

GLOBAL
OFFERING



CHINA LEON INSPECTION HOLDING LIMITED

中国力鸿检验控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1586



*Sole Sponsor
Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager*



招銀国际
CMB INTERNATIONAL

IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



CHINA LEON INSPECTION HOLDING LIMITED

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(Incorporated in the Cayman Islands with limited liability)

Global Offering

Total Number of Offer Shares under the Global Offering	: 100,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 10,000,000 Shares (subject to adjustment)
Number of International Placing Shares	: 90,000,000 Shares (subject to adjustment and the Over-allotment Option)
Offer Price	: Not more than HK\$1.24 per Share and expected to be not less than HK\$0.73 per Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and a Stock Exchange trading fee of 0.005% (payable in full on application and subject to refund on final pricing)
Nominal Value	: US\$0.00005 per Share
Stock Code	: 1586

Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus. A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator, on behalf of the Underwriters, and our Company on or before Tuesday, July 5, 2016 or such later time as may be agreed between the parties, but in any event, no later than Friday, July 8, 2016. If, for any reason, the Sole Global Coordinator, on behalf of the Underwriters, and our Company are unable to reach an agreement on the Offer Price by Friday, July 8, 2016, the Global Offering will not become unconditional and will lapse immediately. The Offer Price will be not more than HK\$1.24 per Share and is expected to be not less than HK\$0.73 per Share although the Sole Global Coordinator, on behalf of the Underwriters, and our Company may agree to a lower price. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum offer price of HK\$1.24 for each Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price is lower than HK\$1.24. The Sole Global Coordinator, on behalf of the Underwriters, may, with the consent of our Company, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus (being HK\$0.73 per Share to HK\$1.24 per Share) at any time prior to the morning of the last date for lodging applications under the Hong Kong Public Offering. In such a case, notices of such reduction will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.huaxialihong.com as soon as practicable but in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. For further information, see "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares."

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, and in particular, the risk factors set out in "Risk Factors."

Pursuant to the termination provisions contained in the Hong Kong Underwriting Agreement in respect of the Hong Kong Offer Shares, the Sole Global Coordinator, on behalf of the Hong Kong Underwriter, has the right in certain circumstances, in its absolute discretion, to terminate the obligations of the Hong Kong Underwriter pursuant to the Hong Kong Underwriting Agreement at any time prior to 8:00 a.m. on the Listing Date. Further details of the terms of the termination provisions are set out in "Underwriting — Grounds for Termination." It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the US Securities Act or any state securities laws in the United States, and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons. The Offer Shares may be offered, sold or delivered outside of the United States in offshore transactions in accordance with Regulation S under the US Securities Act.

June 29, 2016

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete electronic applications under the White Form eIPO service through the designated website at www.eipo.com.hk ⁽²⁾	11:30 a.m. on Tuesday, July 5, 2016
Application lists for the Hong Kong Public Offering open ⁽³⁾	11:45 a.m. on Tuesday, July 5, 2016
Latest time for lodging WHITE and YELLOW Application Forms and giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Tuesday, July 5, 2016
Latest time to complete payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s).	12:00 noon on Tuesday, July 5, 2016
Application lists close ⁽³⁾	12:00 noon on Tuesday, July 5, 2016
Expected Price Determination Date ⁽⁵⁾	Tuesday, July 5, 2016
Announcement of the Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing and the basis of allocation of the Hong Kong Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.huaxialihong.com on or before ⁽⁶⁾	Monday, July 11, 2016
Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels. (See the section headed "How to Apply for the Hong Kong Offer Shares — 11. Publication of Results") from	Monday, July 11, 2016
Results of allocations for the Hong Kong Public Offering will be available at www.iporeresults.com.hk with a "search by ID" function.	Monday, July 11, 2016
Share certificates (if applicable) in respect of wholly or partially successful applications to be despatched on or before.	Monday, July 11, 2016
White Form e-Refund payment instructions/Refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications to be despatched on or before ⁽⁷⁾	Monday, July 11, 2016
Dealings in Shares on the Stock Exchange to commence on.	9:00 a.m. on Tuesday, July 12, 2016

EXPECTED TIMETABLE⁽¹⁾

- (1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering.”
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, July 5, 2016, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for the Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the application lists.”
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for the Hong Kong Offer Shares — 6. Applying by giving **electronic application instructions** to HKSCC via CCASS” for details.
- (5) The Offer Price is expected to be determined by Tuesday, July 5, 2016, but in any event, the expected time for determination of the Offer Price will not be later than Friday, July 8, 2016. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator, on behalf of the Underwriters, and our Company by Friday July 8, 2016, the Global Offering will not proceed.
- (6) If the Offer Price is determined on Tuesday, July 5, 2016, the announcement of the Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing and the basis of allocation of the Hong Kong Offer Shares and the successful applicants’ identification document numbers will be published on or before Monday, July 11, 2016.
- (7) Applicants who apply for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and any refund cheque(s) (if applicable) and/or Share certificate(s) (if applicable) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, may do so in person from 9:00 a.m. to 1:00 p.m. on Monday, July 11, 2016. Applicants being individuals who are applying for 1,000,000 Hong Kong Offer Shares or more and opt for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who are applying for 1,000,000 Hong Kong Offer Shares or more and opt for personal collection must attend by their authorized representatives bearing letters of authorization from their corporations stamped with the corporations’ chop. Identification and (where applicable) authorization documents acceptable to our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, must be produced at the time of collection. Uncollected Share certificates and refund cheques will be despatched by ordinary post at the applicants’ own risk to the addresses specified on the relevant Application Forms. Further details are set out in the paragraphs headed “If your application is wholly or partially successful” in the section headed “How to Apply for the Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies” and the section headed “How to Apply for the Hong Kong Offer Shares — 13. Refund of Application Monies”.

Share certificates for the Hong Kong Offer Shares are expected to be issued on Monday, July 11, 2016, but will only become valid certificates of title at 8:00 a.m. on the Listing Date, provided that (1) the Global Offering has become unconditional in all respects and (2) the right of termination as described in “Underwriting — Underwriting Arrangements and Expenses — (a) Hong Kong Underwriting Agreement — Grounds for Termination” has not been exercised. Investors who trade Shares on the basis of publicly available allocation details before the receipt of Share certificates and before they become valid do so entirely at their own risk.

For details of the structure of the Global Offering, including the conditions thereof, see “Structure of the Global Offering.”

CONTENTS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus or the Application Forms must not be relied on by you as having been authorized by our Company, the Sole Sponsor, the Sole Global Coordinator, any of the Underwriters, any of our or their respective directors, officers, representatives, or affiliates, or any other person or party involved in the Global Offering. Information contained in our website, located at www.huaxialihong.com, does not form a part of this prospectus.

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SUMMARY

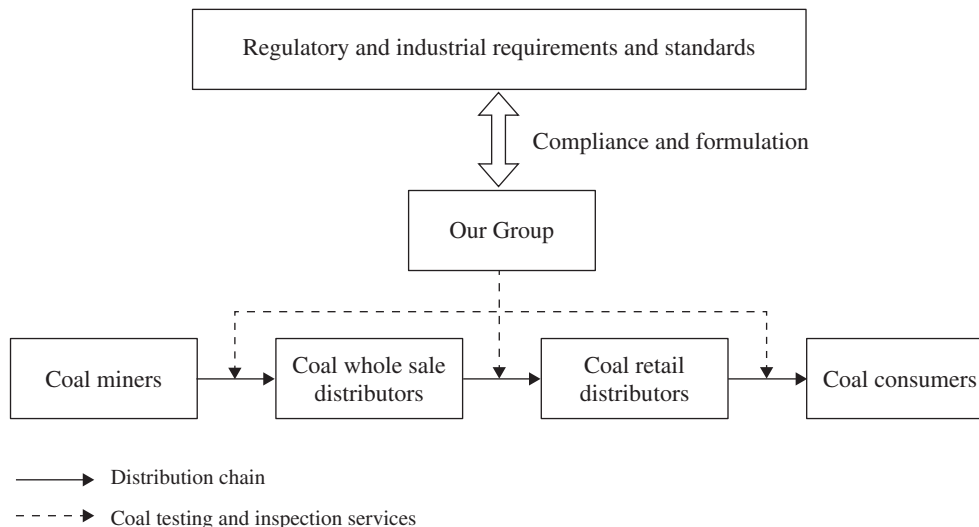
This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks of investing in the Offer Shares are set forth in “Risk Factors.” You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS MODEL

We are the largest coal testing and inspection services provider in China, with a market share of approximately 18.9% in terms of revenue generated from such services in 2015, according to the Forward Report. Through our eight service centers strategically positioned primarily at major coal-trade ports in China, which collectively accounted for more than 80.0% of the total volume of China’s seaborne coal trade in 2015, we offer our customers a comprehensive suite of services, including primarily (1) testing services to provide assurance of coal quality, (2) surveying services to ensure contractual compliance of coal quantity, and (3) witnessing and ancillary services to prevent dishonest or abnormal activities in the testing and transportation of coal and ensure the contractual compliance of the weight of coal carried on rail, truck or conveying belt or shipping conditions of the cargo.

We operate in the independent testing and inspection industry, which serves a number of domestic industrial sectors, including the coal industry and power generation industry. Our customers include primarily coal miners, coal distributors and power generators participating in the trading of thermal coal used for power generation, and therefore our business is derivatively affected by the growth and contraction of the coal industry in China. Independent coal testing and inspection services in China emerged with the abolition of the state control over coal pricing in the early 2000s and has experienced steady growth in recent years due to the formation of an increasingly market-oriented coal industry. The coal testing and inspection industry grew at a CAGR of 27.4% from 2010 to 2015, according to the Forward Report, despite the overall slowdown of the coal industry and the economy in China. According to the Forward Report, the total volume of coal subject to quality testing or inspection reached 0.8 billion tonnes in 2015, accounting for only approximately 24.9% of the coal consumed in the same year. There remains steady growth potential in the coal testing and inspection market as we are expanding our service offerings to capture the entire coal distribution chain as a result of the continued liberalization of the coal industry and the enhanced regulatory standards on quality assurance motivated by environmental concerns.

The following diagram illustrates a simplified coal distribution chain and the role of our service offerings.



SUMMARY

SERVICE OFFERINGS

We offer a comprehensive suite of services, which includes (1) testing services, (2) surveying services and (3) witnessing and ancillary services. Our services may be required and repeated at each stage of the coal distribution chain.

Our service results reflect compliance with applicable contractual standards and facilitate transactions with trusted endorsement on the quality and quantity of coal, which serves as a basis for price determination in coal trade. Set forth below is a summary of our service offerings.

- *Testing services.* Our service offerings focus on quality assurance of coal through testing services. We collect coal samples on-site by manual sampling or mechanical sampling, process raw samples at our sampling workshops, and perform tests on refined samples in our laboratories. We test coal samples for various physical and chemical properties that speak of the quality of the coal being tested in accordance with applicable regulatory and industrial standards. We derived a majority of our revenue from testing services during the Track Record Period.
- *Surveying services.* We provide surveying services, including primarily draft survey and witnessing draft survey to determine or verify the coal quantity. We measure or monitor the measurement of the displacement of the water both before and after the loading or discharge of the cargo from a vessel, with the resulting difference between the two displacements representing the weight of the cargo. Surveying services were the second largest source of our revenue during the Track Record Period.
- *Witnessing and ancillary services.* We provide witnessing services by observing testing and inspection activities conducted by the counterparties of our customers to detect dishonesty or abnormality. We monitor every step of the trading process, including loading and discharge, transportation, sampling and quality testing. We also provide a variety of ancillary services per specific customer request. These ancillary services include primarily scale-weighing inspection, coal pile weighing and survey. We provide these services primarily to ensure contractual compliance of the weight of coal carried on rail, truck or conveying belt or the shipping conditions of the cargo. We are also a service provider accredited by the China Tally Association (中國理貨協會) to perform suitability inspection.

