

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

於開曼群島註冊成立的有限公司

Stock Code 股份代號 : 2128

Improving Urban Quality of Life

為城市提高品質生活

2017 Annual Report 年報





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| | | 2017 | 2016 | Change |
|--|----------------------------------|------------|------------|--------|
| For the year ended 31 December (RMB'000) | Ú 12 Ü 31 Ú ß Ë € [O Æ w © • | | | |
| Revenue | x] | 20,360,000 | 17,221,052 | 18.2% |
| Gross profit | ã ; | 5,316,783 | 4,581,778 | 16.0% |
| Finance costs | D Ó I | 229,309 | 107,061 | 114.2% |
| EBITDA | ð ¹ ü ± Å Ã ® ; | 3,830,717 | 3,125,219 | 22.6% |
| Profit before tax | ð ü Ã P ; | 2,954,586 | 2,424,792 | 21.8% |
| Profit for the year | Ë « P ; | 2,265,807 | 1,913,704 | 18.4% |
| Profit attributable to owners of the Company | I ® ! ¹ Þ [ð & P ; | 2,293,055 | 1,922,027 | 19.3% |
| At 31 December (RMB'000) | ö 12 Ü 31 Ú € [O Æ w © • | | | |
| Total assets | * < X | 27,973,625 | 22,195,286 | 26.0% |
| Cash and bank deposits | \$ - ç Ö À › | 4,452,370 | 3,885,683 | 14.6% |
| Total debts ^(a) | À < X ^(a) | 8,319,375 | 4,694,561 | 77.2% |
| Net debt ^(b) | À X ^(b) | 3,867,005 | 808,878 | 378.1% |
| Total equity | Æ B < X | 13,783,491 | 11,537,672 | 19.5% |
| Share information (RMB) | p ... Ø € [O Æ • | | | |
| Basic earnings per share ^(c) | Ë p ? I ® ; ^(c) | 0.74 | 0.62 | 19.4% |
| Diluted earnings per share ^(c) | Ë p Á [® ; ^(c) | 0.74 | 0.62 | 19.4% |
| Proposed final dividend per share (HK cents) | Ý Ê p K , p ¹ € ¥ • | 18 | 15 | 20.0% |
| Equity attributable to owners of the Company per share | Ë p I ® ! ¹ Þ [ð & Æ B | 4.35 | 3.62 | 20.1% |
| Financial ratios | ì â | | | |
| Gearing Ratio (%) | * À (%) | 37.6 | 28.9 | |
| Net debt to equity ^(d) (%) | À X Á Æ B â ^(d) (%) | 28.1 | 7.0 | |
| Interest cover ^(e) (times) | ; ¹ ® ; â (€ 4 • | 16.71 | 29.19 | |

Note:

a. Represented total borrowings.

b. Represented total debts less cash and bank deposits.

c. Details of the calculations of the basic and diluted earnings per share of the Company are set out in note 11 to consolidated financial statements.

d. Represented net debt divided by total equity.

e. Represented EBITDA divided by finance costs.

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| | | For the year ended 31 December | | | | |
|---------|-----|--------------------------------|------------|------------|------------|------------|
| | | Ú 12 Ü 31 Ú ß È | | | | |
| | | 2017 | 2016 | 2015 | 2014 | 2013 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | [O Æ w © | [O Æ w © | [O Æ w © | [O Æ w © | [O Æ w © |
| RESULTS | 8 6 | | | | | |
| REVENUE | x] | 20,360,000 | 17,221,052 | 15,264,401 | 14,822,772 | 13,070,547 |

In 2017, China's gross domestic product growth rate accelerated to 6.9%, reversing a slowdown that persisted for the previous seven consecutive years. Signs of stabilising economic growth generated opportunities for development of all types of industries and markets. China started its 13th Five-year Plan in 2016. In 2017, Chinese government continued to introduce various policies in relation to energy and environmental protection in an active manner, and carried out multiple large-scale municipal projects and urban infrastructure construction projects, including the plan of "Sponge City", the "Action Plan for Prevention and Control of Water Pollution" and the "Underground Pipeline Utility Tunnel", in a bid to ensure a secure supply of water and to reduce water pollution. These projects stimulated economic growth and could sustain demand for plastic piping systems. Meanwhile, the Chinese government pressed on with the new mode of urbanisation and regional economic development, which also created a favorable operating environment for the pipe industry.

As a sizeable industry in China, the pipe industry is expected to continue to grow rapidly in the coming years. The industry is expected to maintain a growth rate of approximately 10% in 2017, and is expected to reach a total market size of approximately 1.5 billion yuan by 2020.

CHAIRMAN'S STATEMENT



Although China's business environment was complicated and overshadowed by numerous uncertainties in 2017, the Group achieved revenue growth that met the capital market's expectations. The achievement was attributable to the Group's success in giving full play to its brand strength and wide distribution network, enriching product portfolio, expanding production capacity and initiating the new Lesso Home business. The Group adopted different strategic plans for its existing and new businesses, and successfully expanded the scope of its business in both domestic and overseas markets. It has also consolidated its brand image and enhanced its reputation, and set targets for growth in revenue and profitability for the long term.

We expect China's economy to maintain momentum of steady growth in 2018 despite the numerous uncertainties in the global market. In order to adapt to frequent changes in the market, the Group will fully grasp the opportunities arising from the Chinese government's initiatives that can benefit the industry, develop its business of building materials and interior decoration products as well as the business of environmental protection, seek to achieve synergies between such businesses and aim for sustainable growth. The Group will actively capitalise on Industry 4.0, and upgrade its existing production bases so as to make them automated and intelligent, thereby enhancing the Group's production capacity and efficiency. In addition, the Group will adopt blue ocean strategy by expanding the scope of applications of piping systems, so as to solidify its leading position.

On behalf of the Board, I would like to express my heartfelt gratitude to our management and all the staff members for their commitment and dedication to the Group. The Group will continue to fulfill its mission of "improving urban quality of life" by providing the market with innovative and high quality building materials and interior decoration products. We will capitalise on China's economic reform and rising consumption demand to drive the Group's business development for the long term. This will enable us to achieve better results and create greater value for customers, investors and Shareholders. China Lesso is determined to scale new heights in the future!

Wong Luen Hei
Chairman
Hong Kong, 19 March 2018

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Mr. Wong Luen Hei, aged 55, is the founder of the Group, the chairman of the Company and was appointed as an executive director of the Company on 5 November 2009. He is also a director of various companies in the Group. He is primarily responsible for the Group's overall strategic planning and business management. Mr. Wong has approximately 21 years of experience in plastic pipe operations and management. He served as the chairman in Shunde Liansu Industrial from December 1996 to April 1999 and was awarded "Outstanding Private Entrepreneur of Shunde" by Shunde People's Government of Foshan in 2003. Mr. Wong has been a vice president of Foshan Shunde Longjiang General Chamber of Commerce since 2006. Mr. Wong is the spouse of Ms. Zuo Xiaoping and the brother-in-law of Mr. Zuo Manlun. Mr. Wong is the founder of a trust which holds the entire issued share capital of Xi Xi Development and New Fortune, the controlling shareholder of the Company.

Mr. Zuo Manlun, aged 45, is the chief executive of the Group and was appointed as an executive director of the Company on 27 February 2010. He is also a director/general manager/supervisor of various companies in the Group. He is primarily responsible for the management of the daily business operations of the Group. Mr. Zuo has approximately 18 years of experience in the plastic pipe industry. Mr. Zuo joined the Group in December 1999 and has held various positions in operation management since joining the Group. Mr. Zuo won several awards including "Outstanding Worker of the Plastic Industry in the PRC" by China Plastics Processing Industry Association in 2009. Mr. Zuo is the brother-in-law of Mr. Wong Luen Hei and the younger brother of Ms. Zuo Xiaoping.

Ms. Zuo Xiaoping, aged 51, is a vice president of the Group and was appointed as an executive director of the Company on 27 February 2010. She is also a director/supervisor of various companies in the Group. She is primarily responsible for procurement control and logistics management of the Group. Ms. Zuo has approximately 21 years of experience in the plastic pipe industry. Ms. Zuo served as a director of Shunde Liansu Industrial from December 1996. In 1999, upon establishing the Group together with Mr. Wong Luen Hei, she held various positions in procurement. Ms. Zuo is the spouse of Mr. Wong Luen Hei and the elder sister of Mr. Zuo Manlun.

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Dr. Lin Shaoquan, aged 42, is a vice president of the Group and was appointed as an executive director of the Company on 27 February 2010. He is also a director of various companies in the Group. Dr. Lin is primarily responsible for the research and development and overseas sales of the Group. Dr. Lin has approximately 15 years of experience in the plastic pipe industry. Dr. Lin joined the Group in July 2002 and has held various positions in research and development and overseas sales since joining the Group. Over the years, Dr. Lin has won various awards including "National May First Labor Medal" by All China Federation of Trade Unions in 2006. Dr. Lin received a doctorate degree in polymer chemical and physics from Sun Yat-sen University in June 2002.

Mr. Huang Guirong, aged 42, is a vice president of the Group and was appointed as an executive director of the Company on 27 February 2010. He is also a director/general manager/supervisor of various companies in the Group. Mr. Huang is primarily responsible for the overall management of the factories and production facilities of the Group and has approximately 21 years of experience in the plastic pipe industry. Mr. Huang joined the Group in December 1999 and has held various positions in production management since joining the Group. Prior to joining the Group, Mr. Huang served as a deputy factory manager at Foshan City Dongjian Plastic Materials Factory from 1996 until 1999 and served as a deputy manager of the plastic production department of Shunde Liansu Industrial from June 1999 to November 1999. Mr. Huang completed a programme of marketing from Hubei University of Technology from September 2001 to July 2005.

Mr. Luo Jianfeng, aged 46, was appointed as an executive director of the Company on 2 April 2010. He is also a director/general manager/supervisor of various companies in the Group. Mr. Luo has approximately 25 years of experience in accounting and worked at Shunde City Accounting Firm from July 1993 to March 1996, Guangdong Dezheng Accounting Firm with Limited Liability from April 1996 to December 2001 and Guangdong Gongcheng Accounting Firm from January 2002 to December 2007. Mr. Luo worked for Foshan City Zhongzhengcheng Accounting Firm Co., Limited as a certified public accountant from January 2008 to April 2016. Mr. Luo is a member of The Chinese Institute of Certified Public Accountants. Mr. Luo had been an independent director of Bestsun Energy Co., Ltd (formerly known as Winowner Group Co., Ltd.) (stock code: 600681), which is listed on the Shanghai Stock Exchange, from June 2009 to June 2015. Mr. Luo obtained a bachelor's degree in economics from Guangdong University of Business Studies in June 1993.

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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Mr. Lin Dewei, aged 57, was appointed as a non-executive director of the Company on 27 February 2010. Mr. Lin has approximately 23 years of experience in the legal field and worked as a part-time lawyer at various PRC law firms 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Tao Zhigang, aged 52, was appointed as an independent non-executive director of the Company on 1 September 2015. Dr. Tao is Professor of Economics and Strategy in the Faculty of Business and Economics and the director of the Institute for China and Global Development, the University of Hong Kong. Prior to joining the University of Hong Kong in 1998, he taught at Hong Kong University of Science and Technology from 1992 to 1998. Dr. Tao received his B.Sc. in management science from Fudan University in 1986, and PhD in economics from Princeton University in 1992. Dr. Tao is currently an independent non-executive director of Huadian Fuxin Energy Corporation Limited (stock code: 816), which is listed on the Stock Exchange. Dr. Tao is senior fellow at Tsinghua University's National Centre of Economic Research, senior fellow at Tsinghua University's Center for China in the World Economy, and special-term professor at Fudan University School of Management. He is also co-director of the Asia Competitiveness Program of Hong Kong Institute of Economics and Business Strategy.

Mr. Fung Pui Cheung, aged 69, was appointed as an independent non-executive director of the Company on 27 February 2010. Mr. Fung is currently practising as a sole proprietor in the name of P C Fung & Company, a certified public accountants firm. Mr. Fung is a Certified Public Accountant, a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of The Institute of Chartered Accountants in England and Wales. Mr. Fung obtained a master degree in arts from Antioch University, US in March 1987. Mr. Fung is currently an independent non-executive director and a member of the audit committee of Vantage International (Holdings) Limited (stock code: 15), which is listed on the Stock Exchange. He is a member of the Hong Kong Inland Revenue Department's Users' Committee.

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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Mr. Liu Guanggen, aged 36, is a chief financial officer of the Group and is responsible for the Group's overall financial and accounting affairs. Mr. Liu joined the Group in November 2008. Prior to this, he worked as a finance manager in The Industrial and Commercial Bank of China, Shunde Branch from 2004 to 2006, and was a sub-branch manager of The Industrial and Commercial Bank of China, Foshan Shunde Haiqinwan Sub-Branch from 2007 to 2008. Mr. Liu completed a diploma in finance from Southwestern University of Finance and Economics in September 2005, a program in laws at Guangdong University of Business Studies from March 2007 to January 2010. As well as obtaining a master degree in engineering from Chongqing University upon the completion of courses for the master degree in software engineering (specialised in financial informatisation) in June 2014. He is an associate member of the Association of International Accountants.

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Mr. Kwan Chi Wai Samuel, aged 40, is the company secretary of the Company. Mr. Kwan has more than 10 years of experience in accounting, auditing and finance. Mr. Kwan joined the Group in June 2010 as secretary on a full time basis. Prior to joining the Group, Mr. Kwan worked in CWCC Certified Public Accountants from March 2000 to November 2004, PricewaterhouseCoopers from November 2004 to October 2007 and Deloitte Touche Tohmatsu from November 2007 to September 2009. The latter two firms are amongst the biggest international accounting firms. Mr. Kwan graduated with a bachelor's degree in Commerce from Deakin University of Australia in September 2000 and obtained a master degree in business administration from University of South Australia in August 2012. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and member of the CPA Australia.



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 year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code governing securities transactions by directors of the Company. Having made specific enquiry to the directors, all of them confirmed that they have complied with the required standards as set out in the Model Code throughout the year. The Model Code is also applicable to other specific senior management of the Company. The directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations are disclosed in the Directors' Report on page 57.

BOARD

THE COMPOSITION OF THE BOARD

The Board currently comprises 15 directors, including 9 executive directors, 1 non-executive director and 5 independent non-executive directors.

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CORPORATE GOVERNANCE REPORT

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BOARD (Continued)

THE COMPOSITION OF THE BOARD (Continued)

Pursuant to the articles of association of the Company (the "Articles"), any director appointed to fill a casual vacancy or as an addition to the existing directors shall hold office only until the next AGM of the Company and shall then be eligible for re-election at that meeting. In addition, at every AGM of the Company, not less than one-third of the directors for the time being shall retire from office by rotation provided that every director shall be subject to retirement by rotation at least once every three years. Apart from retirement by rotation pursuant to the Articles, each non-executive director has a term of within three years. Therefore, no director will remain in office for a term of more than three years. For details relating to any relationship among the members of the Board, including financial, business, family or other material/relevant relationship, please refer to the sections headed "Biographical Details of Directors and Senior Management" and "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" of the Directors' Report.

CHAIRMAN AND CHIEF EXECUTIVE

To segregate the management of the Board from the daily management and business operations of the Group effectively, the post of chairman and the chief executive are held by Mr. Wong Luen Hei and Mr. Zuo Manlun, respectively. One of the important duties of the chairman is to lead the Board to ensure the Board always acts in the best interests of the Group. The chairman shall ensure the effective operation of the Board and fully perform his/her duties and ensure all important issues are discussed at Board meetings in a timely manner. All directors will be consulted for any proposed items in the agenda. The chairman has delegated the drafting of the agenda of each Board meeting to the chief executive and the company secretary. With the assistance of the chief executive and the company secretary, the chairman aims to ensure all directors are adequately briefed on any issues being put forward at a Board meeting and receive sufficient and reliable information in a timely manner.

NON-EXECUTIVE DIRECTORS

The non-executive directors provide various expertise and experiences, and maintain balance of interest to safeguard the interests of the Group and the Shareholders. They participate in Board meetings and committee meetings and make independent judgements on issues related to the Group's strategies,

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BOARD (Continued)

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received annual confirmation made by each of the independent non-executive directors under Rule 3.13 of the Listing Rules regarding their independence. The Company regarded all independent non-executive directors are independent in accordance with Rule 3.13 of the Listing Rules.

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DUTIES OF THE BOARD

The Board shoulders the responsibility of providing effective, responsible and reliable leadership to the Group. The Board exercises its rights in management decision on the aspects of the Company's development strategy, management structure, investment and financing, planning, financial control and personnel in accordance with the requirements of the Code.

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The Company appointed Ernst & Young as the Company's independent auditor to review the interim results for the six months ended 30 June 2017 and to audit the annual results for the year ended 31 December 2017. The directors of the Company acknowledge their responsibility for preparing the consolidated financial statements included in the annual report and the interim report. In preparing the consolidated financial statements for the year ended 31 December 2017, the directors have selected and applied appropriate accounting policies and have made prudent and reasonable judgements and estimates in accordance with Hong Kong Financial Reporting Standards.

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The declaration of reporting responsibility issued by the external auditor of the Company on the Company's consolidated financial statements is set out in the Independent Auditor's Report on pages 72 to 81.

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CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing corporate governance duties including:

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- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to review of the effectiveness of the Company's internal control system;
- (e) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- (f) to review the Company's compliance with Appendix 14 to the Listing Rules (Corporate Governance Code and Corporate Governance Report).

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The Board has performed the above activities during 2017.

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CORPORATE GOVERNANCE REPORT

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BOARD (Continued)

BOARD AND GENERAL MEETINGS

For the year ended 31 December 2017, the Board convened eight meetings to review operating performance, funding requirement and recent market conditions. The Board also considered and approved the Group's overall strategy, audited annual results for the year ended 31 December 2016 and reviewed interim results for the six months ended 30 June 2017.

The chairman of the Board and the chairman of the audit committee, the nomination committee and the remuneration committee, attended the AGM of the Company held on 19 May 2017.

The table below sets out the attendance of all members of the Board at the meetings held in 2017:

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|-------------------------------------|-------------|-----|-----|-----|-----|-----|
| Executive directors | B è + | | | | | |
| Wong Luen Hei | » L \$ | 1/1 | 8/8 | – | 1/1 | 1/1 |
| Zuo Manlun | 8 P | 1/1 | 8/8 | – | 1/1 | 1/1 |
| Zuo Xiaoping | 8 i 1 | 1/1 | 7/8 | – | – | – |
| Lai Zhiqiang | ` › v | 1/1 | 8/8 | – | – | – |
| Kong Zhaocong | Æ Š K | 1/1 | 8/8 | – | – | – |
| Chen Guonan | Ó 7 Ì | 1/1 | 8/8 | – | – | – |
| Lin Shaoquan | Ç Ć | 1/1 | 7/8 | – | – | – |
| Huang Guirong | » n ò | 1/1 | 8/8 | – | – | – |
| Luo Jianfeng | - π | 1/1 | 8/8 | – | – | – |
| Non-executive director | ç B è + | | | | | |
| Lin Dewei | C x | 1/1 | 8/8 | 2/2 | – | – |
| Independent non-executive directors | ù m ç B è + | | | | | |
| Fung Pui Cheung | 1 C | 1/1 | 7/8 | 2/2 | 1/1 | 1/1 |
| Wong Kwok Ho Jonathan | î 7 ´ | 1/1 | 8/8 | 2/2 | 1/1 | 1/1 |
| Cheung Man Yu | u Ö Á | 1/1 | 7/8 | 2/2 | – | 1/1 |
| Lan Fang | † y | 1/1 | 7/8 | – | 1/1 | – |
| Tao Zhigang | x ›] | 1/1 | 8/8 | – | – | – |

Note:

- (a) Directors may attend meetings in person, by phone or through other means of video conference in accordance with the Articles.
- (b) There was no other general meeting held in 2017.

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The Company gives proper notices of Board meetings to the directors and the procedure of Board meetings is in compliance with the Articles and the relevant rules and regulations. The agenda and the relevant documents will be provided to all directors in a timely manner. The chairman will give a proper briefing to all directors on items to be put forward at a Board meeting. To ensure compliance with the procedure of Board meetings and all applicable rules and regulations, all directors may gain a full understanding of all relevant data in a timely manner and may receive advice and services from the company secretary. The minutes of Board meetings are kept by the company secretary and are available for inspection by the directors and the auditor of the Company.

TRAINING AND SUPPORT FOR DIRECTORS

The directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide a comprehensive induction package covering the summary of the responsibilities and obligations of a director of a Hong Kong listed company, the Company's constitutional documents and the Guides on Directors' Duties issued by the Hong Kong Companies Registry to each newly appointed director to ensure he/she to have sufficient awareness of good corporate governance practices.

The company secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the directors with written materials, as well as organises seminars on the professional knowledge and latest development of regulatory requirements related to director's duties and responsibilities.

In 2017, the Company invited The Hong Kong Institute of Directors to give a seminar on the topic of "Managing Enterprise Value Through Corporate Actions" to Board members.

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CORPORATE GOVERNANCE REPORT

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Apart from the above training offered by the Company, based on the training records provided to the Company by the directors, the directors also participated in the following trainings during 2017:

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|-------------------------------------|-------------|---------|
| Executive directors | B è + | |
| Wong Luen Hei | » L \$ | A, C |
| Zuo Manlun | 8 P | A, C |
| Zuo Xiaoping | 8 i 1 | A, C |
| Lai Zhiqiang | ` > v | A, C |
| Kong Zhaocong | Æ Š K | A, C |
| Chen Guonan | Ó 7 ì | A, C |
| Lin Shaoquan | Ç Œ | A, C |
| Huang Guirong | » n ò | A, C |
| Luo Jianfeng | - ¨ | A, C |
| Non-executive director | ø B è + | |
| Lin Dewei | C x | A, C |
| Independent non-executive directors | ù m ø B è + | |
| Fung Pui Cheung | ¹ C | A, C |
| Wong Kwok Ho Jonathan | î 7 ´ | A, C |
| Cheung Man Yu | u Œ Á | A, C |
| Lan Fang | † y | A, B, C |
| Tao Zhigang | x ›] | A, B, C |

Note:

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A: attending seminars and/or conferences and/or forums

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B: delivering talks at seminars and/or conferences and/or forums

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C: reading information, newspapers, journals and materials relating to the responsibilities of directors, economy, fiscal, financial, investments and business of the Company

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The company secretary reports to the Board so as to ensure compliance with the procedures of the Board meeting and ensure the Board is fully briefed on all legislations, regulations and corporate governance development and has considered their opinions when making a decision. The company secretary is also directly responsible for the Group's compliance with its continuing obligations under the Listing Rules, Hong Kong Codes on Takeovers and Mergers and Share Buy-backs, Companies Ordinance, SFO and other applicable laws, rules and regulations.

During the year ended 31 December 2017, the company secretary has received no less than 15 hours of relevant professional training to refresh his knowledge and skills.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The directors and officers are indemnified under a directors' and officers' liability insurance against any liability incurred by them in the discharge of their duties while holding office as the directors and officers of the Company. The directors and officers shall not be indemnified where there is any fraud, breach of duty or breach of trust proven against them.

In accordance with the Articles, subject to the Cayman Island Companies Law (2013 Revision, as amended from time to time), every director, auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

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CORPORATE GOVERNANCE REPORT

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The Board has delegated various responsibilities to certain committees under its supervision, including the Company's audit committee ("Audit Committee"), remuneration committee ("Remuneration Committee") and nomination committee ("Nomination Committee") (collectively known as "Board Committees"). Board Committees can engage intermediaries to provide professional opinions and the reasonable expenses incurred as a result are borne by the Company.

AUDIT COMMITTEE

The Audit Committee comprises four members, namely Mr. Fung Pui Cheung (chairman of the Audit Committee and independent non-executive director), Mr. Lin Dewei (non-executive director), Mr. Wong Kwok Ho Jonathan and Mr. Cheung Man Yu (both are independent non-executive directors). The major responsibility of the Audit Committee is to conduct independent and objective audit of the truth and accuracy of the Group's economic operation and financial activities, financial policies, financial procedures, risk management, internal control, external audit, internal audit, financial information reporting and financial data and assist the Board in discharging its relevant duties.

The Audit Committee shall convene at least two meetings each year. In 2017, the Audit Committee convened two meetings. The attendance record of the meetings is set out on a named basis on page 16.

The following is a summary of work performed by the Audit Committee during 2017:

- review of the annual report and the annual results announcement for the year ended 31 December 2016, with a recommendation to the Board for approval;
- review of Ernst & Young's confirmation of independence and its report for the Audit Committee for the year ended 31 December 2016, with a recommendation to the Board for the re-appointment of Ernst & Young at the 2017 AGM;
- review of continuing connected transactions;
- review of the Group internal audit reports;

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- review of the interim report and the interim results announcement for the six months ended 30 June 2017, with a recommendation to the Board for approval;
- review and approval of Ernst & Young's report for the Audit Committee for the six months ended 30 June 2017;
- consideration and approval of audit and non-audit services;
- review of the corporate governance report for the year ended 31 December 2016 and the corporate governance disclosures for the six months ended 30 June 2017, with recommendations to the Board for approval;
- review of the corporate social responsibility report for the year ended 31 December 2016 with a recommendation to the Board for approval; and
- review of the annual report on effectiveness of risk management, internal control system and internal audit function under the Code, with a recommendation to the Board for approval.

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Subsequent to the year end, the Audit Committee reviewed the annual report and annual results announcement for the year ended 31 December 2017 with a recommendation to the Board for approval.

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EXTERNAL AUDITORS

For the year ended 31 December 2017, the service fees paid or payable by the Group to the external auditors are set out as follows:

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| Annual audit services | È 2 | 7.13 |
| Non-audit services | ç 2 | |
| – Interim results review | Ñ • , 8 6 2 a | 1.38 |
| – Others [#] | Ñ l ü # | 0.64 |
| Total | < | 9.15 |

[#] "Others" were mainly for providing advice on matters in relation to taxation. The provision of these services by external auditors were cost effective and efficient due to their professional knowledge.

