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 2020

The Board is pleased to announce the unaudited consolidated financial results of the Group for the six months ended 30 June 2020.

HIGHLIGHTS

Compared to the financial results for the six months ended 30 June 2019:

- Revenue increased by 3.2% to RMB11,492 million
- Gross profit increased by 5.6% to RMB3,380 million
- Profit for the period increased by 10.3% to RMB1,386 million
- Basic earnings per share was RMB0.45, increased by 9.8%
- An interim dividend of HK12 cents per share is declared for the six months ended 30 June 2020

* *For identification purposes only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Six months ended 30 June 2020

	Note	Six months ended 30 June 2020 *RMB'000* (Unaudited)	2019 *RMB'000* (Unaudited)
REVENUE	*3*	**11,491,884**	11,137,154
Cost of sales		**(8,112,185)**	(7,936,688)
Gross profit		**3,379,699**	3,200,466
Other revenue, income and gains	*3*	**197,122**	152,182
Selling and distribution expenses		**(497,124)**	(519,045)
Administrative expenses		**(607,223)**	(564,424)
Impairment losses on financial and contract assets		**(13,637)**	(11,664)
Other expenses		**(543,145)**	(423,651)
Finance costs	*4*	**(246,195)**	(271,492)
Share of results of associates		**49,153**	18,148
Share of results of a joint venture		**956**	407
PROFIT BEFORE TAX	*5*	**1,719,606**	1,580,927
Income tax expense	*6*	**(333,249)**	(323,537)
PROFIT FOR THE PERIOD		**1,386,357**	1,257,390
OTHER COMPREHENSIVE INCOME/ (EXPENSE)			
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of debt instruments at fair value through other comprehensive income		**26,434**	10,920
Share of other comprehensive income/(expense) of an associate, net of tax		**12,800**	(97)
Exchange differences on translation of foreign operations		**26,062**	17,346
		65,296	28,169

	Note	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Items that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income		**(73,792)**	(147,054)
OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD		**(8,496)**	(118,885)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**1,377,861**	1,138,505
Profit for the period attributable to:			
Owners of the Company		**1,388,017**	1,263,701
Non-controlling interests		**(1,660)**	(6,311)
		1,386,357	1,257,390
Total comprehensive income for the period attributable to:			
Owners of the Company		**1,335,201**	1,138,130
Non-controlling interests		**42,660**	375
		1,377,861	1,138,505
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	*8*	**RMB0.45**	RMB0.41

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020

	Note	**30 June 2020** *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**9,165,787**	9,394,821
Right-of-use assets		**1,685,615**	1,614,395
Investment properties		**7,122,053**	6,870,181
Deposits paid for the purchase of land, property, plant and equipment		**1,158,111**	884,486
Goodwill		**398,589**	398,589
Other intangible assets		**329,084**	336,109
Interests in associates		**2,069,786**	1,501,137
Interest in a joint venture		**11,312**	10,356
Other financial assets	*9*	**1,937,510**	1,771,120
Loan receivables	*10*	**3,099**	11,613
Other non-current assets		**56,333**	70,784
Contract assets		**80,058**	81,571
Deferred tax assets		**110,214**	108,301
Total non-current assets		**24,127,551**	23,053,463
CURRENT ASSETS			
Inventories	*11*	**4,259,788**	3,966,048
Contract assets		**382,730**	279,443
Other financial assets	*9*	**87,548**	8,363
Loan receivables	*10*	**436,037**	364,673
Trade and bills receivables	*12*	**3,203,456**	3,259,456
Prepayments, deposits and other receivables		**2,184,363**	2,249,130
Cash and bank deposits		**7,152,150**	7,604,221
Total current assets		**17,706,072**	17,731,334
CURRENT LIABILITIES			
Contract liabilities		**1,668,718**	1,725,300
Trade and bills payables	*13*	**4,665,024**	5,829,534
Other payables and accruals		**930,896**	1,181,792
Tax payable		**219,804**	289,958
Borrowings	*14*	**14,367,676**	11,411,319
Lease liabilities		**64,642**	88,843
Total current liabilities		**21,916,760**	20,526,746

	Note	**30 June 2020** *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
NET CURRENT LIABILITIES		**(4,210,688)**	(2,795,412)
TOTAL ASSETS LESS CURRENT LIABILITIES		**19,916,863**	20,258,051
NON-CURRENT LIABILITIES			
Borrowings	*14*	**238,720**	1,267,061
Convertible loans	*15*	**673,180**	652,595
Lease liabilities		**95,921**	117,281
Other long-term payables		**105,761**	106,093
Other financial liabilities		**36,736**	14,360
Deferred tax liabilities		**873,214**	788,671
Deferred income		**221,416**	217,594
Total non-current liabilities		**2,244,948**	3,163,655
Net assets		**17,671,915**	17,094,396
EQUITY			
Share capital	*16*	**135,344**	135,344
Reserves		**16,984,260**	16,440,901
Equity attributable to owners of the Company		**17,119,604**	16,576,245
Non-controlling interests		**552,311**	518,151
Total equity		**17,671,915**	17,094,396

Note:

1.1 BASIS OF PREPARATION

These condensed consolidated financial statements of the Group for the six months ended 30 June 2020 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, other financial assets and other financial liabilities 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 2019, 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 2019.

As at 30 June 2020, the Group recorded net current liabilities of RMB4,210,688,000, which was mainly resulted from two syndicated loans (the “Syndicated Loans”) of US$599,962,000 (equivalent to approximately RMB4,264,055,000) and HK$1,349,044,000 (equivalent to approximately RMB1,232,271,000) being due for repayment in July 2020 and October 2020, respectively, as disclosed in note 14.

In 2019, the Company (as guarantor) and its wholly-owned subsidiary (as borrower) entered into a facility agreement (the “Facility Agreement”), in relation to dual currency syndicated term loan and revolving credit facilities in the equivalent amount of US$1,100,000,000 (the “Facilities”) for general corporate purpose, including the refinancing of the Group’s existing financial indebtedness. The final maturity date under the Facility Agreement is the date falling 48 months after the first utilisation date. Subsequently, the Group fully repaid the Syndicated Loans by drawdown of the Facilities in July 2020. The directors of the Company believe the Group will be able to continue to generate positive cash flows from its operations. On this basis, the directors of the Company consider that the Group is able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared by the directors of the Company on going concern basis.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of these 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.

2. 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, changes in fair value of financial instruments at FVTPL, changes in fair value of other financial liabilities, investment income, gain on disposal of a subsidiary, loss on disposal of an associate, exchange differences, non-lease-related finance costs, share of results of associates and a joint venture and other unallocated income and expenses are excluded from such measurement.