The following table sets forth a breakdown of our revenue for the periods indicated.

	Year ended December 31,					
	2013		2014		2015	
	(RMB in thousands except for percentages)					
Service Offerings:						
Testing services	92,588	79.1%	107,777	77.3%	126,114	81.0%
Surveying services	17,700	15.1%	22,534	16.2%	21,814	14.0%
Witnessing and ancillary services	6,326	5.4%	9,064	6.4%	7,739	4.9%
Subtotal	116,614	99.6%	139,375	99.9%	155,667	99.9%
Others ⁽¹⁾	482	0.4%	105	0.1%	122	0.1%
Total	117,096	100.0%	139,480	100.0%	155,789	100.0%

(1) Represent revenue derived primarily from sales of testing equipment and instruments through a subsidiary, Huachuang Yiyuan, currently undergoing liquidation.

SUMMARY

SERVICE NETWORK

We are headquartered in Beijing and provide our services primarily through our professional teams and laboratories in eight service centers strategically located primarily at major coal-trade ports across China, which collectively accounted for more than 80.0% of the total volume of China's seaborne coal trade in 2015, according to the Forward Report. Our service centers are interconnected by our in-house technology infrastructure, and backed by stringent quality control measures and standardized operational procedures to ensure consistently high quality of services delivered across all of our service centers.

Of our established service network, the Four Northern Ports represent our largest markets and generated revenue in the aggregate of RMB92.3 million, RMB100.6 million and RMB116.5 million for 2013, 2014 and 2015, respectively, representing 78.8%, 72.1% and 74.8% of our total revenue for the same periods, respectively.

The following table sets forth a breakdown of our revenue in terms of coal tested or inspected in each of the Four Northern Ports for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
	(RMB in thousands)		
Qinhuangdao port	35,220	33,316	29,997
Tangshan port	28,479	28,057	19,849
Huanghua port	13,521	14,021	40,205
Tianjin port	15,065	25,214	26,440
Total	92,285	100,608	116,491

The following table sets forth a breakdown of our business volume in terms of coal tested or inspected in each of the Four Northern Ports for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
	(In thousand tonnes) ⁽¹⁾		
Qinhuangdao port	125,185	116,789	101,368
Tangshan port	78,066	82,075	65,461
Huanghua port	131,517	141,861	191,357
Tianjin port	39,269	83,062	93,831
Total	374,037	423,787	452,017

(1) Represents the business volume we charged by weight. We occasionally charge our services by other units, such as number of coal piles. See "Business — Customers and Business Development — Pricing" for details.

The steady increase in our revenue and business volume generated from Huanghua port during the Track Record Period was primarily because a major customer gradually shifted its coal port loading from Qinhuangdao port and Tangshan port to self-owned docks in Huanghua port.

SUMMARY

CUSTOMER BASE

Our major customers include dominant state-owned coal mining companies, coal distribution companies, and power generation companies. We have developed long-term stable business relationship with these large customers. We also accept other general customers who engage us for specific services on a service-order basis.

We are independent from our customers without regard to their size or identity. Our customers, including coal buyers and sellers, may from time to time contractually agree to mutually designate a specific assurance provider, or designate a reputable assurance provider upon the consent of the counterparty, to ensure fair transactions. As such, we do not serve both the coal buyers and sellers in one transaction. To meet the independence requirements under the China Metrology Accreditation Certificate (計量認證證書), we implement stringent internal control measures to ensure independent test results, including traceability, authenticity, anonymity and accountability policies designed to prevent intentional or inadvertent contamination of coal samples or manipulation of test results. We require our employees to adhere to our anti-bribery policies and report bribery incidents. We also retain spare coal samples for up to two months or any longer period per customer requests to allow customers to perform cross-checks if desired. During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material customer disputes regarding the quality of our services or the reliability of our assurance reports.

We derived a majority of our revenue from coal suppliers during the Track Record Period. The following table sets forth a breakdown of our revenue by customer type for the periods indicated.

	Year ended December 31,					
	2013		2014		2015	
	(RMB in thousands except for percentages)					
Coal suppliers ⁽¹⁾	61,700	52.7%	80,219	57.5%	94,674	60.8%
Coal users ⁽²⁾	27,942	23.9%	31,073	22.3%	26,928	17.3%
Others ⁽³⁾	27,454	23.4%	28,188	20.2%	34,187	21.9%
Total	117,096	100.0%	139,480	100.0%	155,789	100.0%

(1) Include primarily coal miners.

(2) Include primarily power generators.

(3) Include various traders along the coal distribution chain and other end users.

The decrease in our revenues from coal users in 2015 was primarily due to reduced unit price we charged our power generator customers as a result of price competition through our increased participation in open tender process.

SUMMARY

The following table sets forth a breakdown of our customers by service type for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
Testing services ⁽¹⁾	783	777	1,038
Surveying services ⁽¹⁾	80	74	143
Witnessing and ancillary services ⁽¹⁾	81	132	48

(1) As certain customers engaged us for more than one type of services during the Track Record Period, the number of customers for each type of services may not add up to the total number of customers in a given year.

In 2014, we provided single-session ancillary services to a large number of general customers on a service-order basis, and many of such customers did not engage us for further services, which resulted in the decrease in our customers for witnessing and ancillary services in 2015.

As our largest customer, Shenhua Group accounted for approximately 46.1%, 47.0% and 52.7% of our revenue for 2013, 2014 and 2015, respectively. During the Track Record Period, our other top customers include China Huaneng (power generator), Datang Power (power generator), Guangdong Yudean (power generator), China National Coal Group Corp. (中國中煤能源集團有限公司) (coal miner) and Guangzhou Development Group Incorporated (廣州發展集團股份有限公司) (power generator), all of which are our long-term customers and have maintained stable business relationship with us ranging from three to six years. Our five largest customers accounted for approximately 64.6%, 66.0% and 66.8% of our revenue for 2013, 2014 and 2015, respectively. For more information about our major customers, see “Business — Customers and Business Development — Major Customers” beginning on page 133 of this prospectus.

We derive a substantial amount of our revenue from our customers through an open tender process that focuses on quality and efficiency. We attribute our growth to our ability to prevail in open tender process, leveraging our proven record of consistently high service standards and effective open tender management. In 2013, 2014 and 2015, we prevailed in eight, 10 and 25 open tender processes, respectively, which contributed for approximately 47.7%, 49.3% and 58.6% of our revenue during the same periods. Our tender success rate was 72.7%, 90.9% and 67.6% in 2013, 2014 and 2015. The decline in the tender success rate in 2015 was primarily due to an increase in the overall number of bids we submitted to solicit new customers. For more information about our open tender management, see “Business — Customers and Business Development — Open Tender” beginning on page 135 of this prospectus.

SUPPLIERS

Our suppliers consist primarily of port companies, sampling equipment companies, third-party labor dispatch providers and landlords. Port companies grant us the rights to access their ports and use their facilities to conduct sampling, draft survey and other on-site services. We also rely on specialized equipment, such as mechanical sampling equipment, located at the ports from sampling equipment companies for field work. In addition, we from time to time engage labor dispatch providers when additional staff is needed primarily for manual sampling work.

SUMMARY

QUALITY CONTROL

We implement stringent quality control measures and standardized operational procedures throughout our service process to ensure consistently high quality of our services delivered across all of our service centers. We obtained two certificates from the CNAS, i.e., the Laboratory Accreditation Certificate (實驗室認可證書) and the Inspection Body Accreditation Certificate (檢查機構認可證書), attesting to our satisfaction of internationally recognized and authoritative standards for accrediting professional capabilities of testing and inspection institutions.

We have set standardized operational procedures and protocols that promote professionalism and reduce operational risks inherent in our service process. We have an in-house information infrastructure that traces and records service orders, on-site sampling, sample preparation, testing, test results verification, certificates and all other service-related activities. We also have a strict authenticity and anonymity policy to monitor our service process and prevent manipulation of the test results. For more information about our quality control and operational procedures, see “Business — Quality Control” beginning on page 124 of this prospectus.

COMPETITIVE STRENGTHS

We believe that the following strengths of our Company differentiate us from our competitors and help us compete effectively in the industry: (1) the largest coal testing and inspection services provider in China with a proven record of success and steady growth potential; (2) a steadily growing coal testing and inspection industry benefiting from China’s tightened regulations over coal quality and the liberalization of the coal industry; (3) long-term stable business relationship with large and reputable customers in China’s coal industry; (4) stringent quality control and standardized operational measures to ensure stellar service standards; (5) an extensive network of service centers strategically positioned primarily at major coal-trade ports in China; (6) strong research and development capabilities focused primarily on improving testing procedures in an evolving industry environment; and (7) a visionary and dedicated management team highly esteemed by industry associations.

BUSINESS STRATEGY

Our long-term objective is to become a leading world-class coal testing and inspection services provider. To that end, we intend to implement a business strategy with the following key components: (1) further solidify our leadership in coal testing and inspection industry; (2) upgrade and expand our network of service centers; (3) further strengthen our research and development efforts; and (4) pursue strategic acquisition or investment to enhance our service capabilities and expand our service coverage.

We currently operate all of our laboratories and workshops on leased premises. To implement our business strategy outlined above, we plan to construct service facilities on self-owned land. For more information about our expansion plans, see “Business — Our Service Offerings — Expansion Plans” beginning on page 117 of this prospectus.

SUMMARY

SHAREHOLDERS AND CORPORATE STRUCTURE

Controlling Shareholders

Immediately upon completion of the Capitalization Issue and the Global Offering without taking into account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, Mr. LI Xiangli (李向利), Ms. ZHANG Aiying (張愛英) and Mr. LIU Yi (劉翊), as a group of persons acting in concert, will be interested in, via Leon Investment, Swan Stone and Hawk Flying, in total approximately 52.73% of the issued share capital of our Company, and hence Mr. LI Xiangli, Ms. ZHANG Aiying, Mr. LIU Yi (劉翊), Leon Investment, Swan Stone and Hawk Flying are our Controlling Shareholders. To ensure the competition will not exist in the future, each of our Controlling Shareholders has entered into the Deed of Non-competition in favor of our Company. For more details, see “Relationship with Controlling Shareholders.”

Pre-IPO Investments

Our Company entered into the Share Subscription Agreement on November 27, 2015 with Mr. LI Xiangli, Leon Investment and the Pre-IPO Investors, namely, China Dragon and Hotek Asia. Pursuant to the Share Subscription Agreement, China Dragon and Hotek Asia subscribed for 1,550 and 549 shares of our Company, respectively, for an aggregate consideration of RMB51.2 million. Our Directors are of the view that our Company can benefit from the Pre-IPO Investments and such investments demonstrate the Pre-IPO Investors’ confidence in our Group’s operation and serve as an endorsement of our Company’s performance, strength and prospects. For more details, see “History, Reorganization and Corporate Structure — Pre-IPO Investments” beginning on page 93 of this prospectus.

FINANCIAL TRACK RECORD

You should read the summary historical consolidated financial statements set forth below in conjunction with our consolidated financial statements included in the Accountants’ Report in Appendix I to this prospectus, together with the accompanying notes, which have been prepared in accordance with IFRS. The summary historical financial statements as of and for the years ended December 31, 2013, 2014 and 2015 are derived from our consolidated financial statements, including the notes thereto, set forth in the Accountants’ Report in Appendix I to this prospectus.

SUMMARY

The following table sets forth a summary of our consolidated statements of profit or loss and other comprehensive income for the periods indicated.