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CORPORATE GOVERNANCE REPORT

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The Remuneration Committee comprises five members, namely Mr. Fung Pui Cheung (chairman of the Remuneration Committee and independent non-executive director), Mr. Wong Luen Hei (executive director), Mr. Zuo Manlun (executive director), Mr. Wong Kwok Ho Jonathan and Mr. Cheung Man Yu (both of them are independent non-executive directors).

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The Remuneration Committee shall convene at least one meeting each year. In 2017, the Remuneration Committee convened one meeting, assessed the performance of the Company's directors and senior management, reviewed terms of their service contracts, and made recommendation of the remuneration packages for directors and senior management to the Board. The attendance record of the meeting is set out on a named basis on page 16.

Details of directors' remuneration and five highest paid employees are set out in note 8 to the consolidated financial statements. In addition, the remuneration of the two senior management fell within the band of less than RMB1 million.

NOMINATION COMMITTEE

The Nomination Committee comprises five members, namely Mr. Wong Luen Hei (chairman of the Nomination Committee and executive director), Mr. Zuo Manlun (executive director), Mr. Fung Pui Cheung, Mr. Wong Kwok Ho Jonathan and Ms. Lan Fang (all of them are independent non-executive directors). The major duty of the Nomination Committee is to study and make recommendations on the candidates, selection criteria and procedure in respect of the Company's directors and senior management.

The Company follows a formal, fair and transparent procedure for the appointment of new directors to the Board. The Nomination Committee reviews the structure, size and composition of the Board, identifies suitable candidates if necessary and makes recommendations to the Board.

The Nomination Committee shall convene at least one meeting each year. In 2017, the Nomination Committee convened one meeting. The Nomination Committee reviewed the structure, size and composition of the Board, recommended the Board on the list of retiring directors for re-election at the AGM on 19 May 2017, and reviewed the independence of all independent non-executive directors. The attendance record of the meeting is set out on a named basis on page 16.

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CORPORATE GOVERNANCE REPORT

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The Board has adopted a Board diversity policy which sets out the approach to achieve diversity on the Board.

The Company recognises that increasing diversity at the Board level will support the attainment of the Company's strategic objectives and sustainable development. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and other qualities. The Company will also take into consideration its own business model and specific needs from time to time in determining the optimum composition of the Board. The Nomination Committee will review the Board diversity policy, as appropriate, to ensure its continued effectiveness from time to time.

As at the date of this report, the Board comprises 15 directors. Two of them are females. One third of the Board members are independent non-executive directors, thereby promoting critical review and control of the management process. The composition of the Board reflects the necessary balance of skills, professional experience and knowledge for effective leadership of the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is solely responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring the Group has established and maintained appropriate and effective risk management and internal control system. The Board is also responsible for monitoring the design, implementation and review on the risk management and internal control system as carried out by management, while management has the responsibility to provide confirmation on the effectiveness of such system. To this end, management continues to allocate resources for an risk management and internal control system compatible with the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure in the operating system of the Group and in achieving business objectives by the Group.

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The Board, through the Audit Committee, has continuously monitored and annually reviewed the effectiveness of the Group's risk management and internal control system, and the Board is of the view that the existing risk management and internal control system is sufficient and effective. The review covered all material aspects with regard to control, including financial control, operational control and compliance control. The internal audit reports submitted to the Audit Committee by the Group also cover aspects of risk management and internal control. The Board is not aware of any significant areas of concern which may affect the Shareholders, and believes that the Group has fully complied with the code provisions on internal controls, including compliance with legal and regulatory requirements, as set forth in the Code. The Board, through the appraisal performed by the Audit Committee, reviewed the adequacy of resources, staff qualifications and experience, training programs received by the staff and budget of the Group's accounting, internal auditing and financial reporting function at the Board meeting. In light of the Group's nature of business and the recommendations on the Board's role in risk management, the Group has developed risk management system and policies, and established a risk management project team, which is responsible for the Group's risk management, to communicate and assess the Group's risk profile and material risks, and track the progress of mitigation plans and activities of material risks and report on detailed examinations of specific risks as required.

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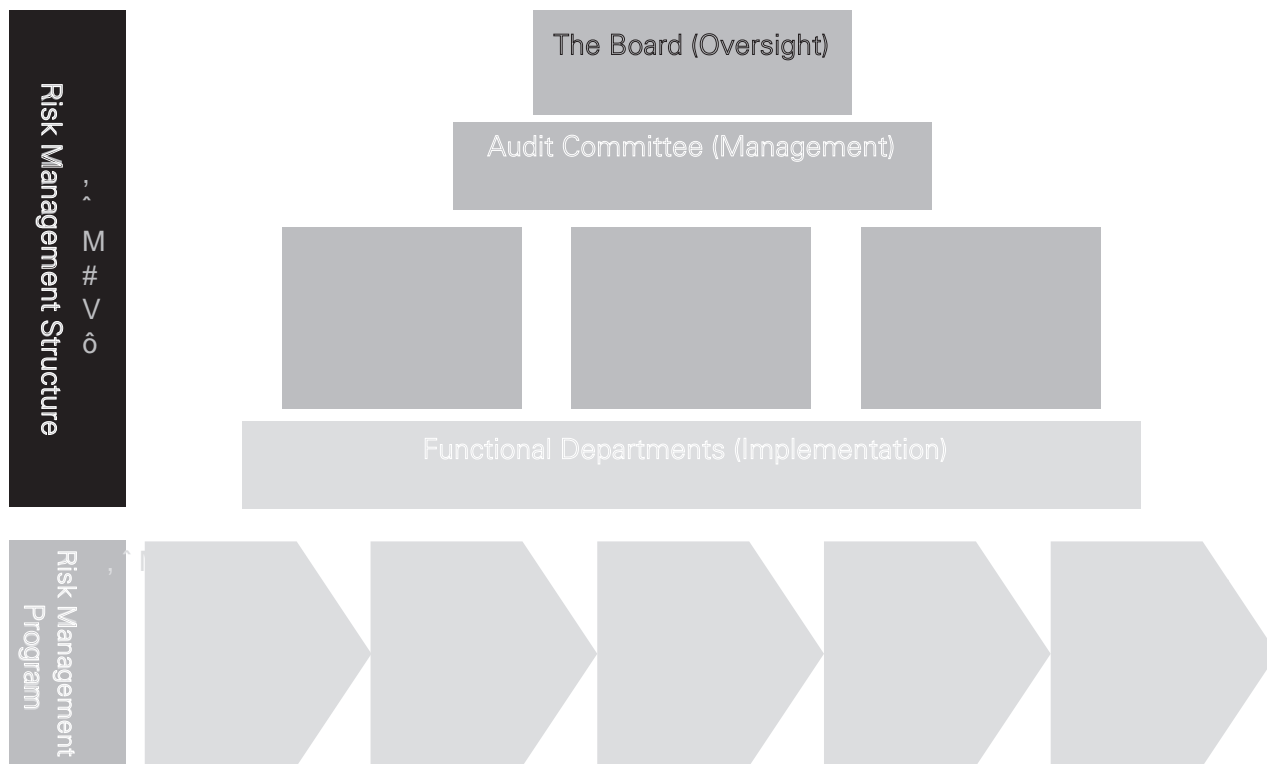
CORPORATE GOVERNANCE REPORT

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The Group has established a comprehensive organisation structure to manage the risks encountered by the Group. The risk management structure of China Lesso comprised of two key factors: risk management structure and risk management program.

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RISK MANAGEMENT ORGANISATION SYSTEM

(Continued)

(A) RISK MANAGEMENT STRUCTURE

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CORPORATE GOVERNANCE REPORT

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RISK MANAGEMENT ORGANISATION SYSTEM

(Continued)

(A) RISK MANAGEMENT STRUCTURE (Continued)

RISK SUPPORTING ORGANISATION

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Internal control team

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- assist the Group's risk management work, and formulate internal control plan in accordance with the result of risk assessment;
- centrally organise or, together with related functional departments, design, amend or improve internal control documents in accordance with risk management solutions;
- assist the risk management project team to inspect, examine, evaluate and improve the implementation of risk management in each functional departments and operating units; and
- assist the timely rectification and improvements to existing deficiencies of each functional department based on the findings in the internal audit report.

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Internal audit department

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- assist the Group's risk management work, and formulate internal audit plan in accordance with the result of risk assessment;
- carry out measures including walk-through test and analytical review to evaluate the effectiveness in risk management; and
- after carrying out internal audit, deliver the auditing results to internal control team and risk management project team timely.

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SUPERVISION AND ENHANCEMENT OF RISK MANAGEMENT

The Group has set up basic procedures that cover the whole process of risk management, connecting the channels of communication of risk management information along the reporting lines and among various departments and business units to ensure the timely, accurate and complete communication of information and this has laid the foundation for the supervision and enhancement of risk management.

The senior management of the Group, focusing on material risks, material that complial that

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CORPORATE GOVERNANCE REPORT

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MATERIAL RISKS THE GROUP MAY FACE (Continued)

The potential risks of inappropriate strategies for market competition arise from the risks involved in the formulation of competition strategies and risks involved in the collection of clients' information. The Group's risk management measures include reviewing the management mechanism for market competition strategies; analysing the Company's position in market competition, reviewing the corresponding market competition strategies; and timely devising and reviewing the management strategies in response to the changes in the market competition environment and submitting report thereon to management; collecting the market competition information of new products and offering suggestions on competition strategies.

The potential risks of the fluctuation of raw materials price arise because the price of key raw materials purchased by the Company is easily affected by the shortfall of refining capabilities, changes in manufactures' power and labor cost structure, changes in the price of resins made from coal and petrochemicals. The Group's risk management measures include clearly stating the risk management strategies and mechanism for the fluctuation of raw materials price in the relevant systems; collecting information in relation to the fluctuation of raw materials price and releasing such information internally through an established channel; regularly reporting and analysing the fluctuation of raw materials price; clearly defining the analysis session for the increased risks of fluctuation of raw materials price; analysing, reviewing, adjusting and improving the management strategies for the risks of fluctuation of raw materials price.

The potential risks of adjustments of policies in relation to the environmental protection, economy and industry arise from the risks of adjustments of environmental policies; risks of adjustments of urbanisation policies; risks of adjustments of construction projects of significant water works including water saving and water supplies; risks of adjustments of real estate policies. The Group's risk management measures include reviewing the management strategies and mechanism for risks involved in the adjustments of policies in relation to the environmental protection, economy and industry; collecting information in relation to changes in environmental protection, economy and industry policies and releasing such information internally through an established channel; reviewing the mechanism for monitoring and collecting the information on laws and regulations that affect the industry.

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MANAGEMENT OF INSIDE INFORMATION

The Group has formulated a set of program of continuing obligations on information management and disclosure to formally regulate the monitoring of inside information that arises during the course of its current business development and has established the practice of delivering such information to shareholders, the media and analysts. When the Group handles the relevant matters, it will comply with "Guidelines on Disclosure of Inside Information" issued by Securities and Futures Commission and the related provisions issued by regulatory organisations and the Group has clearly stated that the unauthorised use of confidential or inside information is prohibited. The Group has a system of answering enquiries about the Group's matters by external parties, and has appointed and authorised the senior executives of the Group to act as the Company's spokesperson in response to enquiries on a particular area.

WHISTLEBLOWING POLICY

The Group has formulated a "whistleblowing policy" whereby employees can report any matters to the chairman or the Audit Committee secretly by sending electronic mails to the designated address or by phone. Such matters may include misconduct, irregular conduct or fraud regarding financial matters and accounting practices without fear of being accused. Any Shareholder or stakeholder can also report similar concerns in writing or verbally in confidence to the Audit Committee.

THE SHAREHOLDERS' RIGHTS

CONVENING OF EXTRAORDINARY GENERAL MEETINGS AND PUTTING FORWARD PROPOSALS AT SHAREHOLDERS' MEETING

There are no provisions allowing Shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2013 Revision, as amended from time to time). However, pursuant to the Articles, the Shareholder(s) may request for the convening of extraordinary general meetings following the procedures below:

- Any two or more Shareholder(s) or any one Shareholder which is a recognised clearing house (or its nominee(s)) may request for the convening of extraordinary general meetings by written requisition deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office. The requisition shall specify the object of the meeting and be signed by the requisitioner(s), and such requisitioner(s) must hold as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at the general meeting of the Company.

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CORPORATE GOVERNANCE REPORT

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THE SHAREHOLDERS' RIGHTS (Continued)

CONVENING OF EXTRAORDINARY GENERAL MEETINGS AND PUTTING FORWARD PROPOSALS AT SHAREHOLDERS' MEETING (Continued)

- The Board shall proceed to convene the extraordinary general meeting within 21 days from the date of deposit of the requisition.
- If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the extraordinary general meeting in the same manner, as nearly as possible, as that in which the meeting may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition. All reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.
- An extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice of the meeting shall specify the time, place, and agenda of the meeting, particulars of the resolutions to be considered and in the case of special business, the general nature of that business.
- Detailed procedures for Shareholders to propose a person for election as a director are available on the Company's website.

PROCEDURES FOR DIRECTING THE SHAREHOLDERS' ENQUIRIES TO THE BOARD

The Shareholders may put forward their enquiries about the Company to the Board at the Company's principal place of business in Hong Kong or by email or through the Company's investor relations whose contact details are provided in the "Corporate Information" section of this report. In addition, the Shareholders can contact Computershare Hong Kong Investor Services Limited, the Company's branch share registrar, if they have any enquiries about their shareholdings and entitlements to dividend.

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The Company endeavours to maintain a high level of transparency in communication with the Shareholders and investors in general. Communication between the Company and the Shareholders is conducted through various channels, including interim and annual reports, information published on the websites of the Stock Exchange and the Company and general meetings. The Company encourages the Shareholders to attend the Company's general meetings. The Group's financial and other information is also published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.lesso.com).

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The Company's senior management endeavours to maintain an open dialogue channel with the investment sector to ensure they have a thorough understanding of the Company and its operations and strategies. The Company has emphasised the importance of the function of investor relations, engaged a dedicated independent third party to maintain investor relations and conduct investor/analyst meetings irregularly and led investors and analysts to visit its plants.

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As regards investor relations, the Group will actively conduct activities related to investor relations in the future to strengthen its corporate responsibility so that global investors can have an adequate knowledge and understanding of the Company's operating strategy, financial performance and development prospects. The Company will actively develop and maintain close relationship with investors, analysts and media to achieve sound investor relations management.

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The Company applies the principle of a quiet period in its investor relations communications. During a quiet period, the Company does not comment on market prospects or factors affecting business and performance, nor does the Company engage in discussion on events or trends related to the reporting period. The Company will not initiate any meeting or conference call with public in which these matters are discussed. A quiet period starts at 60 days or 30 days prior to the disclosure of annual results or interim results respectively, and lasts until the announcement of the annual results or the interim results.

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CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2017, there was no change to the memorandum of association of the Company and Articles. The latest memorandum of association of the Company and Articles is available on the websites of the Company and the Stock Exchange.

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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. In addition to the core business of pipe manufacturing, the Group kept pace with the trends in the market, and further 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 "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", "Most Preferred Brand in China's Green Building for 2016", and "Top 10 Companies Award in China's Light Industry and Plastics Industry". The Group's leading brand position reflects its strong capabilities in product research and development as well as excellent product quality, which have laid a foundation for the Group's solid presence in mainland China and overseas markets, and gave the impetus to the further expansion of China Lesso's sales network.

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China's economic growth accelerated in 2017 on the back of the continued progress in the restructuring of the supply side. During the year under review, the Chinese government continued to press on with its policies on energy conservation and environmental protection, and carried out multiple large-scale municipal projects and urban infrastructure construction, which drove up the demand for pipes and pipe fittings consistently.

"The Program for Construction of the National Urban Municipal Infrastructure under the 13th Five-Year Plan" set targets for the development of the facilities for national water supply, heating supply, drainage and waterlogging prevention. Under the Program, China plans to add 93,000 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 further promote the new mode of urbanisation and regional economic development, and will generate enormous demand for pipes, thus benefiting the industry.

The Chinese government steadily pressed on with the construction of "Underground Pipeline Utility Tunnel" and the plan for "Sponge City", creating more opportunities for the application of plastic pipes. As at April 2017, 738 km of pipelines have been constructed under the Underground Pipeline Utility Tunnel pilot scheme, with completed investments amounting to about RMB40 billion, and 443 cities in China have planned to construct Underground Pipeline Utility Tunnel for a total length of about 13,000 kilometers. Under the pilot scheme of Sponge City, underground pipeline utility tunnels were already built in an area of 420 square kilometers, with completed investments amounting to about RMB54.4 billion, and 370 cities in China have made special planning for construction of Sponge City.

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MANAGEMENT DISCUSSION AND ANALYSIS

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2017 was a milestone for the implementation of “Action Plan for Prevention and Control of Water Pollution” and was marked by achievement of some targets in certain stages of the plan as the progress was driven by the relevant policies and market demand. The newly-amended Law of the People’s Republic of China on Prevention and Control of Water Pollution clarified the responsibilities of governments at each administrative level regarding water environment and water quality, and also called for the fulfillment of these responsibilities. 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 “Program for Developing National Marine Economy under the 13th Five-Year Plan”, China will adjust and optimise the traditional marine industries, promote comprehensive regional development of the marine industries primarily in the form of marine ranch construction, vigorously develop the seawater aquaculture in a healthy manner and support the deep-water, wind- and wave-resistant cage aquaculture, thereby driving sustainable development in the marine fishery industry. This will enlarge the plastic pipe market and present new opportunities for the applications of pipes.

The 5th Plenary Session of the 16th Central Committee announced the “Beautiful Rural Villages Programme” which was aimed at promoting the modernisation of agriculture and construction of a new type of rural villages. Under the programme, rural villages are to be built according to scientific planning so that they can develop sustainably, foster the development of both industries and a civilisation, enable an affluent lifestyle, and are thus good places for living and businesses. The Program entails the improvement of the ecology of the rural villages, environment protection and pollutant treatment. In the backward rural areas where environmental facilities and infrastructure are lacking, facilities for water supply, power supply, gas supply, drainage ditches, sewage collection network, sewage treatment facilities and other types of infrastructure will be built so that urban and rural areas can become more integrated with the urbanisation progressing in parallel with the development of a new type of rural villages.

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In addition, to alleviate the air pollution in Beijing, Tianjin, Hebei and other northern regions of China, the Chinese government is actively implementing its energy policy on conversion from coal to natural gas. The policy stimulated the demand for natural gas pipes. According to the “Action Plan for Prevention and Control of Air Pollution” published and distributed by the State Council, construction of the natural gas pipeline network will be accelerated to pave way for the elimination of conventional coal as a source of energy. According to the “Crucial Action Plan for Comprehensive Treatment of Air Pollution in Autumn and Winter for 2017-2018 in Beijing, Tianjin, Hebei and Nearby Areas”, in the “2+26” cities along the passage for the air transmission between Beijing, Tianjin and Hebei, over 3 million households converted from coal to electricity or gas as at the end of October 2017, presenting a huge opportunity for business on the pipe market.

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. As at 11 December 2017, the annual one-time transmission of natural gas through the pipelines in China reached 100.218 billion cubic meters, of which 48% is domestically produced gas, and 40% is imported natural gas. The massive amount of transmission and the extension of the transmission distance gave rise to even higher requirements for the safe operation of pipes. As a result, the market needs pipeline management to be safer, more reliable, more efficient and sustainable. This adds impetus to the construction of smart pipeline networks and fueled the further development of the pipe industry.

The Chinese government continued with its regulation of the real estate industry, with the aim of containing housing price in first-tier and second-tier cities and reducing housing inventory in third-tier and fourth-tier cities. 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 building materials and interior decoration industry.

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MANAGEMENT DISCUSSION AND ANALYSIS

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In the overseas market, China and the countries covered by its Belt and Road Initiative have further explored possibilities of cooperating in infrastructure construction, trade and other areas. On the other hand, the Chinese government is encouraging the mainland Chinese companies to step up investment in various industries, gradually making overseas businesses their new growth drivers. Many regions, including the countries covered by the Belt and Road Initiative, are still at the initial stage of urbanisation. This implies huge potential for infrastructure construction, hence massive demand for piping systems, building materials, hard ware and electrical equipment.

RESULTS AND PERFORMANCE

For the year ended 31 December 2017, China Lesso's revenue increased by 18.2% to RMB20,360 million (2016: RMB17,221 million), attributable to better macro-economic conditions, strong demand from infrastructure construction, strong brand influence and the Group's steadily rising market share. On the back of the Group's economies of scale, expanded production capacity and effective cost control, the gross profit rose by 16.0% to RMB5,317 million (2016: RMB4,582 million), with gross profit margin standing at a healthy level of 26.1% (2016: 26.6%).

The table below sets out the breakdown of revenue by business unit for 2017 and 2016:



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The number of the Group's independent and exclusive first-tier distributors nationwide increased to 2,155 (2016: 2,146). Southern China remained the Group's major revenue contributor, and revenue from southern China and those from other regions accounted for 56.6% and 43.4% respectively (2016: 59.9% and 40.1%) of the Group's total revenue.

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The table below sets out the breakdown of revenue by region for 2017 and 2016:

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|--------------------|---------|--------|--------|-------|--------|--------|
| Southern China | 6 ì | 11,521 | 10,308 | 11.8% | 56.6% | 59.9% |
| Southwestern China | ì | 2,115 | 1,572 | 34.6% | 10.4% | 9.1% |
| Central China | 6 • | 2,231 | 1,721 | 29.6% | 10.9% | 10.0% |
| Eastern China | 6 | 1,224 | 1,067 | 14.7% | 6.0% | 6.2% |
| Northern China | 6 | 1,341 | 1,074 | 24.8% | 6.6% | 6.2% |
| Northwestern China | | 746 | 571 | 30.7% | 3.7% | 3.3% |
| Northeastern China | | 460 | 372 | 23.6% | 2.3% | 2.2% |
| Outside China | • 7 ¢ . | 722 | 536 | 34.9% | 3.5% | 3.1% |
| Total | < | 20,360 | 17,221 | 18.2% | 100.0% | 100.0% |

Details of the scope of coverage of each region are set out in note 4 to consolidated financial statements.

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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 product portfolio and expanded market coverage, which contributed to the sustainable development and profitability of the Group.

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The Group's EBITDA increased by 22.6% to RMB3,831 million during the year under review (2016: RMB3,125 million), and the EBITDA ratio was 18.8% (2016: 18.1%). Profit before tax increased by 21.8% to RMB2,955 million (2016: RMB2,425 million). Profit attributable to owners of the Company increased by 19.3% to RMB2,293 million (2016: RMB1,922 million). Basic earnings per share increased by 19.4% to RMB0.74 (2016: RMB0.62). The effective tax rate stayed at 23.3% (2016: 21.1%).

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MANAGEMENT DISCUSSION AND ANALYSIS

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To express gratitude to the Shareholders for their support and to share with them the fruit of the Group's endeavours, the Board proposed payment of a final dividend of HK18 cents per share for the year ended 31 December 2017 (2016: HK15 cents per share).

BUSINESS REVIEW

PLASTIC PIPING SYSTEMS

The plastic piping systems business is the mainstay operation of the Group. The Chinese government continued to invest massively in municipal projects and infrastructure construction, and carried out many infrastructure projects to propel the economic growth, which stimulated the demand for plastic pipes and pipe fittings. The Group has actively capitalised on the various infrastructure and public projects initiated by the government, and boosted sales volume of plastic pipes and pipe fittings, which drove steady growth in the business.

The table below sets out the breakdown of revenue from plastic piping systems business by product application for 2017 and 2016:

| | | | | | | |
|-------------------------------------|---------------|---------------|---------------|--------------|---------------|---------------|
| Water Supply | 6 à | 6,887 | 5,898 | 16.8% | 38.0% | 40.0% |
| Drainage | ° à | 6,965 | 5,612 | 24.1% | 38.5% | 38.0% |
| Power supply and telecommunications | e b 6 Đ ç · Ñ | 3,257 | 2,534 | 28.5% | 18.0% | 17.2% |
| Gas Transmission | ÷ i Ô | 412 | 189 | 118.7% | 2.3% | 1.3% |
| Others [#] | l ü # | 589 | 512 | 15.0% | 3.2% | 3.5% |
| Total | < | 18,110 | 14,745 | 22.8% | 100.0% | 100.0% |

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

During the year under review, the revenue from the plastic piping systems business increased by 22.8% to RMB18,110 million from last year's RMB14,745 million, and accounted for 88.9% of the Group's total revenue (2016: 85.6%).

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MANAGEMENT DISCUSSION AND ANALYSIS

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The table below sets out the breakdown of average selling price, sales volume, and revenue from plastic piping systems business by product material for 2017 and 2016:

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| | | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 |
|-------------------|------------|--------|--------|--------|-----------|-----------|-------|--------|--------|-------|
| PVC products | PVC * Ü | 7,481 | 6,954 | 7.6% | 1,582,697 | 1,379,844 | 14.7% | 11,840 | 9,595 | 23.4% |
| Non-PVC products# | ç PVC * Ü# | 14,853 | 15,841 | (6.2)% | 422,143 | 325,068 | 29.9% | 6,270 | 5,150 | 21.8% |
| Total | < | 9,033 | 8,648 | 4.5% | 2,004,840 | 1,704,912 | 17.6% | 18,110 | 14,745 | 22.8% |

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

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BUILDING MATERIALS AND INTERIOR DECORATION PRODUCTS

China's property market continued to fare well in 2017, and developers saw significant growth in both floor area sold and sales value. The Group has been actively developing the business of building materials and interior decoration products, which mainly provides property developers with various types of integrated building materials and interior decoration products, as well as the solution for their residential property projects, including sanitary ware products, integrated kitchens, systems of doors and windows, and decorative boards, etc. The building materials and interior decoration business has achieved synergy with the businesses of other product lines. Benefiting from China's urbanisation and the stable development of its property market, the business recorded a 34.0% growth in revenue to RMB1,356 million (2016: RMB1,011 million), which accounted for 6.7% of the Group's total revenue.