Segment assets exclude interests in associates, interest in a joint venture, other financial assets, deferred tax assets, cash and bank deposits 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 2020 and 2019, 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 2020										
Segment revenue:										
Sale of goods	6,025,198	1,236,181	1,142,216	612,565	771,371	589,403	245,975	307,079	–	10,929,988
Contract revenue from renovation and installation works	217,282	15,152	32,307	69,244	12,645	113	5,942	3,505	–	356,190
Income from environmental engineering and other related services	74,220	11,506	4,497	56,454	1,726	816	–	–	–	149,219
Financial service income	10,271	368	2,990	730	165	–	–	–	–	14,524
Property rental and other related services	5,005	–	–	12	–	–	–	36,946	–	41,963
Revenue from external customers	6,331,976	1,263,207	1,182,010	739,005	785,907	590,332	251,917	347,530	–	11,491,884
Intersegment revenue	1,746,226	195,030	206,751	157,843	213,785	103,275	71,694	296,892	(2,991,496)	–
Total	8,078,202	1,458,237	1,388,761	896,848	999,692	693,607	323,611	644,422	(2,991,496)	11,491,884
Segment results	2,024,663	378,354	347,495	169,444	245,998	136,376	61,404	89,412	(73,447)	3,379,699
Reconciliations:										
Interest income										62,679
Gain on fair value changes of other financial liabilities										54,151
Investment income										206
Gain on disposal of a subsidiary										454
Loss on disposal of an associate										(295)
Loss on fair value changes of financial instruments at FVTPL										(39,437)
Exchange loss										(93,646)
Finance costs (other than interests on lease liabilities)										(241,652)
Share of results of associates										49,153
Share of results of a joint venture										956
Unallocated income and expenses										(1,452,662)
Profit before tax										1,719,606
Other segment information:										
Write-down of inventories to net realisable value, net	–	–	–	–	–	–	–	15	–	15
Depreciation and amortisation	306,678	34,455	28,177	22,782	20,766	22,419	10,191	34,919	–	480,387
Impairment of property, plant and equipment	27,854	–	–	–	–	–	–	5,496	–	33,350
Impairment of trade and bills receivables, net	6,854	–	397	(6)	–	–	–	267	–	7,512
Impairment of prepayments	5,774	–	–	–	–	–	–	–	–	5,774
Impairment of other receivables	6,125	–	–	–	–	–	–	–	–	6,125
Capital expenditure#	113,035	27,950	97,960	42,591	35,810	10,901	2,042	282,789	(20,446)	592,632
As at 30 June 2020										
Segment assets	16,007,578	1,463,306	1,360,513	1,836,844	865,113	700,528	499,362	7,731,859	–	30,465,103

Capital expenditure consists of additions to property, plant and equipment, right-of-use assets, 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 2019										
Segment revenue:										
Sale of goods	5,840,231	1,169,743	1,271,064	592,424	798,302	483,611	238,835	379,139	–	10,773,349
Contract revenue from renovation and installation works	133,467	48	8,582	8,644	102	295	636	–	–	151,774
Income from environmental engineering and other related services	85,782	3,295	2,308	57,114	1,621	1,094	–	–	–	151,214
Financial service income	15,326	716	9,998	94	–	–	–	–	–	26,134
Property rental and other related services	944	–	–	–	–	–	–	33,739	–	34,683
Revenue from external customers	6,075,750	1,173,802	1,291,952	658,276	800,025	485,000	239,471	412,878	–	11,137,154
Intersegment revenue	1,725,062	198,694	203,010	128,186	189,532	97,012	66,222	398,475	(3,006,193)	–
Total	7,800,812	1,372,496	1,494,962	786,462	989,557	582,012	305,693	811,353	(3,006,193)	11,137,154
Segment results	1,874,353	355,973	407,609	186,740	232,881	127,311	62,520	15,464	(62,385)	3,200,466
Reconciliations:										
Interest income										47,717
Gain on fair value changes of financial instruments at FVTPL										1,748
Exchange gain										29,897
Finance costs (other than interests on lease liabilities)										(261,311)
Share of results of associates										18,148
Share of results of a joint venture										407
Unallocated income and expenses										(1,456,145)
Profit before tax										1,580,927
Other segment information:										
Write-back of inventories to net realisable value, net	3,380	(163)	8	(8,377)	215	(23)	(2,084)	328	–	(6,716)
Depreciation and amortisation	265,842	36,417	32,022	23,243	21,128	18,403	9,836	22,669	–	429,560
Write-back of impairment of property, plant and equipment	–	–	–	–	–	–	–	(1,787)	–	(1,787)
Impairment of trade and bills receivables, net	9,241	395	(279)	7,064	(3,663)	64	(316)	(1,889)	–	10,617
Impairment of prepayments	34,331	–	–	–	–	–	–	–	–	34,331
Impairment of other receivables	1,045	–	–	–	–	–	–	2	–	1,047
Capital expenditure#	802,336	56,791	57,635	95,766	38,467	11,585	13,467	1,109,433	(11,462)	2,174,018
As at 30 June 2019										
Segment assets	14,493,777	1,501,922	1,318,692	1,618,001	864,881	716,248	477,657	6,150,600	–	27,141,778

\# Capital expenditure consists of additions to property, plant and equipment, right-of-use assets, investment properties and other intangible assets.

3. REVENUE, OTHER REVENUE, INCOME AND GAINS

Revenue

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

By revenue nature:

	Six months ended 30 June 2020			Six months ended 30 June 2019		
	Goods transferred at a point in time *RMB'000*	**Services transferred over time** *RMB'000*	**Total** *RMB'000*	Goods transferred at a point in time *RMB'000*	Services transferred over time *RMB'000*	Total *RMB'000*
Revenue from contracts with customers:						
Sale of goods	**10,929,988**	**–**	**10,929,988**	10,773,349	–	10,773,349
Contract revenue from renovation and installation works	**–**	**356,190**	**356,190**	–	151,774	151,774
Income from environmental engineering and other related services	**–**	**149,219**	**149,219**	–	151,214	151,214
Sub-total	**10,929,988**	**505,409**	**11,435,397**	10,773,349	302,988	11,076,337
Financial service income			**14,524**			26,134
Property rental and other related services			**41,963**			34,683
Total			**11,491,884**			11,137,154

By geographical locations:

	Six months ended 30 June 2020			Six months ended 30 June 2019		
	Goods transferred at a point in time *RMB'000*	**Services transferred over time** *RMB'000*	**Total** *RMB'000*	Goods transferred at a point in time *RMB'000*	Services transferred over time *RMB'000*	Total *RMB'000*
Revenue from contracts with customers:						
Mainland China	**10,622,909**	**501,904**	**11,124,813**	10,394,210	302,988	10,697,198
Outside China	**307,079**	**3,505**	**310,584**	379,139	–	379,139
Sub-total	**10,929,988**	**505,409**	**11,435,397**	10,773,349	302,988	11,076,337
Financial service income			**14,524**			26,134
Property rental and other related services			**41,963**			34,683
Total			**11,491,884**			11,137,154