	Year ended December 31,					
	2013		2014		2015	
	(RMB in thousands except for percentages)					
Revenue	117,096	100.0%	139,480	100.0%	155,789	100.0%
Cost of sales	<u>(48,307)</u>	<u>41.3%</u>	<u>(61,270)</u>	<u>43.9%</u>	<u>(75,340)</u>	<u>48.4%</u>
Gross profit	68,789	58.7%	78,210	56.1%	80,449	51.6%
Other income and gains	1,097	0.9%	793	0.6%	1,209	0.8%
Selling, distribution and administrative expenses and other expenses and finance costs	<u>(29,234)</u>	<u>25.0%</u>	<u>(34,435)</u>	<u>24.7%</u>	<u>(48,635)</u>	<u>31.2%</u>
Profit before income tax	40,652	34.7%	44,568	32.0%	33,023	21.2%
Income tax expense	<u>(5,489)</u>	<u>4.7%</u>	<u>(6,565)</u>	<u>4.7%</u>	<u>(5,448)</u>	<u>3.5%</u>
Profit for the year	<u><u>35,163</u></u>	<u><u>30.0%</u></u>	<u><u>38,003</u></u>	<u><u>27.2%</u></u>	<u><u>27,575</u></u>	<u><u>17.7%</u></u>
Attributable to:						
Owners of our Company	35,303	30.1%	38,044	27.3%	27,607	17.7%
Non-controlling interests	<u>(140)</u>	<u>0.1%</u>	<u>(41)</u>	<u>0.03%</u>	<u>(32)</u>	<u>0.02%</u>
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax)						
Exchange differences on translation of foreign operations	-	-	-	-	753	0.5%
Total comprehensive income for the year	<u><u>35,163</u></u>	<u><u>30.0%</u></u>	<u><u>38,003</u></u>	<u><u>27.3%</u></u>	<u><u>28,328</u></u>	<u><u>18.2%</u></u>
Attributable to:						
Owners of our Company	35,303	30.1%	38,044	27.3%	28,360	18.2%
Non-controlling interests	(140)	0.1%	(41)	0.02%	(32)	0.02%

Labor costs and port charges were the largest components of the cost of sales for our business during the Track Record Period, collectively accounting for 32.3%, 33.4% and 38.3% of our revenue for 2013, 2014 and 2015, respectively. For further discussion of labor costs and port charges, see “Financial Information — Consolidated Statements of Profit or Loss and Other Comprehensive Income — Cost of Sales” beginning on page 193 of this prospectus.

Our net profit decreased by 27.4% in 2015, primarily due to a moderate decline in service pricing for our testing services as a result of price competition through open tender process and the increase in cost of sales. For further discussion of our net profit in 2015, see “Financial Information — Results of Operations — 2015 Compared to 2014” beginning on page 198 of this prospectus.

SUMMARY

The following table sets forth selected line items of our consolidated statements of financial position as of the dates indicated.

	As of December 31,		
	2013	2014	2015
	(RMB in thousands)		
Non-current assets	27,384	63,307	72,958
Current assets	68,257	74,075	122,558
Current liabilities	23,133	27,123	114,257
Net current assets	45,124	46,952	8,301
Total assets less current liabilities	72,508	110,259	81,259
Non-current liabilities	–	–	20,260
Net assets	72,508	110,259	60,999

The following table sets forth a summary of our consolidated statements of cash flows for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
	(RMB in thousands)		
Net cash generated from operating activities	35,694	52,515	39,397
Net cash used in investing activities	(17,299)	(61,288)	(13,628)
Net cash from/(used in) financing activities	(2,129)	(252)	11,559
Net increase/(decrease) in cash and cash equivalents	16,266	(9,025)	37,328
Effect of foreign exchange rate changes, net	–	–	753
Cash and cash equivalents at the beginning of the year	12,825	29,091	20,066
Cash and cash equivalents at the end of the year	29,091	20,066	58,147

The following table sets forth certain of our key financial ratios as of the dates or for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
	(%)		
Profitability ratios			
Gross profit margin ⁽¹⁾	58.7	56.1	51.6
Net profit margin ⁽²⁾	30.0	27.2	17.7
Return on equity ⁽³⁾	48.8	34.5	45.3
Return on total assets ⁽⁴⁾	36.8	27.7	14.1
Liquidity ratios			
Current ratio ⁽⁵⁾	295.1	273.1	107.3
Capital adequacy ratios			
Gearing ratio ⁽⁶⁾	0.0	0.0	82.0

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- (1) The calculation of gross profit margin is based on gross profit for the year divided by revenue and multiplied by 100.0%.
- (2) The calculation of net profit margin is based on profit for the year divided by revenue and multiplied by 100.0%.
- (3) The calculation of return on equity is based on profit for the year divided by equity attributable to owners of our Company and multiplied by 100.0%.
- (4) The calculation of return on total assets is based on profit for the year divided by total assets and multiplied by 100.0%.
- (5) The calculation of current ratio is based on current assets divided by current liabilities and multiplied by 100.0%.
- (6) The calculation of gearing ratio is based on total debt divided by total equity and multiplied by 100.0%.

Our gross profit margin decreased from 56.1% in 2014 to 51.6% in 2015, primarily due to a general decline in service pricing for our testing services as a result of price competition through open tender process and the decline in the coal market. Our gross profit margin decreased from 58.7% in 2013 to 56.1% in 2014, primarily due to a 34.0% increase in labor costs from more headcounts to support our growth and increased compensation bases to retain talents.

Our net profit margin was affected primarily by the same factors affecting our gross profit margin during the Track Record Period. The decrease in the net profit margin in 2015 was also attributable to the listing expenses incurred in connection with the Global Offering.

We relied primarily on cash generated from our operations to finance our business growth during the Track Record Period. The significant increase in our gearing ratio as of December 31, 2015 was due to borrowings totaling RMB50.0 million in 2015.

For further discussions of these ratios, see “Financial Information — Key Financial Ratios” beginning on page 215 of this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming the Over-allotment Option is not exercised and an Offer Price of HK\$0.99 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$70.5 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering. We intend to use the net proceeds of the Global Offering for the following purposes:

- approximately 30.0% of the net proceeds will be used to construct new service facilities at Huanghua port;
- approximately 25.0% of the net proceeds will be used to construct new service facilities at Tangshan port;
- approximately 20.0% of the net proceeds will be used to construct new service facilities at Tianjin port;

SUMMARY

- approximately 15.0% of the net proceeds will be used to construct new service facilities at Qinhuangdao port; and
- approximately 10.0% of the net proceeds will be used to fund general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro-rata basis if the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range. To the extent that the net proceeds from the Global Offering are not immediately used for the above purposes and to the extent permitted by applicable laws and regulations, we may allocate part or all of the proceeds to short-term interest-bearing deposits or money market instruments with authorized financial institutions or licensed banks. See “Future Plans and Use of Proceeds” beginning on page 223 of this prospectus.

LISTING EXPENSES

The listing expenses in connection with the Global Offering consist primarily of underwriting commission and professional fees, and are estimated to be approximately HK\$28.5 million (RMB24.2 million) comprising underwriting commission of approximately HK\$2.5 million and other expenses of approximately HK\$26.0 million assuming an Offer Price of HK\$0.99 per Offer Share, being the mid-point of the indicative Offer Price range. During the Track Record Period, we incurred listing expenses of approximately RMB13.3 million, of which approximately RMB10.0 million was charged to our consolidated statements of profit or loss and other comprehensive income during the Track Record Period, while the remaining amount of approximately RMB3.3 million was recorded as deferred listing expenses and will be capitalized and deducted from the share premium upon the completion of the Global Offering. We expect to further incur underwriting commission and other listing expenses of approximately RMB10.9 million (including the underwriting commission of approximately RMB2.1 million) upon the completion of the Global Offering, out of which approximately RMB6.6 million will be charged to the consolidated statements of profit or loss and other comprehensive income, and approximately RMB4.3 million will be deducted from the share premium.

DIVIDEND

We declared and paid profit distribution of RMB81.0 million in 2015 from our cash and a RMB20.0 million borrowing from an individual who is an independent third party.

We are a holding company incorporated in the Cayman Islands. The payment and amount of our future dividends will depend on the availability of dividends received from our subsidiaries. Distributions from us and our subsidiaries may also be subject to any restrictive covenants in bank credit facilities or loan agreements or other agreements that we or they may enter into in the future.

We currently do not have any pre-determined dividend payout ratio. The amount of dividends actually distributed to our Shareholders will depend on our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our Shareholders. Our Board has the absolute discretion to recommend any dividends. Our dividend distribution record in the past may not be useful as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

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NON-COMPLIANCE

During the Track Record Period, we did not make adequate contributions to the social insurances for all of our employees. We did not register with the relevant housing reserve fund authorities or make adequate housing reserve fund contributions for all of our employees in a timely manner during the Track Record Period. We have completed the environmental protection-related procedures for six laboratories, and we are applying for the completion acceptance of environmental protection for the other two laboratories. See “Business — Legal Proceedings and Compliance — Non-compliance” beginning on page 159 of this prospectus.

RECENT DEVELOPMENTS

In February 2016, the State Council announced a policy to suspend the approval of new coal mines for the next three years starting from 2016 and reduce coal’s share in China’s energy mix. This policy reflects the PRC government’s continued efforts to eliminate inefficient coal mines to ease domestic oversupply and combat pollution caused by coal-fired power generation. We do not believe this policy and other government initiatives to manage the domestic oversupply of coal may have direct adverse impact on our business because the demand for coal testing and inspection services is affected by domestic coal consumption volume, which is determined by the general economic activities in China. Our business operation may be adversely affected by the slowing coal market, which is primarily the result of a slowing economy. See “Risk Factors — Risks Relating to Our Business and Industry — Our business may be indirectly affected by the development of China’s coal industry” and “— Risks Relating to Conducting Business in China — Any slowdown in the Chinese economy may affect the demand for power generation and the coal consumption volume and result in a material adverse effect on our business, results of operations and financial condition” for risks associated with the coal market and Chinese economy.

Although China’s coal production volume in 2015 decreased by approximately 3.3% to 3.8 billion tonnes as compared to 2014, the domestic coal market nonetheless represents a large base number in terms of coal volume with growth potential for the coal testing and inspection industry especially when only approximately 24.9% of the coal consumed in 2015 was tested or inspected by independent assurance providers. As an integral part of the energy source in China, coal accounted for over 60.0% of the total energy consumption in China during the Track Record Period, and is expected to remain the primary energy source in China in the foreseeable future, according to the Forward Report. As a result, amid the slowing coal market, the quantity of coal subject to testing and inspection increased from approximately 770 million tonnes in 2013 to approximately 810 million tonnes in 2014, and further to approximately 840 million tonnes in 2015. We believe our business will be driven by the following factors:

- *Demand for electricity.* In China, the coal subject to testing and inspection is primarily thermal coal used for power generation. The power consumption level is determined by the general economic activities in China. The output of coal or any reduction thereof, however, does not directly affect the coal trading volume or the demand for coal testing and inspection services because the coal market is currently oversupplied. See “Industry Overview — Coal Industry of China — Overview.”
- *Liberalization of coal industry.* In China, coal testing was customarily performed by coal suppliers or consumers at the loading or discharge of shipments. According to the Forward Report, the total volume of coal subject to quality testing or inspection

SUMMARY

accounted for only approximately 24.9% of the coal consumed in 2015. As the coal industry liberalizes, coal suppliers and consumers increasingly require testing and inspection from third parties disinterested in the test results to provide assurance of verifiable quality and quantity of coal, which now serves as a basis for price determination in coal trade.