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To capitalise on the Chinese government's environmental protection initiatives, the Group is actively expanding its environmental protection business. During the year under review, the Group made a breakthrough in the environmental protection business, and won contracts to supply its products to many large-scale projects, including those of municipal sewerage system, river treatment, soil restoration, underground pipeline utility tunnel, sponge city, installation of integrated water purifiers and other fields. The group strives to become a one-stop environmental protection service provider, and aims to generate synergy between the environmental protection business and the business of plastic piping systems.

LESSO HOME

Following the Belt and Road Initiatives, the Group decided to launch a new business line, "Lesso Home". Lesso Home is a pioneer in promoting overseas the "One-Stop Specialised Market for Home Furnishing Products" concept, a new retail model. 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. Lesso Home will also provide ancillary services including marketing and branding.

The Group has 12 sites reserve 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.

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MANAGEMENT DISCUSSION AND ANALYSIS

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The Group's capital expenditure for 2017 was approximately RMB2.5 billion, which was partly used for improvement of automated facilities, expansion of the existing production bases, construction of a production base in Hunan and acquisition of properties in foreign countries.

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. The launch of the new production base in Hunan increased the Group's annual designed capacity of plastic pipes and pipe fittings to 2.4 million tonnes at the end of 2017 from 2.2 million tonnes in 2016, enhancing the Group's abilities to respond to market demand.

During the year under review, the Group's capacity utilisation rate reached about 83.8%, up by 3.8 percentage points from 80.0% in 2016. This resulted from the Group's success in tapping the strong demand, robust sales, the automation of its factories and improvement in production efficiency.

STRATEGIES FOR THE FUTURE

China maintained momentum of steady economic growth. In 2018, the Chinese economy is poised to grow steadily even though it is overshadowed by uncertainties. The Group remains prudently optimistic about the prospect of its business and will actively capitalise on the government policies which can favor the kind of businesses that it is engaged in, and develop its business of building materials and interior decoration products as well as business of environmental protection. The Group will implement the following measures to achieve sustainable business development in the future.

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Over the years, the Group has strived to make its facilities more computerised and to increase the level of computerisation of its management. In the future, the Group will actively develop intelligent factories, 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, increase production efficiency and meet market demand.

IMPROVE PRODUCT QUALITY, ENHANCE PRODUCT RESEARCH AND DEVELOPMENT, AND STRENGTHEN BRAND
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 on the technologies in the pipe and building materials industry, so as to maintain a technological leadership in the industry and provide diverse, high-quality products.

ACTIVELY DEVELOP THE ENVIRONMENTAL PROTECTION BUSINESS AND ACHIEVE SYNERGY
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, and fostering new growth drivers so as to achieve synergy between its environmental protection business and other businesses, and diversify its source of income.

MANAGEMENT DISCUSSION AND ANALYSIS

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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 result, the scope of the application of plastic piping systems has been widened, meaning more business opportunities for the pipe industry. As a market leader, the Group will strive to expand the scope of application of plastic pipes and pipe fittings, thereby maintaining its market leadership. Meanwhile, the Group will develop the "Lesso Home" business, thereby adding impetus to the Group's business. In 2018, the Group plans to open a Lesso Home in New York to serve target buyers and customers in North America.

FINANCIAL POSITION

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

As at 31 December 2017, the Group had total debts (i.e. total borrowings) of approximately RMB8,319 million, of which 62.7% was denominated in US dollar, 15.1% was denominated in HK dollar, 13.3% was denominated in Renminbi, 6.5% was denominated in Australian dollar and 2.4% was denominated in Canadian dollar. The Group's borrowings are subject to effective interest rates ranging from 1.6% to 6.0% per annum with maturity periods ranging from within one year to more than five years.

As at 31 December 2017, the Group's current assets and current liabilities were approximately RMB12,148 million and RMB8,074 million respectively. The Group's Current Ratio increased to 1.50 from 1.03 as at 31 December 2016, while the Quick Ratio increased to 1.10 from 0.75 as at 31 December 2016. The Group's total equity increased to approximately RMB13,783 million. The Group's Gearing Ratio stood at a healthy level of 37.6%.

With cash and bank deposits, including restricted cash, of approximately RMB4,452 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 year.

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As at 31 December 2017, certain of the Group's available-for-sale investments 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: 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.

SIGNIFICANT INVESTMENTS

LONG-TERM FINANCIAL INVESTMENTS

As at 31 December 2017, the Group held long-term financial investments of approximately RMB1,582 million (31 December 2016: RMB823 million). The investment portfolio comprised of 95.3% listed equity securities (issued by PRC-based home improvement

MANAGEMENT DISCUSSION AND ANALYSIS

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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 31 December 2017, the Group's investment properties were approximately RMB4,000 million. Gains arising from changes in the fair values of investment properties were approximately RMB300 million during the Year.

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 land in Thailand are under development. Other properties are at the planning stage of development.

Save as disclosed above, the Group did not have any significant investments as at 31 December 2017.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES

As at 31 December 2017, the Group employed a total of approximately 10,600 employees including directors. Total staff costs were RMB876 million during the year. The Group ensures that the remuneration packages for employees are determined based on their work performance, professional experience and the prevailing industry practice. Discretionary year-end bonus may be paid to employees based on individual performance. Other benefits to employees include medical insurance, retirement scheme and training programmes.

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Environmental protection is always a top priority of China Lesso. The Group has applied the ideas of going green and environmental protection throughout its product design, R&D, production and practical operations, and has adopted a variety of eco-friendly measures to minimise impact on the environment. On top of that, the Group supports the development of environmental protection industry and be committed to water treatment and the construction of Sponge City. In addition, the Group establishes a complete environment management system, continues to improve criteria and measures concerning management of environmental protection and adopt more simplified operating processes and energy-efficient hardware to reduce consumption of energy and water resources, increase benefits from resource consumption, reduce wastes emissions and enhance recycling.

The Group complies with laws and regulations governing air pollution, noise emission, solid waste discharge, and other environmental protection issues in China. The environmental management and compliance department works together with the legal department to ensure the Group will keep abreast of the latest development on environment-related laws and regulations.

COMMUNITY ENGAGEMENT

China Lesso takes an active part in community investment and public welfare and provides care for underprivileged groups in the society, aiming to apply its influence, bring positive changes to the communities where it operates, and maintain sound relations with the communities where it operates. Further, the Group actively supports the development of education in poverty-stricken areas and encourages its employees to serve the community as volunteers.

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MANAGEMENT DISCUSSION AND ANALYSIS

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China Lesso recognises employees as one of its most important assets. In strict compliance with the applicable laws and regulations, the Group protects the legitimate rights and interests of its employees and fixes on its pay system based on the principles of legality, equity, fairness and encouragement so as to ensure an equal access to fair treatment and career opportunities. In addition, the Group has formulated its own health and safety policies, intensifies safety training for employees, carries out routine safety patrols and actively pushes forward with relevant management system building for the purpose of creating a safe working environment for its employees, achieving a work-life balance for its employees through diverse activities.

With great emphasis on career development of its employees, the Group is committed to creating diversified and comprehensive development channels for its employees by offering a series of training programs and regular lectures on safety and health through its own Lesso College.

CUSTOMER AND SUPPLIER

China Lesso has strived to maintain uninterrupted communications with its suppliers for win-win results based on the procurement principles of fairness, openness and impartiality. The Group has put in place a Supplier Management Code and conducts regular performance evaluation of its suppliers. In addition, the Group has formulated a management system, a reporting process and set up a management team against malpractices in an effort to oversee behaviors of all its employees and protect the interests and rights of the Company and its shareholders. In respect of customer services and management, the Group upholds the “market-oriented, customer-centred” principle and with strict control over product quality. The Group is committed to providing its customers with safe, reliable and quality products.

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Set out below are the report presented by the Board together with the Group's audited consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The activities of the principal subsidiaries, associates and joint ventures are set out in notes 45, 17 and 18 respectively to consolidated financial statements. Further discussion and analysis of these activities, including a discussion of the principal risks and uncertainties facing by the Group and an indication of likely future developments in the Group's business, the Group's environmental policies can be found in the "Chairman's Statement", "Corporate Governance Report" and "Management Discussion and Analysis". This discussion forms part of the Directors' Report.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2017 and the Group's financial position at that date are set out in the consolidated financial statements on pages 82 to 190.

The Board recommended the payment of a final dividend of HK18 cents per share for the year ended 31 December 2017 (the "Proposed Final Dividend") to the Shareholders whose names appear on the register of members of the Company on Monday, 4 June 2018, subject to the Shareholders' approval at the forthcoming annual general meeting of the Company to be held on Friday, 25 May 2018 (the "2018 AGM"). It is expected that the Proposed Final Dividend will be paid on Wednesday, 13 June 2018.

CLOSURE OF REGISTER OF MEMBERS

(A) FOR DETERMINING THE ENTITLEMENT TO ATTEND AND VOTE AT THE 2018 AGM

The register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018, both dates inclusive, during this period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2018 AGM, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Friday, 18 May 2018.

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DIRECTORS' REPORT

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The register of members of the Company will be closed from Thursday, 31 May 2018 to Monday, 4 June 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 Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 30 May 2018.

CORPORATE GOVERNANCE AND PERMITTED INDEMNITY PROVISION

Principal corporate governance practices and permitted indemnity provision adopted by the Company are set out in the Corporate Governance Report on pages 13 to 35.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the past five financial years, as extracted from audited consolidated financial statements and restated/reclassified as appropriate, is set out on page 3. The summary does not form part of the audited consolidated financial statements.

PROPERTIES

Particulars of the Group's major properties and property interests are set out on pages 191 to 193.

SHARE CAPITAL

The details of the changes in the Company's share capital during the year are set out in note 34 to consolidated financial statements.

ACQUISITION OF SUBSIDIARIES

The details of acquisition of subsidiaries are set out in note 37 to consolidated financial statements.

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As at 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB2,387 million (2016: RMB2,351 million). The amount of RMB1,906 million (2016: RMB1,906 million) represented the Company's share premium which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, the total turnover attributable to the Group's five largest customers was less than 4% of the Group's total turnover. The total purchase attributable to the Group's five largest suppliers was 41% of the Group's total purchases and the purchases from the largest supplier included therein amounted to 26%.

At no time during the year did the directors, their close associates or any Shareholder (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had any beneficial interests in these suppliers or customers referred to above.

CHARITABLE DONATIONS

During the year, the Group's charitable donations were approximately RMB4.63 million (2016: RMB3.46 million).

TAX RELIEF AND EXEMPTION

The directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

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DIRECTORS' REPORT

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Directors in office during the year and up to the date of this report are as follows:

EXECUTIVE DIRECTORS

Mr. Wong Luen Hei (Chairman)
Mr. Zuo Manlun (Chief executive)
Ms. Zuo Xiaoping
Mr. Lai Zhiqiang
Mr. Kong Zhaocong
Mr. Chen Guonan
Dr. Lin Shaoquan
Mr. Huang Guirong
Mr. Luo Jianfeng

NON-EXECUTIVE DIRECTOR

Mr. Lin Dewei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fung Pui Cheung
Mr. Wong Kwok Ho Jonathan
Mr. Cheung Man Yu
Ms. Lan Fang
Dr. Tao Zhigang

Pursuant to Article 16.18 of the articles of association of the Company, Mr. Luo Jianfeng, Mr. Lin Dewei, Mr. Cheung Man Yu, Ms. Lan Fang and Dr. Tao Zhigang are subject to retirement by rotation at the 2018 AGM and, being eligible, offer themselves for re-election.

Biographical details of directors are set out on pages 7 to 11.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the 2018 AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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As at 31 December 2017, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) as recorded in the register to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

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| Wong Luen Hei » L \$ | - | 2,308,000 (L) ^(c) | 2,118,485,000 (L) ^{(b)(d)} | 2,120,793,000 (L) | 68.36% |
| Zuo Xiaoping 8 i 1 | 2,308,000 (L) ^(c) | 2,118,485,000 (L) ^(d) | 2,118,485,000 (L) ^{(b)(d)} | 2,120,793,000 (L) | 68.36% |
| Zuo Manlun 8 P | 3,842,000 (L) | - | - | 3,842,000 (L) | 0.12% |
| Luo Jianfeng - ¼ | 1,927,000 (L) | - | - | 1,927,000 (L) | 0.06% |

Note:

- (a) The letter "L" denotes the person's long position in such securities.
- (b) These shares of the Company are held by New Fortune, which was wholly-owned by Xi Xi Development and ultimately owned by UBS Trustees (B.V.I.) Limited, as trustee of a discretionary trust (the "Trust"), the settlor of which is Mr. Wong Luen Hei ("Mr. Wong"). The discretionary beneficiaries of the Trust included Mr. Wong and his family members. Both Mr. Wong and Ms. Zuo Xiaoping are taken to be interested in the said shares of the Company held by the Trust under the SFO as directors of the Company.
- (c) Ms. Zuo Xiaoping is directly holding 2,308,000 shares of the Company. Mr. Wong is the spouse of Ms. Zuo Xiaoping, and therefore Mr. Wong is deemed to be interested in all the shares of the Company in which Ms. Zuo Xiaoping is interested by virtue of the SFO.
- (d) These shares related to the same block of shares in the Company as set out in note (b) above. Ms. Zuo Xiaoping is the spouse of Mr. Wong, and therefore Ms. Zuo Xiaoping is deemed to be interested in all the shares of the Company in which Mr. Wong is interested by virtue of the SFO.

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Save as disclosed above, as at 31 December 2017, none of the directors or chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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DIRECTORS' REPORT

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INTERESTS AND SHORT POSITIONS OF OTHER SHAREHOLDERS PURSUANT TO SFO

As at 31 December 2017, the following persons (other than a director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

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|-------------------------------|--|-------------------|--------|
| UBS Trustees (B.V.I.) Limited | Trustee ^(b) | 2,118,485,000 (L) | 68.28% |
| UBS Trustees (B.V.I.) Limited | Trustee ^(b) | | |
| Xi Xi Development | Interests of controlled corporation ^(b) | 2,118,485,000 (L) | 68.28% |
| New Fortune | Beneficial owner ^(b) | 2,118,485,000 (L) | 68.28% |

Note:

- (a) The letter "L" denotes the person's long position in such securities.
- (b) These shares relate to the same block of shares in the Company as those set out in note (b) in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

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Save as disclosed above, as at 31 December 2017, the directors of the Company were not aware of any person or corporation (other than the directors and chief executive of the Company) who had any interests or short positions in any shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was conditionally approved by resolutions of the Shareholders on 14 May 2010 (the "Adoption Date") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations and the summary of terms of such Share Option Scheme are disclosed in the Company's prospectus dated 9 June 2010. No share options have been granted, under the Share Option Scheme since its adoption.

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Eligible participants of the Share Option Scheme (“Eligible Persons”) include (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group; (b) a director or proposed director (including an independent non-executive director) of any member of the Group; (c) a direct or indirect shareholder of any member of the Group; (d) a supplier of goods or services to any member of the Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and (g) an associate of any of the persons referred to in paragraphs (a) to (c) above.

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 300,000,000 Shares, representing 9.67% of the issued Shares as at 31 December 2017. The maximum number of Shares issued and to be issued upon the exercise of the options granted to any on Eligible Persons (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the issued share capital of the Company from time to time. There is no minimum period for which an option must be held before it can be exercised. The subscription price in respect of the any particular option shall be price as the Board may in its discretion determine at the time

DIRECTORS' REPORT

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The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date. An offer of the grant of a share option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the date of the Board approving the grant of the share options (the "Offer Date") provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme. An option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favour of the Company of HK\$1 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of an option must be accepted by the relevant Eligible Person, being a date not later than 28 days after the Offer Date. Such remittance shall in no circumstances be refundable.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under paragraph headed "Connected Transactions", no transaction, arrangement or contract of significance to which the Company, its holding company and any of its subsidiaries was a party and in which a director of the Company or an entity connected with him had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

None of the directors or substantial shareholder of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group. New Fortune (the "Controlling Shareholder", being a company holding approximately 68.28% of the issued share capital of the Company, and is ultimately held by the trust the founder of which is Mr. Wong Luen Hei, and the beneficiaries of which include Mr. Wong Luen Hei and his family) has entered into a deed of non-competition in favour of the Group with Mr. Wong Luen Hei dated 14 May 2010 (the "Deed of Non-Competition").

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

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TRANSACTIONS DURING THE REPORTING PERIOD

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LEASE AGREEMENTS

On 7 July 2017, Guangdong Lesso Home Corporate Planning Co., Ltd.* (the "Lessee"), an indirect non-wholly owned subsidiary of the Company, as lessee entered into the Block B lease agreement with Foshan International Furniture Expo Mall Ltd.* (the "Lessor"), pursuant to which the Lessor agreed to lease Floors 1-9, Block B, Furniture Expo Mall, No. 189 Foshan Middle Avenue, Chancheng District, Foshan City, Guangdong Province, the PRC ("Block B") to the Lessee for a term commencing from 7 July 2017 and ending on 31 December 2027.

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On 7 July 2017, the Lessee as sub-lessee entered into the Block C lease agreement with Guangdong Yuanhai Property Management Services Ltd.* (the "Block C Sub-lessor") and the Lessor, pursuant to which the Block C Sub-lessor agreed to sublease Floors 1-9, Block C, Furniture Expo Mall, No. 189 Foshan Middle Avenue, Chancheng District, Foshan City, Guangdong Province, the PRC ("Block C") to the Lessee for a term commencing from 7 July 2017 and ending on 31 December 2027.

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DIRECTORS' REPORT

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Under the Block B and Block C lease agreements:

- (i) during the renovation period from 7 July 2017 and ending on 31 December 2017, rent shall be calculated on the basis of RMB10 and RMB5 per sq.m. per month respectively, multiplied by the gross floor area of 166,587 sq.m. (but deducting therefrom the gross floor area of the 9th floor until its delivery) for the Block B and 129,138.26 sq.m. for the Block C;
- (ii) the initial term from 1 January 2018 and ending 7 sq.m. ie 2ndr. 3lsof*tsoM10 en RM11per Rqm pe mot repctvlysc;C

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

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Pursuant to the Facility Agreement I and Facility Agreement II (collectively the “Facility Agreements”), save for additional requirement that Mr. Wong Luen Hei and his family (collectively, the “Wong Family”) shall remain to have effective management control over the Company set out in the Facility Agreement I, the Facility Agreements require that the Wong Family shall collectively maintain, directly or indirectly, at least 55% of beneficial shareholding interest in the issued share capital of the Company, carrying at least 55% of the voting rights, free from any security. Otherwise, a lender shall not be obliged to fund the loans made under the Facility Agreements, and the total commitments under the Facility Agreements may be liable to be cancelled and the outstanding loans with interest and all other amounts accrued under the Facility Agreements or other related financial documents may be due and payable to the lenders immediately. The Facility Agreements were settled on 20 January 2017.

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(B) On 11 August 2016, the Company as guarantor and its wholly-owned subsidiary as borrower entered into a facility agreement (the “Facility Agreement III”) in relation to syndicated term loan facilities in the amount of US\$600 million at an interest rate of LIBOR plus 1.85% per annum with syndicate lenders, independent financial institutions, for general corporate requirements (including the refinancing of the Group’s then existing financial indebtedness). The loan made thereunder is repayable 42 months after the same has been made.

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DIRECTORS' REPORT

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Pursuant to the Facility Agreement III, Mr. Wong Luen Hei and his family (collectively, the "Wong Family") shall collectively maintain, directly or indirectly, at least 51% of beneficial shareholding interest in the issued share capital of the Company, carrying at least 51% of the voting rights, free from any security. Otherwise, a lender shall not be obliged to fund the loan made under the Facility Agreement III, and the total commitments under the Facility Agreement III may be liable to be cancelled and the outstanding loan with interest and all other amounts accrued under the Facility Agreement III or other related financial documents may be due and payable to the lenders immediately.

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(C) On 15 August 2017, the Company as guarantor (the "Guarantor") and its wholly-owned subsidiary as borrower (the "Borrower") entered into a facility agreement (the "Facility Agreement IV") in relation to syndicated term loan facilities in the amount of HK\$800 million at an interest rate of HIBOR plus 1.55% per annum with syndicate lenders (the "Facility"), for general corporate requirements (including the refinancing of the Group's then existing financial indebtedness). The loan made thereunder is repayable 36 months after the same has been made.

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On 22 September 2017, the Guarantor and the Borrower entered into a syndication and amendment agreement in relation to the Facility Agreement IV (the "Amendment Agreement"). Pursuant to the Amendment Agreement, the number of syndicate lenders have increased and the total commitment under the Facility has increased to HK\$1,350 million. Save for the aforesaid amendment and supplement, all other major terms of the Facility Agreement remain in full force and effect (including the Specific Covenants).

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Pursuant to the Facility Agreement IV, Mr. Wong Luen Hei and his family (collectively, the “Wong Family”) shall collectively maintain, directly or indirectly, at least 51% of beneficial shareholding interest in the issued share capital of the Company, carrying at least 51% of the voting rights, free from any security. Otherwise, a lender shall not be obliged to fund the loan made under the Facility Agreement IV, and the total commitments under the Facility Agreement IV may be liable to be cancelled and the outstanding loan with interest and all other amounts accrued under the Facility Agreement IV or other related financial documents may be due and payable to the lenders immediately (the “Specific Covenants”).

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CONNECTED TRANSACTIONS

For the year ended 31 December 2017, certain of the related party transactions as disclosed in note 41 to consolidated financial statements also constitute connected transactions or continuing connected transactions within the meaning of the Listing Rules and satisfied relevant disclosure requirements thereof. Details of the non-exempt connected transactions or continuing connected transactions are summarised below:

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(A) RENTAL AND UTILITIES EXPENSES

Background: On 30 December 2014, Guangdong Liansu Technology (the “Lessee”) entered into a lease agreement (the “Lease”) with Guangdong Liansu Machinery (the “Lessor”) whereby the Lessor leased its certain plants erected on Lot G03-2-1, Daba Industrial Estate of Longjiang Community Residents’ Committee, Longjiang Town, Shunde District, Foshan City, the PRC (the “Property”) to the Group for use as production facilities.

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Under the Lease, the Lessee shall bear all the third party costs, including electricity and water charges. Since the related utilities costs are charged by the relevant government authorities on the Lessor, the Lessee will reimburse the Lessor for the same amount of utilities costs paid by the Lessor (the “Utilities Arrangement”). For further details, please refer to the announcement made by the Company on 30 December 2014.

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DIRECTORS' REPORT

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CONNECTED TRANSACTIONS (Continued)

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(A) RENTAL AND UTILITIES EXPENSES (Continued)

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The land use right of the Property owned by Guangdong Liansu Machinery was later transferred to Foshan Star Excel. Accordingly, Guangdong Lesso Technology, Guangdong Liansu Machinery and Foshan Star Excel entered into an agreement in relation to transfer of rights under the Lease on 5 June 2017 pursuant to which Guangdong Liansu Machinery agreed to transfer all its the rights and obligations under the Lease to Foshan Star Excel and Foshan Star Excel agreed to assume all of the rights and obligations in substitution for Guangdong Liansu Machinery. No other terms of the Lease has been amended. For further details, please refer to the announcements made by the Company on 5 June 2017 and 7 June 2017.

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Particulars of the agreements are disclosed below as required under the Listing Rules:

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Nature of transactions: Rental expenses paid to the Lessor.

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Reimbursement of utilities costs charged by the relevant government authorities on the Lessor from the Lessee.

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Terms: The Lease is for 36 months commencing on 1 January 2015 and expiring on 31 December 2017. The related rents payable by the Lessee to the Lessor was RMB368,419 per month.

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The reimbursable amount of utilities costs was equal to the amount charged by the relevant government authorities on the Lessor.

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DIRECTORS' REPORT

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Background: On 30 December 2014, the Company entered into the original design manufacturing (the "ODM") co-operation agreement with Guangdong Liansu Electric in relation to the ODM production co-operation as regards manufacturing of electronic accessories by Guangdong Liansu Electric for the Group for 3 years commencing from 1 January 2015 and ending on 31 December 2017. For details, please refer to the announcement made by the Company on 30 December 2014.

Particulars of the agreement are disclosed below as required under the Listing Rules:

Nature of transactions: Purchase of electronic accessories from Guangdong Liansu Electric.

Terms: The purchase price to be agreed between the parties which shall not exceed any quotation obtainable by the Group from independent third parties.

Annual Cap: RMB40 million (for the year ended 31 December 2017)

Total consideration paid for the year: RMB28,000

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On 7 July 2017, Guangdong Lesso Mall, an indirect wholly-owned subsidiary of the Company, entered into the agreement with Lesso Hardware and Foshan Star Excel (the latter being indirectly wholly-owned by Mr. Wong Luen Hei (the chairman of the Company, an executive Director and the controlling Shareholder)), pursuant to which Guangdong Lesso Mall has agreed to sell and Foshan Star Excel has agreed to acquire (i) the Sale Interest, representing 75% equity interest of Lesso Hardware; and (ii) the Sale Loan, at the aggregate consideration of approximately RMB56 million, out of which the consideration for the Sale Interest equaled to RMB25 million and the consideration for the Sale Loan (as of the calculation date on 30 June 2017) was approximately RMB31 million which was further subject to adjustment. The consideration of the Sale Loan was ultimately adjusted to approximately RMB30 million. Lesso Hardware ceased to be a subsidiary of the Company at the end of reporting period. The disposal of Lesso Hardware is a connected transaction and the principle terms of this disposal have been set out in detail in the Company's announcement dated 7 July 2017.

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(E) CONNECTED TRANSACTIONS NOT YET EFFECTIVE
Purchase of Machinery

Background: On 29 December 2017, the Company entered into a framework machinery purchase agreement (the “Framework Agreement”) with Guangdong Liansu Machinery for 3 years commencing from 1 January 2018 and ending on 31 December 2020. For details, please refer to the announcement made by the Company on 29 December 2017.

