412 tonnes (1H 2017: 702,115 tonnes), while that of non-PVC products increased by 27.0% year on year to 213,006 tonnes (1H 2017: 167,766 tonnes). Revenue from sales of PVC products increased by 14.3% year on year to RMB6,124 million (1H 2017: RMB5,357 million) while that of non-PVC products increased by 22.2% year on year to RMB3,276 million (1H 2017: RMB2,681 million).

As the average cost of raw materials increased by 6.5% year on year in the first half of 2018, the Group lifted the average selling price of its plastic piping systems by 3.2% year on year to RMB9,539 per tonne (1H 2017: RMB9,240 per tonne). The gross profit margin at this business reached 26.8% (1H 2017: 29.1%). The Group strived to maintain its gross profit margin at a reasonable and stable level by effectively reducing the costs of raw materials and production through economies of scale, massive procurement from raw material suppliers and other measures.

The table below sets out the breakdown of average selling price, sales volume, and revenue from plastic piping systems business by product material for the six months ended 30 June 2018 and 2017:

	Average selling price			Sales volume			Revenue		
	2018	2017		**2018**	2017		**2018**	2017	
	RMB	*RMB*	***Change***	***Tonne***	*Tonne*	***Change***	***RMB million***	*RMB million*	***Change***
PVC products	**7,929**	7,629	*3.9%*	**772,412**	702,115	*10.0%*	**6,124**	5,357	*14.3%*
Non-PVC products#	**15,378**	15,980	*(3.8)%*	**213,006**	167,766	*27.0%*	**3,276**	2,681	*22.2%*
Total	**9,539**	9,240	*3.2%*	**985,418**	869,881	*13.3%*	**9,400**	8,038	*17.0%*

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

Building Materials And Interior Decoration Products

In the first half of 2018, the central government emphasised that the fundamentals of real estate regulations would remain unchanged, and specific regulations were implemented to restrain the increases in housing prices, thus exerting downward pressure on the growth in the real estate market. The growth rates of floor area sold and sales value of national commercial housing continued to decline. During the period under review, the Group’s business of building materials and interior decoration products continued to be under pressure due to external unfavourable factors. The business generated income of RMB559 million (1H 2017: RMB560 million), accounting for 5.3% of the Group’s total revenue. However, the continued progress of China’s new mode of urbanisation will enable synergy between the Group’s business of building materials and interior decoration products and its other existing product lines. This can lead to steady development again of the business of building materials and interior decoration products.

Environmental Protection

To cope with the Chinese government’s environmental protection initiatives, the Group is actively expanding its environmental protection business. During the period under review, the Group actively capitalised on municipal projects in various fields, including those of municipal sewerage system, river treatment, soil restoration, underground pipeline utility tunnel, sponge city, installation of integrated water purifiers. All these projects drove up the demand for plastic pipes and pipe fittings. This will enable the Group’s environmental business to achieve synergy with its business of plastic piping systems in the long run. The Group aspires to become a one-stop environmental protection service provider and to enable people to live eco-friendly lives.

Lesso Home

To capitalise on the "Belt and Road Initiative", the Group promoted a business line named "Lesso Home" with the mode of "One-Stop Specialised Market for Home Furnishing Products" to the overseas markets. Lesso Home aims to build a multinational platform for Chinese home furnishings and building materials manufacturers to showcase their products and facilitate the distribution and retailing of such products. Lesso Home will also provide ancillary services, including marketing and branding.

The Group has 12 site reserves in the United States, Canada, Australia, Thailand and United Arab Emirates. All of the sites are located within close proximity to major metropolitan areas. The Group aims to develop these sites into the largest one-stop showroom markets specialised for home furnishing products in its respective local market. Tenants will independently operate their own showrooms, and sell their products directly to local traders, retailers and consumers.

Capital Expenditure

The Group's capital expenditure for the first half of 2018 was approximately RMB564 million, which was primarily used for improvement of automated facilities in production bases and expansion of the existing production bases.

The Group continued to further its progress in automatic production and smart production, and strived for fully mechanised production lines for pipe products, so as to improve overall production capacity, quality and efficiency. During the period under review, the Group's annual designed capacity for the production of plastic pipes and pipe fittings increased to 2.53 million tonnes from 2.40 million tonnes in 2017, while the capacity utilisation rate during the period reached 82.9%.