- *Largely untapped inland coal trade.* Our services are currently being offered primarily to seaborne coal trade. According to the Forward Report, in 2015, approximately 59.2% of the coal consumed in China was transported by rail, while only approximately less than 5.0% of the coal transported by rail was tested or inspected by independent assurance providers. We plan to expand our testing services to inland coal trade, a market largely untapped by independent assurance providers. See “Business — Business Strategy” and “Business — Customers and Business Development — Diversification” for further details on our customer diversification strategy.
- *Tightened quality requirements to combat pollution.* We expect the demand for coal testing services to increase as a result of the PRC government’s continued efforts to contain the environmental impact from burning coal. In recent years, the PRC government has tightened regulations over coal quality to reduce the emission of toxic substance from combustion and imposed more severe penalty for environmental pollution. For example, the Provisional Measures on Quality Management of Commercial Coal (商品煤質量管理暫行辦法), effective on January 1, 2015, impose restrictions on the transportation, sale and use of commercial coal that contains ash, sulfur or toxic elements beyond certain percentage threshold in regions including Beijing, Tianjin, Hebei province, Yangtze River Delta and Pearl River Delta. Such regulations are expected to result in an increase in demand for independent assurance of coal quality for regulatory compliance. See “Business — Business Strategy” and “Business — Customers and Business Development — Diversification” for further details on our customer diversification strategy.

For further discussion of our business and industry, see “Business — Competitive Strengths — We operate in a steadily growing coal testing and inspection industry benefiting from China’s tightened regulations over coal quality and the liberalization of the coal industry.” However, future government initiatives to reduce coal’s share in China’s energy mix and promote the utilization of alternative energy sources may, in the long run, adversely affect the coal consumption level and the demand for coal testing and inspection services.

Based on our unaudited management accounts for the four months ended April 30, 2016, we estimate that our revenue for the four months ended April 30, 2016 increased when compared with the corresponding period in 2015. After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that since December 31, 2015 and up to the date of this prospectus, there was no material adverse change in our financial, operational or trading position or in the general regulatory, economic and market conditions in China or the industry in which we operate, and there is no event since December 31, 2015 that would materially affect the audited financial information as set out in Appendix I — “Accountants’ Report” to this prospectus.

SUMMARY

OFFERING STATISTICS⁽¹⁾

	Based on an Offer Price of HK\$0.73 per Share	Based on an Offer Price of HK\$1.24 per Share
Market capitalization of our Company upon completion of the Global Offering ⁽²⁾	HK\$292 million	HK\$496 million
Unaudited pro forma adjusted consolidated net tangible asset per Share ⁽³⁾	HK\$0.32	HK\$0.45

- (1) All statistics in the table below are presented based on the assumption that options granted under the Over-allotment Option are not exercised.
- (2) The calculation of market capitalization is based on 400,000,000 Shares expected to be in issue and outstanding following the completion of the Global Offering.
- (3) The unaudited pro forma adjusted consolidated net tangible asset value per Share is arrived at after the adjustments referred to in “Appendix II — Unaudited Pro Forma Financial Information” and on the basis of 400,000,000 Shares expected to be in issue and outstanding following the completion of the Global Offering.

RISKS AND CHALLENGES

We face a number of risks and challenges in our business and industry. These risks can be broadly categorized into (1) risks relating to our business and industry; (2) risks relating to conducting business in China; and (3) risks relating to the Global Offering. We operate in the coal testing and inspection industry, which may be derivatively affected by the growth and contraction of the coal industry and general economic condition in China. We depended on a limited number of major customers for a substantial portion of our revenue during the Track Record Period, and may not continue to maintain our business relationship with them on commercially reasonable terms, or at all, in the future. We derived a substantial amount of our revenue from services awarded through open tender during the Track Record Period, and may not be able to continue to win additional bids and may be compelled to engage in price competition, which may lower our profit margin. We depend on our technicians and field inspectors to perform coal testing and inspection services, and cannot assure you that we will be able to contain the rising labor costs or attract and retain qualified professionals to maintain and expand our business operations. We have stringent quality control and standardized operational procedures to ensure consistently high quality of our services delivered across all of our service centers, and cannot assure you that our measures will always meet the evolving regulatory or industrial requirements or that there will not be failure or breach of our measures, which may affect the reliability of our service results and damage our market reputation. Since different investors may apply different interpretations and criteria when determining the materiality of a risk, see “Risk Factors” beginning on page 33 of this prospectus in its entirety before you decide to invest in the Offer Shares.

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this prospectus. Certain other terms are explained in “Glossary.”

“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), individually or collectively, as the context may require
“AQSIQ”	General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局)
“Articles of Association” or “Articles”	our articles of association, conditionally adopted on June 18, 2016 to take effect upon Listing and as amended from time to time, a summary of which is contained in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Baotou Lihong”	Baotou Huaxia Lihong Coal Testing Co., Ltd. (包頭市華夏力鴻煤炭檢測有限公司), a company incorporated in the PRC on August 19, 2011 and a wholly-owned subsidiary of Huaxia Lihong, which was liquidated on October 18, 2013
“Board of Directors” or “Board”	our board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday in Hong Kong and any day on which tropical cyclone warning no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Cangzhou Branch of Huaxia Lihong”	Beijing Huaxia Lihong (Cangzhou Bohai New Zone) Commodity Inspection Co., Ltd. (北京華夏力鴻商品檢驗有限公司滄州渤海新區分公司), a branch of Huaxia Lihong established on January 10, 2011

DEFINITIONS

“Capitalization Issue”	the issue of Shares to be made upon capitalization of the share premium account of our Company as referred to in “Statutory and General Information — A. Further Information about our Company — 5. Resolutions of the Shareholders of our Company passed on June 18, 2016” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CCIC”	China Certification & Inspection Group Co., Ltd. (中國檢驗認證(集團)有限公司) and, except where the context otherwise requires, all of its associates, a state-owned testing company ultimately controlled by the AQSIQ that serves different industries
“China” or the “PRC”	the People’s Republic of China, which for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, Macau and Taiwan
“China Dragon”	China Dragon Inspection & Certification (H.K.) Limited (中龍檢驗認證(香港)有限公司), a company incorporated under the laws of Hong Kong on March 2, 1993 with limited liability and a Pre-IPO Investor of our Company, which is owned as to 99.88% by CIC (a state-owned testing company ultimately controlled by the AQSIQ), and 0.12% by two independent third parties
“China Huaneng”	China Huaneng Group (中國華能集團公司) and, except where the context otherwise requires, all of its associates, one of the largest state-owned power generation companies in China

DEFINITIONS

“CIC”	China Inspection Company Limited (中國檢驗有限公司), a state-owned company primarily engaged in inspection and certification service, which is a subsidiary of CCIC and ultimately controlled by the AQSIQ
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“CMB International”	CMB International Capital Limited, a corporation licensed under the SFO permitted to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO, acting as the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, and the Sole Sponsor of the Listing and/or the Global Offering
“CMBIS” or “Stabilizing Manager”	CMB International Securities Limited, a corporation licensed under the SFO permitted to carry on type 1 (dealing in securities) of the regulated activities (as defined in the SFO), acting as the stabilizing manager of the Global Offering
“Companies Law” or “Cayman Companies Law”	the Companies Law (as revised) of the Cayman Islands, as amended, supplemented, or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	China Leon Inspection Holding Limited (中國力鴻檢驗控股有限公司), an exempted company incorporated under the laws of Cayman Islands with limited liability on July 29, 2015
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and in the context of this prospectus, refers to Mr. LI Xiangli (李向利), Ms. ZHANG Aiyong (張愛英), Mr. LIU Yi (劉翊), Leon Investment, Swan Stone and Hawk Flying
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules

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“Datang Power”	China Datang Corporation (中國大唐集團公司) and, except where the context otherwise requires, all of its associates, one of the largest state-owned power generation companies in China
“Deed of Non-competition”	the deed of non-competition dated June 18, 2016 given by each of our Controlling Shareholders in favor of our Company
“Director(s)”	the director(s) of our Company or any one of them
“Fine Longbow”	Fine Longbow Investment Holding Limited, a company incorporated under the laws of BVI on September 7, 2015 with limited liability and is wholly-owned by Mr. ZHANG Jiaqi (張佳琦), one of the ultimate Shareholders of our Company
“Forward”	Shenzhen Forward Investment Adviser Co., Ltd. (深圳前瞻投資顧問有限公司), a market segmentation research and advisory company and the industry expert engaged by our Company
“Forward Report”	an independent market research report commissioned by our Company on the coal testing and inspection market and prepared by Forward
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Placing
“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Guangdong Yudean”	Guangdong Yudean Group Co., Ltd. (廣東省粵電集團有限公司) and, except where the context otherwise requires, all of its associates, the largest power generation company in Guangdong province
“Guangzhou Lihong”	Guangzhou Lihong Coal Testing Co., Ltd. (廣州力鴻煤炭檢測有限公司), formerly known as Guangzhou Zhongli Inspection Technology Service Co., Ltd. (廣州中立檢測技術服務有限公司), a company incorporated in the PRC on June 24, 2011 and an indirect wholly-owned subsidiary of our Company

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“Guangzhou JV”	Guangzhou Lihong Energy Testing Technology Co., Ltd. (廣州力鴻能源檢測技術有限公司), a company incorporated in the PRC on April 12, 2016 which is owned as to 50% by Huaxia Lihong and 50% by an independent third party
“Hawk Flying”	Hawk Flying Investment Holding Limited, a company incorporated under the laws of BVI on September 2, 2015 with limited liability and is wholly-owned by Mr. LIU Yi (劉翊), an executive Director, a vice president and a Controlling Shareholder of our Group
“Hebei Lihong”	Hebei Lihong Minerals Inspection Co., Ltd. (河北力鴻礦產品檢驗有限公司), a company incorporated in the PRC on January 14, 2013 and an indirect wholly-owned subsidiary of our Company
“HK\$” or “Hong Kong dollars”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 10,000,000 Shares being initially offered by our Company at the Offer Price pursuant to the Hong Kong Public Offering (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong for cash (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) at the Offer Price (plus brokerage fee of 1%, Stock Exchange trading fee of 0.005%, and SFC transaction levy of 0.0027%) on the terms and subject to the conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering — Hong Kong Public Offering” in this prospectus
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited

DEFINITIONS

“Hong Kong Underwriter”	the underwriter listed in the section headed “Underwriting — Hong Kong Underwriter” in this prospectus, being the underwriter of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the underwriting agreement dated June 28, 2016 relating to the Hong Kong Public Offering and entered into by, among other parties, our Company, the Sole Global Coordinator and the Hong Kong Underwriter
“Hotek Asia”	Hotek Asia Co., Limited, a company incorporated under the laws of the BVI on May 27, 2015 with limited liability and a Pre-IPO Investor wholly-owned by Hua Tai LP
“Hua Tai LP”	Hangzhou Hua Tai Zhi Ce Equity Investment Partnership (Limited Partnership) (杭州華欽智測股權投資合夥企業(有限合夥)), the sole shareholder of Hotek Asia and a limited partnership mainly engaged in investment activities
“Huachuang Yiyuan”	Beijing Huachuang Yiyuan Technology Development Co., Ltd (北京華創億源科技開發有限公司), a company incorporated in the PRC on August 1, 2001 which was owned as to 70% by Huaxia Lihong and 30% by independent third parties. As of the Latest Practicable Date, Huachuang Yiyuan is under the process of liquidation
“Huaxia Lihong”	Beijing Huaxia Lihong Commodity Inspection Co., Ltd. (北京華夏力鴻商品檢驗有限公司), a company incorporated in the PRC on January 19, 2009 and an indirect wholly-owned subsidiary of our Company
“Hunan Lihong”	Hunan Lihong Coal Testing Co., Ltd. (湖南力鴻煤炭檢測有限公司), a company incorporated in the PRC on July 17, 2014 and an indirect wholly-owned subsidiary of our Company
“ICSA”	Institute of Chairman Secretaries and Administrators (英國特許秘書及行政人員公會)
“IFRS”	International Financial Reporting Standards
“independent third party(ies)”	an individual or a company which is not a connected person (as defined in the Listing Rules)