Other revenue, income and gains

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Bank interest income	**58,020**	45,746
Interest income from other financial assets	**4,659**	1,971
Total interest income	**62,679**	47,717
Government grants and subsidies	**19,848**	22,748
Gain on fair value changes of financial instruments at FVTPL	**–**	1,748
Gain on fair value changes of other financial liabilities	**54,151**	–
Investment income	**206**	–
Gain on disposal of a subsidiary	**454**	–
Gain on disposal of items of other intangible assets and property, plant and equipment	**7,571**	–
Gain on sale of raw materials	**4,129**	7,919
Gain on termination of right-of-use assets	**–**	5,974
Rental income	**15,004**	11,300
Exchange gain	**–**	29,897
Others	**33,080**	24,879
	197,122	152,182

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	
	2020	2019
	RMB'000	*RMB'000*
Interest expenses on bank and other loans	**256,505**	262,636
Interest expenses on lease liabilities	**4,543**	10,181
	261,048	272,817
Less: Interest capitalised	**(14,853)**	(1,325)
	246,195	271,492

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Cost of inventories sold	**7,747,703**	7,709,750
Direct cost of renovation and installation works	**275,882**	126,194
Direct cost of environmental engineering and other related services	**75,677**	94,075
Direct cost of financial services	**597**	–
Direct cost of property rental and other related services	**12,311**	13,385
Write-down/(write-back) of inventories to net realisable value, net	**15**	(6,716)
Depreciation of property, plant and equipment	**419,024**	366,973
Depreciation of right-of-use assets	**50,650**	57,112
Amortisation of other intangible assets	**10,713**	5,475
Total depreciation and amortisation	**480,387**	429,560
Research and development costs	**366,818**	376,375
(Gain)/loss on disposal of items of other intangible assets and property, plant and equipment	**(7,571)**	10,603
Impairment/(write-back of impairment) of property, plant and equipment	**33,350**	(1,787)
Loss on disposal of an associate	**295**	–
Loss/(gain) on fair value changes of financial instruments at FVTPL	**39,437**	(1,748)
Impairment of trade and bills receivables, net	**7,512**	10,617
Impairment of prepayments	**5,774**	34,331
Impairment of other receivables	**6,125**	1,047
Foreign exchange differences, net	**93,646**	(29,897)

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Current tax		
PRC	**355,405**	329,819
Other jurisdictions	**153**	242
	355,558	330,061
Overprovision in prior years		
PRC	**(104,577)**	(82,478)
Deferred tax	**82,268**	75,954
Total tax charge for the period	**333,249**	323,537

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 2019: 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 2019: 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			
	2020		2019	
	HK$ per share	***HK$'000***	*HK$ per share*	*HK$'000*
2019 final dividend paid (2019: 2018 final dividend paid)	**0.28**	**868,677**	0.20	620,484
Less: Dividends for shares held for share award scheme	**0.28**	**(6,437)**	0.20	(4,598)
		862,240		615,886
Equivalent to		**RMB780,672,000**		RMB532,987,000

Subsequent to the end of the reporting period, interim dividend of HK12 cents in respect of the six months ended 30 June 2020 per ordinary share amounting to in aggregate HK$369,531,000 has been declared by the Board to the owners of the Company whose names appear on the Company's register of members on 18 September 2020 (six months ended 30 June 2019: interim dividend of HK12 cents per ordinary share amounting to in aggregate HK$369,531,000). The amount of interim dividend declared for the six months ended 30 June 2020 and 2019 is calculated based on the number of issued shares, less dividends for shares held for share award scheme, at the date of approval of these condensed consolidated financial statements.

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	
	2020	2019
	RMB'000	*RMB'000*
Earnings		
Profit attributable to owners of the Company used in the basic and diluted earnings per share calculation	**1,388,017**	1,263,701

	Number of Shares Six months ended 30 June	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue	**3,102,418,400**	3,102,418,400
Weighted average number of shares held for the share award scheme	**(22,991,000)**	(20,535,901)
Adjusted weighted average number of ordinary shares of the Company in issue used in the basic and diluted earnings per share calculation	**3,079,427,400**	3,081,882,499

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2020 and 2019, respectively.

9. OTHER FINANCIAL ASSETS

	Note	30 June 2020 RMB'000	31 December 2019 RMB'000
Non-current			
Debt instruments at FVTOCI:	*(i)*		
Debt securities listed in Hong Kong		**35,283**	46,923
Debt securities listed in PRC		**531,253**	509,647
		566,536	556,570
Equity instruments at FVTOCI:			
Equity securities listed in PRC		**190,010**	231,536
Equity securities listed in Hong Kong		**423,123**	394,811
Perpetual capital securities listed in Hong Kong		**8,680**	8,780
Unlisted equity securities		**558,102**	501,153
		1,179,915	1,136,280
Equity instruments at FVTPL:			
Unlisted equity securities	*(ii)*	**49,750**	56,344
Equity securities listed in United Kingdom	*(iii)*	**117,615**	–
		167,365	56,344
Funds at FVTPL:			
Stock funds		**23,694**	21,926
		1,937,510	1,771,120
Current			
Debt instruments at FVTOCI:	*(i)*		
Debt securities listed in Hong Kong		**87,548**	8,363
		2,025,058	1,779,483

Note:

(i) The debt securities carry fixed interest at rates ranging from 5.65% to 9.85% (31 December 2019: 5.65% to 8.40%) per annum, payable semi-annually or annually in arrears and will mature from January 2021 to January 2023 (31 December 2019: January 2020 to January 2023).

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

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

10. LOAN RECEIVABLES

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Non-current		
Finance lease receivables	**3,099**	11,613
Current		
Finance lease receivables	**167,188**	165,339
Factoring receivables	**310,260**	260,491
Receivables from supply-chain financing services	**149,266**	129,520
	626,714	555,350
Less: Provision for impairment	**(190,677)**	(190,677)
	436,037	364,673
	439,136	376,286

(A) Finance lease receivables

	Minimum lease receivables		Present value of minimum lease receivables	
	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*	**30 June 2020** *RMB'000*	31 December 2019 *RMB'000*
Not more than 1 year	**168,629**	191,748	**167,188**	165,339
Over 1 year but within 5 years	**3,356**	14,131	**3,099**	11,613
	171,985	205,879	**170,287**	176,952
Less: Unearned finance income	**(1,698)**	(28,927)		
Present value of minimum lease receivables	**170,287**	176,952		

The Group's finance lease receivables are denominated in Renminbi. The effective interest rates of the receivables range from 5.89% to 12.96% (31 December 2019: 5.89% to 13.19%) 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 2019: Nil).