Particulars of the Framework Agreement are disclosed below as required under the Listing Rules:

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DIRECTORS' REPORT

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Nature of transactions: Purchase of machinery from Guangdong Liansu Machinery.

Terms: The purchase price to be agreed between the parties which shall not exceed the prevailing market price.

Annual Cap: RMB145 million (for the year ending 31 DecTD [(D Tw 11.899 00<r6TD [(D)0.5(ecTD [(D Tw (45)14w (45)w (45;TD [(D Rw (45MBTJ 0.05w (

The details of the related party transactions are set out in note 41 to consolidated financial statements.

PUBLIC FLOAT

Based on the publicly available information obtained by the Company and to the best knowledge of the directors, as at the date of this report, the Company has maintained sufficient public float required under in the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2017, the Company or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

AUDITOR

A resolution will be submitted to the 2018 AGM to re-appoint Ernst & Young as auditor of the Company.

By order of the Board

Zuo Manlun
Chief Executive and Director

Hong Kong, 19 March 2018

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To the shareholders of China Lesso Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Lesso Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 82 to 190, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT

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Provision for impairment of inventories

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At 31 December 2017, the Group had manufacturing and trading inventories of RMB3,099,969,000, net of provision for impairment of RMB204,080,000, which represented 11.1% of the total assets. The provision for impairment mainly related to certain obsolete and slow-moving inventories. We focused on this area because these inventories are material to the Group and the provision for impairment of inventories involves a high level of management's judgement and estimate.

We evaluated, amongst others, the analyses and assessments made by management with respect to obsolete and slow-moving inventories, including market values and expected selling prices of the related inventories and the Group's future plan of usage or sale. We assessed the reliability of

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Related disclosures in the consolidated financial statements are included in notes 2.4, 3 and 24.

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INDEPENDENT AUDITOR'S REPORT

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Valuation of investment properties

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At 31 December 2017, the Group had investment properties of RMB4,038,900,000, which represented 14.4% of the total assets and were measured at fair value. The valuation of the investment properties is important to our audit as it represents a significant judgement area and is material to the total assets of the Group. Management employed independent qualified valuers to assess the fair value. The valuation of the investment properties is highly dependent on a range of estimates made by the management.

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Related disclosures in the consolidated financial statements are included in notes 2.4, 3 and 14.

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We considered the objectivity, independence and expertise of the professional valuers. We also compared property-related data used as inputs for the valuations with underlying documentation. In addition, we involved our internal specialists to assist us in analysing the valuations and reviewing the underlying assumptions, such as the use of comparable lands under the sales comparison approach.

We further focused on the adequacy and appropriateness of the disclosures relating to the valuations of these investment properties.

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The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and,

INDEPENDENT AUDITOR'S REPORT

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In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

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The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained on 14.2.2017.

INDEPENDENT AUDITOR'S REPORT

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence0.5(t5B)14.1(p 2BD7 Tc provi-ee)1 action, ships

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From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lau Kin Yu.

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Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

19 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME



Year ended 31 December 2017
2017 12 31

| | | Note | 2017 | 2016 |
|---|-------------------------|------|--------------|--------------|
| | | • W | RMB'000 | RMB'000 |
| | | | [O Æ w © | [O Æ w © |
| REVENUE | x] | 5 | 20,360,000 | 17,221,052 |
| Cost of sales | V / Ó I | | (15,043,217) | (12,639,274) |
| Gross profit | ã ; | | 5,316,783 | 4,581,778 |
| Other revenue, income and gains | l ü x] e x B ç ; B | 5 | 568,650 | 138,021 |
| Selling and distribution expenses | V / ç ± V š Ō | | (1,029,222) | (821,557) |
| Administrative expenses | A š Ō | | (938,241) | (758,583) |
| Other expenses | l ü š Ō | | (732,914) | (608,619) |
| Finance costs | D Ó I | 6 | (229,309) | (107,061) |
| Share of results of associates | ± & L @ ! 8 6 | 17 | (1,404) | - |
| Share of results of joint ventures | ± & ¥ † 8 8 6 | 18 | 243 | 813 |
| PROFIT BEFORE TAX | ö ü Ä P ; | 7 | 2,954,586 | 2,424,792 |
| Income tax expense | Ö { ü š Ō | 9 | (688,779) | (511,088) |
| PROFIT FOR THE YEAR | Ë « P ; | | 2,265,807 | 1,913,704 |
| OTHER COMPREHENSIVE INCOME/(EXPENSE) | l ü Æ & x B Æ š Ō • | | | |
| Items that may be reclassified subsequently to profit or loss: | l • - ä ó & B Y | | | |
| Available-for-sale investments: | ° f j | | | |
| Changes in fair value | 6 / ³ j | | | |
| Reclassification adjustments for gains included in consolidated statement of profit or loss | ® a = | | 219,589 | 24,236 |
| - gain on disposal | - ä ó Æ | | (1,050) | - |
| - gain on early redemption |] ¥ & B Æ « ~ ; B | | (39,071) | - |
| Exchange differences on translation of foreign operations | - d Ø Û « Ö { ; B | | 179,468 | 24,236 |
| OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR | ± Q . Æ Æ * [Y | | 197,143 | (113,554) |
| | Ö 3 ~ X | | | |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | Ë « l ü Æ & x B Æ š Ō • | | 2,642,418 | 1,824,386 |
| | Ë « Æ & x B < X | | | |

| | | Note | 2017 | 2016 |
|---|------------------------------------|-----------|----------------|----------------|
| | | • W | RMB'000 | RMB'000 |
| | | | [O Æ w © | [O Æ w © |
| Profit attributable to: | ø h Ð & P ; j | | | |
| Owners of the Company | l © ! ' p [| | 2,293,055 | 1,922,027 |
| Non-controlling interests | ç › S Æ B | | (27,248) | (8,323) |
| | | | 2,265,807 | 1,913,704 |
| Total comprehensive income attributable to: | ø h Ð & ÇE & x B < X j | | | |
| Owners of the Company | l © ! ' p [| | 2,666,410 | 1,827,904 |
| Non-controlling interests | ç › S Æ B | | (23,992) | (3,518) |
| | | | 2,642,418 | 1,824,386 |
| EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY | l © ! ' p [Ð & È p © ; | 11 | RMB0.74 | RMB0.62 |
| Basic and diluted | ? l ç Å [| | [O Æ0.74 © | [O Æ0.62 © |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION



中 国 租 赁 股 份 有 限 公 司
CHINA LESSO GROUP HOLDINGS LIMITED

| | | Note | 2017 RMB'000 [O Æ w © | 2016 RMB'000 [O Æ w © |
|--|-------------------------|------|------------------------------|------------------------------|
| NON-CURRENT ASSETS | ç t * | | | |
| Property, plant and equipment | J 8 e @ Ò ÿ £ ê | 12 | 7,156,134 | 6,621,953 |
| Prepaid land lease payments | k ù z @ a # › | 13 | 1,266,216 | 1,249,367 |
| Investment properties | ³ J 8 | 14 | 4,038,900 | 2,469,488 |
| Deposits paid for the purchase of land, property, plant and equipment | ... o z @ e J 8 e @ Ò ÿ | | | |

| | | Note | 2017 | 2016 |
|-------------------------------|----------------|------|------------|------------|
| | | • W | RMB'000 | RMB'000 |
| | | | [O Æ w © | [O Æ w © |
| NON-CURRENT LIABILITIES | ø t À | | | |
| Borrowings | > › | 31 | 5,442,119 | 442,407 |
| Other long-term payables | l ü —, Ð ù › ° | | 92,572 | 106,439 |
| Deferred tax liabilities | È · ü ° À | 32 | 444,640 | 272,568 |
| Deferred income | È · x B | 33 | 137,012 | 114,308 |
| Total non-current liabilities | ø t À < X | | 6,116,343 | 935,722 |
| Net assets | * X | | 13,783,491 | 11,537,672 |
| EQUITY | Æ B | | | |
| Share capital | p l | 34 | 135,344 | 135,344 |
| Reserves | · ê | 35 | | |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY



Year ended 31 December 2017
 2017 年 12 月 31 日

Attributable to owners of the Company
 归属于公司股东的权益

| Share capital | Share premium | Statutory reserve ^(a) | Capital reserve ^(b) | Merger reserve | Available-for-sale investment | Exchange fluctuation reserve | Retained profits | Total | Non-controlling interests | Total equity |
|---------------|---------------|----------------------------------|--------------------------------|----------------|-------------------------------|------------------------------|------------------|-------|---------------------------|--------------|
| | | | | | revaluation reserve | | | | | |
| 人民币千元 | 人民币千元 | 人民币千元 | 人民币千元 | 人民币千元 | 人民币千元 | 人民币千元 | 人民币千元 | 人民币千元 | 人民币千元 | 人民币千元 |

CONSOLIDATED STATEMENT OF CASH FLOWS

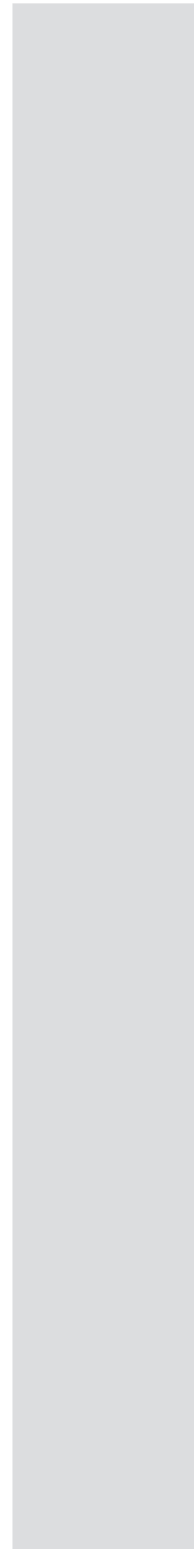


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| | Note | 2017 RMB'000 [O Æ w © | 2016 RMB'000 [O Æ w © |
|--|------|------------------------------|------------------------------|
| OPERATING ACTIVITIES | | | |
| Profit before tax: | | 2,954,586 | 2,424,792 |
| Adjustments for: | | | |
| Interest income | 5 | (90,785) | (61,591) |
| Government grants released | | (3,982) | (1,905) |
| Gain on fair value changes of investment properties | 5 | (327,313) | (31,885) |
| Gain on disposal of available-for-sale investments | 5 | (1,050) | - |
| Gain on disposal of held-to-maturity investments | 5 | (3,315) | - |
| Gain on early redemption of available-for-sale investments | 5 | (39,071) | - |
| Gain on early redemption of held-to-maturity investments | 5 | - | (206) |
| Investment income | 5 | (2,694) | (5,781) |
| Gain on disposal of subsidiaries | 5 | (2,141) | - |
| Interest expenses | 6 | 229,309 | 107,061 |
| Depreciation and amortisation | 7 | 646,822 | 593,366 |
| Write-down of inventories to net realisable value, net | 7 | 61,843 | 50,445 |
| Loss on disposal of items of other intangible assets and property, plant and equipment | 7 | 15,144 | 7,309 |
| Changes in fair value of derivative financial instruments | 7 | 31,575 | (1,942) |
| Impairment of property, plant and equipment | 7 | - | 15,467 |
| Impairment of trade receivables, net | 7 | 25,268 | 30,227 |
| Share of results of associates | 17 | 1,404 | - |
| Share of results of joint ventures | 18 | (243) | (813) |
| | | 3,495,357 | 3,124,544 |
| Increase in other non-current assets | | (112,968) | (6,718) |
| Increase in inventories | | (597,026) | (584,597) |
| Increase in amounts due from customers for contract work | | (105,960) | (99,394) |
| Increase in loan receivables | | (400,961) | (305,955) |
| Increase in trade and bills receivables | | (585,273) | (69,434) |
| Increase in prepayments, deposits and other receivables | | (162,834) | (595,385) |
| Increase in amounts due to customers for contract work | | 61,506 | 14,661 |
| (Decrease)/increase in trade and bills payables | | (546,494) | 1,847,009 |
| Increase in other payables and accruals | | 205,350 | 8,573 |
| Increase in other long-term payables | | 12,164 | 10,000 |
| Increase in deferred income | | 26,686 | 21,981 |
| Cash generated from operations | | 1,289,547 | 3,365,285 |
| Bank interest received | | 82,378 | 55,391 |
| Corporate income tax paid | | (444,885) | (456,408) |
| Net cash flows from operating activities | | 927,040 | 2,964,268 |

INVESTING ACTIVITIES

| Note | 2017 | 2016 |
|------|-----------|-----------|
| | RMB'000 | RMB'000 |
| | [O Æ w © | [O Æ w © |



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When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (i) the contractual arrangement with the other vote holders of the investee;
- (ii) rights arising from other contractual arrangements; and
- (iii) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributable to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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

| | |
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| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014–2016 Cycle | Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12 |

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None of the above amendments to HKFRSs has had a significant financial effect on these consolidated financial statements. Disclosure has been made in note 44 to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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2.3 2018 (2018) 2018

The Group has not early applied the following new and revised standards, that have been issued but are not yet effective, in these consolidated financial statements:

2018 (2018) 2018

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| HKFRS 9 | Financial Instruments ¹ | 2018 2018 | 2018 2018 |
| HKFRS 15 | Revenue from Contracts with Customers ¹ | 2018 2018 | 2018 2018 |
| HKFRS 16 | Leases ² | 2018 2018 | 2018 2018 |
| HKFRS 17 | Insurance Contracts ³ | 2018 2018 | 2018 2018 |
| HK(IFRIC) Interpretation 22 | Foreign Currency Transactions and Advance Consideration ¹ | 2018 2018 | 2018 2018 |
| HK(IFRIC) Interpretation 23 | Uncertainty over Income Tax Treatments ² | 2018 2018 | 2018 2018 |
| Amendments to HKFRS 15 | Clarifications to HKFRS 15 ¹ | 2018 2018 | 2018 2018 |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions ¹ | 2018 2018 | 2018 2018 |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹ | 2018 2018 | 2018 2018 |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation ² | 2018 2018 | 2018 2018 |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures ² | 2018 2018 | 2018 2018 |
| Amendments to HKAS 40 | Transfers of Investment Property ¹ | 2018 2018 | 2018 2018 |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴ | 2018 2018 | 2018 2018 |
| Annual Improvements 2014–2016 Cycle | Amendments to HKFRS 1 and HKAS 28 ¹ | 2018 2018 | 2018 2018 |
| Annual Improvements 2015–2017 Cycle | Amendments to a number of HKFRSs ² | 2018 2018 | 2018 2018 |

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Mandatory effective date not yet determined

¹ 2018 2018

² 2018 2018

³ 2018 2018

⁴ 2018 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Other than as further explained below, the directors do not anticipate that the application of the new an2end revisedFRS

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HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. Upon the initial adoption of the standard, no material impact is expected on the provision for impairment of its trade and other receivables.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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HKFRS 15, issued in July 2014, establishes a new 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 principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard.

The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15.

The Group's principal activities consist of 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. Based on the assessment performed, the adoption of HKFRS 15 will have no significant financial impact on the Group, but volume of disclosures required in the Group's financial statements will increase.

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An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



The Group recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

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When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition-date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group will perform its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

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2.4 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract asset, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

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A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control of the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
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| Freehold land | Not depreciated |
| Land and buildings | 2.3% to 5% |
| Plant and machinery | 9% to 19% |
| Furniture, fixtures and office equipment | 9.5% to 32.3% |
| Motor vehicles | 9.5% to 32.3% |
| Leasehold improvements | Over the shorter of the lease terms and 20% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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Construction in progress represents buildings and other assets under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost represents the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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INVESTMENT PROPERTIES

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

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Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

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Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



2.4 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Patents and proprietary technologies

Purchased patents and proprietary technologies acquired are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Purchased patents and proprietary technologies acquired are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives.

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Brand name and operating concession rights

Brand name and operating concession rights with indefinite useful lives acquired are stated at cost less any impairment losses and are not amortised. The useful life of such an asset should be reviewed at the end of each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in an accounting estimate.

The Group is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount (a) annually, and (b) whenever there is an indication that the intangible asset may be impaired.

LEASES

Finance leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

When the Group is a lessor under finance leases, an amount representing the minimum lease payment receivables and initial direct costs is included in the consolidated statement of financial position as loan receivables. Any unguaranteed residual value is also recognised at the inception of the lease. The difference between the sum of the minimum lease payment receivables, initial direct costs, the unguaranteed residual value and their present value is recognised as unearned finance income. Unearned finance income is recognised over the period of the lease using the effective interest rate method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. The subsequent measurement of financial assets and financial liabilities depends on their classification.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument or financial liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument or financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income or expense is recognised on an effective interest method.

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Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss when the financial assets are either held for trading or designated as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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Financial assets (Continued)

Financial assets at fair value through profit or loss (Continued)

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment losses.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as available-for-sale or are not classified as (a) financial assets at fair value through profit or loss, (b) held-to-maturity investments or (c) loans and receivables.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of available-for-sale investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the available-for-sale investment revaluation reserve is reclassified to profit or loss.

Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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Financial assets (Continued)

Available-for-sale financial assets (Continued)

The fair value of available-for-sale monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary assets. Other foreign exchange gains and losses are recognised in other comprehensive income.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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Impairment of financial assets (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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Impairment of financial assets (Continued)

Financial assets carried at cost

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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2.4 Impairment of financial assets

Impairment of financial assets (Continued)

Available-for-sale financial assets (Continued)

The determination of what is “significant” or “prolonged” requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Impairment losses on debt instruments are reversed through profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company’s own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

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Financial liabilities (Continued)

Financial liabilities at fair value through profit or loss (Continued)

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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INVENTORIES

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Manufacturing and trading

Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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Property development

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CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of cash management.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the period that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) revenue from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) contract revenue from the renovation and installation work on the percentage of completion basis, as further explained in the accounting policy “Construction contracts” below;
- (c) income from financial service includes handling fee income from factoring services and supply-chain financing services, finance lease income and related interest income:
 - (i) handling fee income from factoring services and supply-chain financing services, when the relevant services have been rendered;
 - (ii) finance lease income, over the period of lease, as further explained in the accounting policy “Leases” above;
 - (iii) interest income, on an accrual basis using the effective interest method as explained in note (f).

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- (d) income from environmental engineering and related services includes environmental construction work, sewage treatment and related services:
 - (i) contract revenue from environmental construction on the percentage of completion basis, as further explained in the accounting policy "Construction contracts" below;
 - (ii) income from sewage, hazardous wastes treatment and related environmental protection services, when the relevant services have been rendered.
- (e) rental income, on a time proportion basis over the lease terms;
- (f) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (g) dividend income, when the shareholders' right to receive payment has been established.

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CONSTRUCTION CONTRACTS

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

When the outcome of a construction contract can be estimated reliably, contract revenue from a fixed price construction contract is recognised using the percentage of completion method, measured by reference to the proportion of contract costs incurred for work performed to date relative to the estimated total cost of the relevant contract, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that is probably recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as amounts due from customers for contract work. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as amounts due to customers for contract work.

EMPLOYEE BENEFITS

Pension schemes

In accordance with the relevant laws and regulations, the Group's employees participate in various defined contribution plans and state-management retirement benefit plans in the countries in which the Group operates. Payments to these plans, where the Group's obligations under them are equivalent to a defined contribution plan, are recognised as an expense when employees have rendered service entitling them to the contributions.

Share option scheme

The fair value of the employee services received in exchange for the grant of options is recognised as an expense and credited to share option reserve under equity. For grant of share options, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options at the date on which they are granted by using a binomial model, excluding the impact of any service condition and non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become vested.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. It recognises the impact of the revision of original estimates, if any, in the Group's profit or loss and makes a corresponding adjustment to equity over the remaining vesting period. When the options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (at nominal value) and share premium.

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Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

DIVIDENDS

Dividends are recognised as a liability and deducted from equity when they are declared and approved by the Company's shareholders in general meetings. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are deducted from equity when they are declared and approved, and no longer at the discretion of the Company.

FOREIGN CURRENCIES

The Company's functional currency is HK dollar while the Company's presentation currency for the consolidated financial statements is Renminbi. In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Renminbi using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange fluctuation reserve (attributed to non-controlling interests as appropriate).

On disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of the operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



| | Southern China | Southwestern China | Central China | Eastern China | Northern China | Northwestern China | Northeastern China | Outside China | Eliminations | Consolidated |
|--|-------------------|-----------------------|------------------|------------------|-------------------|-----------------------|-----------------------|------------------|--------------|--------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | [O.Æ w.0] | [O.Æ w.0] | [O.Æ w.0] | [O.Æ w.0] | [O.Æ w.0] | [O.Æ w.0] | [O.Æ w.0] | [O.Æ w.0] | [O.Æ w.0] | [O.Æ w.0] |
| Segment revenue: | | | | | | | | | | |
| Sale of goods | 11,104,426 | 2,104,769 | 2,209,365 | 1,216,465 | 1,335,757 | 738,822 | 459,715 | 691,447 | - | 19,860,766 |
| Contract revenue from renovation and installation works | 206,688 | - | - | - | 4,979 | - | - | - | - | 211,667 |
| Income from environmental engineering and other related services | 142,614 | 10,465 | 16,531 | 7,047 | - | 7,258 | 147 | - | - | 184,062 |
| Financial service income | 41,219 | 294 | 5,010 | 172 | - | 27 | - | - | - | 46,722 |
| Property rental and other related services | 25,692 | - | - | - | - | - | - | 31,091 | - | 56,783 |
| Revenue from external customers | 11,520,639 | 2,115,528 | 2,230,906 | 1,223,684 | 1,340,736 | 746,107 | 459,862 | 722,538 | - | 20,360,000 |
| Intersegment revenue | 3,294,044 | 401,203 | 458,408 | 251,179 | 277,039 | 131,722 | 85,656 | 769,045 | (5,668,296) | - |
| Total | 14,814,683 | 2,516,731 | 2,689,314 | 1,474,863 | 1,617,775 | 877,829 | 545,518 | 1,491,583 | (5,668,296) | 20,360,000 |
| Segment results | 3,824,375 | 650,157 | 730,184 | 253,243 | 397,662 | 186,325 | 126,660 | 156,614 | (1,008,437) | 5,316,783 |
| Reconciliations: | | | | | | | | | | |
| Interest income | | | | | | | | | | 90,785 |
| Gain on fair value changes of investment properties | | | | | | | | | | 327,313 |
| Loss on fair value changes of derivative financial instruments | | | | | | | | | | (31,575) |
| Gain on disposal of available-for-sale investments | | | | | | | | | | 1,050 |
| Gain on disposal of held-to-maturity investments | | | | | | | | | | 3,315 |
| Gain on early redemption of available-for-sale investments | | | | | | | | | | 39,071 |
| Investment income | | | | | | | | | | 2,694 |
| Gain on disposal of subsidiaries | | | | | | | | | | 2,141 |
| Exchange gain | | | | | | | | | | 23,483 |
| Finance costs | | | | | | | | | | (229,309) |
| Share of results of associates | | | | | | | | | | (1,404) |
| Share of results of joint ventures | | | | | | | | | | 243 |
| Unallocated income and expenses | | | | | | | | | | (2,590,004) |
| Profit before tax | | | | | | | | | | 2,954,586 |
| 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 |
| Reconciliations: | | | | | | | | | | |
| Interests in associates | | | | | | | | | | 41,324 |
| Interests in joint ventures | | | | | | | | | | 9,024 |
| Available-for-sale investments | | | | | | | | | | 1,582,208 |
| Deferred tax assets | | | | | | | | | | 69,908 |
| Cash and bank deposits | | | | | | | | | | 4,452,370 |
| Total assets | | | | | | | | | | 27,973,625 |
| Other segment information: | | | | | | | | | | |
| Write-down of inventories to net realisable value, net | 57,066 | (132) | (575) | 2,191 | 185 | 4 | (46) | 3,150 | - | 61,843 |
| Depreciation and amortisation | 365,901 | 62,936 | 62,202 | 46,395 | 40,186 | 34,230 | 19,092 | 15,880 | - | 646,822 |
| Impairment of trade receivables, net | 12,128 | - | (5,551) | 148 | 509 | (923) | 7,286 | 11,671 | - | 25,268 |
| Capital expenditure [#] | 762,280 | 140,004 | 66,433 | 118,244 | 34,182 | 24,969 | 13,077 | 1,373,463 | (15,487) | 2,517,165 |