DEFINITIONS

“International Placing”	the conditional placing of the International Placing Shares by the International Underwriter with professional and institutional investors at the Offer Price, as further described in the section headed “Structure of the Global Offering — International Placing” in this prospectus
“International Placing Agreement”	the international placing agreement relating to the International Placing to be entered into on or about July 5, 2016 by, among other parties, our Company, the Sole Global Coordinator and the International Underwriter
“International Placing Shares”	the 90,000,000 new Shares initially being offered by our Company for subscription at the Offer Price under the International Placing (subject to adjustment as described in the section headed “Structure of the Global Offering”) together with (unless the context otherwise requires) any Shares issued pursuant to any exercise of the Over-allotment Option
“International Underwriter”	the underwriter, which is expected to enter into the International Placing Agreement to underwrite the International Placing Shares
“Latest Practicable Date”	June 20, 2016, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Leon BVI”	China Leon Inspection Holding (BVI) Limited, a company incorporated under the laws of BVI on July 31, 2015 with limited liability and a wholly-owned subsidiary of our Company
“Leon HK”	Huaxia Leon Inspection Limited (華夏力鴻檢驗有限公司), a company incorporated under the laws of Hong Kong on August 10, 2015 with limited liability and an indirect wholly-owned subsidiary of our Company
“Leon Investment”	Leon Cornerstone Investment Holding Limited, a company incorporated under the laws of BVI on September 2, 2015 with limited liability and is wholly-owned by Mr. LI Xiangli, an executive Director, the chief executive officer and a Controlling Shareholder of our Group

DEFINITIONS

“Lihong Investment”	Beijing Lihong Cornerstone Investment Co., Ltd. (北京力鴻基石投資有限公司), a company incorporated in the PRC on July 5, 2012 and was owned as to 80.0% by Mr. LI Xiangli and 20.0% by Ms. ZHANG Aiying
“Lihong Software”	Beijing Huaxia Lihong Software Development Co., Ltd. (北京華夏力鴻軟件開發有限公司), a company incorporated in the PRC on December 18, 2013 and an indirect wholly-owned subsidiary of our Company
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	the date expected to be on or about Tuesday, July 12, 2016 on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market
“M&A Rules”	Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors, (關於外國投資者併購境內企業的規定), promulgated by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the SAIC, the China Securities Regulatory Commission and the SAFE on August 8, 2006, and subsequently amended by the MOFCOM on June 22, 2009
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部), on where the context so requires, its counterpart at the local levels
“Nanjing Branch of Huaxia Lihong”	Nanjing Branch of Beijing Huaxia Lihong Commodity Inspection Co., Ltd. (北京華夏力鴻商品檢驗有限公司南京分公司), a branch of Huaxia Lihong established on September 2, 2015

DEFINITIONS

“Nanjing Lihong”	Nanjing Lihong Coal Testing Co., Ltd. (南京力鴻煤炭檢測有限公司), a company incorporated in the PRC on June 5, 2012 and an indirect wholly-owned subsidiary of our Company
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“New Virtue”	New Virtue Investment Holding Limited, a company incorporated under the laws of BVI on September 7, 2015 with limited liability and is wholly-owned by Mr. LI Dexin, one of the ultimate Shareholders of our Group
“Offer Price”	the final Hong Kong dollar offer price per Offer Share (exclusive of brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at which the Shares are to be issued pursuant to the Global Offering, which will be not more than HK\$1.24 and is expected to be not less than HK\$0.73, to be determined as described in the section headed “Structure of the Global Offering – Pricing of the Global Offering” in this prospectus
“Offer Share(s)”	the Hong Kong Offer Shares and the International Placing Shares together, where relevant, with any additional Shares allotted and issued pursuant to the exercise of the Over-allotment Option
“Original Shareholders”	Mr. LI Xiangli, Ms. ZHANG Aiyong, Mr. LIU Yi (劉翊), Mr. LI Dexin, Mr. ZHANG Jiaqi and their wholly-owned holding companies, namely, Leon Investment, Swan Stone, Hawk Flying, New Virtue and Fine Longbow
“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriter (exercisable by the Sole Global Coordinator on behalf of the International Underwriter), pursuant to the International Placing Agreement, to require us to issue and allot up to an aggregate of 15,000,000 additional Shares at the Offer Price, if the total value of the Offer Shares at the Offer Price is not less than HK\$100 million, to cover over-allocations in the International Placing, if any, exercisable at any time from the date of the International Placing Agreement until the 30th day from the last day for the lodging of applications under the Hong Kong Public Offering

DEFINITIONS

“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Pre-IPO Investments”	the pre-IPO investments in our Company by pre-IPO investors pursuant to the Share Subscription Agreement, details of which are set out in “History, Reorganization and Corporate Structure — Pre-IPO Investments”
“Pre-IPO Investors”	China Dragon and Hotek Asia
“Price Determination Agreement”	the agreement to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date to record and determine the Offer Price
“Price Determination Date”	on or about Tuesday, July 5, 2016 at which time the Offer Price is to be determined, or such later time as our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) may agree, but in any event not later than Friday, July 8, 2016
“Qinhuangdao Lihong”	Qinhuangdao Lihong Coal Testing Co., Ltd. (秦皇島力鴻煤炭檢測有限公司), a company incorporated in the PRC on May 4, 2009 and an indirect wholly-owned subsidiary of our Company
“Regulation S”	Regulation S under the US Securities Act
“Reorganization”	the reorganization arrangements undergone in preparation for the listing of Shares on the Stock Exchange as described in “History, Reorganization and Corporate Structure”
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SGS”	Société Générale de Surveillance S.A. and, except where the context otherwise requires, all of its associates, a multinational company headquartered in Geneva, Switzerland and provides inspection, verification, testing and certification services for a number of industries
“Share(s)”	ordinary share(s) of US\$0.00005 each in the issued share capital of our Company
“Share Subscription Agreement”	the share subscription agreement entered into by and among our Company, Mr. LI Xiangli, Leon Investment and Pre-IPO Investors on November 27, 2015, details of which are set out in “History, Reorganization and Corporate Structure — Pre-IPO Investments”
“Shareholder(s)”	holder(s) of Shares
“Shareholders Agreement”	the shareholders agreement entered into by and among our Company, Original Shareholders and Pre-IPO Investors on November 27, 2015, details of which are set out in “History, Reorganization and Corporate Structure — Pre-IPO Investments”
“Shengde Tiangong”	Tianjin Shengde Tiangong Sampling Technique Co., Ltd. (天津聖德天工採樣技術有限公司), a company incorporated in the PRC on November 27, 2014 and an indirect wholly-owned subsidiary of our Company
“Shenhua Group”	Shenhua Group Corporation Limited (神華集團有限責任公司) and, except where the context otherwise requires, all of its associates, the largest coal mining company in China
“Sole Sponsor,” “Sole Global Coordinator,” “Sole Bookrunner” and “Sole Lead Manager”	CMB International
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into on or about June 28, 2016 between Leon Investment and the Stabilizing Manager
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“subsidiary(ies)”	has the meaning ascribed to it in the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Swan Stone”	Swan Stone Investment Holding Limited, a company incorporated under the laws of BVI on September 2, 2015 with limited liability and is wholly-owned by Ms. ZHANG Aiying, an executive Director, a vice president and a Controlling Shareholder of our Group
“Tangshan Lihong”	Tangshan Huaxia Lihong Commodity Inspection Co., Ltd. (唐山華夏力鴻商品檢驗有限公司), a company incorporated in the PRC on May 6, 2009 and an indirect wholly-owned subsidiary of our Company
“Tianjin Lihong”	Tianjin Huaxia Lihong Coal Testing Co., Ltd. (天津華夏力鴻煤炭檢測有限公司), a company incorporated in the PRC on November 25, 2011 and an indirect wholly-owned subsidiary of our Company
“Track Record Period”	the period consisting of the three years ended December 31, 2013, 2014 and 2015
“Underwriters”	the Hong Kong Underwriter and the International Underwriter
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Placing Agreement
“United States” or “US”	the United States of America, its territories and possessions and all areas subject to its jurisdiction
“US Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“US\$”	United States dollars, the lawful currency of the United States
“we,” “us,” “Group” or “our Group”	our Company and our subsidiaries (or our Company and any one or more of our subsidiaries, as the context may require)
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO Service Provider at www.eipo.com.hk

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“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Zhuhai Lihong”	Zhuhai Lidaohongtu Coal Testing Technical Service Co., Ltd. (珠海力道鴻圖煤炭檢測技術服務有限公司), a company incorporated in the PRC on April 3, 2013 and an indirect wholly-owned subsidiary of our Company
“%”	per cent

Unless otherwise specified, statements contained in this prospectus assume no exercise of the Over-allotment Option.

All times refer to Hong Kong time.

If there is any inconsistency between the Chinese name of the PRC laws and regulations or PRC entities mentioned in this prospectus and their English translation, the Chinese version shall prevail.

Unless otherwise specified, references to years in this prospectus are to calendar years.

Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions or other entities for which no official English translation exist are unofficial translations for identification purposes only.

GLOSSARY

This glossary contains certain technical terms used in this prospectus in connection with our Company and business. Such terms and their meanings may not correspond to standard industry definitions or usage.

“ash”	incombustible impurities contained in coal which affect the burning characteristics of coal
“Bohai Rim” or “Bohai Rim region”	the economic hinterland surrounding the Bohai Sea, which includes Beijing, Tianjin, Hebei, Liaoning and Shandong provinces
“bulk cargo”	loose commodity cargo (dry or liquid) that is transported in volume or size
“bunker”	a large container, especially outside a house, for storing coal
“calorific value”	the heat of combustion of a unit quantity of coal, which is expressed in British Thermal Units per pound (BTU/lb), kilocalories per kilogram (kcal/kg) or mega joules per kilogram (MJ/kg); the gross calorific value includes all heat of vaporization of water and net calorific value assumes all water is in the vapor phase
“carrier”	an entity transporting passengers or goods for a profit
“Certificate of Qualification for Institution of Import & Export Commodity Inspection and Survey (進出口商品檢驗鑒定機構資格證書)”	an administrative certificate issued by the AQSIQ, under which an institution is permitted to provide import and export commodity inspection and survey services to foreign trade parties, domestic or foreign inspection institutions and other third parties
“Certificate of Registration (ISO 9001:2008)”	a certificate issued by Guardian Independent Certification Ltd. attesting to an institution’s satisfaction of the ISO 9001:2008, which is an internationally recognized standard for a quality management system; it aims at the effectiveness of the quality management system in meeting customer requirements and prescribes requirements for ongoing improvement of quality assurance in design, development, production, installation and servicing