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

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Not past due	**20,882**	21,731
Overdue	**149,405**	155,221
	170,287	176,952

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

Cash deposits from finance lease customers are collected upfront based on certain percentage of the entire value of the lease contracts. When the lease contracts expire and all related liabilities and obligations are fulfilled by the customers, the cash deposit will be returned in full. The balance of the cash deposit can also be used to settle any outstanding lease receivables for the corresponding lease contract. The collected cash deposits of RMB21,310,000 (31 December 2019: RMB21,310,000) have been included in "other long-term payables" in the condensed consolidated statement of financial position.

At the end of the reporting period, RMB31,177,000 of the Group's finance lease receivables was impaired (31 December 2019: RMB31,177,000).

(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 6.00% to 14.00% (31 December 2019: 4.00% to 7.20%) per annum.

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

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
With a residual maturity of:		
Not more than 3 months	**30,452**	15,778
Over 3 months to 6 months	**46,000**	46,713
Over 6 months to 12 months	**67,687**	38,500
Overdue	**166,121**	159,500
	310,260	260,491

At the end of the reporting period, RMB159,500,000 of the Group's factoring receivables was impaired (31 December 2019: RMB159,500,000).

(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 for each customer is generally within 365 days.

These receivables carry interest at rates ranging from 9.60% to 19.80% per annum (31 December 2019: 4.75% to 10.80%).

Certain receivables from supply-chain financing services, amounting to RMB149,266,000 (31 December 2019: RMB129,520,000) are secured by certain interests of companies and personal guarantees.

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

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
With a residual maturity of:		
Not more than 3 months	**75,760**	79,478
Over 3 months to 6 months	**73,506**	32,390
Over 6 months to 12 months	**–**	17,652
	149,266	129,520

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 2019: Nil).

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

11. INVENTORIES

	30 June 2020 RMB'000	31 December 2019 RMB'000
Manufacturing and trading	**3,868,741**	3,660,365
Property development	**391,047**	305,683
	4,259,788	3,966,048

(A) Manufacturing and trading

	30 June 2020 RMB'000	31 December 2019 RMB'000
Raw materials	**1,415,645**	1,332,697
Work in progress	**408,523**	351,332
Finished goods	**2,044,573**	1,976,336
	3,868,741	3,660,365

(B) Property development

	30 June 2020 RMB'000	31 December 2019 RMB'000
Property under development	**391,047**	305,683

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

12. TRADE AND BILLS RECEIVABLES

	30 June 2020 RMB'000	31 December 2019 RMB'000
Trade receivables	**2,547,173**	2,734,678
Bills receivable	**900,732**	762,004
Less: Provision for impairment	**(244,449)**	(237,226)
	3,203,456	3,259,456

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 loss allowance, is as follows:

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Not more than 3 months	**1,410,146**	1,385,281
Over 3 months to 6 months	**422,832**	523,083
Over 6 months to 12 months	**812,521**	916,406
Over 1 year to 2 years	**469,206**	351,848
Over 2 years to 3 years	**68,927**	71,784
Over 3 years	**19,824**	11,054
	3,203,456	3,259,456

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

13. TRADE AND BILLS PAYABLES

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Trade payables	**1,425,739**	1,276,393
Bills payable	**3,239,285**	4,553,141
	4,665,024	5,829,534

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 2020 *RMB'000*	31 December 2019 *RMB'000*
Not more than 3 months	**2,919,819**	3,467,192
Over 3 months to 6 months	**1,329,406**	2,032,336
Over 6 months to 12 months	**307,807**	255,306
Over 1 year to 2 years	**60,085**	36,791
Over 2 years to 3 years	**13,512**	10,498
Over 3 years	**34,395**	27,411
	4,665,024	5,829,534

14. BORROWINGS

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Current		
Unsecured bank loans	**8,491,456**	5,841,586
Current portion of long term unsecured bank loans	**286,668**	104,575
Current portion of long-term unsecured syndicated bank loans	**5,496,326**	5,381,133
Current portion of long-term unsecured other loans	**28,330**	28,330
Secured bank loans	**57,100**	40,090
Current portion of long-term secured bank loans	**7,796**	15,605
	14,367,676	11,411,319
Non-current		
Unsecured bank loans	**21**	1,045,107
Unsecured other loans	**28,952**	28,330
Secured bank loans	**209,747**	193,624
	238,720	1,267,061
	14,606,396	12,678,380
Analysed into borrowings repayable:		
Within one year or on demand	**14,367,676**	11,411,319
In the second year	**36,542**	757,069
In the third to fifth years, inclusive	**159,486**	486,490
More than five years	**42,692**	23,502
	14,606,396	12,678,380

Note:

(a) The effective interest rates of the Group's borrowings range from 1.18% to 7.60% (31 December 2019: 2.38% to 7.60%) per annum.

(b) At the end of reporting period, the secured bank loans are secured by land-use right of a subsidiary, investment property of a subsidiary, time deposit of a subsidiary, loan receivables of a subsidiary, the concession rights of a subsidiary and personal guarantee provided by a shareholder of that subsidiary.

At 31 December 2019, the secured bank loans are secured by investment property of a subsidiary, time deposit of a subsidiary, loan receivables of a subsidiary, the concession rights of a subsidiary and personal guarantee provided by a shareholder of that subsidiary.

(c) At the end of the reporting period, the Group's borrowings are denominated in US dollar, HK dollar, Renminbi, Australian dollar and Canadian dollar which are equivalent to RMB6,435,430,000 (31 December 2019: RMB6,460,926,000), RMB3,757,803,000 (31 December 2019: RMB2,788,805,000), RMB3,720,744,000 (31 December 2019: RMB2,793,140,000), RMB552,308,000 (31 December 2019: RMB481,169,000) and RMB140,111,000 (31 December 2019: RMB154,340,000), respectively.

15. CONVERTIBLE LOANS

At the end of the reporting period, the convertible loans were recognised as a debt component and equity component as follows:

	Debt component *RMB'000*	**Equity component** *RMB'000*	**Total** *RMB'000*
At the date of issue	640,113	27,605	667,718
Interest expenses	22,655	–	22,655
Increase in interest payable	(10,728)	–	(10,728)
Interest paid	(6,297)	–	(6,297)
Exchange realignment	6,852	–	6,852
At 31 December 2019 and 1 January 2020	**652,595**	**27,605**	**680,200**
Interest expenses	**21,512**	**–**	**21,512**
Increase in interest payable	**(3,340)**	**–**	**(3,340)**
Interest paid	**(10,520)**	**–**	**(10,520)**
Exchange realignment	**12,933**	**–**	**12,933**
At 30 June 2020	**673,180**	**27,605**	**700,785**

Note:

(a) On 6 May 2019, the Group's wholly owned subsidiary entered into a convertible loan facilities agreement with ICBC International Investment Management Limited in the aggregate principal amount of US$100,000,000 (approximately equivalent to RMB684,025,000) (the "Convertible Loans"). The Convertible Loans bear interest at the rate of 3.40% plus LIBOR per annum. The Group drew down US$60,000,000 (approximately equivalent to RMB410,415,000) on 22 May 2019 and US$40,000,000 (approximately equivalent to RMB279,489,000) on 29 November 2019. The maturity date is 21 May 2022 and 28 November 2022, respectively.