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

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| | | Southern China | Southwestern China | Central China | Eastern China | Northern China | Northwestern China | Northeastern China | Outside China | Eliminations | Consolidated |
|--|----------------------------|-------------------|-----------------------|------------------|------------------|-------------------|-----------------------|-----------------------|------------------|--------------|--------------|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
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| Segment revenue: | ± Å x j | | | | | | | | | | |
| Sale of goods | V / - Ü | 10,082,151 | 1,561,330 | 1,712,343 | 1,064,953 | 1,052,288 | 562,002 | 371,154 | 535,436 | - | 16,941,657 |
| Contract revenue from renovation and installation works | L ç Ä ^ ú ¥ Ö x j | 118,180 | - | 881 | - | - | - | 382 | - | - | 119,443 |
| Income from environmental engineering and other related services | ¤ ^ ú ç l ü ^ ë x B | 81,161 | 10,779 | 7,941 | 1,728 | 21,991 | 8,922 | 532 | - | - | 133,054 |
| Financial service income | - D x B | 26,898 | - | - | - | - | - | - | - | - | 26,898 |
| Revenue from external customers | . Ä Ö x j | 10,308,390 | 1,572,109 | 1,721,165 | 1,066,681 | 1,074,279 | 570,924 | 372,068 | 535,436 | - | 17,221,052 |
| Intersegment revenue | ± Ä œ x j | 2,397,464 | 360,909 | 441,075 | 133,941 | 167,401 | 109,249 | 94,902 | 591,967 | (4,296,908) | - |
| Total | ¥ | 12,705,854 | 1,933,018 | 2,162,240 | 1,200,622 | 1,241,680 | 680,173 | 466,970 | 1,127,403 | (4,296,908) | 17,221,052 |
| Segment results | ± Ä 8 6 | 3,349,344 | 534,107 | 626,430 | 239,738 | 325,786 | 143,524 | 99,788 | 86,290 | (823,229) | 4,581,778 |
| Reconciliations: | Ä ^ j | | | | | | | | | | |
| Interest income | ; ^ x B | | | | | | | | | | 61,591 |
| Gain on fair value changes of investment properties | ³ J 8 @ ¢ = ; B | | | | | | | | | | 31,885 |
| Gain on fair value changes of derivative financial instruments | [- D ^ H @ ¢ = ; B | | | | | | | | | | 1,942 |
| Gain on early redemption of held-to-maturity investments | d Ø Ü * 5 Þ Q, ³ Ö {; B | | | | | | | | | | 206 |
| Investment income | ³ x B | | | | | | | | | | 5,781 |
| Exchange loss | Ö 3 f & | | | | | | | | | | (17,614) |
| Finance costs | D Ö l | | | | | | | | | | (107,061) |
| Share of result of a joint venture | ± & S œ ¥ † 8 8 6 | | | | | | | | | | 813 |
| Unallocated income and expenses | J ± ä x B ç ð Ö | | | | | | | | | | (2,134,529) |
| Profit before tax | ö ü Ä P; | | | | | | | | | | 2,424,792 |
| Segment assets | ± Ä * | 9,850,734 | 1,140,737 | 1,048,774 | 867,512 | 726,365 | 581,190 | 420,668 | 2,788,731 | - | 17,424,711 |
| Reconciliations: | Ä ^ j | | | | | | | | | | |
| Interest in a joint venture | ö S œ ¥ † 8 Y Æ B | | | | | | | | | | 7,988 |
| Available-for-sale investments | 6 / ¢ | | | | | | | | | | 730,814 |
| Held-to-maturity investments | 5 Þ Q, ¢ | | | | | | | | | | 59,655 |
| Derivative financial instruments | [- D ^ H | | | | | | | | | | 32,566 |
| Deferred tax assets | Ë · ü ° * | | | | | | | | | | 53,869 |
| Cash and bank deposits | \$ - ç Ö Ä ^ | | | | | | | | | | 3,885,683 |
| Total assets | * < X | | | | | | | | | | 22,195,286 |
| Other segment information: | l ü ± Ä Ø j | | | | | | | | | | |
| Write-down of inventories to net realisable value, net | Ü ^ Ä ^ \$ = X | 21,693 | 365 | 431 | 4,361 | 78 | (121) | 10,730 | 12,908 | - | 50,445 |
| Depreciation and amortisation | ± ç Ä V | 321,449 | 57,461 | 64,224 | 40,383 | 36,858 | 37,202 | 22,249 | 13,540 | - | 593,366 |
| Impairment of trade receivables, net | q ø Ð x ^ ° = X | 30,087 | - | 274 | - | 1,086 | - | (1,675) | 455 | - | 30,227 |
| Impairment of property, plant and equipment | J 8 e @ Ö ç £ ê = | - | - | - | 15,467 | - | - | - | - | - | 15,467 |
| Capital expenditure [#] | l ð Ö # | 1,658,042 | 121,701 | 42,506 | 76,731 | 45,807 | 23,588 | 24,642 | 1,597,381 | (20,900) | 3,569,498 |

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



| | | 2017 RMB'000 [O Æ w © | 2016 RMB'000 [O Æ w © |
|--|--|------------------------------|------------------------------|
| Revenue | x] | | |
| Sale of goods | V / - Ü | 19,860,766 | 16,941,657 |
| Contract revenue from renovation and installation works | L ç Ä ^ û ¥ Ô x] | 211,667 | 119,443 |
| Income from environmental engineering and other related services | æ ^ û ç l ü ´ ë x B | 184,062 | 133,054 |
| Financial services income | - D x B | 46,722 | 26,898 |
| Property rental and other related services | J 8 a # ç l ü ´ ë | 56,783 | - |
| | | 20,360,000 | 17,221,052 |
| Other revenue, income and gains | l ü x] e x B ç ; B | | |
| Bank interest income | Ö ; ¹ x B | 82,378 | 55,391 |
| Interest income from available-for-sale investments | 6 / ³ Y ; ¹ x B | 6,822 | - |
| Interest income from held-to-maturity investments | 5 p Q , ³ Y ; ¹ x B | 1,585 | 6,200 |
| Total interest income | ; ¹ x B < X | 90,785 | 61,591 |
| Government grants and subsidies | A ´ p ? ç p h | 30,173 | 16,118 |
| Gain on fair value changes of investment properties | ³ J 8 ® ^a = ; B | 327,313 | 31,885 |
| Gain on fair value changes of derivative financial instruments | [- D ^ H ® ^a = ; B | - | 1,942 |
| Gain on disposal of available-for-sale investments | / 6 / ³ Ô { ; B | 1,050 | - |
| Gain on disposal of held-to-maturity investments | / 5 p Q , ³ Ô { ; B | 3,315 | - |
| Gain on early redemption of available-for-sale investments | d Ø Û « 6 / ³ Ô { ; B | 39,071 | - |
| Gain on early redemption of held-to-maturity investments | d Ø Û « 5 p Q , ³ Ô { ; B | - | 206 |
| Investment income | ³ ; B | 2,694 | 5,781 |
| Gain on disposal of subsidiaries | / • n ® ! ; B | 2,141 | - |
| Exchange gain | Ô 3 ; B | 23,483 | - |
| Others | l ü | 48,625 | 20,498 |
| | | 568,650 | 138,021 |

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.

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| | | 2017 RMB'000 [O Æ w © | 2016 RMB'000 [O Æ w © |
|---|-----------------------|------------------------------|------------------------------|
| Interest expenses on bank and other loans | Ö ç l ü r > Y ; 1 š Ö | 231,920 | 108,781 |
| Less: Interest capitalised | - j l . ; 1 | (2,611) | (1,720) |
| | | 229,309 | 107,061 |

7. PROFIT BEFORE TAX

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

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| | | | |
|--|---|------------|------------|
| Cost of inventories sold | Š / Ä - Ó l | 14,653,632 | 12,413,090 |
| Direct cost of renovation and installation works | L ç Ä ^ û \ ÿ Ó l | 190,030 | 105,569 |
| Direct cost of environmental engineering and other related services | π ^ û ç l ü ' è \ ÿ Ó l | 108,249 | 70,170 |
| Direct cost of financial services | - D \ ÿ Ó l | 2,351 | - |
| Direct cost of property rental and other related services | J 8 a # ç l ü ' è \ ÿ Ó l | 27,112 | - |
| Write-down of inventories to net realisable value, net | Û - Ä - \$ = X | 61,843 | 50,445 |
| Depreciation | ± | 12 | 603,560 |
| Amortisation of prepaid land lease payments | k ù z @ a # > Ä V | 13 | 26,867 |
| Amortisation of other intangible assets | l ü Ì - * Ä V | 15 | 16,395 |
| Total depreciation and amortisation | ± ç Ä V < X | 646,822 | 593,366 |
| Minimum lease payments under operating leases in respect of land and buildings | z @ ç } Ä ¼ a # Y ð - a - | 58,861 | 40,794 |
| Auditor's remuneration | è p a Z G | 7,131 | 5,665 |
| Employee benefit expense (including directors' remuneration (note 8)): | ‡ p E ; š Ö Æ < è + Z G € • W j 8 • | | |
| Wages and salaries | ^ ç Z - | 740,048 | 574,465 |
| Pension scheme contributions | x ~ - Ç E 6 > | 74,611 | 59,449 |
| Staff welfare and other expenses | p ^ E ; ç l ü š Ö | 61,445 | 53,973 |
| | | 876,104 | 687,887 |
| Research and development costs | ¼ i Ó l | 641,354 | 514,024 |
| Loss on disposal of items of other intangible assets and property, plant and equipment | / l ü Ì - * q J 8 e @ Ò ç £ ê ° f Y f & | 15,144 | 7,309 |
| Impairment of property, plant and equipment | J 8 e @ Ò ç £ ê ° = | 12 | - |
| Changes in fair value of investment properties | ³ J 8 @ a = | 14 | (327,313) |
| Changes in fair value of derivative financial instruments | [- D ^ H @ a = | 31,575 | (1,942) |
| Gain on disposal of subsidiaries | / • n @ ! ; B | (2,141) | - |
| Impairment of trade receivables, net | q ø Ð x ' ° = X | 26 | 25,268 |
| Net rental income | a - x B X | (1,407) | (1,170) |
| Foreign exchange differences, net | Ö 3 " . X | (23,483) | 17,614 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(A) DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

2020年1月1日至2020年12月31日止年度

| | 2020 | 2019 | 2018 |
|---|--------|--------|--------|
| Fees | 3,089 | 3,095 | 3,089 |
| Other emoluments: | | | |
| Salaries, allowances and benefits in kind | 4,756 | 5,004 | 4,756 |
| Performance related bonuses | 5,040 | 4,990 | 5,040 |
| Pension scheme contributions | 313 | 323 | 313 |
| | 10,109 | 10,317 | 10,109 |
| | 13,198 | 13,412 | 13,198 |

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

(A) DIRECTORS' REMUNERATION (Continued)

The remuneration of each of the directors is set out below:

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| | | | | | | |
|--------------------------------------|---------------|-------|-------|-------|-----|--------|
| Executive directors: | B è + j | | | | | |
| Mr. Wong Luen Hei | » L \$ « [| – | 624 | 576 | 16 | 1,216 |
| Mr. Zuo Manlun | 8 P « [| – | 614 | 586 | 38 | 1,238 |
| Ms. Zuo Xiaoping | 8 i 1 ~ { | – | 624 | 576 | 16 | 1,216 |
| Mr. Lai Zhiqiang | ` › v « [| – | 600 | 600 | 41 | 1,241 |
| Mr. Kong Zhaocong | Æ Š K « [| – | 600 | 600 | 41 | 1,241 |
| Mr. Chen Guonan | Ó 7 ì « [| 624 | – | 576 | 27 | 1,227 |
| Dr. Lin Shaoquan | Ç Œ ù { | – | 1,306 | 300 | 17 | 1,623 |
| Mr. Huang Guirong | » n ò « [| – | 600 | 600 | 111 | 1,311 |
| Mr. Luo Jianfeng | ˆ ¨ « [| 624 | – | 576 | 16 | 1,216 |
| | | 1,248 | 4,968 | 4,990 | 323 | 11,529 |
| Non-executive director: | ø B è + j | | | | | |
| Mr. Lin Dewei | C x « [| 437 | 36 | – | – | 473 |
| Independent non-executive directors: | ù m ø B è + j | | | | | |
| Mr. Fung Pui Cheung | ¹ C « [| 282 | – | – | – | 282 |
| Mr. Wong Kwok Ho, Jonathan | î 7 ´ « [| 282 | – | – | – | 282 |
| Mr. Cheung Man Yu | u Ö Á « [| 282 | – | – | – | 282 |
| Ms. Lan Fang | † y ~ { | 282 | – | – | – | 282 |
| Dr. Tao Zhigang | x ›] ù { | 282 | – | – | – | 282 |
| | | 1,410 | – | – | – | 1,410 |
| | | 3,095 | 5,004 | 4,990 | 323 | 13,412 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



| | | Fees | Salaries, allowances and benefits in kind | Performance related bonuses | Pension scheme contributions | Total |
|---|------------------|-----------|--|-----------------------------------|------------------------------------|-----------|
| | | € | Z – e u h j ¼ J E ; | € \$ " S € Ĩ | x ~ – Ć | < |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 2016 | | [O Æ w © | [O Æ w © | [O Æ w © | [O Æ w © | [O Æ w © |
| Executive directors: | B è + j | | | | | |
| Mr. Wong Luen Hei | » L \$ < [| – | 616 | 584 | 15 | 1,215 |
| Mr. Zuo Manlun | 8 P < [| – | 596 | 604 | 32 | 1,232 |
| Ms. Zuo Xiaoping | 8 i 1 ~ { | – | 616 | 584 | 15 | 1,215 |
| Mr. Lai Zhiqiang | ` > v < [| – | 600 | 600 | 41 | 1,241 |
| Mr. Kong Zhaocong | Æ Š K < [| – | 600 | 600 | 41 | 1,241 |
| Mr. Chen Guonan | Ó 7 Ĩ < [| 616 | – | 584 | 26 | 1,226 |
| Dr. Lin Shaoquan | Ç Ć ù { | – | 1,128 | 300 | 17 | 1,445 |
| Mr. Huang Guirong | » n ò < [| – | 600 | 600 | 111 | 1,311 |
| Mr. Luo Jianfeng | – ¼ < [| 616 | – | 584 | 15 | 1,215 |
| | | 1,232 | 4,756 | 5,040 | 313 | 11,341 |
| Non-executive director: | ø B è + j | | | | | |
| Mr. Lin Dewei | C x < [| 467 | – | – | – | 467 |
| Independent non-executive directors: | ù m ø B è + j | | | | | |
| Mr. Fung Pui Cheung | ¹ C < [| 278 | – | – | – | 278 |
| Mr. Wong Kwok Ho, Jonathan | î 7 ' < [| 278 | – | – | – | 278 |
| Mr. Cheung Man Yu | u Ö Á < [| 278 | – | – | – | 278 |
| Ms. Lan Fang | † y ~ { | 278 | – | – | – | 278 |
| Dr. Tao Zhigang | x >] ù { | 278 | – | – | – | 278 |
| | | 1,390 | – | – | – | 1,390 |
| | | 3,089 | 4,756 | 5,040 | 313 | 13,198 |

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

(A) DIRECTORS' REMUNERATION (Continued)

No director waived or agreed to waive any emolument and no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

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There were no other emoluments paid or payable to the independent non-executive directors during the year (2016: Nil).

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(B) FIVE HIGHEST PAID EMPLOYEES

The Group's five highest paid employees during the year were all directors. Details of the remuneration of these directors during the year are set out in note 8(A) above.

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9. INCOME TAX EXPENSE

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| | | | |
|-------------------------------|-------------|----------|----------|
| | | | |
| Current tax | C , ü ° | | |
| PRC | • 7 | 559,945 | 471,713 |
| Other jurisdictions | l ü ! , Æ | 5 | 421 |
| | | 559,950 | 472,134 |
| Overprovision in prior years | @ » Ë @ a ê | | |
| PRC | • 7 | (27,709) | (26,641) |
| Deferred tax | Ë · ü ° | 156,538 | 65,595 |
| Total tax charge for the year | Ë « ü ° < X | 688,779 | 511,088 |

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.

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- Y ! , Æ Ô * [Ð Ô } { P ; 2 ¼ ?
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HONG KONG PROFITS TAX

The statutory rate of Hong Kong profits tax was 16.5% (2016: 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 year (2016: Nil).

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ü P ; d ø , > ü 16.5% €2016 Ë j
16.5% • Q f á ö l « ö l Ë « (Ì -
0 ¥ * [, Ð ü P ; d B (Ì ö l Ë
1 0 ¥ ; { ü a ê€2016 Ë j Ì ¶

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



9. INCOME TAX EXPENSE (Continued)

PRC CORPORATE INCOME TAX

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

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 ë Y \$ P , e Q ÿ Ö 7 % ? _ d 2 G \\
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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 years.

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 - ! " † 8 ø d (. a 15 % Y ´ l † 8
 Ô { ü f

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.

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A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

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 › ü Q Y G \ ð ð ü Ā P ; Y ü ° š Ö
 ~ 2 ¼ ç ü Q Y ü ° š Ö Y Á * ½ h j

| Profit before tax | ð ü Ā P ; | 2,954,586 | 2,424,792 |
|---|---|-----------|-----------|
| Tax at the PRC corporate income tax rate of 25% | 2 • 7 † 8 Ô { ü 25% Q Y ü ° | 738,647 | 606,198 |
| Effect of tax concessions for certain subsidiaries | ð • • n ® ! ü ° ´ l Y B ± | (260,497) | (232,631) |
| Share of results of associates | ± & L ® ! 8 6 | 351 | - |
| Share of results of joint ventures | ± & ¥ † 8 8 6 | (61) | (203) |
| Income not subject to tax | á² ü × B | (1,654) | (2,179) |
| Expenses not deductible for tax | " Ô ü š Ö | 3,906 | 11,623 |
| Tax losses utilised from prior years | Ô \ Y @ » Ě ü ° f & | (6,468) | (6,930) |
| Tax losses not recognised | J ½ © ü ° f & | 109,641 | 61,168 |
| Adjustments in respect of current tax of prior years | 1 @ » Ě Ě ü * Æ | (27,709) | (26,641) |
| Effect of withholding tax at 5% on the distributable profits of the Company's subsidiaries in the PRC | Á l ® ! • 7 • n ® ! ± P ; 25% D × k d Ô { ü Y B ± | 132,623 | 100,683 |
| Tax charge at the Group's effective rate | 2 l « ¼ ç ü Q Y ü ° Ö | 688,779 | 511,088 |

| | | 2017 | | 2016 | |
|--|---|--------------------------------------|------------------|--------------------------------------|------------------|
| | | HK\$ ¥◎ per share Ē p | HK\$'000 w ¥◎ | HK\$ ¥◎ per share Ē p | HK\$'000 w ¥◎ |
| 2016 final dividend paid (2016: 2015 final dividend paid) | Š ù2016 Ē K , p ¹ €2016 Ē j Š ù2015 Ē K , p ¹ • | 0.15 | 465,363 | 0.13 | 403,314 |
| Equivalent to | = ò | RMB411,288,000 [O Ą411,288,000 ◎ | | RMB339,228,000 [O Ą339,228,000 ◎ | |

Subsequent to the end of the reporting period, final dividend of HK18 cents in respect of the year ended 31 December 2017 (2016: final dividend of HK15 cents in respect of the year ended 31 December 2016) per ordinary share has been proposed by the directors and is subject to approval by the Shareholders at the forthcoming annual general meeting.

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Ü31 Ú ß Ē | ù K , p ¹ Ē p w · p18
¥€ 2016 Ē j Ú 2016 Ē12 Ü31 Ú ß Ē
Y K , p ¹ Ē p w · p15 ¥ Ą " ²
p ò Đ £ p „ Ē } 6 j - X d ù 6 |
ù f

11. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

11. I ¹ ! ¹ p [Đ & Ē p ¹ ;

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

i ½ ø h ø ° Q Ē p ? I ç Ą [¹ ; j

| | | | |
|---|--|-----------|-----------|
| Earnings | ¹ ; | | |
| Profit attributable to owners of the Company used in the basic and diluted earnings per share calculation | Q Ē p ? I ç Ą [¹ ; Ű \ Q Y I ¹ ! ¹ p [Đ & P ; | 2,293,055 | 1,922,027 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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| | | Land and buildings | Plant and machinery | Furniture, fixtures and office equipment | Motor vehicles | Leasehold improvements | Construction in progress | Total |
|------------------------------|----------|-----------------------|------------------------|---|-------------------|---------------------------|-----------------------------|-----------|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | [O Æ w © | [O Æ w © | [O Æ w © | [O Æ w © | [O Æ w © | [O Æ w © | [O Æ w © |
| Cost: | | | | | | | | |
| At 1 January 2016 | 2016 1 1 | 2,991,514 | 3,147,179 | 159,938 | 144,667 | 4,005 | 1,421,742 | 7,869,045 |
| Additions | | 27,200 | 191,575 | 27,808 | 23,472 | 13,703 | 817,147 | 1,100,905 |
| Interest capitalised | | - | - | - | - | - | 1,720 | 1,720 |
| Acquisitions of subsidiaries | | 68,767 | 57,843 | 1,756 | 5,844 | - | 7,837 | 142,047 |
| Transfers | | 463,180 | 124,896 | 2,601 | - | 32,976 | (623,653) | - |
| Disposals | | (223) | (73,694) | (3,113) | (3,141) | (709) | (29,708) | (110,588) |
| Exchange realignment | | 1,152 | | | | | | |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



| | | Note | 2017 RMB'000 [O Æ w © | 2016 RMB'000 [O Æ w © |
|--|---|------|------------------------------|------------------------------|
| At 1 January | õ 1 Ü1 Ú | | 1,275,459 | 1,181,770 |
| Additions | ô Ä | | 47,627 | 96,265 |
| Acquisitions of subsidiaries | x ... • n ® ! | | – | 19,584 |
| Provided for the year | l Ë d | 7 | (26,867) | (25,227) |
| Exchange realignment | Ö 3 Æ | | (2,850) | 3,067 |
| At 31 December | õ 12 Ü31 Ú | | 1,293,369 | 1,275,459 |
| Analysed for reporting purpose as: | 1 S f Y ± % j | | | |
| Non-current assets | ç t * | | 1,266,216 | 1,249,367 |
| Current assets included in prepayments, deposits and other receivables |] t * Y k ù › e 2 – ç l ü ð x › ° | 27 | 27,153 | 26,092 |
| | | | 1,293,369 | 1,275,459 |

14. INVESTMENT PROPERTIES

14. ³ J 8

| | | | | |
|-----------------------|-------------------|---|------------------|------------------|
| At 1 January | õ 1 Ü1 Ú | | 2,469,488 | 318,431 |
| Additions | ô Ä | | 1,290,874 | 2,045,883 |
| Changes in fair value | ®ª = | 7 | 327,313 | 31,885 |
| Exchange realignment | Ö 3 Æ | | (48,775) | 73,289 |
| At 31 December | õ 12 Ü31 Ú | | 4,038,900 | 2,469,488 |

Further summary details of the Group's investment properties are set out in the section headed "Summary of Investment Properties" of this report.

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VALUATION PROCESSES

At the end of the reporting period, the Group's investment properties were stated at fair value and were revalued by independent professionally qualified valuers detailed below:

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õ S , K d l « Y ³ J 8 2 ®ª =
O • d (_ ù m e Y 8 ç ¥ ø Y =ª
- = d Z « T M ½ h j

American Appraisal (Thailand) Ltd.: For properties in Thailand
Sydney Metropolitan Valuations: For properties in Australia
Metropolitan Valuation Services Inc. & CBRE Inc.: For properties in United States
Colliers International Realty Advisors Inc.: For properties in Canada
? / ; Ö ® * z ® Y Þ " ® ! j For properties in PRC

American Appraisal (Thailand) Ltd.: 1 7 J 8 Þ
Sydney Metropolitan Valuations: 1 æ r J 8 Þ
Metropolitan Valuation Services Inc. & CBRE Inc.: 1 Ö 7 J 8 Þ
Colliers International Realty Advisors Inc.: 1 Ä } J 8 Þ
? / ; Ö ® * z ® Y Þ " ® ! j 1 · 7 J 8 Þ

The valuations performed by the valuers for financial reporting purposes were reviewed by management. Management also discussed the valuation processes and results with the valuers. The fair value gains on revaluation are included in "other revenue, income and gains" in profit or loss.

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= f M # 4 u 6 ~ =ª Ä = û • ç
f Þ ë - = ~ ®ª = ; B W]
& B « Y ~ l ü x] e x B ç ; B T M

Management reviewed the valuation results by verifying all major inputs and assumptions and assessing the reasonableness of such valuations.

VALUATION TECHNIQUES AND FAIR VALUE HIERARCHY

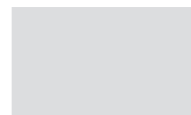
The following table shows the valuation techniques used by the valuers in the determination of fair values. There were no significant changes to the valuation techniques during the year.

| Vacant lands and buildings under refurbishment | 2,740,844 | 1,965,880 | Direct/sales comparison approach | Premium (discount) in quality of land |
|--|-----------|-----------|----------------------------------|---------------------------------------|

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17

| Note | 2017 | 2016 |
|------|-----------|-----------|
| • W | RMB'000 | RMB'000 |
| | [O Æ w © | [O Æ w © |



16. ‘ ħ I ü H ì " 4 \ Ë , ~ ì
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For the purpose of impairment testing, goodwill, brand name and operating concession rights with indefinite useful lives set out in note 15 have been allocated to four individual cash generating units (“CGUs”), comprising one subsidiary in the provision of environmental engineering services, one subsidiary in the provision of sewage treatment services, one subsidiary in the provision of hazardous waste treatment services and one subsidiary in the provision of product quality inspection and measuring instruments’ calibration services. The carrying amounts of goodwill, brand name and operating concession rights at the end of the reporting period allocated to these units are as follows:

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 , H H 9 Y \$ – * [€ \$ – * [
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 ~ • n ® ! e S œ d 6 î â ^ # ~ • n
 ® ! e S œ d 6 š ^ ; Ü ^ # ~ • n ®
 ! q S œ d 6 * Ü / o è q » Ž œ ç _
 ~ • n ® ! d p õ S , K ± ã
 ~ ‘ e î ħ \$ ç ¾ Æ Y * & = ½
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| | | | | |
|--|--|--------|---------|--------|
| Guangzhou EP Environmental Engineering Ltd. and its subsidiary (“GZEP”) | ? È 9 ¨ - • ^ û £ ë p " ® ! ħ I • n ® ! € GZEP ™ | 29,100 | 110,520 | 23,230 |
| Foshan Shunde Huifengyuan Environmental Management Co., Ltd. (“Huifengyuan”) and its subsidiary (“Baolai”) | † 9 ± C Ò . U - ^ û M # p " ® ! € Ò . U ™ ì 8 ^ q p " ® ! ħ I • n ® ! € 8 ™ | 7,457 | – | – |
| Jianghuai Inspection Corporation Services Co., Ltd (“Jianghuai Inspection”) | Ä D ² ê / Ž ! ” è » p " ® ! € ê è » ™ | 39,997 | – | – |
| | | 8,755 | – | – |
| | | 85,309 | 110,520 | 24,550 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



16. ‘ ǎ l ü H ì ” 4 \ È , ~ ì
 - * - = » € f •

| | | Goodwill | Brand name | Operating concession rights |
|---|---|-----------|------------|-----------------------------|
| | | RMB'000 | RMB'000 | \$ ¼ Æ RMB'000 |
| 2016 | | [O Æ w © | [O Æ w © | [O Æ w © |
| Guangzhou EP Environmental Engineering Ltd. and its subsidiary* (“GZEP”) | ? È 9 ¼ - • ^ û £ ë P " ® ! ; l • n ® ! € GZEP™ | 29,100 | 110,520 | 23,230 |
| Foshan Shunde Huifengyuan Environmental Management Co., Ltd.* (“Huifengyuan”) | † 9 ± C Ò . U - ^ û M # P " ® ! € Ò . U ™ | 7,457 | - | 1,320 |
| Hainan Baolai Industrial & Trading Co., Ltd.* and its subsidiary (“Baolai”) | ì 8 ^ q P " ® ! ; l • n ® ! € 8 ™ | 39,997 | - | - |
| | | 76,554 | 110,520 | 24,550 |

Management regarded brand name and operating concession rights acquired through business combinations having indefinite useful lives because they are expected to generate net cash inflows indefinitely.