GLOSSARY

“Certificate of Registration (OHSAS 18001:2007)”	a certificate issued by Guardian Independent Certification Ltd. attesting to an institution’s satisfaction of the OHSAS 18001:2007, which is an internationally recognized specification for Occupational Health and Safety Management Systems; it specifies requirements for an occupational health and safety management system to enable an organization to develop and implement a policy and objectives which take into account legal requirements and information about occupational risks and to improve their occupational safety and health performance
“China Metrology Accreditation Certificate (計量認證證書)”	an administrative certificate issued by the provincial quality and technology supervision branch of the AQSIQ, under which an institution is permitted to provide product quality data notarial service to third parties
“CNAS”	the China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會)
“Daqin Line (大秦線)”	railroad that runs from Datong, Shanxi province to Qinhuangdao, Hebei province
“Four Northern Ports”	the four major coal-trade ports in north China, which include Qinhuangdao port, Tangshan port, Huanghua port and Tianjin port
“GPS”	global positioning system
“independent assurance provider” or “independent coal testing and inspection services provider”	a company, unaffiliated with direct participants in coal trade, that provides a combination of testing and inspection services to such participants primarily to assure or verify the quality and quantity of coal, usually with its qualifications and laboratories accredited by authorized certification bodies
“Inspection Body Accreditation Certificate (檢查機構認可證書)”	a certificate issued by the CNAS, which attests to an industrial recognition of an inspection institution’s competency to provide inspection services under the standard of ISO/IEC 17020:2012
“ISO”	the International Organization for Standardization, a non-government organization based in Geneva, Switzerland, for assessing the quality systems of business organizations
“kWh”	kilowatt hour, a unit of energy equivalent to one kilowatt of power sustained for one hour

GLOSSARY

“Laboratory Accreditation Certificate (實驗室認可證書)”	a certificate issued by the CNAS, which attests to an industrial recognition of a laboratory’s competency to perform testing under the standard of ISO/IEC 17025:2005
“Longhai Line (隴海線)”	railroad that runs from Lanzhou, Gansu province to Lianyungang, Jiangsu province
“manual sampling”	the process where coal sample is collected by hand with a scoop or other similar tool
“mechanical sampling”	the process and equipment used in collecting coal samples by using a mechanical device and usually involving automatic equipment collecting sample cuts at regular intervals from the main stream of coal
“Mengji Line (蒙冀線)”	railroad that runs from Ordos, Inner Mongolia Autonomous Region to Caofeidian port, Tangshan, Hebei province
“Mengxi Line (蒙西線)”	railroad that runs from Ordos, Inner Mongolia Autonomous Region to Ji’an, Jiangxi province
“moisture”	the amount of moisture in coal, expressed as a percentage of the weight of the coal and consisting primarily of (1) free or surface moisture, which can be removed by exposure to air, and (2) inherent moisture, which is trapped in the coal and can be removed by heating the coal
“Pearl River Delta”	an economic region in China that encompasses Guangzhou, Shenzhen, Dongguan, Foshan, Zhongshan, Zhuhai, Jiangmen, and parts of Huizhou and Zhaoqing
“port”	a coastline intermodal terminal directly connected by road or rail and operating as a center for the transshipment of sea cargo to and from inland destinations
“port company”	a state-owned or privately-run company that contracts with the port authority to manage, develop and operate port facilities within the port
“power generator”	an electric power company that engages in the generation, transmission, and distribution of electricity for sale generally in a regulated market
“primary energy source”	an energy form found in nature that has not been subjected to any conversion or transformation process

GLOSSARY

“raw coal”	a mineral in its raw, untreated state subsequent to extraction and prior to sizing and other beneficiation
“sample preparation”	the process whereby a coal sample is treated prior to testing and analysis; it may involve dissolution, reaction with some chemical species, pulverizing, treatment with a chelating agent, masking, filtering, dilution, sub-sampling or other techniques
“Shuohuang Line (朔黄线)”	railroad that runs from Shenchì, Shanxi province to Huanghua port, Cangzhou, Hebei province
“sulfur”	sulfur contained in coal, which can vary from coal seam to coal seam and sometimes within seam; low sulfur coal has a variety of definitions but typically is used to describe coal consisting of 1.0% or less sulfur
“tonne”	metric ton, representing 1,000 kilograms
“toxic elements”	substances in coal that may cause harm to the environment or human beings upon complete combustion of coal
“volatility”	the amount of volatile matter in coal, expressed as a percentage of the weight of the coal and referring to substances, other than water, that are driven off as gas or vapor when coal is heated under certain prescribed conditions
“Yangtze River Delta”	an economic region in China that encompasses Shanghai, Zhejiang province and Jiangsu province

FORWARD-LOOKING STATEMENTS

We have included in this prospectus forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this prospectus. Forward-looking statements can be identified by words such as “may,” “will,” “should,” “would,” “could,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “continue,” “seek,” “estimate” or the negative of these terms or other comparable terminology. Examples of forward-looking statements include, but are not limited to, statements we make regarding our projections, business strategy and development activities as well as other capital spending, financing sources, the effects of regulation, expectations concerning future operations, margins, profitability and competition. The foregoing is not an exclusive list of all forward-looking statements we make.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. We give no assurance that these expectations and assumptions will prove to have been correct. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our results may differ materially from those contemplated by the forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. We caution you therefore against placing undue reliance on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to regional, national or global political economic, business, competitive, market and regulatory conditions and the following:

- our business and operating strategies and our ability to implement such strategies;
- our ability to further develop and operate new services;
- the regulatory environment as well as the general industry outlook for China’s coal testing and inspection industry;
- future developments and the competitive environment in China’s coal testing and inspection industry;
- general economic trends in China; and
- all other risks and uncertainties described in “Risk Factors.”

Any forward-looking statement made by us in this prospectus speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Subject to the requirements of applicable laws, rules and regulations, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

You should carefully read and consider all of the risks and uncertainties described below before deciding to make any investment in our Shares. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties. As a result, you may lose part of or all of your investment.

Our business and operations involve certain risks and uncertainties, many of which are beyond our control. These risks can be broadly categorized as (1) risks relating to our business and industry; (2) risks relating to conducting business in China; and (3) risks relating to the Global Offering.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We depend on a limited number of customers for a substantial portion of our revenue and may not be able to successfully maintain our business relationship with these customers.

During the Track Record Period, we derived a substantial portion of our revenue from a limited number of large and reputable coal miners, distributors and power generators. As our single largest customer, Shenhua Group accounted for approximately 46.1%, 47.0% and 52.7% of our revenue for 2013, 2014 and 2015, respectively. Our top five customers accounted for approximately 64.6%, 66.0% and 66.8% of our revenue for 2013, 2014 and 2015, respectively.

We generally enter into annual service agreements with our large customers. Pursuant to the service agreements, our customers will place service orders with us as and when specific inspection or testing services are required. We cannot assure you, however, that we will be able to maintain our business relationship with our large customers on commercially reasonable terms, or at all. If for any reason our large customers cease to place service orders with us, refuse to renew the service agreements when expired or breach their contractual obligations thereunder, we may be unable to find alternative customers for our testing and inspection services within a reasonable period of time, or at all, which could result in a significant decrease in our service volume and could materially and adversely affect our results of operations and financial condition. If for any reason our large customers were to become unwilling or unable to make payments for our services rendered, we may be unable to recover significant amounts of receivables and our cash flows and financial position could be adversely affected. Therefore, we are indirectly subject to the operational risks of our large customers to the extent those risks could cause them to breach their contractual obligations with us or discontinue to request our services.

A substantial amount of our revenue is derived from contracts awarded through open tender. We cannot assure you that our existing service agreements may be renewed upon expiration or new service agreements may be awarded to us.

The ongoing reform in China's coal industry over the past years has caused a number of our state-owned enterprise customers to adopt open tender policies for outsourcing coal testing and inspection services. We began to participate in open tender process since 2012. In 2013, 2014 and 2015, we obtained business in eight, 10 and 25 open tender processes, respectively, which accounted for approximately 47.7%, 49.3% and 58.6% of our revenue during the same periods. Our standardized service agreements generally have a term of one year. We are required to submit new tenders upon expiration of existing service agreements or to bid for new service agreements from

RISK FACTORS

time to time. In relation to our existing service agreements that are awarded through open tender and about to expire, the general timeframe for submitting new tenders for the service agreement with the same customer is approximately one to two months prior to expiration, depending on the receipt of a new tender invitation from the customer. So far as our Directors are aware, most of our customers have maintained an evaluation system to ensure that independent assurance providers meet certain standards of management, industrial expertise, financial capability, reputation and regulatory compliance, which may change from time to time. We cannot assure you that we will meet the mandatory tendering requirements or that our overall score under our customers' evaluation system will not be reduced. Even if we are able to meet the prerequisite requirements for tendering, we cannot assure you that we would be invited to or are made aware of the open tender, or the terms and conditions of our new service agreements would be comparable to the existing ones, or our tenders would be selected by customers. In case of any of such events, we may not be granted additional tenders and furthermore, our reputation, business operations, financial results and profitability may be adversely affected.

In addition, other participants of open tender process may compete against us in various manners, such as bidding with reduced price, which could substantially hurt our competitive position and lead to our failure at open tender. As we expect to generate an increasingly larger portion of our business in the future from open tenders as required by potential customers, we may face more intense competition from other bidders in respect of service capabilities, quality and price, and we cannot assure you that we can maintain our current advantages, nor can we assure you that we will continue to prevail in any of the open tender processes, or at all. A failure to accomplish either of the above would have a material adverse effect on our business and financial conditions.

Our business may be indirectly affected by the development of China's coal industry.

We provide coal testing and inspection services to participants in the coal trade, including primarily coal miners, coal distributors and power generators. The demand for our services is affected by the coal consumption volume. Historically, largely used for power generation and steel production, coal plays a vital role in China's economic development. According to the Forward Report, China's coal consumption totaled approximately 3.4 billion tonnes in 2015, accounting for approximately 64.0% of its total consumption of primary energy sources. Any slowdown or depression in China's economy would adversely affect the demand for power generation and in turn the coal industry, which contributed 33.8% of China's GDP in 2015. Driven primarily by the current slowing economy, China's energy consumption, particularly coal consumption, is expected to decrease, leading to a collateral damage to our service volume. Moreover, although China is expected to continue to rely on coal for power generation in the foreseeable future, according to the Forward Report, coal-fired power generators, however, are among major emitters of carbon dioxide, a greenhouse gas which according to a consensus opinion of scientific organizations is a contributor to global warming and is drawing increased attention from the international community nowadays. China is a signatory to the 1992 United Nations Framework Convention on Climate Change, or the Convention, and the 1997 Kyoto Protocol to the Convention, which are intended to limit greenhouse gas emissions. In December 2009, China agreed during the United Nations Climate Change Conference 2009 to reduce carbon dioxide emissions per unit of GDP by 40.0% to 45.0% by 2020, compared with 2005 levels. In February 2016, the State Council announced a policy to suspend the approval of new coal mines for the next three years starting from 2016 and reduce coal's share in China's energy mix. This policy reflects the PRC government's continued efforts to eliminate inefficient coal mines to ease domestic oversupply and make room for clean, renewable energy

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production. Any initiative to reduce coal's share in China's energy mix or the overall energy consumption and control greenhouse gas emissions could reduce coal consumption, which would adversely affect the demand for our services and in turn have a material adverse effect on our business, results of operations and financial condition.

We operate in a highly competitive industry.

According to the Forward Report, there are currently approximately 300 coal testing companies in China. A majority of these coal testing companies are local companies that serve a certain port or trading area, and the top five players commanded a combined market share of 61.1% in terms of revenue in 2015. We expect the competition to intensify as a result of the adoption of open tender policies by state-owned enterprises to outsource coal testing and inspection in recent years. In the open tender process, we compete for price, service quality and other factors that a customer may consider relevant.

Some of our competitors may have services that are superior to ours or achieve greater market acceptance than ours. Some of our competitors may have better or longer operating track records, larger operations, more well-known brand names and industry reputation or greater financial resources than we do. Our competitors may also be less leveraged and may be willing to reduce profits for market share and revenues. As a result of the foregoing, our competitors may be more competitive, have better financing and be able to offer lower prices and more favorable payment terms than we can. If we cannot compete effectively with existing or future competitors, our business, results of operations and financial condition could be materially and adversely affected.