(b) The convertible loans contain two components, a debt component and an equity component. The initial fair values of the two components were determined based on gross proceeds at drawdown. The initial fair value less allocated transaction costs of the debt component were estimated to be US$55,799,000 (approximately equivalent to RMB381,681,000) and US$36,982,000 (approximately equivalent to RMB258,432,000) as at the drawdown dates using the Monte Carlo Model and Binomial Option Pricing Model, taking into account the terms and conditions of the convertible loans. In subsequent periods, the debt component is measured at amortised cost using effective interest rate method. The effective interest rates of the debt component are 4.80% and 5.76% (31 December 2019: 7.70%) per annum. The residual amount less allocated transaction costs representing the value of the equity component of US$4,001,000 (approximately equivalent to RMB27,605,000), is included in convertible loans equity reserve.

16. SHARE CAPITAL

	30 June 2020	31 December 2019
Authorised:		
20,000,000,000 (31 December 2019: 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 2019: 3,102,418,400) ordinary shares of HK$0.05 each	**HK$155,120,920**	HK$155,120,920
Equivalent to	**RMB135,344,000**	RMB135,344,000

17. COMMITMENTS

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

	30 June 2020 ***RMB'000***	31 December 2019 *RMB'000*
Contracted, but not provided for:		
Land, property, plant and equipment and investment properties	**626,333**	738,811
Investment in a joint venture	**–**	23,520
	626,333	762,331

18. EVENT AFTER THE REPORTING PERIOD

Subsequent to reporting period, the Group has fully drawdown the Facilities of US$1,100,000,000 (approximately equivalent to RMB7,787,450,000). Details of the Facilities are set out in the announcements dated 30 July 2019 and 23 October 2019.

CORPORATE PROFILE

China Lesso Group Holdings Limited (Stock Code of Hong Kong Stock Exchange: 2128) is a leading large-scale industrial group that manufactures building materials and interior decoration products in mainland China. China Lesso is one of the constituent stocks of the Hang Seng Composite MidCap Index and is a stock eligible for trading through the Hong Kong Stock Exchange's Stock Connect. In addition, China Lesso was officially made a constituent stock of MSCI China index in November 2019. After more than 30 years of rapid development, the Group has evolved into a leader in the industry of building materials and interior decoration products. It provides high-quality products and services such as plastic piping, building materials and interior decoration, environmental protection, and operates a supply chain service platform.

Currently, the Group has established 25 advanced production bases in 16 provinces of China and in some foreign countries. The Group has established a nationwide sales network and has also developed long-term strategic partnerships with 2,365 independent and exclusive first-tier distributors that enable timely and efficient supply of comprehensive, quality products and professional services to customers. As an integrated manufacturer of a comprehensive range of building materials and interior decoration products, China Lesso provides over 10,000 types of quality products, which are widely applied to such fields as interior decoration, civil architecture, municipal water supply, drainage, electric power transmission, telecommunication, gas supply, fire services, environmental protection, agriculture and marine aquaculture.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

The outbreak of novel coronavirus pneumonia ("COVID-19") pandemic in the early 2020 has dealt a heavy blow to the economy of China and the rest of the world. China has made active resumption of work and production as the pandemic prevention and control has become a routine. The Chinese government had also launched a series of economic stimulus policies, aiming for a gradual recovery of the economy. In addition, the Chinese government proposed new initiatives for economic development, namely the construction of a new type of infrastructure for telecommunication and transportation, a new type of urbanization and other major projects in its work report, thus setting a direction for a new round of investment in infrastructure and driving substantial investment in infrastructure, with a view to stimulating macroeconomic growth in the aftermath of the pandemic. Steady growth in the pipeline industry is expected on the back of the start of the construction of major infrastructure projects across the country, the promotion of new type of urbanization and the development of regional economy. There have been signs of a continued rebound in both the supply and demand in the manufacturing industry. In the second half of 2020, provincial and municipal governments will continue to pursue the city-specific policies on the regulation of property market under the principle that "Houses are for living in, not for speculation". The flexibility of the policies is conducive to a steady recovery in the real estate market. This can create a stable demand for building materials and interior decoration products.

BUSINESS OVERVIEW

It was against the backdrop of the COVID-19 outbreak that the Group was steadily resuming work and production. It proactively captured opportunities that arose from a recovery in the market in the second quarter when the situation of the pandemic stabilized. The Group kept fostering the development of its plastic piping system business, business of building materials and interior decoration products, and environmental protection business. As a result, it achieved growth in its overall business in the first half of the year despite the unfavorable situation. The year of 2020 marks the tenth anniversary of China Lesso's listing on the Hong Kong Stock Exchange. Over the past decade, China Lesso has always adhered to the original aspirations of the brand and steadily moved forward step by step, evolving from a pipeline manufacturing enterprise into a global industrial group that manufactures building materials and interior decoration products. The Group provides high-quality products and services, ranging from pipelines, building materials and interior decoration products to environmental protection service to supply chain service platform and other sectors. Therefore, it has rapidly developed itself into a leading brand of building materials and interior decoration products. China Lesso has also won various national-level and industry accolades, including "China's Top 500 Companies in Terms of Brand Value", "Interior Decoration Brand in terms of Investment Value of 2019" and "Top 500 Chinese Private Owned Enterprises", in recognition of its outstanding performance in the past year. This has also helped to increase China Lesso's brand awareness and consolidated its leading position in the industry.

During the reporting period, China Lesso's revenue increased by 3.2% to RMB11,492 million (1H 2019: RMB11,137 million). Gross profit edged up 5.6% to RMB3,380 million (1H 2019: RMB3,200 million); gross profit margin was 29.4% (1H 2019: 28.7%); and net profit margin was 12.1 % (1H 2019: 11.3%).

The table below sets out the breakdown of revenue by business unit for the six months ended 30 June 2020 and 2019:

	Revenue			% of total revenue	
	2020	2019		**2020**	2019
	RMB million	*RMB million*	***Change***		
Plastic piping systems	**10,141**	10,067	*0.7%*	**88.2%**	90.4%
Building materials and interior decoration products	**743**	572	*29.9%*	**6.5%**	5.1%
Others#	**608**	498	*21.9%*	**5.3%**	4.5%
Total	**11,492**	11,137	*3.2%*	**100.0%**	100.0%

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

At the end of the reporting period, the number of the Group's independent and exclusive first-tier distributors nationwide increased to 2,365 (1H 2019: 2,206). Southern China remained the Group's major revenue-contributing market, and its revenue accounted for 55.1% of the Group's total revenue (1H 2019: 54.5%) while the revenue from other regions accounted for 44.9% (1H 2019: 45.5%).