M # 4 © % Æ @ 8 ¥ ; * [~ î ç \$ ¼ Æ H P ì " 4 \ È , d ä W _ ò l k , * [ì " Y \$ - t] X f

At the end of the reporting period, management determines that there are no impairments of any of its CGUs containing goodwill, brand name and operating concession rights with indefinite useful lives.

õ S , K d M # 4 ½ › , 1 P ‘ e H ì " 4 \ È , Y î ç \$ ¼ Æ Y \$ - * [? ì - = f

The recoverable amounts of GZEP, Huifengyuan, Baolai and Jianghuai Inspection have been determined based on value in use calculation using cash flow projections which based on financial budgets approved by the management covering a five-year period. The pre-tax discount rates applied to the cash flow projections are 18.5%, 19.0%, 15.9% and 21.2%, respectively. The cash flows beyond the five years period are extrapolated using 2.0% growth rate. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the units’ past performance and management’s expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of GZEP, Huifengyuan, Baolai and Jianghuai Inspection to exceed their recoverable amounts respectively.

GZEP e Ò . U e 8 ç ê è » Y x « - X W ì ½ \$ - t Ž k » ø 4 \ = Ù Ì Q f \$ - t Ž k » J ø M # 4 - X Y ž È , ì k Q % ? p f \$ - t Ž k » Ô @ \ Y ð ü Æ h \$ ± 9 % 18.5% e 19.0% e 15.9% ç 21.2% f ž È , Y \$ - t Ž i @ \ 2.0% # — ^a Q f Q 4 \ = Y l ü ô ÿ £ ~ < k Q V / X ç ã ; Y \$ - t] J t Y P ë f P ë W ? õ H 9 Y @ » Æ \$ ç M # 4 Á H 9 9 ï • Y k Q p * f M # 4 © % d , ÿ £ • \$ Y , ¥ # " 6 - ç GZEP e Ò . U e 8 ç ê è » ç Y * & = t l ç Y x « - X f

| | | 2017 RMB'000 [O Æ w © | 2016 RMB'000 [O Æ w © |
|---------------------|---------|------------------------------|------------------------------|
| Share of net assets | ± & * X | 41,324 | — |

Particulars of the associates are as follows:

| | | | | | | | |
|--|--------------------|-----|----|----|----|---|--|
| | | | | | | | |
| Shanghai Banxin IoT Tech Co., Ltd [#] | RMB12,027,000 | PRC | 14 | 20 | 57 | Provision of IoT solution services | |
| 上海邦信物联网技术有限公司 [#] | [O Æ 12,027,000 © | • 7 | 14 | 20 | 57 | d 6 J L c Ô Û é | |
| Guangdong Zlgj Information Technology Co., Ltd [#] (note) | RMB11,236,000 | PRC | 8 | 11 | 8 | Provision of household decoration and design services | |
| 广东智吉信息技术有限公司 [#] | [O Æ 11,236,000 © | • 7 | 8 | 11 | 8 | d 6 • ç t ç £ | |
| Artaic, LLC [#] | USD2,500,000 | USA | 17 | 20 | 15 | Manufacture and sale of mosaic tile | |
| Artaic, LLC [#] | 2,500,000 Ô © | Õ 7 | 17 | 20 | 15 | i ç ç V / ò „ 4 (| |

[#] These associates were newly set up/acquired during the year.

Note: It is considered that the Group has significant influence over this company because the Group has a director in the board of this company.

The following table illustrates the information of the Group's interests in associates:

| | | | | | | | |
|--|--|--|--|--|--|--|--|
| | | | | | | | |
|--|--|--|--|--|--|--|--|

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



18. 8 Y AE B

| | | 2017 RMB'000 [O AE w © | 2016 RMB'000 [O AE w © |
|---------------------|---------|-------------------------------|-------------------------------|
| Share of net assets | ± & * X | 9,024 | 7,988 |

Particulars of the joint ventures are as follows:

¥ † 8 Y ‹ ½ h j

| | | | | | | |
|---|--------------------------------|----------|----|----|----|--|
| Guangdong Lesso EPCO Residential Equipment Design Services Co., Ltd.* | RMB10,000,000 | PRC | 50 | 50 | 50 | Provision of household decoration design work and maintenance services |
| ? | [O AE 10,000,000 © | • 7 | 50 | 50 | 50 | d 6 • ç t £ i j L |
| Lesso Home Syn Tai Hung Sdn. Bhd.† | Malaysian Ringgit 1,000,000 | Malaysia | 51 | 50 | 51 | Sale of building materials and household products |
| i " • ! } ÷ [p " © ! # | 1,000,000 õ 8 -) \$ | õ 8 - | 51 | 50 | 51 | V / i i • ç * Ü |

* The joint venture was newly set up during the year.

• ¥ † 8 õ l Ë - Ó m f

The following table illustrates the information of the Group's interests in joint ventures:

h CE O • l « õ ¥ † 8 AE B Y Ø j

| | | | |
|-----------------------------------|--------------|-----|-----|
| Share of joint ventures: | ± & ¥ † 8 m | | |
| Profit from continuing operations | 5 f ¾ 8 P ; | 243 | 813 |
| Other comprehensive income | l ü CE & x B | - | - |
| Total comprehensive income | CE & x B < X | 243 | 813 |

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| | | Note | 2017 RMB'000 [O Æ w © | 2016 RMB'000 [O Æ w © |
|---|----------------------------|-------|------------------------------|------------------------------|
| Listed investments: | j 9 ³ j | | | |
| Debt securities listed in Hong Kong | ō 0 ¥ j 9 À Ç N | (i) | 7,935 | - |
| Equity securities listed in PRC | ō • 7 j 9 p l Ç N | | 412,318 | 515,777 |
| Equity securities listed in Hong Kong | ō 0 ¥ j 9 p l Ç N | | 1,095,840 | - |
| Non-cumulative redeemable preference shares listed in Hong Kong | ō 0 ¥ j 9 ç] Û « ' ç p | | 33,635 | 44,991 |
| Perpetual capital securities listed in Hong Kong | ō 0 ¥ j 9 Q n l Ç N | | 8,403 | 30,597 |
| | | | 1,558,131 | 591,365 |
| Unlisted investments: | ç j 9 ³ m | | | |
| Equity securities | p l Ç N | (ii) | 24,077 | 15,625 |
| Convertible notes | l p C ½ | (iii) | - | 123,824 |
| | | | 24,077 | 139,449 |
| | | | 1,582,208 | 730,814 |

Note:

- (i) The debt securities carry 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 are issued by private entities established in PRC. They are measured at cost less any impairment losses at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably.
- (iii) The convertible notes are issued by a private company incorporated in US with an interest rate of not less than 5.00% per annum and will mature in three years from the date of the issuance.

• W j

- (i) À Ç N Y ; 1 2 x > Ë ; 6.35% 7.00%
Q d Ê Ë Ö ù ç Z ö 2020 Ê 1 Ü 2020 Ë 3 Ü
Q , f
- (ii) ç j 9 p l Ç N J _ ò • 7 Ó m Y ÷ ¼ Ô ï
f _ ò ¥ # Y @^a = í Ä } d è + ©
% l @^a = ì , f Ž d³ W ò S
, K 2 Ó l⁻ , - = f & Ž f
- (iii) l p C ½ J _ S ç è Ö 7 Ó m Y ÷ @ ! Ô ï
f l Ê ; " - ö 5.00% d (Z ö ï Ú , ï
g Ê Q , f

The convertible notes are separated into two components: the debt element and the conversion option element. The Group has classified the debt element and the conversion option element as available-for-sale investments and derivative financial instruments, respectively. Details of the conversion option element were included in note 23 to the consolidated financial statements.

l p C ½ ± % G H \ Ó Á ± j Ä Á ± ç 7
l Æ Á ± f l « ± 9 Z Á Á ± ç 7 l Æ Á
± á ó % 6 / 3 ç [- D ^ H f 7 l
Æ Á ± ~ (Š ^ ò) ¥ ï Ç E • W 23 f

On 22 December 2017, all outstanding convertible notes were early redeemed by the issuer at a cash consideration of RMB149,876,000. The redemption has resulted in a net gain of RMB6,196,000 which was recognised in profit or loss for the year.

ö 2017 Ê 12 Ü 22 Ú d Ô Þ J 4 ~ l p C
½ i _ ï [ø \$ - Þ [O Æ 149,876,000 ©
d Ø Ú « f Ú « m 8 [O Æ 6,196,000 © Y
x B d Š ö Ê « & B • ½ © f

- (iv) At the end of the reporting period, certain of the Group's available-for-sale investments with an aggregate carrying amount of RMB33,635,000 (2016: RMB36,489,000) were pledged to a bank to secure the banking facility granted. The Group has not utilised this banking facility as at 31 December 2017 (2016: Nil).

- (iv) ò S , K d l « < * & = % [O Æ
33,635,000 © 2016 Ê j [O Æ 36,489,000 © •
Y ò • 6 / 3 Š £ Ö é á * % - Ö
D Y Ä - f ö 2017 Ê 12 Ü 31 Ú d l « ? ï
 \ Ö D € 2016 Ê j l f

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



20. 5 P Q, 3

| | | 2017 RMB'000 [O Æ w © | 2016 RMB'000 [O Æ w © |
|-------------------------------------|-------------------------|------------------------------|------------------------------|
| Debt securities, at amortised cost: | 2 Å V Ó I • * Y À Ç N j | | |
| Listed in Hong Kong | 0 ¥ j 9 | - | 59,655 |

The Group reclassified debt securities with amortised cost of RMB33,650,000 from held-to-maturity investments to available-for-sale investments during the year as certain debt securities were disposed by the Group before their maturity dates.

— ò I « a ð • À Ç N ò I Q, Ú Ñ
/ d I « ò È « Z [O Æ 33,650,000 ©
2 Å V Ó I • * Y À Ç N } 5 P Q, 3
- á ó 6 / 3 f

21. LOAN RECEIVABLES

21. Đ x > ›

| | | | |
|--|-----------------|---------|---------|
| Non-current | ç t | | |
| Finance lease receivables | D a # Đ x › ° | 228,710 | 63,191 |
| Current | t | | |
| Finance lease receivables | D a # Đ x › ° | 109,677 | 31,886 |
| Factoring receivables | - # Đ x › ° | 321,929 | 173,640 |
| Receivables from supply-chain financing services | 6 Đ á D Đ x › ° | 129,600 | 120,238 |
| | | 561,206 | 325,764 |
| | | 789,916 | 388,955 |

21. 应收融资租赁款

(A) 按账龄披露

| | | Minimum lease receivables | | Present value of minimum lease receivables | |
|--|-----------|---------------------------|---------|--|---------|
| | | 2017 | 2016 | 2017 | 2016 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | [OAE w@ | [OAE w@ | [OAE w@ | [OAE w@ |
| Not more than 1 year | 一年以内 | 117,912 | 36,457 | 109,677 | 31,886 |
| Over 1 year but within 5 years | 1年至5年 | 272,151 | 66,819 | 228,710 | 63,191 |
| | | 390,063 | 103,276 | 338,387 | 95,077 |
| Less: Unearned finance income | 未实现融资收益 | (51,676) | (8,199) | | |
| Present value of minimum lease receivables | 应收融资租赁款现值 | 338,387 | 95,077 | | |

The Group's finance lease receivables are denominated in Renminbi. The effective interest rates of the receivables range from 5.89% to 12.70% (2016: 5.89%) per annum. There are no unguaranteed residual value of assets leased under finance leases and no contingent rent arrangement that need to be recognised in both years.

本集团的融资租赁款均以人民币计价。应收融资租赁款的实际利率在5.89%至12.70%（2016年：5.89%）之间。融资租赁资产不存在未担保的残值，且不存在需要在两个年度内确认的或有租金。

21. 2017 年 12 月 31 日 的 应 收 票 据 融 资

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 4.50% to 6.00% (2016: 4.50% to 6.00%) per annum.

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

(B) 2017 年 12 月 31 日 的 应 收 票 据 融 资 的 账 龄 分 析 如 下：

2017 年 12 月 31 日 的 应 收 票 据 融 资 的 账 龄 分 析 如 下：

2016 年 12 月 31 日 的 应 收 票 据 融 资 的 账 龄 分 析 如 下：

| With a residual maturity of: | 账 龄 | 2017 年 12 月 31 日 | 2016 年 12 月 31 日 |
|------------------------------|----------------|------------------|------------------|
| Not more than 3 months | 不 超 过 3 个 月 | 44,700 | 37,640 |
| Over 3 months to 6 months | 3 个 月 至 6 个 月 | 125,000 | 36,000 |
| Over 6 months to 12 months | 6 个 月 至 12 个 月 | 152,229 | 100,000 |
| | | 321,929 | 173,640 |

At the end of the reporting period, none of the Group's factoring receivables was either past due or impaired (2016: Nil).

2017 年 12 月 31 日 的 应 收 票 据 融 资 均 未 逾 期 或 减 值 (2016 年 12 月 31 日 无)。

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



21. 应收账款

(C) 6 应收账款

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 30 to 180 days.

These receivables carry interest at rates ranging from 5.40% to 7.20% per annum (2016: 5.40% to 7.20%).

Certain receivables from supply-chain financing services, amounting to RMB50,000,000 (2016: RMB49,938,000) 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:

截至报告期末，应收账款中由供应链融资服务产生的应收账款，其信用期通常为30至180天。

这些应收账款的利率在5.40%至7.20%之间（2016年：5.40%至7.20%）。

某些由供应链融资服务产生的应收账款，金额为人民币50,000,000元（2016年：人民币49,938,000元），由某些公司的利益和个人担保。

报告期末，供应链融资服务的应收账款的到期情况如下：

| With a residual maturity of: | q, " j | | |
|------------------------------|-----------------|---------|---------|
| Not more than 3 months | " μ ö3 H Ü | 95,600 | 83,238 |
| Over 3 months to 6 months | 3 H Ü ø j 6 H Ü | 34,000 | 37,000 |
| | | 129,600 | 120,238 |

At the end of the reporting period, none of the Group's receivables from supply-chain financing services was either past due or impaired (2016: Nil).

The directors believe that no provision for impairment is necessary for loan receivables (2016: Nil) as there has not been any significant change in the credit quality of these customers and these balances are still considered fully recoverable.

报告期末，集团供应链融资服务的应收账款没有逾期或减值（2016年：无）。

董事认为，由于这些客户的信用质量没有发生重大变化，且这些余额仍被视为完全可收回，因此不需要为贷款应收账款计提减值准备（2016年：无）。

22. I ü ç t *

| | | 2017 RMB'000 [O Æ w © | 2016 RMB'000 [O Æ w © |
|------------------------------|-----------------|------------------------------|------------------------------|
| Other long-term receivables | I ü — , Ð x › ° | 52,591 | 37,623 |
| Long-term rental prepayments | — , a - k ù › ° | 98,000 | — |
| | | 150,591 | 37,623 |

23. DERIVATIVE FINANCIAL INSTRUMENTS

23. [- D ^ H

| | | | |
|---------------------|---------|---|--------|
| | | | |
| Non-current assets: | ç t * j | | |
| Conversion option | 7 Æ | — | 32,566 |

The Group's derivative financial instruments are managed and the performances are evaluated on fair value basis. Any changes in fair value is recognised in profit or loss.

I « ~ [- D ^ H ç | Ç \$ W 2 ®^a
= %o ? _ M # ç Y f , ®^a = i
ö & B « ½ © f

The fair value of the conversion option has been estimated using valuation technique with unobservable inputs. Management has reviewed the valuation result by verifying all major inputs and assumptions as well as assessing the reasonableness of such valuation.

7 | Æ Y ®^a = Š ® \ = ù , ç ”
H À Y i] p ½ f M # 4 Š À @ Ç Ô
P ô i] p ½ ç ÿ £ ù ì 2 a =
d (Y = ~ ¥ # ì f

Details of the conversion option were included in note 19(iii) to the consolidated financial statements.

7 | Æ Y Z «™ Š ^ ö] ¥ ì Ç
• W19(iii) f

The conversion option lapsed upon the early redemption of the convertible notes by the issuer during the year. A loss on fair value change of RMB31,575,000 (2016: gain on fair value change of RMB1,942,000) was recognised in profit or loss for the year.

_ ö ï ö È « d Ø ù « | p C ½ - ç
7 | Æ 0 Ö f [O Æ 31,575,000 € 2016
È j ®^a = ; B [O Æ 1,942,000
© • ®^a = f & ½ © ö È « & B f

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



24.   

| | | 2017 RMB'000 [O   w   | 2016 RMB'000 [O   w   |
|---------------------------|-----------|------------------------------|------------------------------|
| Manufacturing and trading |       q   | 3,099,969 | 2,747,065 |
| Property development | J 8   | 127,773 | - |
| | | 3,227,742 | 2,747,065 |

(A) MANUFACTURING AND TRADING

(A)       q  

| | | | |
|------------------|-------|-----------|-----------|
| Raw materials | a     | 1,445,320 | 1,170,591 |
| Work in progress | - *   | 297,190 | 355,142 |
| Finished goods | *     | 1,357,459 | 1,221,332 |
| | | 3,099,969 | 2,747,065 |

(B) PROPERTY DEVELOPMENT

(B) J 8  

| | | | |
|----------------------------|---------|---------|---|
| Property under development |     J 8 | 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.

    J 8 k   S ,    
d Z H       (6 / f

25. 合同资产

| | | 2017 RMB'000 [O A E w © | 2016 RMB'000 [O A E w © |
|--|------------------------------|--------------------------------|--------------------------------|
| Contracts in progress at the end of the reporting period | 截至报告期末正在履行的合同资产 | | |
| Contract costs incurred plus recognised profits less recognised losses to date | 合同履约成本加上已确认的利润减去已确认的损失至本报告期末 | 1,292,781 | 744,649 |
| Less: Progress billings | 减：合同履约进度确认的收入 | (1,125,097) | (621,419) |
| | | 167,684 | 123,230 |
| Analysed for reporting purposes as: | 按报告目的分析如下： | | |
| Amounts due from customers for contract work | 合同履约成本中应向客户收取的款项 | 269,239 | 163,279 |
| Amounts due to customers for contract work | 合同履约成本中应向客户支付的款项 | (101,555) | (40,049) |
| | | 167,684 | 123,230 |

26. TRADE AND BILLS RECEIVABLES

26. 应收账款及应收票据

| | | | |
|--------------------------------|--------|-----------|-----------|
| Trade receivables | 应收账款 | 1,981,994 | 1,254,357 |
| Bills receivable | 应收票据 | 187,675 | 383,921 |
| Less: Provision for impairment | 减：坏账准备 | (145,061) | (121,030) |
| | | 2,024,608 | 1,517,248 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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:

| | | | |
|----------------------------|------------------|-----------|-----------|
| Not more than 3 months | " μ 53 H Ü | 1,063,621 | 786,926 |
| Over 3 months to 6 months | 3 H Ü ø j 6 H Ü | 438,828 | 309,326 |
| Over 6 months to 12 months | 6 H Ü ø j 12 H Ü | 248,608 | 153,734 |
| Over 1 year to 2 years | 1 È ø j 2 È | 173,230 | 218,297 |
| Over 2 years to 3 years | 2 È ø j 3 È | 90,318 | 42,585 |
| Over 3 years | 3 È ø j | 10,003 | 6,380 |
| | | 2,024,608 | 1,517,248 |

26. q ø Ð x › ° ç C ½ € f •

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 e z Ý ^ û Õ e Ò ® * š ĩ e ® \
 + 8 ® ! ç 9 A Å ~ f I « V ÷ 9 1 e 9
 + ç ~ Ò Y ë . d Z I ~ ù m ± V
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 \ \ , " f H 9 ø ± V Ò Y \ \ , " V
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 G ... € Á f • | e - Ð ò , Ò Y V / S
 › k , ø k ù Û Ì Ð ò t ~ ò , « Q f
 I « (Ì % f • | e - Ð ò , Ò £ m Ì
 \ , " f

q ø Ð x › ° ç C ½ i % Ì ê â ç 5 1 f

ò S , K d I « Y q ø Ð x › ° ç C ½
 2 ĩ C Ú , (Ò ð a ê Y * g ± ½ h j

€ f •

The movements in the provision for impairment of the Group's trade receivables are as follows:

I « q ø Ð x › ° Y ⁻ = a ê Y ½ h j

| At 1 January | õ 1 Ü 1 Ú | 121,030 | 81,077 |
|--------------------------------------|-------------------|---------|---------|
| Impairment losses recognised | Š ½ © ⁻ = f & | 25,268 | 30,227 |
| Acquisitions of subsidiaries | x ... • n ® ! | – | 10,805 |
| Amounts written off as uncollectible | Û V % " x « Y – X | (1,237) | (1,079) |

The above provision of RMB145,061,000 (2016: RMB121,030,000) is for individually impaired trade receivables with their aggregate carrying amount before provision of RMB226,233,000 (2016: RMB185,596,000). The individually impaired trade receivables relate to customers that are in default or delinquency in payments.

j a ê [O Æ 145,061,000 © 2016 Ë j [O Æ 121,030,000 © • 1 a ê ~ Å * & < = % [O Æ 226,233,000 © 2016 Ë j [O Æ 185,596,000 © • Y H 9 ⁻ = q ø Ð x › ° * f H 9 ⁻ = q ø Ð x › ° ~ < Ò Ð î Þ ù › Y Ò Þ ë f

The aging analysis of the Group's trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

I « H 9 ¿ • • Q i " V % Š ⁻ = q ø Ð x › ° ¿ C ½ Y * g ± ½ h j

| Neither past due nor impaired | J C , u J ⁻ = | 1,340,594 | 929,097 |
|-------------------------------|------------------|-----------|-----------|
| Past due but not impaired: | Š C , (J ⁻ = j | | |
| Not more than 3 months | " µ õ 3 H Ü | 226,904 | 149,266 |
| Over 3 months to 6 months | 3 H Ü ø j 6 H Ü | 89,021 | 96,488 |
| Over 6 months to 12 months | 6 H Ü ø j 12 H Ü | 143,032 | 172,369 |
| Over 1 year to 2 years | 1 Ë ø j 2 Ë | 84,746 | 79,448 |
| Over 2 years to 3 years | 2 Ë ø j 3 Ë | 52,994 | 23,405 |
| Over 3 years | 3 Ë ø j | 6,145 | 2,609 |
| | | 1,943,436 | 1,452,682 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



26. Receivables

Receivables that are neither past due nor impaired relate to a large number of diversified customers for whom there is no recent history of default.

These receivables are primarily from diversified customers and are not past due or impaired.

Receivables that are past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors believe that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

These receivables are primarily from independent customers with a good track record and are not past due or impaired.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

27. Prepayments, deposits and other receivables

| | | | 2022 | 2021 |
|---|---|----|-----------|-----------|
| Prepayments | Prepayments | | 1,020,050 | 1,023,150 |
| Current portion of prepaid land lease payments | Current portion of prepaid land lease payments | 13 | 27,153 | 26,092 |
| Value-added tax recoverable | Value-added tax recoverable | | 259,512 | 186,063 |
| Corporate income tax recoverable | Corporate income tax recoverable | | 182 | 2,026 |
| Deposits | Deposits | | 78,380 | 96,718 |
| Receivable from early redemption of convertible notes | Receivable from early redemption of convertible notes | | 145,508 | — |
| Other receivables | Other receivables | | 82,522 | 85,596 |
| | | | 1,613,307 | 1,419,645 |

The financial assets included in the above balances are unsecured, interest-free and receivable on demand.

These financial assets are unsecured, interest-free and receivable on demand.

28. 货币资金

| | | 2017 RMB'000 [O Æ w © | 2016 RMB'000 [O Æ w © |
|--|---------------------------------|------------------------------|------------------------------|
| Restricted cash: | a " S \$ - j | | |
| Guarantee deposits for banking facilities | * % Õ D Y Ä - 2 - | 774,611 | 815,225 |
| Cash and cash equivalents: | \$ - ç \$ - J j | | |
| Time deposits with original maturity of three months or less when acquired | , Ä € a Þ, " % g H Ü Ð ø h • | 102,539 | 238,570 |
| Cash and bank balances | \$ - ç Õ q | 3,575,220 | 2,831,888 |
| | | 3,677,759 | 3,070,458 |
| Cash and bank deposits | \$ - ç Õ Ä › | 4,452,370 | 3,885,683 |

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods between one day and twelve months and earn interest at the respective short-term time deposit rates. The bank balances and restricted cash are deposited with creditworthy banks with no recent history of default.