Lowering of profit margin due to competition or our failure to control costs may adversely affect our profitability.

A substantial amount of our revenue during the Track Record Period is derived from contracts awarded through open tender. The tender price of our services is based on a number of factors, including our costs, market conditions, local consumer purchasing power and market prices for similar services. We have to maintain the competitiveness of our pricing and at the same time maximize our profit margin. Open tenders favor the customers by promoting information symmetry and enable the customers to readily compare the pricing information from a number of service providers. In a competitive open tender process, we may have to submit a lower tender price or offer more favorable terms to our customers in order to increase the competitiveness of our tender.

Furthermore, our tender price is usually determined based on the estimates of the time and costs of our services. Most of our service agreements have a fixed and pre-determined service fee throughout the term without any clear price adjustment mechanisms. Once the tender or quotation is agreed with our customers, we can only adjust our fees under certain limited circumstances as stipulated in the agreement. See "Business — Customers and Business Development — Principal Terms of Service Agreements." Accordingly, we bear a risk of cost fluctuations. We cannot assure you that our estimated costs will not overrun during the term of the agreement. Cost overrun may result from inaccurate estimation, increase in cost of labor and materials, additional cost from rectification of test error, adverse weather condition, additional variation of technical specification or customers requirements, change in the regulatory requirements and government policies and unforeseen circumstances. Any of these may also give rise to delays in completion of service or even unilateral termination of service agreements by our customers. During the Track Record

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Period, we did not experience any material cost overrun. We cannot assure you that no such event will occur in the future. Should we fail to control our costs within our estimates or recover the extra costs arising from any of the uncertainties above, the profit margins and revenue generated from our testing and inspection services would be reduced, which could in turn impact our results of operations and financial condition.

In 2013, 2014 and 2015, our gross profit margin was 58.7%, 56.1% and 51.6%, respectively. As such, the lowering of profit margin due to competition and/or failure to control costs may adversely affect our profitability, and if we are unable to reduce our costs accordingly, our results of operations and financial condition would be adversely affected.

We face the risk of capacity constraints, which could have a material adverse effect on our business, results of operations and financial condition.

We compete primarily on the reliability of our test results, the speed or turn-around times of our testing services, and other testing or inspection-related customer services. We typically agree to deliver test results within 48 hours upon completion of on-site sampling under normal circumstances. Any unforeseen increase in the volume of customers could strain the capacity of our employees and systems, leading to unacceptable turn-around times, or customer service failures. In addition, as the number of our customers and samples increases, our services, and infrastructure may not be able to scale accordingly. We may also not be able to hire additional qualified laboratorial technicians to handle increased volumes. Any failure to handle higher volume of requests for our services could lead to the loss of established customers and have a material adverse effect on our business, results of operations and financial condition. If we produce inaccurate test results due to time constraint or otherwise, our customers may choose not to use us in the future, and we may be liable for the economic loss that our customers may suffer.

Failure of or non-compliance with our quality control and operational measures may result in unreliable or inaccurate test results, which may in turn damage our reputation and affect the demand for our services.

Quality control is one of our core values and vital to our business. We have established a full set of stringent quality control and standardized operational measures that apply to each of our eight service centers. We require our operation to strictly comply with requisite regulatory or industrial standards, and adhere to internal technical standards that provide detailed guidance to our day-to-day business practice. We also implement standardized operational procedures and protocols to promote professionalism and reduce operational risks inherent in our service process.

Compliance with our quality control and operational measures ensure that our test or inspection results are reliable and accurate. Failure of or non-compliance with these measures may result in unreliable or inaccurate test or inspection results. For example, breach of our traceability requirements may result in loss or misplacement of raw samples in transit from the port to our sampling workshop, or mix-up with samples from a different customer, which may result in unreliable test results. In addition, manipulation or adulteration of samples may result in inaccurate results and give rise to termination of service agreements. If any of these incidents occurs, our reputation may be severely damaged, and the demand for our services may be reduced.

RISK FACTORS

Our business may suffer if our labor costs increase significantly.

During the Track Record Period, labor costs were the primary component of our cost of sales, accounting for 23.2%, 26.1% and 25.3% of our total revenue for 2013, 2014 and 2015. The increase in our labor costs reflected an increase in headcounts and compensation bases as a result of our business expansion and a general rise in the cost of living in China. We also outsource staffing from labor dispatch providers to assist in on-site sampling work. We cannot guarantee that our profit margin will not decrease as a result of disproportionate growth in labor costs. As we expect our labor costs to continue to grow along with the general rise in the cost of living in China, our business, profitability and prospects may be materially and adversely affected if we are compelled to increase our service price which may result in disadvantage in open tender competition or to abandon certain service types to avoid cost overruns, and as a result, we will not be able to maintain our current profit margin or compete cost-effectively.

In addition, our ability to attract and retain key personnel, and in particular, qualified testing and inspection professionals and research and development personnel, is a critical aspect of our competitiveness. Competition for these individuals could require us to offer higher compensation and other benefits in order to attract and retain them, which would increase our cost of sales and, in turn, could materially and adversely affect our results of operations and financial condition.

We may not continue to derive substantial revenue from the Four Northern Ports.

We have established strong presence in the Four Northern Ports, which collectively accounted for more than 80.0% of the total volume of China's seaborne coal trade in 2015. Our market share at Tianjin port, Tangshan port, Qinhuangdao port and Huanghua port in 2015 reached 39.3%, 23.6%, 21.9% and 55.1%, respectively. The Four Northern Ports represent our largest markets and generated revenue in the aggregate of RMB92.3 million, RMB100.6 million and RMB116.5 million for 2013, 2014 and 2015, respectively, representing 78.8%, 72.1% and 74.8% of our total revenue for the same periods, respectively.

We cannot assure you, however, that we will be able to continue to derive substantial revenue from the Four Northern Ports if and when our large customers from whom we derive a substantial portion of our revenue relocate their loading docks to ports other than the Four Northern Ports, or if natural disasters, changes in policy, or renovation of transportation method result in reduced coal trading volume at the Four Northern Ports. Should any of the above occur, our business, results of operations and financial condition will be materially and adversely affected, and we may be forced to relocate our service capabilities to other ports or locations in pursuit of our major customers, and our relocation may be time-consuming and costly, and may result in substantial business disruption.

We may fail to protect our facilities, which could have a material adverse effect on our business, results of operations and financial condition.

Our key assets are our laboratories and coal testing equipment, instruments and chemicals at each laboratory. Our operations are therefore dependent in part upon our ability to protect the laboratorial operations against physical damage from explosions, fire, floods, hurricanes, earthquakes, power loss, telecommunications failures, break-ins and similar events. The occurrence of any of these events could result in interruptions, delays or cessations in service to customers, which could have a material adverse effect on our business, results of operations and financial condition.

RISK FACTORS

Our business may suffer if we do not respond effectively to changes in technologies as well as regulatory and industrial standards.

Our industry is subject to changes in technologies as well as regulatory and industrial standards. Our success will depend, in part, on our ability to develop, acquire or license new and improved technologies on favorable terms and to obtain appropriate coverage and reimbursement for these technologies. To this end, we will need to invest significant financial resources in research and development to keep pace with technological advances or regulatory or industrial developments in the coal testing and inspection industry. However, research and development activities are inherently uncertain, and our expenditures on research and development may not yield corresponding benefits. In addition, we may not be able to negotiate acceptable terms with suppliers of new or updated technologies and instruments for coal testing and inspection. Therefore, our customers are likely to seek more sophisticated service providers who offer them greater reliability, flexibility and functionality in delivering coal testing and inspection services. Should it occur, our business and financial positions will be materially and adversely affected.

Competition from alternative sources of energy may have an adverse impact on our business and operations.

Although total domestic demand for electricity and overall energy consumption in China continues to grow and coal remains the most consumed primary energy source in China, other energy sources such as natural gas, hydropower, nuclear power and wind power, however, are also developing rapidly, accounting for 6.7% for natural gas and 11.2% for hydropower, nuclear power and wind power combined, respectively, of the total market measured by energy consumption during 2015, according to the Forward Report. As these alternative energy sources develop, China's domestic demand for coal may be adversely affected, which could have a material adverse impact on our business and results of operations.

In addition, China's west-to-east electricity transmission project (西電東送計劃) is expected to alleviate power shortages in south and east China, which could reduce the demand for coal in these regions. As a result, our businesses from south and east China may also decrease accordingly, which could affect our overall business and results of operations.

Our customer experience may be adversely affected by forged certificates.

Third parties may develop techniques that allow them to forge test or inspection certificates that we issue to our customers demonstrating the detailed testing results or the completion of inspection. Any of our customers or potential customers using a forged test or inspection certificate in the course of its coal trading business may encounter disputes and even liabilities, which could lead to unsatisfactory customer experience that could in turn cause a decrease in our business volume, higher expenses of developing measures to combat such practice and of legal claims relating to the infringement of our brand name and injury to our reputation, and increased customer service costs to respond to dissatisfied customers. We have employed measures, including launching an online platform where customers may retrieve an electronic copy of our test or inspection certificate immediately following our conclusion of tests and issuance of certificate, to discover and prevent these activities. But if we fail to detect any potential forgery practice in a timely manner, or if our preventive measures are not as effective as expected, our operations may be disrupted, our reputation may be harmed, and our business may be materially and adversely affected.

RISK FACTORS

Our business depends substantially on our credibility and reputation in the market.

Our continued success is dependent upon our ability to maintain our credibility and reputation in the market as an independent and trustworthy provider of coal testing and inspection services. We cannot guarantee that we will be free from adverse publicity which could have a negative effect upon our credibility and reputation among our customers. We cannot guarantee that our association with any potential adverse publicity events will not have an adverse effect upon public opinion and a consequential impact on our business.

Despite our stringent quality control measures throughout our service process, however, we cannot assure you that such measures will continue to be effective, nor can we assure you that no significant quality incidents related to error or mistake in our services will occur in the future. Our credibility and reputation could be materially and adversely affected should any of such incidents occur.

Our business depends on the continued service of our senior executives, and our business may be severely disrupted if we lose their services.

Our business success and future development are attributable to the expertise and experience of our senior management team. In particular, Mr. LI Xiangli (李向利), our chairman and chief executive officer, his industrial expertise and experience in our business operations, and his working relationships with our employees, our customers, industry associations and relevant regulatory authorities have been instrumental in the development of our business operations. We cannot assure you that we will be able to continue retain the service of the senior executives and particularly Mr. Li. In addition, we cannot assure you that they will not join a competitor or form a competing business. If we lose our senior executives, we might not be able to replace them in a timely manner or at all. If any of our senior executives joins a competitor or forms a competing company, our business may be adversely affected. We may be unable to attract or retain replacement personnel required to achieve our business objectives, and failure to do so could severely disrupt our business and prospects.

Failure to comply with China's anti-bribery laws may damage our reputation and materially and adversely affect our business, financial conditions and results of operations.

The coal industry in China poses elevated risks of anti-bribery violations. We have adopted internal policies and procedures designed to ensure compliance with China's anti-bribery laws. See "Business – Anti-bribery Compliance." We cannot assure you that our internal policies and procedures will detect and/or prevent all anti-bribery violations committed by our employees or dispatched workers in a timely manner, or that the implementation of these policies and procedures will be correctly followed by our employees and dispatched workers, which may significantly undercut the effectiveness of our anti-bribery measures. Further, as the PRC government continues to increase its enforcement efforts to crack down anti-bribery violations committed by government officials or senior management at each stage of the coal distribution chain, our continuing compliance with anti-bribery laws may increase our compliance costs and expose us to potential criminal or administrative sanction in case that our internal measures prove to be inadequate and that we are held liable for the anti-bribery violations committed by our employees or dispatched workers, which may subject us to investigations, sanctions or fines, damage our reputation and materially and adversely affect our business, financial condition and results of operations.