The table below sets out the breakdown of revenue by region for the six months ended 30 June 2020 and 2019:

	Revenue			% of total revenue	
	2020	2019		**2020**	2019
Region#	***RMB million***	*RMB million*	***Change***		
Southern China	**6,332**	6,076	*4.2%*	**55.1%**	54.5%
Southwestern China	**1,263**	1,174	*7.6%*	**11.0%**	10.5%
Central China	**1,182**	1,292	*(8.5)%*	**10.3%**	11.6%
Eastern China	**739**	658	*12.3%*	**6.4%**	5.9%
Northern China	**786**	800	*(1.8)%*	**6.9%**	7.2%
Northwestern China	**590**	485	*21.7%*	**5.1%**	4.4%
Northeastern China	**252**	239	*5.2%*	**2.2%**	2.2%
Outside China	**348**	413	*(15.8)%*	**3.0%**	3.7%
Total	**11,492**	11,137	*3.2%*	**100.0%**	100.0%

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

The Group strived to maximize the benefits of economies of scale by means of actively advancing production automation and implementing an effective procurement strategy, thereby controlling the cost of raw materials and production. By enhancing the operational efficiency, optimizing its product portfolio and increasing its market share, the Group has sustained growth and maintained its profitability at a healthy level.

During the reporting period, the Group's EBITDA increased by 7.2% to RMB2,446 million (1H 2019: RMB2,282 million), and the EBITDA margin was 21.3% (1H 2019: 20.5%). Profit before tax increased by 8.8% to RMB1,720 million (1H 2019: RMB1,581 million). Profit attributable to owners of the Company increased by 9.8% to RMB1,388 million (1H 2019: RMB1,264 million). Basic earnings per share increased by 9.8% to RMB0.45 (1H 2019: RMB0.41). The effective tax rate reduced to 19.4% (1H 2019: 20.5%).

BUSINESS REVIEW AND OUTLOOK

Plastic Piping Systems

The Chinese government continued to promote various policies on energy conservation and environmental protection such as "Switching from Coal to Gas as Source of Energy" and "Action Plan for Prevention and Control of Water Pollution" and implemented the planning for piping and pipeline networks. All these have generated a stable demand for plastic pipes and pipe fittings. Although the COVID-19 broke out in China and quickly spread to the whole country early this year, the Group took prompt measures to cope with the situation and overcame the difficulties. The Group also promptly gave support to the Chinese government's emergency measures by allocating resources such as a variety of pipe products as timely assistance to the construction of hospitals nationwide in the fight against the pandemic. It also provided construction materials needed for further renovation and expansion of existing hospitals.

Although the pandemic outbreak had frustrated the Group's production in the first quarter, the Group actively organized the resumption of work and production when the pandemic abated and, as a result, it succeeded in restoring very soon its production capacity to the pre-pandemic level. It even achieved a further increase in production capacity. During the reporting period, the Group's annual designed capacity for manufacturing plastic pipes and pipe fittings expanded from 2.78 million tonnes in 2019 to 2.85 million tonnes, with a capacity utilization rate of 80.0% for the reporting period. The Group continued to expand the scale of its production with the focus on raising the levels of automation and computerization of manufacturing. It is also committed to achieving full mechanization of the manufacturing of pipe products so as to improve the overall production capacity, quality and efficiency to meet the market's demand.

During the reporting period, the plastic piping systems business has achieved stable growth. Revenue from the plastic piping systems business increased by 0.7 % to RMB10,141 million (1H 2019: RMB10,067 million), accounting for 88.2% of the Group's total revenue (1H 2019: 90.4%).

The table below sets out the breakdown of revenue from plastic piping systems business by region for the six months ended 30 June 2020 and 2019:

	Revenue			% of revenue	
	2020	2019		**2020**	2019
Region	***RMB million***	*RMB million*	***Change***		
Southern China	**5,555**	5,437	*2.2%*	**54.8%**	54.0%
Other than Southern China	**4,433**	4,410	*0.5%*	**43.7%**	43.8%
Outside China	**153**	220	*(30.3)%*	**1.5%**	2.2%
Total	**10,141**	10,067	*0.7%*	**100.0%**	100.0%

The table below sets out the breakdown of revenue from plastic piping systems business by product application for the six months ended 30 June 2020 and 2019:

	Revenue			% of revenue	
	2020	2019		**2020**	2019
	RMB million	*RMB million*	***Change***		
Water supply	**3,939**	3,928	*0.3%*	**38.9%**	39.0%
Drainage	**3,899**	3,805	*2.5%*	**38.4%**	37.8%
Power supply and telecommunications	**1,718**	1,776	*(3.2)%*	**17.0%**	17.6%
Gas transmission	**156**	165	*(5.6)%*	**1.5%**	1.7%
Others#	**429**	393	*9.2%*	**4.2%**	3.9%
Total	**10,141**	10,067	*0.7%*	**100.0%**	100.0%

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

The COVID-19 pandemic did not have any significant impact on the sales of the Group's plastic pipes and pipe fittings. During the reporting period, sales volume of the plastic piping systems increased by 7.1%. In terms of product materials, sales volume of PVC products increased by 6.6% to 829,524 tonnes (1H 2019: 777,899 tonnes) while that of non-PVC products increased by 8.8% to 252,474 tonnes (1H 2019: 231,954 tonnes). Revenue from sales of PVC products increased by 1.7% to RMB6,461 million (1H 2019: RMB6,355 million) while that of non-PVC products decreased by 0.9% to RMB 3,680 million (1H 2019: RMB3,712 million).

During the reporting period, the Group maintained its gross profit margin at a reasonable and healthy level by effectively controlling the costs of raw materials and manufacturing by taking advantage of its economies of scale and implementation of its effective procurement strategy. The Group reduced the average selling price of its plastic piping systems by 6.0% to RMB9,373 per tonne (1H 2019: RMB9,969 per tonne). The gross profit margin of its plastic piping systems business reached 29.7% (1H 2019: 29.4%).