货币资金包括受限制的现金、银行存款、定期存款、现金及现金等价物。受限制的现金和银行存款存放在信用良好的银行，且无近期违约记录。定期存款的期限在一天至十二个月之间，按各自的短期存款利率计息。

29. TRADE AND BILLS PAYABLES

29. 应付账款和应付票据

| | | | |
|----------------|-------------|-----------|-----------|
| Trade payables | q ø Ð ù › ° | 918,375 | 784,645 |
| Bills payable | Ð ù C ½ | 2,102,710 | 2,818,517 |
| | | 3,021,085 | 3,603,162 |

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

应付账款和应付票据均为无息，且通常按30至90天的账期结算。

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



29. ȳøĐù›°¿C½€f•

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

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2 ĩ C Ú, Y * g ± ½ h j

| Not more than 3 months | " μ 53 H Ü | 1,914,118 | 828,384 |
|----------------------------|------------------|-----------|-----------|
| Over 3 months to 6 months | 3 H Ü ø j 6 H Ü | 357,082 | 230,293 |
| Over 6 months to 12 months | 6 H Ü ø j 12 H Ü | 702,632 | 2,495,188 |
| Over 1 year to 2 years | 1 Ę ø j 2 Ę | 20,587 | 6,614 |
| Over 2 years to 3 years | 2 Ę ø j 3 Ę | 5,465 | 14,962 |
| Over 3 years | 3 Ę ø j | 21,201 | 27,721 |
| | | 3,021,085 | 3,603,162 |

30. OTHER PAYABLES AND ACCRUALS

30. I ü Đ ù › ° ¿ Đ I \

| Advances from customers | Ò › | 1,120,169 | 1,108,297 |
|-------------------------------|-------------|-----------|-----------|
| Accruals | Đ I \ | 63,933 | 43,541 |
| Salaries and welfare payables | Đ ù ^ ¿ E ; | 125,988 | 96,759 |
| Other payables | I ü Đ ù › ° | 582,832 | 482,973 |
| | | 1,892,922 | 1,731,570 |

The financial liabilities included in the above balances are interest-free and repayable on demand.

j q < Y - D À W 5 1 ¿ 2 Ę "

| | | 2017 RMB'000 [O Æ w © | 2016 RMB'000 [O Æ w © |
|---|--------------------------------|------------------------------|------------------------------|
| Current | t | | |
| Unsecured bank loans | ì ê á Õ r › | 2,698,795 | 2,109,925 |
| Current portion of long-term unsecured bank loans | —, ì ê á Õ r › Y t Á ± | 70,624 | 131,479 |
| Current portion of long-term unsecured syndicated loans | —, ì ê á Õ r › Y t Á ± | — | 2,010,750 |
| Secured bank loans | p ê á Õ r › | 105,500 | — |
| Secured other loans | p ê á l ü r › | 2,337 | — |
| | | 2,877,256 | 4,252,154 |
| Non-current | ç t | | |
| Unsecured bank loans | ì ê á Õ r › | 422,168 | 422,907 |
| Unsecured syndicated loans | ì ê á Õ r › | 4,988,151 | — |
| Secured bank loans | p ê á Õ r › | 19,800 | 7,500 |
| Loans from non-controlling interests | ç › S Æ B r › | 12,000 | 12,000 |
| | | 5,442,119 | 442,407 |
| | | 8,319,375 | 4,694,561 |
| Analysed into borrowings repayable: | ² µ " > › j | | |
| Within one year or on demand | S Ë « Ð 2 Ë Û | 2,877,256 | 4,252,154 |
| In the second year | K Z Ë « | 338,236 | 422,907 |
| In the third to fifth years, inclusive | K g Ë K ž Ë « € < / ^ G Ë • | 5,092,722 | 14,476 |
| More than five years | µ ò ž Ë | 11,161 | 5,024 |
| | | 8,319,375 | 4,694,561 |

Note:

- (a) The effective interest rates of the Group's borrowings range from 1.60% to 6.00% (2016: 1.06% to 4.90%) per annum.
- (b) 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 service.
- (c) The loans from non-controlling interests are unsecured, interest-free and will mature in September 2019 (2016: unsecured, interest-free and will mature in September 2019).
- (d) At the end of the reporting period, the Group's borrowings are denominated in US dollar, HK dollar, Renminbi, Australian dollar and Canadian dollar are equivalent to RMB5,213,421,000 (2016: RMB3,478,442,000), RMB1,254,263,000 (2016: RMB876,620,000), RMB1,108,835,000 (2016: RMB339,499,000), RMB537,423,000 (2016: Nil) and RMB205,433,000 (2016: Nil), respectively.

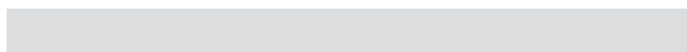
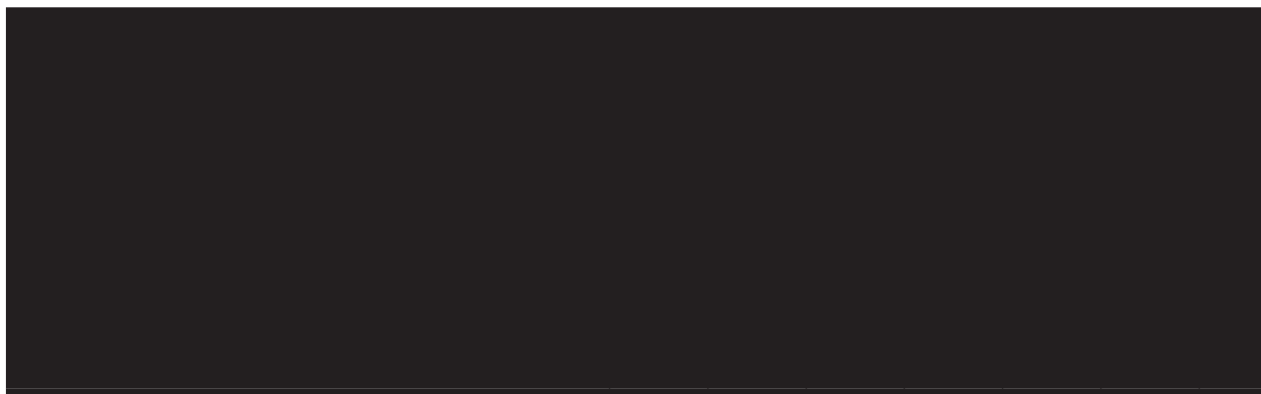
• W j

- (a) I « > › ~ ¼ ç Ë ; \$ ÷ 1.60% 6.00% " € 2016 Ë j 1.06% 4.90%
- (b) p ê á Õ r › W ø j (i) • n © ! Y \$ ç ¼ Æ ç l S p Y H [Á - i (ii) I « ò d 6 - # Û x Q Y ð • 8 C ½ i ç (iii) ð • 6 Ð á D Ð x › ° * ê á f
- (c) ç › S Æ B r › % ì ê á e 5 ' ç Z ð 2019 Ë 9 Û Q € 2016 Ë j ì ê á e 5 ' ç Z ð 2019 Ë 9 Û Q , f
- (d) ð S , K d l « ø Õ © e ¥ © e [O Æ e æ © ç © = Y > › ± 9 = ð [O Æ 5,213,421,000 € 2016 Ë j [O Æ 3,478,442,000 © • e [O Æ 1,254,263,000 © € 2016 Ë j [O Æ 876,620,000 © • e [O Æ 1,108,835,000 € 2016 Ë j [O Æ 339,499,000 © e [O Æ 537,423,000 © € 2016 Ë j ì • ç [O Æ 205,433,000 © € 2016 Ë j f

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17

The major deferred tax assets/(liabilities) recognised and their movements during the current and prior years are as follows:



32. 递延所得税

| | | 2017 RMB'000 [O A E w © | 2016 RMB'000 [O A E w © |
|---|---------|--------------------------------|--------------------------------|
| Gross deferred tax assets recognised in the consolidated statement of financial position | 递延所得税资产 | 69,908 | 53,869 |
| Gross deferred tax liabilities recognised in the consolidated statement of financial position | 递延所得税负债 | (444,640) | (272,568) |
| | | (374,732) | (218,699) |

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between mainland China and the jurisdictions of the foreign investors. The applicable rate for the Group is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in mainland China in respect of their earnings generated from 1 January 2008.

At the end of the reporting period, the Group has not recognised deferred tax liabilities of RMB275,791,000 (2016: RMB263,925,000) in respect of temporary differences relating to the undistributed profits of subsidiaries, amounting to RMB5,515,812,000 (2016: RMB5,278,506,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

根据《中华人民共和国企业所得税法》的规定，对于在中国境内设立的外资企业，凡在中国境内取得股息、红利等权益性投资收益的企业，自2008年1月1日起，按照10%的税率征收预扣所得税。如果该外资企业所在国家或地区与中国签订了避免双重征税的协定，且该协定规定的税率低于10%的，则按照该协定规定的税率征收预扣所得税。本集团的适用税率是5%。因此，本集团对于在中国境内设立的外资企业，自2008年1月1日起，对其分配的股息、红利等权益性投资收益，按照10%的税率征收预扣所得税。

截至报告期末，本集团没有就与未分配利润相关的暂时性差异确认递延所得税负债275,791,000元（2016年：263,925,000元），因为这些暂时性差异是未分配利润，金额为5,515,812,000元（2016年：5,278,506,000元），这些暂时性差异在可预见的未来很可能不会转回，因此本集团没有就这些暂时性差异确认递延所得税负债。

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Deferred income represents government grants received by the Group as financial subsidies for the construction of new factory premises in Changchun, Daqing, Hubei and Hunan and rental income received in advance from certain of the Group's employees for leasing the staff quarters.

The government grants are released to profit or loss over the expected useful lives of the relevant premises by equal annual instalments, while rental income received in advance is recognised on the straight-line basis over the respective lease terms.

34. SHARE CAPITAL



Note:

During the year of 2016, the Company bought back and cancelled a total of 7,837,000 ordinary shares of the Company on the Stock Exchange at a total consideration (including expenses) of HK\$32,917,000 (approximately RMB28,052,000).

35. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries which are established in PRC has been transferred to reserve funds which are restricted for use.

36. SHARE OPTION SCHEME

A share option scheme was adopted by the Company on 14 May 2010 (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

No share options have been granted under the Share Option Scheme since its adoption.

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7,837,000 p l @ ! w • p p ... d < p € < š Ō %
32,917,000 ¥ € Ò [O Æ 28,052,000

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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During the year, the Group entered into a sale and purchase agreement to acquire 51% equity interest in Jianghuai Inspection at a cash consideration of RMB10,200,000.

Jianghuai Inspection is principally engaged in product quality inspection and calibration of measuring instruments. The acquisition allow the Group to further diversify its businesses.

The fair values of the identifiable assets and liabilities of Jianghuai Inspection at the date of acquisition assumed by the Group are as follows:

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| | | |
|---|------------------------------------|---------|
| Property, plant and equipment | J 8 e @ Ò ç £ ê | 1,154 |
| Inventories | À ¬ | 22 |
| Trade and bills receivables | q ø Ð x › ° ç C ½ | 2,008 |
| Prepayments, deposits and other receivables | k ù › e 2 - ç l ü Ð x › ° | 483 |
| Cash and bank deposits | \$ - ç Ö À › | 97 |
| Other payables and accruals | l ü Ð ù › ° ç Ð l \ | (930) |
| Total identifiable net assets at fair value | Æ 9 * = < X € 2 © ^a = • | 2,834 |
| Non-controlling interests | ç › S Æ B | (1,389) |
| Goodwill arising on acquisition | x ... * [Y ´ | 8,755 |
| Total consideration satisfied by cash | ø \$ - ù Ì Ö ù Y p < X | 10,200 |

Acquisition-related costs incurred in relation to the above acquisition is insignificant and have been excluded from the cost of acquisition and have been recognised directly as expenses for the year and are included in “other expenses” in profit or loss.

The fair values of the trade and bills receivables and other receivables at the date of acquisition amounted to RMB2,008,000 and RMB392,000 respectively, which approximate to the gross contractual amounts of the corresponding balances acquired by the Group. At the date of acquisition, management considered that the contractual cash flows not expected to be collected were insignificant.

None of the goodwill recognised is expected to be deductible for income tax purposes.

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õ x ... Ú d q ø Ð x › ° ç C ½ q l ü Ð x
› ° Y ©^a = ± 9 % [O Æ 2,008,000 ©
ç [O Æ 392,000 © d ~ l « x ... ´
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4 © % k , ì , x « Y ¥ Ö \$ - t Ž (" } f

1 © Ô { ü p d Ô Þ Š ½ © ~ ´ « ”
Ô ü f

37. 8 ¥; € f •

An analysis of the cash flows in respect of the acquisition is as follows:

▷ ÷ x ... Y \$ - t Ž ± ½ h j

| | | |
|---|---|--------|
| Cash consideration paid | Š ù \$ - p | 10,200 |
| Less: Cash and cash equivalents acquired | ~ j Š x ... \$ - ç \$ - J | (97) |
| Net outflow of cash and cash equivalents included in investing activities | ³ z < Y \$ - ç \$ - J t - X | 10,103 |

The operating result of the above subsidiary had no significant impact on the Group's consolidated revenue or profit for the year ended 31 December 2017.

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S V Ë d Z Ü g d S Ú ß Ë ~] ¥ x B Ð
P ; (ì) B ð f

38. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (2016: Nil).

38. Ð í À

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€ 2016 Ë j ì f

39. OPERATING LEASE ARRANGEMENTS

(A) AS LESSOR

The Group leases certain office premises under operating lease arrangements, with leases negotiated for terms ranging from one to thirteen years.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

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(A) * % a [l « ì ½ ¼ a # Ä ° a ð • l
® d a , › % S d g Ë " f

| | | | |
|------------------------|-------------|---------|-------|
| Not more than 1 year | " μ ð 1 Ë | 31,491 | 6,751 |
| Over 1 year to 5 years | 1 Ë ø j 5 Ë | 57,839 | 2,101 |
| Over 5 years | 5 Ë ø j | 50,344 | - |
| | | 139,674 | 8,852 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



39. ¾ a # Ä ° € f •

The Group leases certain of its office premises, production plants, warehouses and equipment under operating lease arrangements. Leases are negotiated for terms ranging from one to sixteen years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

(B) * % Õ a [I « ì ½ ¾ a # Ä ° d a \ ð • I ® e [* @ Ò e Q « ÿ £ ê f a , › % S d - Ë ” f

ð S , K d ì ½ ” Þ V ¾ a Ò d I « Q , Ð ù Y J 8 ð - a - < X ½ h j

| Not more than 1 year | " µ ð 1 Ë | 183,362 | 35,073 |
|------------------------|-------------|-----------|---------|
| Over 1 year to 5 years | 1 Ë ø j 5 Ë | 754,465 | 92,501 |
| Over 5 years | 5 Ë ø j | 583,922 | 24,239 |
| | | 1,521,749 | 151,813 |

40. COMMITMENTS

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

40. Õ Ä

ð S , K d I « ¹ Þ ø h I Õ Ä j

| Contracted, but not provided for: | Š Ò (J a ê j | | |
|---|-------------------------------|---------|---------|
| Land, property, plant and equipment and investment properties | z ® e J 8 e @ Ò ÿ £ ê q ³ J 8 | 636,381 | 875,036 |
| Investment in a joint venture | ð S œ ¥ † 8 Y ³ | 23,520 | - |
| | | 659,901 | 875,036 |

41. 关联方交易

(A) 关联方交易

| | | Note | 2017 RMB'000 [O Æ w © | 2016 RMB'000 [O Æ w © |
|---|------------------------------|---------------------|------------------------------|------------------------------|
| Connected transactions | 关联方交易 | | | |
| Transactions with companies under the common control of a director: | 与受同一实际控制人控制的公司之间的交易 | | | |
| Sale of goods | 销售商品 | (i) [#] | 2,626 | 380 |
| Financial service income | 金融服务收入 | (ii) | — | 2,374 |
| Consumption of utilities | 消耗水电 | (iii) | 1,033 | 1,673 |
| Rental expenses | 租赁费用 | (iv) | 3,907 | 4,129 |
| Purchase of materials | 购买材料 | (v) [#] | 5,195 | 5,675 |
| Purchase of machinery and/or equipment | 购买机器设备 | (vi) | 122,993 | 96,357 |
| Purchase of electronic accessories | 购买电子配件 | (vi) | 28 | 13 |
| Licensing trademarks | 许可商标 | (vii) [#] | 404 | 407 |
| Acquisition of Guangdong Lesso Lighting Co., Ltd* (“GD Lighting”) | 收购广东乐索照明有限公司 (“GD Lighting”) | (viii) [#] | — | 5,000 |
| Disposal of Lesso Hardware | 处置乐索五金 | (ix) | 25,000 | — |
| Assignment of rights of receivables | 应收账款债权转让 | (x) | 29,937 | — |
| Agency services from companies under the control of a director | 受同一实际控制人控制的公司提供的代理服务 | (xi) [#] | 4,468 | 3,247 |
| Rental expenses paid to directors | 支付给董事的租赁费用 | (xii) [#] | 1,613 | 1,592 |
| Non-connected transactions | 非关联方交易 | | | |
| Advisory services from a company under the significant influence of directors | 受董事重大影响的公司提供的咨询服务 | (xi) | 1,859 | 7,358 |
| Design and maintenance services from a joint venture | 来自合资企业的维护和设计服务 | (xiii) | 3,600 | 3,600 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



41. 关联方交易 (Related Party Transactions)

(A) 关联方交易 (Related Party Transactions)

Note:

- (i) Sale of goods to related companies were made with reference to the prices and conditions offered by the Group to third-party customers.
- (ii) Provision of financial service was made in accordance with the respective contractual terms offered by the Group to third-party customers.
- (iii) Utilities were provided by related companies at cost.
- (iv) Rental expenses were based on mutually agreed terms.
- (v) Purchase of materials from related companies were made based on mutually agreed terms.
- (vi) Purchase of machinery, equipment and electronic accessories from related companies were made with reference to the prices and conditions offered by the related companies to their third-party customers.
- (vii) Licensing trademarks to related companies were conducted based on mutually agreed terms.
- (viii) The consideration was agreed after arm's length negotiations with reference to the fair value of net assets of GD Lighting of approximately RMB5,000,000 as at 31 August 2016.
- (ix) The consideration was agreed after arm's length negotiations with reference to the fair value of net assets of Lesso Hardware of approximately RMB25,000,000 as at 7 July 2017.
- (x) The consideration was equivalent to the amount due from Lesso Hardware of the Group as at 7 July 2017.
- (xi) Agency services and advisory services were provided by related companies based on mutually agreed terms.
- (xii) Properties including office premises, cafeteria, workshops, warehouses and yacht were leased to the Group based on mutually agreed terms.
- (xiii) Services were provided by a joint venture based on mutually agreed terms.

• W j

- (i) 集团向关联方销售货物时参考了集团向第三方客户提供的价格和条件。
- (ii) 集团根据各自合同约定的条款向关联方提供金融服务。
- (iii) 集团向关联方提供水电费按成本价提供。
- (iv) 集团向关联方支付的租金费用均基于双方同意的条款。
- (v) 集团向关联方购买材料均基于双方同意的条款。
- (vi) 集团向关联方购买机器、设备和电子配件时参考了相关公司向他们的第三方客户提供的价格和条件。
- (vii) 集团向关联方许可商标均基于双方同意的条款。
- (viii) 考虑金额是在公平磋商后达成的，参考了GD Lighting净资产的公允价值，约为人民币5,000,000元，截至2016年8月31日。
- (ix) 考虑金额是在公平磋商后达成的，参考了Lesso Hardware净资产的公允价值，约为人民币25,000,000元，截至2017年7月7日。
- (x) 考虑金额等同于集团截至2017年7月7日欠Lesso Hardware的金额。
- (xi) 集团向关联方提供代理服务和咨询服务均基于双方同意的条款。
- (xii) 集团向关联方租赁包括办公室、食堂、车间、仓库和游艇在内的物业均基于双方同意的条款。
- (xiii) 集团向关联方提供的服务均由一家合资企业基于双方同意的条款提供。

These related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules but are exempted from complying with the disclosure requirements under the Listing Rules.

上述关联方交易构成《上市规则》第14A章定义的关联交易或持续关联交易，但获豁免遵守《上市规则》的披露规定。

42. - D ^ H € f •

(A) - D ^ H ó 9€ f •

| | | Note | 2017 RMB'000 [O Æ w © | 2016 RMB'000 [O Æ w © |
|--|----------------------------------|------|------------------------------|------------------------------|
| Financial liabilities | - D À | | | |
| Financial liabilities at amortised cost | 2 Á V Ó I • * Y - D À | | | |
| Trade and bills payables | q ø Ð ù › ° ÿ C ½ | 29 | 3,021,085 | 3,603,162 |
| Financial liabilities included in other payables and accruals |] I ü Ð ù › ° ÿ Ð I \ Y - D À | | 646,765 | 482,973 |
| Borrowings | > › | 31 | 8,319,375 | 4,694,561 |
| Other long-term payables | I ü — , Ð ù › ° | | 92,572 | 106,439 |
| | | | 12,079,797 | 8,887,135 |

(B) FAIR VALUE OF THE FINANCIAL INSTRUMENTS
THAT ARE MEASURED AT FAIR VALUE

(B) 2®ª = Ž Y - D ^ H Y®ª =

| | | | | |
|--------------------------------|-------|-----------|--------|-------------|
| | | | | |
| Available-for-sale investments | 6 / ³ | | | |
| Listed investments | j 9 ³ | 1,508,158 | 49,973 | - 1,558,131 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



42. - D ^ H € f •

$$(B) \quad 2 \textcircled{a} = \check{Z} Y - D \hat{H} Y \textcircled{a} = \text{€} f \bullet$$

| | | 2016 | | | |
|----------------------------------|--------------------|----------------------|-----------|-----------|-----------|
| | | Fair value hierarchy | | | |
| | | ① ^a = V ô | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| | | K S t | K Z t | K g t | < |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | [O Æ w © | [O Æ w © | [O Æ w © | [O Æ w © |
| Available-for-sale investments | 6 / ³ | | | | |
| Listed investments | j 9 ³ | 515,777 | 75,588 | - | 591,365 |
| Unlisted investments | ç j 9 ³ | - | - | 123,824 | 123,824 |
| Derivative financial instruments | [- D ^ H | - | - | 32,566 | 32,566 |
| | | 515,777 | 75,588 | 156,390 | 747,755 |

During the year, there was no transfer from level 1 to level 2 (2016: RMB43,238,000) and there were no transfers into or out of Level 3 for the financial instruments of the fair value measurements (2016: Nil).

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d K S t ~ K Z t ~ œ (ì , 7
€ 2016 Ë j [O Æ 43,238,000 ©
ò (ì 7] Ð 7 K g t € 2016 Ë j
f†

The movements in fair value measurements within Level 3 during the year are as follows:

Ë « K g t « Y ①^a = Ž ½
h j

| | | | |
|---|--|-----------|---------|
| At 1 January | õ 1 Ü1 Ú | 156,390 | - |
| Additions | ô Ä | - | 146,158 |
| Unrealised (loss)/gain recognised in profit or loss | õ & B « ½ © Y J ¼ \$€ f & ¶ x B | (31,575) | 1,942 |
| Unrealised gain recognised in other comprehensive income | õ l ü œ & x B « ½ © Y J ¼ \$; B | 29,819 | 7,846 |
| Early redemption | d Ø Û « | (149,876) | - |
| Exchange realignment | Ò 3 Æ | (4,758) | 444 |
| At 31 December | õ 12 Ü31 Ú | - | 156,390 |
| Total gain reclassified from other comprehensive income upon early redemption | ^a d Ø Û « p õ l ü œ & x B - á ó Y < x B | (37,665) | - |
| Total gain included in profit or loss upon early redemption | ^a d Ø Û « p õ & B « ½ © Y < x B | 37,771 | - |

42. - D ^ H € f •

(C) (ϕ 2 ® a = Ž ~ - D ^ H ~
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 œ ½ © ~ - D ^ H ~ * & = ~ l
 ® a = ' ð j

Except as disclosed in the following table, the carrying amounts of the Group's financial instruments recognised in the consolidated financial statements approximate their fair values:

| | | | | | |
|------------------------------|-----------|---|---|--------|--------|
| Financial asset | - D * | | | | |
| Held-to-maturity investments | 5 þ Q , 3 | - | - | 59,655 | 64,880 |

The fair values were based on the quoted market price provided by a leading global financial market data provider.

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise borrowings and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



43. – D, ^ M # f z ç A € f •

In respect of the floating interest rate instruments, the Group is subject to the cash flow interest rate risk, while for the fixed interest rate instruments, the Group is subject to fair value interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax by assuming the floating rate borrowings outstanding at the end of the reporting period were outstanding for the whole year.

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5 " d l « ð ü Ä P ; Á ¥ # • Y ;
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| | | | |
|-----------------------------|-----------------------|------|----------|
| Year ended 31 December 2017 | Ú 2017 Ę 12 Ü31 Ú ß Ę | 50 | (37,377) |
| Year ended 31 December 2017 | Ú 2017 Ę 12 Ü31 Ú ß Ę | (50) | 37,377 |
| Year ended 31 December 2016 | Ú 2016 Ę 12 Ü31 Ú ß Ę | 50 | (22,913) |
| Year ended 31 December 2016 | Ú 2016 Ę 12 Ü31 Ú ß Ę | (50) | 22,913 |

43. – D , ^ M # f z ç A € f •

The Group's main businesses are located in mainland China and most of the transactions are conducted in Renminbi. Most of the Group's assets and liabilities are denominated in Renminbi, except for certain cash and bank deposits, trade and bills receivables and borrowings denominated in HK dollar and US dollar. The Group has not hedged its foreign exchange rate risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Renminbi against the relevant currencies, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and loans).