Investment in Associates

Given the increasing trend in using aluminium profiles as major construction materials in the PRC, the Group acquired a 26.28% equity interest in Xingfa Aluminium Holdings Limited ("Xingfa Aluminium"), the issued shares of which is listed on the Stock Exchange in April 2018 at a consideration of HK$974 million. Xingfa Aluminium is one of the leading aluminum profile manufacturers in China. The Group considers the acquisition 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. The acquisition may create long-term commercial synergies with the Group's businesses to broaden its sales channels and expand its customer base, and enrich the Group's already comprehensive portfolio of products and services. This can facilitate the Group's business diversification and reinforce its market leadership. In the first half of 2018, Xingfa Aluminium as the associate of China Lesso recorded a revenue of RMB4,044 million, and profit attributable to the shareholders of Xingfa Aluminium was RMB178 million.

STRATEGIES FOR THE FUTURE

Looking ahead to the second half of 2018, the macro environment will continue to be affected by uncertainties. The global economic outlook will become increasingly uncertain, and businesses will face more challenges. The Group remains cautious about the prospect of its business and will try to make steady progress in the future. It will do so by actively capitalising on the government policies which can favour the kind of businesses that it is engaged in. The Group will implement the following measures to achieve sustainable business development in the future.

Centralise Automated And Intelligent Production And Improve Production Efficiency

The Group has been expanding its production capacity in line with business development and actual needs to meet market demand. In the future, the Group will actively develop intelligent factories and upgrade facilities to enhance the efficiency of intelligent and computerised facilities, and continue to press on with the full automation of production bases, and further improve the mechanical equipment and their auxiliary facilities in existing production bases so as to raise the level of automation, accelerate production, expand production capacity and increase production efficiency.

Focus On Product Technology Research And Development And Improve Product Quality

China's pipe and building materials industry is undergoing such profound changes as restructuring and upgrading. Therefore, the Group will vigorously enhance its competitiveness in research and development of products and technologies, accelerate the transformation and upgrading of its business, and develop market networks. The Group has a first-rate team for research and development, and will continue to step up innovation and increase its investment in research and development. It will focus on the research and development of the technologies in the pipe and building material industries, so as to maintain a technological leadership in the industry and provide diverse, high-quality products.

Grasp The Opportunities And Develop The Environmental Protection Business

The Chinese government will continue to implement a series of environmental protection policies which present many opportunities for the environmental protection industry. The Group will actively grasp such opportunities by forming public-private partnerships, enhancing its own technology, operation and quality, and fostering new growth drivers so as to achieve synergy between its environmental protection business and other businesses, and diversify its source of income.

Adopt Blue-Ocean Strategy And Widen The Products' Scope Of Applications

China's steady progress in its plan for development has led to robust demand for piping systems in the field of infrastructure construction. As a market leader, the Group will strive to expand the scope of applications of plastic pipes and pipe fittings to increase product sales, thereby maintaining its market leadership. The Group will continue to steadily develop the "Lesso Home" business in response to change in global market conditions.

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 30 June 2018, the Group had total debts (i.e. total borrowings) of approximately RMB11,010 million, of which 52.4% was denominated in US dollar, 23.4% was denominated in HK dollar, 17.7% was denominated in Renminbi, 4.7% was denominated in Australian dollar and 1.8% was denominated in Canadian dollar. The Group's borrowings are subject to effective interest rates ranging from 2.83% to 5.32% per annum with maturity periods ranging from within one year to more than five years.

As at 30 June 2018, the Group's current assets and current liabilities were approximately RMB14,759 million and RMB11,972 million respectively. The Group's Current Ratio decreased to 1.23 from 1.50 as at 31 December 2017, while the Quick Ratio decreased to 0.91 from 1.10 as at 31 December 2017. The Group's total equity increased to approximately RMB13,903 million. The Group's Gearing Ratio stood at a healthy level of 44.2%.

With cash and bank deposits, including restricted cash, of approximately RMB5,251 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

As at 30 June 2018, certain of the Group's other financial assets with an aggregate net carrying amount of approximately RMB34 million were pledged to a bank to secure the banking facility granted, but this banking facility has not been utilised. The secured bank loans are secured by the concession rights of a subsidiary and personal guarantee provided by a shareholder of that subsidiary.