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 2020 and 2019:

	Average selling price			Sales volume			Revenue		
	2020	2019		**2020**	2019		**2020**	2019	
	RMB	*RMB*	***Change***	***Tonne***	*Tonne*	***Change***	***RMB million***	*RMB million*	***Change***
PVC products	**7,789**	8,170	*(4.7)%*	**829,524**	777,899	*6.6%*	**6,461**	6,355	*1.7%*
Non-PVC products#	**14,577**	16,003	*(8.9)%*	**252,474**	231,954	*8.8%*	**3,680**	3,712	*(0.9)%*
Total	**9,373**	9,969	*(6.0)%*	**1,081,998**	1,009,853	*7.1%*	**10,141**	10,067	*0.7%*

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

In May this year, the Group began the construction of a production base in Nanchang, Jiangxi to further improve the nationwide disposition of its production bases. Overall, the Group’s production bases which are under construction include those in Fujian, Jiangxi and Zhejiang provinces and they are scheduled to be completed successively and put into trial production in 2020. They will help to ramp up the production and enable the Group to capture the opportunities that arose in the industry’s development. Looking ahead, the Group will continue to develop its production bases and identify targets for acquisition in the market in order to increase its production capacity. Meanwhile, the Group will constantly enhance its core competitiveness by actively building its own system for industrial internet. The Group has been pressing ahead with the automation of its production bases by adopting smart technology and intelligent equipment for manufacturing. The move is aimed at expanding production capacity and raising production efficiency. The Group regards innovation as the key to sustaining its development. Therefore, it will continue to step up its efforts to innovate and carry out research and development, with a focus on cutting-edge technologies for pipes and building materials. This will enable the Group to consolidate its leading position in the industry and to make life at home more convenient by providing diverse and quality products.

The state policy on fostering the development of a new type of infrastructure for telecommunication and transportation has extended the scope of application of plastic pipes and pipe fittings. The Group has proactively forged ahead with its strategic disposition of its production capacity to seize the opportunities for development on the market. Leveraging its strong enterprise strength, quality products and services, the Group won a tender again for supplying pipes to an underground pipe gallery project in Xiongan New Area following its success in winning a tender for supplying pipes to the project of the construction of Xiongan Civic Center. The Group has thus assisted in building the national exemplary project called “Xiongan Model” by providing its green and efficient urban smart pipe gallery solutions and products.

The Group will actively expand foreign markets with a focus on the Southeast Asian market. It will actively tap the huge demand of the region's market and capitalize on the infrastructure development there. The Group's existing production base in Indonesia has been in operation and another one is planned to be built in the future. The Group's production base in Cambodia is at planning stage as well. This will further enhance the competitiveness and influence of China Lesso in overseas markets and helps the Group to seize the opportunities presented by the Belt and Road Initiative.

As a market leader, the Group will strive to expand the scope of applications of plastic pipes and pipe fittings to increase sales volume, thereby maintaining its market leadership. To tap the huge demand in the agricultural sector, the Group has made great efforts to expand this business. For instance, it provided customers with high-quality, professional integrated solutions for modernized agriculture. Such move can boost the growth in the Group's plastic piping systems business and foster the synergy between that business and the one geared towards the needs of the agricultural sector. In the future, the Group will increase its investment in the innovation of agricultural facilities. It will strive to build its businesses along the whole value chain of modern agriculture that encompasses modern agricultural facilities engineering, water-saving irrigation system, cage farming, family leisure agriculture, the planting of flowers and fruits, and the production consumables. The Group will also drive the advancement of farming with the help of science and technology so as to contribute to the revitalization of rural areas. Overall, the Group's management is fully confident about the future development of the plastic piping systems business and believes that it will continue to perform well.

Building Materials and Interior Decoration Products

In the first half of 2020, the pandemic seriously affected China's real estate market. In response, local governments continued to implement city-specific policies on the regulation of property markets according to local conditions. As a result, the flexibility of the policies contributed to a gradual recovery in the real estate market when the pent-up demand of homebuyers during the early stage of the pandemic was released after the pandemic showed signs of abating. During the reporting period, the Group's business of building materials and interior decoration products recorded revenue of RMB743 million, accounting for 6.5% of the Group's total revenue. In the second half of 2020, the Group will capitalize on the gradual recovery in the real estate market, the new type of urbanization and urban redevelopment projects by trying to boost the growth of its business of building materials and interior decoration products. This can also increase the contribution of the business to the Group's total revenue. The Group will also further strengthen its partnerships with large real estate developers while strengthening its relations with existing customers. It will also actively capture the opportunities that have arisen from the real estate sector's shift towards the bulk purchasing model so as to increase sales revenue by providing diverse products and high-quality services. Capitalizing on China's ongoing new type of urbanization, the Group will be able to achieve synergy between its business of building materials and interior decoration products and its other business segments. This, in turn, can also lead to the steady development of its business of building materials and interior decoration products.

Other Businesses

Environmental Protection Business

In recent years, the Group actively fosters its environmental protection business to respond to the call of Chinese government for environmental protection. The Group has expanded into the environmental protection market and captures the increasing demand for plastic pipes and pipe fittings from municipal projects in various fields. The move is also aimed at creating synergy between its environmental protection business and its plastic piping systems business in the long term. During the reporting period, the environmental protection business recorded revenue of RMB149 million. The Group will continue to enhance its research and development capability so as to expand its hazardous solid waste treatment business while it is developing its other existing environmental protection businesses steadily. In the future, the Group is planning to establish a waste treatment center with annual capacity of 450,000 tonnes in Yunfu, Guangdong Province. This will further consolidate and expand the Group's market share. Meanwhile, the Group will actively explore opportunities for mergers and acquisitions to fully tap its potential for growth.

Supply Chain Service Platform Business

In line with the Chinese government's "Belt and Road Initiative", the Group extended the footprint of its supply chain service platform, "One-Stop Specialty Market for Home Furnishing and Consumer Products", to the overseas markets, with its focus on the Southeast Asian market. The Group had built a multinational platform for Chinese manufacturers of home furnishings, building materials and consumer products to showcase their products and facilitate the distribution and retail of such products. The Group also provided ancillary services, including marketing, branding, and e-commerce needs and development plans consultation. During the reporting period, the business recorded a revenue of RMB256 million. In the future, the Group will further boost the distribution network of its supply chain service platform business in Southeast Asia and capture the opportunities for development. The Group strives to make the supply chain service platform business another growth driver for the Group's development in the long run.

CAPITAL EXPENDITURE

During the reporting period, the Group's capital expenditure was approximately RMB593 million, which was primarily used for improvement of automated facilities in production bases, expansion of the existing production bases, acquisition of industrial land in Jiangxi and construction of certain investment properties.

FINANCIAL POSITION

The Group continued to adopt prudent financial policies. Finance, fund utilisation and fund raising activities of the Group are subject to effective centralised management and supervision. The Group keeps reasonable gearing level and adequate liquidity.

At the end of the reporting period, the Group had total debts (i.e. borrowings, lease liabilities and debt component of convertible loans) of approximately RMB15,440 million, of which 46.3% was denominated in US dollar, 24.3% was denominated in HK dollar, 24.6% was denominated in RMB, 3.7% was denominated in Australian dollar, 0.9% was denominated in Canadian dollar and 0.2% was denominated in other currencies. Other than the approximately US$95 million of the outstanding convertible loans at effective interest rates of 4.80% and 5.76% per annum and due in 2022, the Group's borrowings are subject to effective interest rates ranging from 1.18% to 7.60% per annum with maturity periods ranging from within one year to more than five years. The Group's Gearing Ratio stood at a healthy level of 46.6%.