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 ½ f

| 2017 | | | |
|---|-------------------|-----|----------|
| If the RMB weakens against the US\$ | J [O Æ 3 Ö © p = | 5 | 8,375 |
| If the RMB strengthens against the US\$ | J [O Æ 3 Ö © ° = | (5) | (8,375) |
| If the RMB weakens against the HK\$ | J [O Æ 3 ¥ © p = | 5 | (28,377) |
| If the RMB strengthens against the HK\$ | J [O Æ 3 ¥ © ° = | (5) | 28,377 |
| 2016 | | | |
| If the RMB weakens against the US\$ | J [O Æ 3 Ö © p = | 5 | 15,567 |
| If the RMB strengthens against the US\$ | J [O Æ 3 Ö © ° = | (5) | (15,567) |
| If the RMB weakens against the HK\$ | J [O Æ 3 ¥ © p = | 5 | (1,529) |
| If the RMB strengthens against the HK\$ | J [O Æ 3 ¥ © ° = | (5) | 1,529 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



43. – D , ^ M # f z ç A € f •

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank deposits and other receivables, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

In relation to the Group's financial services business, the Group has a credit team which is responsible for the evaluation of customers' credit ratings, financial background and repayment abilities. The Group only provides credit to customers with creditworthiness and collateral is normally required. The risk of default in payment by these customers is considered not significant.

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l « Ä ~ ® © ç ! ' f Y K g Û †
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† t ø Y Ò d @ ^ 2 ç . @ ! r è ¼ û
• f ä . d l « 5 f 9 Ä Ð x q Y ç 1
ç l « Y x * , ^ (" } f

l « Y l ü - D * € < \$ - ç Ö Ä
> ç l ü Ð x ° • Y ! r , ^ U t ø Á
Û Y ' - < Ò d ö } , ^ û ö ^ H
Y * & = f

_ ö l « Ä ~ ® © ç ! ' f Y K g Û
† t ø d B " ê ê á Ü f

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r ÿ ^ a Y Ò ~ ! r Y t e ì à {
ç µ " • b f l « Ä £ ! ' » Y Ò € P ä 6 Ò S » Ò Y 6 "

The Group aims to maintain sufficient cash and cash equivalents and available funding through various sources of finances to meet its commitments.

The maturity profile of the Group's financial liabilities at the end of each of the reporting periods, based on the contractual undiscounted payments, is as follows:

| | | | | | |
|---|-------------------------------------|-----------|---------|-----------|-----------|
| | | | | | |
| Trade and bills payables | q ø Ð ù › ° ç C ½ | 3,021,085 | – | – | 3,021,085 |
| Financial liabilities included in other payables and accruals |] I ü Ð ù › ° ç Ð I \ Y – D Å | 646,765 | – | – | 646,765 |
| Borrowings | > › | 3,057,639 | 485,020 | 5,138,454 | 8,681,113 |
| Other long-term payables | I ü — , Ð ù › ° | – | 67,800 | 24,772 | 92,572 |
| | | 6,725,489 | 552,820 | | |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



43. 流动负债 (€ million)

截至2016年12月31日

| | | 2016 | | | Total < RMB'000 [O A E w ©] |
|---|-----------------------------|---|--|---|--------------------------------------|
| | | Within 1 year 1 年 RMB'000 [O A E w ©] | 1 to 2 years 1 至 2 年 RMB'000 [O A E w ©] | More than 2 years 2 年以上 RMB'000 [O A E w ©] | |
| Trade and bills payables | 应付账款 | 3,603,162 | - | - | 3,603,162 |
| Financial liabilities included in other payables and accruals | 其他应付款项 中包含的金融负债 和应计项目 | 482,973 | - | - | 482,973 |
| Borrowings | 借款 | 4,315,968 | 84,891 | 374,677 | 4,775,536 |
| Other long-term payables | 其他长期应付款项 | - | 88,000 | 18,439 | 106,439 |
| | | 8,402,103 | 172,891 | 393,116 | 8,968,110 |

CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as going concern and to maintain reasonable capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to optimise the debt and equity balance, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or new debts or the redemption of existing debts. No changes were made in the objectives, policies or processes for managing capital during the year.

资本管理

集团资本管理的主要目标是保障集团持续经营的能力，并维持合理的资本比率，以支持其业务并最大化股东的价值。

集团根据其经济条件的变化管理其资本结构，并对其进行调整。为了优化债务和权益的平衡，集团可能会调整向股东的股息支付，向股东返还资本，发行新股份或新债务，或赎回现有债务。在报告期内，集团没有对资本管理的目标、政策或程序做出任何改变。

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



44. 负债 (Liabilities)

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

本集团于资产负债表日确认的负债如下：

| | | 2019年12月31日 | 2018年12月31日 | 2019年12月31日 | 2018年12月31日 | 2019年12月31日 | 2018年12月31日 |
|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | 人民币千元 | 人民币千元 | 美元千元 | 美元千元 | 人民币千元 | 人民币千元 |
| 借款 | > r | 4,694,561 | 3,987,747 | 20,467 | (383,400) | - | 8,319,375 |
| 应付利息 | 应付利息 | 2,780 | (211,453) | - | - | 214,822 | 6,149 |
| 应付股利 | 应付股利 | - | (411,288) | - | - | 411,288 | - |
| 从融资活动中产生的总负债 | 从融资活动中产生的总负债 | 4,697,341 | 3,365,006 | 20,467 | (383,400) | 626,110 | 8,325,524 |

Particulars of the Company's principal subsidiaries are as follows:



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



45. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

45. 6 • n 0 ! Y < € f •

| Name | Place of incorporation/ registration and business | Issued ordinary share/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|--|--|----------|---|
| | | | Direct | Indirect | |
| Lesso Technology Development (Guiyang) Co., Ltd. ^(b) | PRC | HK\$115,000,000 | – | 100% | Manufacture and sale of plastic pipes and pipe fittings |
| L ç Á ! i € n ç " 0 ! ^(b) | • 7 | 115,000,000 ¥ © | – | 100% | i ç V / ç Ø M 8 ç M • |
| Nanjing Lesso Technology Industrial Co., Ltd. ^(b) | PRC | US\$26,750,000 | – | 100% | Manufacture and sale of plastic pipes and pipe fittings |
| ì / L ç Á ! ¼ 8 p " 0 ! ^(b) | • 7 | 26,750,000 Ö © | – | 100% | i ç V / ç Ø M 8 ç M • |
| Lesso Municipal Pipe (Hebei) Co., Ltd. ^(b) | PRC | US\$32,790,000 | – | 100% | Manufacture and sale of plastic pipes and pipe fittings |
| L ç 9 A M 8 € & ç " 0 ! ^(b) | • 7 | 32,790,000 Ö © | – | 100% | i ç V / ç Ø M 8 ç M • |
| Henan Lesso Industrial Co., Ltd. ^(c) | PRC | RMB200,000,000 | – | 100% | Manufacture and sale of plastic pipes and pipe fittings |
| & ì L ç ¼ 8 p " 0 ! ^(c) | • 7 | [O Æ 200,000,000 © | – | 100% | i ç V / ç Ø M 8 ç M • |

(a) Registered as a wholly-foreign-owned enterprise under the laws of PRC.

(a) i ½ • 7 , W % S œ . ù † 8 f

(b) Registered as equity joint ventures under the laws of PRC.

(b) i ½ • 7 , W % ¥ † 8 f

(c) Registered as a limited liability company under the laws of PRC.

(c) i ½ • 7 , W % S œ p " 0 ! f

The above table lists the Company's subsidiaries which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the Group's net assets. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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n 0 ! Y Ø d Z 6 4 p ë Ø @ ð - f

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



46. 2016 12 31 31 12 31 2017 12 31 2017 12 31 2017 12 31 2017 12 31 2017 12 31

Note:

• W j

A summary of the Company's reserves is as follows:

! " # \$ % & ' () * + , - . / : ; < = > ? @ A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

| | | | | | | |
|---|---------------------|-----------|----------|-----------|-----------|-----------|
| At 1 January 2016 | 2016 1 1 | 1,922,887 | 1,999 | (79,768) | 467,563 | 2,312,681 |
| Total comprehensive income for the year | 2016 12 31 2017 1 1 | - | 613 | 155,768 | 324,829 | 481,210 |
| Shares repurchased | 2016 12 31 2017 1 1 | (17,269) | - | - | (10,441) | (27,710) |
| Dividends recognised as distributions to owners | 2016 12 31 2017 1 1 | - | - | - | (339,228) | (339,228) |
| At 31 December 2016 and 1 January 2017 | 2016 12 31 2017 1 1 | 1,905,618 | 2,612 | 76,000 | 442,723 | 2,426,953 |
| Total comprehensive income for the year | 2016 12 31 2017 1 1 | - | (17,595) | (158,947) | 464,740 | 288,198 |
| Dividends recognised as distributions to owners | 2016 12 31 2017 1 1 | - | - | - | (411,288) | (411,288) |
| At 31 December 2017 | 2017 12 31 | 1,905,618 | (14,983) | (82,947) | 496,175 | 2,303,863 |

47. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

47. 2017 12 31 2017 12 31 2017 12 31 2017 12 31 2017 12 31 2017 12 31

The consolidated financial statements were approved and authorised for issue by the Board on 19 March 2018.

2018 3 19 2018 3 19 2018 3 19 2018 3 19 2018 3 19 2018 3 19

SUMMARY OF INVESTMENT PROPERTIES



As at 31 December 2017
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Details of the Group's investment properties at the end of the reporting period are as follows:

| | | | | | | |
|---|------------------|----|----------------------|----------|------|------------------------|
| 119-120, 202, 204, 1413-1421, 1423 Tambol Bang Sao Thong, Amphoe Bang Sao Thong, Samut Prakan Province | Thailand | CX | 3,469,303 | Freehold | 75% | Under development |
| 119-120, 202, 204, 1413-1421, 1423 Tambol Bang Sao Thong, Amphoe Bang Sao Thong, Samut Prakan Province | 7 | CX | 3,469,303 | Q n 8 Æ | 75% | •• |
| SWC of Highway 380 & FM 26, South side of Highway 380 West of FM 26, Frisco, Texas | United States | AL | 3,347,290 | Freehold | 100% | Planning stage |
| SWC of Highway 380 & FM 26, South side of Highway 380 West of FM 26, Frisco, Texas | 7 | AL | 3,347,290 | Q n 8 Æ | 100% | * Æ I |
| 12071 Bellegrave Avenue, Jurupa Valley, California | United States | CL | 4,755,880 | Freehold | 100% | Planning stage |
| 12071 Bellegrave Avenue, Jurupa Valley, California | 7 | CL | 4,755,880 | Q n 8 Æ | 100% | * Æ I |
| 1300 and 1504 Old Country Road, Westbury, Nassau County, Long Island, New York, USA | United States | CB | 723,302 [#] | Freehold | 100% | Under refurbishment |
| 1300 and 1504 Old Country Road, Westbury, Nassau County, Long Island, New York, USA | 7 | CB | 723,302 [#] | Q n 8 Æ | 100% | - ^ û † • |

SUMMARY OF INVESTMENT PROPERTIES



As at 31 December 2017
2017 年 12 月 31 日

| Location | Type | Site area/ gross floor area Sq. ft. ; 0 J | Lease term | Group's interest | Stage of completion | |
|---|--------|---|------------|---------------------|------------------------|-------------------|
| ® Ä | ó 9 | ® µ & J < } & & Sq. ft. ; 0 J | a \ , | I « ~ Æ B | • Ó I | |
| Lots 218 & 217 in Deposited Plan 801210, Part of lots 23 & 24, Markham, Concession 3, Part 1 on Plan 65R-30576 | Canada | IL | 1,994,351 | Freehold | 100% | Planning stage |
| Part of lots 23 & 24, Markham, Concession 3, Part 1 on Plan 65R-30576 | Ä } | IL | 1,994,351 | Q n 8 Æ | 100% | * Ö I |
| 5789, 5933, 5945, 5811, 5951 Steeles Avenue East, Toronto, Ontario | Canada | CL | 1,750,241 | Freehold | 100% | Planning stage |
| 5789, 5933, 5945, 5811, 5951 Steeles Avenue East, Toronto, Ontario | Ä } | CL | 1,750,241 | Q n 8 Æ | 100% | * Ö I |
| 5631 - 5671 Steeles Avenue East, Toronto, Ontario, Canada | Canada | CB | 139,300# | Freehold | 100% | Existing |
| 5631 - 5671 Steeles Avenue East, Toronto, Ontario, Canada | Ä } | CB | 139,300# | Q n 8 Æ | 100% | \$ P |
| Lots 50, 51 & 52 in Deposited Plan 1144623, Lots 6-10 in Deposited Plan 801210, Lots 163, 168-182 & 216 DP8716, Lots 4, 5 & 6 in Deposited Plan 226294, Lots 2 in Deposited Plan 516449, Lots 218 & 219 in Deposited Plan 4570 | | | | | | |

| Location | Type | Site area/ gross floor area | Lease term | Group's interest | Stage of completion |
|---|------|-----------------------------------|---------------|---------------------|------------------------|
| 79-99 St Hilliers Road, Auburn, Cumberland, Sydney, New South Wales, Australia | IB | 298,191# | Freehold | 100% | Under refurbishment |
| 79-99 St Hilliers Road, Auburn, Cumberland, Sydney, New South Wales, Australia | IB | 298,191# | Q n 8 Æ | 100% | - ^ û † • |
| West of Foshan-Kaiping highway, North of Longgao Road, Longjiang town, Shunde District, Foshan City, Guangdong | CL | 1,392,982 | Leasehold | 100% | Planning stage |
| ? ² † 9 ± C ² ê D š ÷ ° ø e ² ÷) ø | • 7 | 1,392,982 | a # 8 Æ | 100% | * Æ I |
| South of Longzhou West Road, East of Dengdong Road, Longjiang town, Shunde District, Foshan City, Guangdong | CL | 221,825 | Leasehold | 100% | Planning stage |
| ? ² † 9 ± C ² ê D ² r) ì ~ î) t x y | • 7 | 221,825 | a # 8 Æ | 100% | * Æ I |
| Note: | AL | Agricultural land | 5 8 \ ® | | |
| • W j | CL | Commercial land | 8 \ ® | | |
| | CX | Complex land |] ¥ \ ® | | |
| | IL | Industrial land | ^ 8 \ ® | | |
| | CB | Commercial building | 8 } Á | | |
| | IB | Industrial building | ^ 8 } Á | | |
| | # | Represents gross floor area | 8 J 8 < } & & | | |

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| | | |
|---|----------|---|
| <p>“Board” ~ è + 6 ™</p> | <p>8</p> | <p>the board of directors of the Company I ® ! è + 6</p> |
| <p>“BVI” ~ ò n j ' / Ê ¥ ™</p> | <p>8</p> | <p>the British Virgin Islands ò n j ' / Ê ¥</p> |
| <p>“China” or “PRC” ~ • 7 ™</p> | <p>8</p> | <p>the People’s Republic of China, for the purpose of this report, excluding Hong Kong, Macau and Taiwan • 6 [O • q 7 d 1 I S p d (" < 0 ¥ e æ ~ ¿ } D</p> |
| <p>“Code” ~ Â Æ ™</p> | <p>8</p> | <p>the Corporate Governance Code as set out in Appendix 14 to the Listing Rules j 9 • Æ • } 14 Ô 1 Y † 8 M 7 Â Æ</p> |
| <p>“Company” or “China Lesso” ~ I ® ! ™ D ~ • 7 L ç ™</p> | <p>8</p> | <p>China Lesso Group Holdings Limited • 7 L ç « » p P " ® !</p> |
| <p>“Current Ratio” ~ t â ™</p> | <p>8</p> | <p>the ratio of current assets to current liabilities t * ð ø t Â Y â</p> |
| <p>“EBITDA” ~ ð 1 ü ± Â Ã ® ; ™</p> | <p>8</p> | <p>earnings before interest, taxes, depreciation and amortisation Ô ð ; 1 e ü ° e ± ¿ Â V Ã ® ;</p> |
| <p>“Foshan Star Excel” ~ † K ² ™</p> | <p>8</p> | <p>Foshan Star Excel Property Development Co., Ltd.*, a company indirectly wholly-owned by Mr. Wong Luen Hei and a connected person of the Company as defined under the Listing Rules † 9 K ² Ä 8 i • P " ® ! d » L \$ ‹ [œ Ÿ Œ ¹ P Y ® ! d (% I ® ! Y ë ¹ [(€) È j 9 • Æ •</p> |
| <p>“Gearing Ratio” ~ * Â ™</p> | <p>8</p> | <p>the total debts divided by the sum of total debts and total equity 2 Â < X ð ø Â < X j Æ B < X Y < q</p> |
| <p>“Group” ~ « ™</p> | <p>8</p> | <p>the Company and its subsidiaries I ® ! ¿ I • n ® !</p> |
| <p>“Guangdong Lesso Mall” ~ ? L ç ž – ™</p> | <p>8</p> | <p>Guangdong Lesso Mall Co., Ltd.*, an indirect wholly-owned subsidiary of the Company ? L ç ž – e ¿ ì P " ® ! d I ® ! ~ œ Ÿ Œ • n ® !</p> |
| <p>“Guangdong Liansu Electric” ~ ? L ç e ™</p> | <p>8</p> | <p>Guangdong Liansu Electric Co., Ltd.*, a company indirectly wholly-owned by Mr. Wong Luen Hei and a connected person of the Company as defined under the Listing Rules ? L ç e P " ® ! d » L \$ ‹ [œ Ÿ Œ ¹ P Y ® ! d (% I ® ! Y ë ¹ [(€) È j 9 • Æ •</p> |

| | | |
|--|---|--|
| “Guangdong Liansu Machinery” ~ ? L ç Ú œ ™ | 8 | Guangdong Liansu Machinery Manufacturing Co., Ltd.*, a company indirectly wholly-owned by Mr. Wong Luen Hei and a connected person of the Company as defined under the Listing Rules ? L ç Ú œ j ç Þ " ®! d » L \$ ‹ [œ Ÿ œ ¹ Þ Y ®! d (% I ®! Y ë ' [{ € } È j 9 • Æ • |
| “Guangdong Liansu Technology” ~ ? L ç Å ! ™ | 8 | Guangdong Liansu Technology Industrial Co., Ltd.*, an indirectly wholly-owned subsidiary of the Company ? L ç Å ! ¼ 8 Þ " ®! d % I ®! Y œ Ÿ œ • n ®! |
| “HK\$” ~ ¥ © ™ | 8 | Hong Kong dollar, the lawful currency of Hong Kong 0 ¥ ~ , › ÷ Æ Ñ ¥ © |
| “Hong Kong” or “HK” ~ 0 ¥ ™ | 8 | Hong Kong Special Administrative Region of the PRC • 7 0 ¥ \$ 9 A |
| “IoT” ~ J L c ™ | 8 | Internet of things J L c |
| “Lesso Hardware” ~ i ž – ™ | 8 | Guangdong Lesso Hardware & Building Materials Co., Ltd.*, an indirect non-wholly owned subsidiary of the Company ? i ž – ç Þ " ®! d I ®! ~ œ Ÿ ç œ • n ®! |
| “Listing Rules” ~ j 9 • Æ ™ | 8 | the Rules Governing the Listing of Securities on the Stock Exchange L t Ô Ç N j 9 • Æ |
| “Macau” ~ æ ~ ™ | 8 | Macau Special Administrative Region of the PRC • 7 æ ~ \$ 9 A |
| “Model Code” ~ z _ Â Æ ™ | 8 | the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules j 9 • Æ • } 10 Ô 1 Y j 9 ®! è + † Ç N t ø Y z _ Â Æ |
| “New Fortune” ~ -, K ™ | 8 | New Fortune Star Limited, a company incorporated in the BVI New Fortune Star Limited d S œ õ õ n j ' / È ¥ W Ó m ~ ®! |
| “PE” ~ PE ™ | 8 | polyethylene s T |
| “PP-R” ~ PP-R ™ | 8 | polypropylene random ì • • s s ï |
| “PVC” ~ PVC ™ | 8 | polyvinyl chloride s £ T |
| “Quick Ratio” ~ ° â ™ | 8 | the ratio of current assets less inventories to current liabilities t * - À - Ž õ ø t À Y â |
| “RMB” ~ [O Æ ™ | 8 | Renminbi, the lawful currency of the PRC • 7 ~ , › ÷ Æ Ñ [O Æ |

GLOSSARY

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| | | |
|---|---|---|
| “SFO” ~ Ç N ç , ñ â 7 ™ | 8 | Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong 0 ¥ , 7 K571 Ý Ç N ç , ñ â 7 |
| “Share(s)” ~ p ... ™ | 8 | share(s) of a nominal value of HK\$0.05 each in the capital of the Company I @ ! p I • Ê p & =0.05 ¥ © Y p ... |
| “Shareholder(s)” ~ p ™ | 8 | holder(s) of the Share(s) of the Company I @ ! p ... 5 p [|
| “Shunde Liansu Industrial” ~ ± C L ç ¼ 8 ™ | 8 | Foshan Shunde Liansu Industrial Co., Ltd.* † 9 ± C L ç ¼ 8 p " @ ! |
| “sq.m.” ~ ; Û ÷ ™ | 8 | square metres ; Û ÷ |
| “sq.ft.” ~ ; Û J ™ | 8 | square feet ; Û õ J |
| “Stock Exchange” ~ L t Ô ™ | 8 | The Stock Exchange of Hong Kong Limited 0 ¥ L ¥ t ø Ô p " @ ! |
| “Taiwan” ~ } D ™ | 8 | the Republic of China • 6 O 7 |
| “tonne(s)” ~ š ™ | 8 | a unit measuring weight, equal to 1,000 kilograms Ž Ž Y d ´ õ1,000 @ Ø |
| “US” ~ Õ 7 ™ | 8 | the United States of America Õ ; : ¥ : 7 |
| “US\$” ~ Õ © ™ | 8 | US dollar, the lawful currency of US Õ 7 ~ , › ñ Æ Ñ Õ © |
| “Xi Xi Development” ~ c ĩ • ™ | 8 | Xi Xi Development Limited, a company incorporated in the BVI c ĩ • p " @ ! d S œ õ õ n j ' / Ê ¥ W Ó m ~ @ ! |
| “%” ~ % ™ | 8 | per cent. õ ± â |

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

* I S Y õ Ö Ð • Ö G€ ½ W ü Å 6 Æ 9 f



Mr. Wong Luen Hei (Chairman)
 Mr. Zuo Manlun (Chief executive)
 Ms. Zuo Xiaoping
 Mr. Lai Zhiqiang
 Mr. Kong Zhaocong
 Mr. Chen Guonan
 Dr. Lin Shaoquan
 Mr. Huang Guirong
 Mr. Luo Jianfeng

NON-EXECUTIVE DIRECTOR
 Mr. Lin Dewei

INDEPENDENT NON-EXECUTIVE DIRECTORS
 Mr. Fung Pui Cheung
 Mr. Wong Kwok Ho Jonathan
 Mr. Cheung Man Yu
 Ms. Lan Fang
 Dr. Tao Zhigang

AUDIT COMMITTEE
 Mr. Fung Pui Cheung (Chairman)
 Mr. Wong Kwok Ho Jonathan
 Mr. Lin Dewei
 Mr. Cheung Man Yu

REMUNERATION COMMITTEE
 Mr. Fung Pui Cheung (Chairman)
 Mr. Wong Luen Hei
 Mr. Zuo Manlun
 Mr. Wong Kwok Ho Jonathan
 Mr. Cheung Man Yu

NOMINATION COMMITTEE
 Mr. Wong Luen Hei (Chairman)
 Mr. Zuo Manlun
 Mr. Fung Pui Cheung
 Mr. Wong Kwok Ho Jonathan
 Ms. Lan Fang

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CORPORATE INFORMATION



COMPANY SECRETARY

Mr. Kwan Chi Wai Samuel

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AUTHORISED REPRESENTATIVES

Mr. Zuo Manlun

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Mr. Kwan Chi Wai Samuel

8 P ‹ [

ë › ‹ [

REGISTERED OFFICE

PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

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PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

Liansu Industrial Estate
Longjiang Town
Shunde District
Foshan City
Guangdong Province 528318
China

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 3, 12th Floor, Tower 2
South Seas Centre
75 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

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LISTING INFORMATION

Listing:

The Stock Exchange of Hong Kong Limited

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Stock code:

2128

p ... þ î j
2128

SHARE INFORMATION

Board lot size:

1,000 shares

p ... Ø
Ê Ó o - j
1,000 p

Share issued as at 31 December 2017:

3,102,418,400 shares

ö 2017 Ë 12 Ü 31 Ú Š ĩ p ... p f j
3,102,418,400 p

Market capitalisation as at 31 December 2017:

HK\$15,698 million

ö 2017 Ë 12 Ü 31 Ú 9 = j
156.98 ¥ ©

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MaplesFS Limited
PO Box 1093
Queensgate House
Grand Cayman, KY1-1102
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CORPORATE INFORMATION



INVESTOR RELATIONS

iPR Ogilvy & Mather
23rd Floor, The Centre
99 Queen's Road, Central, Hong Kong
Tel: (852) 2136 6185
Fax: (852) 3170 6606
Email: ir@lesso.com

AUDITOR

Ernst & Young
Certified Public Accountants, Hong Kong

SOLICITOR

K&L Gates

PRINCIPAL BANKERS

Agricultural Bank of China Limited
Bank of China (Hong Kong) Limited
China Merchants Bank Co., Ltd.
CTBC Bank Co., Ltd., Hong Kong Branch
Foshan Shunde Rural Commercial Bank Company Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Industrial and Commercial Bank of China Limited
Sumitomo Mitsui Banking Corporation
Taipei Fubon Commercial Bank Co., Ltd., Hong Kong Branch
The Hongkong and Shanghai Banking Corporation Limited

WEBSITE

<http://www.lesso.com>

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e j(852) 2136 6185
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Forward-looking statements

This report 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.

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond the Company's control and are difficult to predict. Consequently, actual results could differ materially from those expressed, implied or forecasted in the forward-looking statements.

Reliance should not be placed on these forward-looking statements, which reflect only the views of the directors and management of China Lesso as at the date of this report only. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this report.

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
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LESSO 联塑

 Unit 3, 12th Floor, Tower 2, South Seas Centre, 75 Mody Road
Tsim Sha Tsui East, Kowloon, Hong Kong
香港九龍尖沙咀東部麼地道75號南洋中心第二座12樓3室

 (852) 2712 8405

 (852) 2714 7322

 www.lesso.com

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