SIGNIFICANT INVESTMENTS

Financial Investments

As at 30 June 2018, the Group held long-term and short-term financial investments of approximately RMB1,680 million (31 December 2017: RMB1,582 million) and RMB300 million (31 December 2017: nil), respectively. The investment portfolio comprised of 58.9% listed equity securities (issued by PRC-based home improvement and furnishings shopping malls operating company and PRC-based environmental companies), 2.5% listed debt securities, 1.7% listed non-cumulative redeemable preference shares, 0.4% listed perpetual capital securities, 21.3% unlisted securities, and 15.2% short-term bank principal protected structured deposits. Each of these investments has a carrying amount accounting to less than 5% of the Group's total assets as at 30 June 2018.

During the reporting period, the Group recognised a net unrealised mark-to-market valuation loss of approximately RMB351 million due to volatile global capital market and recognised approximately RMB17 million of exchange gain on translation, which had no impact on the profit or loss and cash flows of the Group. Income from the portfolio amounted to approximately RMB2 million in the reporting period represented interest income.

The Group will study the market and information of the prospective investees cautiously before it makes its investment decisions. The Group will also monitor the performance of its investee 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.

INVESTMENT PROPERTIES

As at 30 June 2018, the Group's investment properties were approximately RMB4,109 million. Increase in investment properties was mainly attributable to the capitalisation of construction costs on certain investment properties under development and netting off the translation effects during the reporting period.

Among these investment properties, the malls in Toronto, Canada are existing properties, the malls in Long Island, USA and in Auburn district of Sydney, Australia are under refurbishment and the lands in Thailand and China are under development. Other properties are under rezoning or at the planning stage of development.

Save as disclosed above, the Group did not have any significant investments as at 30 June 2018.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES

As at 30 June 2018, the Group employed a total of approximately 10,800 employees including directors. Total staff costs were RMB401 million during the 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 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

AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting policies adopted by the Group and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2018. Such condensed consolidated financial statements have not been audited but have been reviewed by the independent auditor of the Company, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE PRACTICES

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

In pursuit of good and high standards of corporate governance practices, the Board reviews the corporate governance practices of the Company from time to time so as to meet the expectations of the Shareholders for continual improvement, 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 period, except that an independent non-executive director was unable to attend the annual general meeting ("AGM") of the Company held on 25 May 2018 (as provided for the Code A.6.7) due to other business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CHANGE IN COMPOSITION OF BOARD AND BOARD COMMITTEES

(A) Mr. Lin Dewei, a non-executive director of the Company, has been re-designated as an executive director of the Company and resigned as member of the Company's audit committee with effect from 11 July 2018.

(B) Mr. Fung Pui Cheung has resigned as an independent non-executive director of the Company (as well as chairman and member of each of the Company's audit committee and remuneration committee, and a member of the Company's nomination committee) with effect from 11 July 2018.

(C) Mr. Cheng Dickson has been appointed as an independent non-executive director of the Company and a member of the Company's audit committee with effect from 11 July 2018.

(D) Dr. Tao Zhigang, an independent non-executive director of the Company has been appointed as chairman and member of each of the Company's audit committee and remuneration committee, and a member of the Company's nomination committee with effect from 11 July 2018.

EVENTS AFTER THE REPORTING PERIOD

On 28 August 2018, a share award scheme has been approved by the Board. Further details of the share award scheme have been set out in the related announcement of the Company dated 28 August 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the six months ended 30 June 2018, the Company or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

INTERIM DIVIDEND

The Board has declared an interim dividend for the six months ended 30 June 2018 of HK10 cents per share (the "Interim Dividend") to the Shareholders and is expected to be distributed to those entitled on Friday, 28 September 2018. A final dividend of HK18 cents per share was paid on Wednesday, 13 June 2018 in respect of the year ended 31 December 2017 to shareholders during the reporting period.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 14 September 2018 to Tuesday, 18 September 2018, both dates inclusive. During this period, no transfer of shares of the Company will be registered. In order to be eligible to receive the Interim Dividend, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 13 September 2018.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange (www.hkex.com.hk) and the Company (www.lesso.com). The 2018 interim report will be despatched to the Shareholders and available on the above websites in due course.

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

Hong Kong, 28 August 2018

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

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
"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
"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
"PE"	polyethylene
"PP-R"	polypropylene random
"PVC"	polyvinyl chloride
"Quick Ratio"	the ratio of current assets less inventories to current liabilities
"RMB"	Renminbi, the lawful currency of the PRC

“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	share(s) of a nominal value of HK$0.05 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Taiwan”	the Republic of China
“tonne(s)”	a unit measuring weight, equal to 1,000 kilograms
“US”	the United States of America
“US$”	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 businesses, industries and markets in which China Lesso operates.