At the end of the reporting period, the Group's total equity increased to approximately RMB17,672 million. The Group's current assets and current liabilities were approximately RMB17,706 million and RMB21,917 million respectively. The Group's Current Ratio and Quick Ratio decreased to 0.81 and 0.61 from 0.86 and 0.67 as at 31 December 2019, respectively. The Group recorded net current liabilities of RMB4,211 million, which was mainly resulted from two syndicated loans (the "Syndicated Loans") aggregated of approximately RMB5,496 million which will be due for repayment in second half of 2020.

The Group has entered into a facility agreement and its amendment agreement (collectively as the "Facility Agreements") in relation to long-term dual currency syndicated bank loan and revolving credit facilities in the equivalent amount of US$1,100 million (the "Facilities") in last year. Subsequent to the reporting period, the Group has utilized the Facilities and fully repaid the Syndicated Loans. Meanwhile, the Board believes the Group will be able to continue to generate positive cash flows from its operations. On this basis, the Board considers that the Group is able to meet in full its financial obligations as they fall due in the coming 12 months.

With cash and bank deposits, including restricted cash, of approximately RMB7,152 million as well as unutilised banking facilities, the Board considers that the Group has sufficient working capital for its operation and future development.

The Group had no material exposure to foreign exchange fluctuation and no hedging had been arranged during the period.

CHARGE ON ASSETS

At the end of the reporting period, the secured bank loans are secured by the investment property of a subsidiary, time deposit of a subsidiary, loan receivables of a subsidiary, concession rights of a subsidiary, land-use right of a subsidiary and personal guarantee provided by a shareholder of that subsidiary.

CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES

At the end of the reporting period, the Group employed a total of approximately 13,500 employees including directors. Total staff costs were RMB498 million during the reporting period. The Group ensures that the remuneration packages for employees are determined based on their work performance, professional experience and the prevailing industry practice. Discretionary year-end bonus and shares award may be distributed to employees based on individual performance. Other benefits to employees include medical insurance, retirement scheme and training programmes.

SIGNIFICANT INVESTMENTS

Investment properties

At the end of the reporting period, the Group's investment properties were approximately RMB7,122 million. Increase in investment properties was mainly attributable to the capitalisation of construction costs on certain investment properties under development and the translation difference during the reporting period.

Among these investment properties, the mall in Toronto, Canada is an existing property; the malls in Long Island, US and in Auburn district of Sydney, Australia are under refurbishment; certain lands in Thailand, Myanmar, Indonesia, the United Arab Emirates and China are under development; and other properties are under rezoning or at the planning stage of development.

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 2018 at a consideration of HK$974 million. Xingfa Aluminium is one of the leading aluminium profile manufacturers in China. The Group considers Xingfa Aluminium not only serves as a valuable investment with sustainable returns, but also as a good strategic investment. With extensive experience in the business of construction materials and industrial materials, Xingfa Aluminium has established various kinds of sales channels and a diverse customer base. 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. During the reporting period, Xingfa Aluminium recorded a revenue of RMB4,527 million, and profit attributable to the shareholders of Xingfa Aluminium was RMB253 million.

Save as disclosed above, the Group did not have any significant investments at the end of the reporting period.

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 2020. 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, and fulfill its commitment of pursuing excellent corporate governance. In the opinion of the directors, the Company complied with all the applicable code provisions of the Code during the reporting period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the reporting period.

UPDATES ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the following director has had changes in his biographical details as of the date of this interim results announcement:

Mr. Lin Dewei, aged 60, has been re-designated as an executive director of the Company on 11 July 2018. Mr. Lin was appointed as a non-executive director of the Company on 27 February 2010. Mr. Lin has approximately 25 years of experience in the legal field and worked as a part-time lawyer at various law firms in the PRC between 1995 and 2001. In 2001, Mr. Lin practised as a lawyer at Guangdong Everwin Law Office and became a partner at the firm in 2004. Since 2013, Mr. Lin has been practising as a lawyer at Guangdong Yogo Law Firm. Mr. Lin was appointed as a non-executive director of HC Group Inc. (a company listed on the Stock Exchange (stock code: 2280)) in July 2020. Mr. Lin obtained a bachelor's degree in physics from South China University of Technology in July 1982. Mr. Lin received a certificate of lawyer qualification in the PRC in January 1990.

Save for those disclosed above, there is no other information in respect of the directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CHANGE IN COMPOSITION OF BOARD AND BOARD COMMITTEES

Mr. Cheung Man Yu will resign as an independent non-executive director and a member of each of audit committee and remuneration committee of the Company with effect from 1 September 2020. Subsequent to Mr. Cheung's resignation, Mr. Cheung will join the Group as an executive director of our subsidiary and will be responsible for daily operations of the subsidiary and other relevant matters as assigned by the Company from time to time.

Ms. Lu Jiandong will be appointed as an independent non-executive director and a member of each of audit committee and remuneration committee of the Company with effect from 1 September 2020.

For further details, please refer to the Company's announcement dated 25 August 2020 in respect of the resignation of independent non-executive director, appointment of independent non-executive director and change in composition of board committees.

INTERIM DIVIDEND

The Board has declared an interim dividend for the six months ended 30 June 2020 of HK12 cents per share (the "Interim Dividend") to the Shareholders and is expected to be distributed to those entitled on Monday, 28 September 2020. A final dividend of HK28 cents per share was paid on Thursday, 11 June 2020 in respect of the year ended 31 December 2019 to shareholders during the reporting period.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 16 September 2020 to Friday, 18 September 2020, 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 Tuesday, 15 September 2020.

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 2020 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, 25 August 2020

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 Zhigang 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
"FVTOCI"	fair value through other comprehensive income
"FVTPL"	fair value through profit or loss
"Gearing Ratio"	the total debts divided by the sum of total debts and total equity
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong" or "HK"	Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"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
"Share(s)"	share(s) of a nominal value of HK$0.05 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"tonne(s)"	a unit measuring weight, equal to 1,000 kilograms
"US"	the United States of America
"US$"	US dollar, the lawful currency of US
"%"	per cent

* The English or Chinese translations in this announcement, where indicated, denote for identification purposes only.

FORWARD-LOOKING STATEMENTS

This announcement contains forward-looking statements. These forward-looking statements include, without limitation, statements related to revenue and earnings. The words "believe", "intend", "expect", "anticipate", "forecast", "estimate", "predict", "is confident", "has confidence" and similar expressions are also intended to represent forward-looking statements. These forward-looking statements are not historical facts. Rather, the forwardlooking 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.