RISK FACTORS

Our business is subject to compliance with regulatory and industrial requirements, which may interfere with the way we conduct our business and may adversely affect our business and results of operations.

Our business is subject to compliance with regulatory and industrial requirements. Both regulatory authorities and industry associations in the coal testing and inspection industry have the power to issue and implement laws, regulations, policies and/or industrial standards governing, among others, our laboratory operations, testing procedures, service quality and pricing. In addition, local authorities in regions where our service centers locate have broad discretion in implementing and enforcing local laws and regulations that may affect our business operation. As a result, we face a risk of significant intervention by relevant regulatory authorities or industry associations, and could be subject to administrative or regulatory penalties or restrictions on our business activities if we are deemed to be non-compliant with applicable regulatory or industrial standards.

Furthermore, China's coal testing and inspection industry has a relatively short history compared to other traditional service industry sectors, and regulation and supervision of the coal testing and inspection industry are relatively less sophisticated than those other sectors. Therefore, the interpretation and implementation of the laws and regulations governing our business could vary among regulatory authorities or from one region to another. It is also possible that regulatory authorities and industry associations may choose to strengthen their supervision over the coal testing and inspection industry in the future by passing stricter regulatory or industrial standards. Moreover, since China's accession to the World Trade Organization in 2001, there has been a rising demand by the international community for both a free entry into and a further standardization of China's service industry, which may influence the PRC government's future policies on the service industry, including the ones related to the coal testing and inspection industry. Such uncertainties could substantially increase our compliance burden and potentially restrain our flexibility in business expansion, technology innovation and other operations.

Given the complexity, uncertainties and changes in the applicable regulatory and industrial standards, our business, results of operations and future growth may be adversely affected if we do not respond to the changes in a timely manner or fail to fully comply with any relevant regulatory or industrial standards.

Our expansion plans or future acquisitions may entail certain risks and challenges.

We plan to construct new service facilities on self-owned land in the Four Northern Ports to support our business growth. For details, see "Business — Our Service Offerings — Expansion Plans." We may also acquire businesses, technologies, services or products which are complementary to our core coal testing and inspection business. For details, see "Business — Business Strategy." Our expansion plans or future acquisitions may expose us to potential risks and challenges, including:

- lengthy government approval procedures;
- the availability of skilled labor and service orders to support the expansion;
- our potential inability to maintain quality control in our new facilities or acquired targets;

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- the integration of new operations, services and personnel;
- unforeseen or hidden liabilities, including the target's indebtedness and financial condition;
- the diversion of resources and management's attention from our existing business and technologies;
- our potential inability to generate sufficient revenue to offset new costs;
- our potential liability to our landlords for terminating the leases without consent;
- the potential loss of or harm to relationships with both employees and customers resulting from our integration of new businesses; or
- an increase in depreciation charges as a result of our significant investment in land, buildings, machinery and equipment.

As a result of the foregoing risks and challenges, we may not be able to commence construction of our new facilities as expected, and our ongoing construction may be delayed or even aborted, and we may be forced to seek alternative sites for our expansion or limit the size of our new facilities. Our new service facilities, if completed, or our acquired targets may not fully integrate with our existing facilities and generate sufficient revenue. The occurrence of any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

We may encounter difficulties in managing our growth or developing appropriate internal organizational structures, internal control environment and risk monitoring and management systems in line with our significant growth, which could negatively affect our business, results of operations, and financial condition.

Our growth has placed, and is expected to place, a significant strain on our managerial, operational and financial resources. Accordingly, we are required to develop and implement appropriate structures for internal organization and information flow, an effective internal control environment and risk monitoring and management systems in line with our significant growth, as well as to hire and integrate qualified employees into our organization, which will cost significant management resources. We may incur substantial costs and expend substantial resources in connection with any such significant growth or in order to respond to more challenging market conditions due to, among other things, changing regulatory and industrial standards. We also will need to continue to expand, train, manage and motivate our workforce as well as manage our relationships with existing customers. All of these endeavors will require substantial management resources and the incurrence of additional costs and expenditures. We cannot assure you that we will be able to effectively manage our growth.

In addition, the disclosure and other ongoing obligations associated with becoming a public company will increase the challenges to our finance and accounting team. We cannot assure you that our existing internal control and risk monitoring and management systems will be adequate. Therefore, if we fail to appropriately develop and implement structures for internal organization and information flow, an effective internal control environment and a risk monitoring and management system, we may not be able to identify unfavorable business trends, administrative oversights or other risks that could materially and adversely affect our business, results of operations and financial condition.

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We may not be able to protect our intellectual property rights and expenses incurred in protecting our intellectual property rights may adversely affect our business.

We regard our brand, trade names, trademarks, proprietary technology, know-how and other intellectual property as critical to our success. The success of our business depends substantially upon our continued ability to use our brand, trade names, trademarks, proprietary technology and know-how to increase brand awareness and to further develop our brand. We cannot assure you that third parties will not gain unauthorized access to our proprietary technology or know-how. The unauthorized use of any of the foregoing intellectual property used in our business operations could diminish the value of our brand and its market acceptance, competitive advantages or goodwill. In addition, our proprietary information, which has not been patented or otherwise registered as our property, is a component of our competitive advantage and our growth strategy.

Monitoring and preventing the unauthorized use of our intellectual property is expensive and difficult, and litigation may be necessary in the future to enforce our intellectual property rights, which could divert our management's attention and resources and disrupt our business. The measures we take to protect our intellectual property rights may not be adequate to prevent their unauthorized use by third parties. In addition, the application of laws governing intellectual property rights within and outside China is uncertain and evolving, and could involve substantial risks to us. To our knowledge, the relevant authorities in China historically have not protected intellectual property rights to the same extent as most of other countries. If we are unable to adequately protect our intellectual property rights, we may lose these rights and our business may suffer materially. The occurrence of any of the foregoing could have a material adverse effect to our business, results of operations, financial condition and prospects.

We may be unable to obtain, retain or renew required permits, licenses, registrations or certificates for our business operations.

We are required to maintain certain permits, licenses, registrations and certificates issued by relevant PRC government agencies, such as the Certificate of Qualification for Institution of Import & Export Commodity Inspection and Survey (進出口商品檢驗鑒定機構資格證書) and the China Metrology Accreditation Certificate (計量認證證書). We cannot assure you that we will be able to renew our existing approvals, permits, licenses, registrations or certificates when they expire, or that we will be able to successfully obtain, retain or renew future permits, licenses, registrations or certificates in a timely manner, or at all. In addition, we cannot assure you that such permits, licenses, registrations or certificates will not be revoked for whatever reason by the relevant authorities in the future. Failure to obtain or renew such permits, licenses, registrations and certificates as planned may result in our inability to provide relevant services and thereby materially and adversely affecting our business, results of operations and financial condition.

We are subject to numerous operational risks and hazards such as natural disasters, industrial accidents and occupational hazards, as well as other safety-related incidents.

We are subject to numerous operational risks and hazards beyond our control that may cause significant business interruptions, personal injuries, property or environmental damage. First, we are exposed to common operational risks including natural disasters and severe weather conditions such as earthquakes and storms, industrial accidents such as vehicle collisions, toxic substance leaks, explosions and fires, unexpected maintenance or technical problems and key equipment

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malfunction, and occupational hazards to our employees. For instance, a series of explosions that occurred at a container storage station at Tianjin port in August 2015 caused severe casualty and destroyed numerous commodities stored at the port. Although this incident did not directly interrupt our operation at Tianjin port, we cannot assure you that similar incidents in the future will not interrupt the operation of or cause damage to any of our service centers. Should any of these risks occurs and we fail to take necessary responsive measures in a timely manner, our business may be temporarily interrupted or suspended, which could lead to increased labor costs, reputational injury and financial losses. In addition, coal is susceptible to spontaneous combustion and collapse risks due to differences in quality, stockpiling time, ambient temperature and extremely harsh weather, among other factors. We cannot assure you that future safety-related incidents caused by coal will not severely impact our operations or financial conditions. Furthermore, any mismanagement, improper handling or violation of our operational procedures in the course of our service could result in accidents involving serious damage to our employees and property. If we fail to exercise sufficient caution on safety matters, our business operations and financial positions will be materially and adversely affected.

In addition, our services, especially the testing and surveying services, consume substantial amounts of electricity. However, certain regions in China have been subject to random power shortages. As of the Latest Practicable Date, our operations had not been affected by any serious power shortages. But we cannot assure you that we will not experience any power shortages in the future. We also do not presently equip all of our laboratories with emergency back-up generators, which would otherwise mitigate to some extent the effects of a prolonged power outage. Any power shortage, brownout or blackout for a significant period of time may have a material adverse effect on our business operations.

We face certain risks relating to the properties we lease.

We currently operate all of our laboratories and workshops on premises leased from third parties. Pursuant to the terms of our existing lease agreements, we may not remodel or enlarge the leased structures in order to accommodate our growing business operations without landlords' consent. We cannot guarantee, however, that we will be able to obtain such consent. At the end of each lease term, we may not be able to negotiate an extension of the lease and may therefore be forced to relocate to a different location, or the landlords may significantly increase the rent if we continue to utilize the leased premises. These risks and limitations could disrupt our operations and adversely affect our profitability. In addition, we may not be able to obtain new leases at desirable locations on acceptable terms to accommodate our future growth, which could materially and adversely affect our business.

In addition, we have a number of title defects with respect to certain properties that we lease to operate our laboratories. In respect of seven of our leased properties with an aggregate leased area of approximately 11,012 square meters which are primarily used as offices and laboratories, our landlords had not provided us with evidence of their valid and enforceable building ownership rights or land use rights, the relevant title documents or evidence of their relevant rights or authority to lease such properties as of the Latest Practicable Date. For details of these leased properties, see "Business — Properties — Leased Properties — Title defects." Should disputes arise relating to the title encumbrances to these properties, we may encounter difficulties in continuing to lease the properties. Should it occur, we may be required to relocate and we may incur additional costs relating to such relocations as well as business interruption. Furthermore, we may not be able to find suitable alternative premises and our business may be adversely affected if we relocate to less desirable locations.

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Our business may be subject to the fluctuation of electricity price.

As a strategy to diversify our customer base and capture the entire coal distribution chain, we expect to attract more power generator customers. The demand for our services by power generators, however, may be subject to the impact of fluctuation in electricity price, which is set by the PRC government. Should the electricity price drop to a certain level to significantly undercut the profit margin of power generators, it may result in a downward pressure on the quotation of our services and/or reduce demand for our services from power generators by resorting to their in-house testing capabilities as a cost-saving measure. Should any of the above occur, we may face a decline in our profit margin and/or a decrease in business volume, which could materially and adversely affect our financial position and results of operations.

Our insurance coverage may not be sufficient to cover all losses and we may incur substantial costs as a result of a severe business liability or disruption or other unexpected events.

We maintain automobile insurance and personal injury insurance. Consistent with industry practice in China, we do not maintain insurance coverage for non-performance of contracts for our services and other risks associated with our business, including business disruption, business liability or similar business insurance products. We have determined that the risks of disruption or liability from our business, the cost of obtaining insurance coverage for these risks and the difficulties associated with obtaining such insurance on commercially reasonable terms make it impractical for us to have such insurance. Therefore, our insurance may not cover all potential risks associated with our operations. In particular, we do not maintain insurance coverage for any business liability, disruption, litigation or property insurance coverage for our operations in China and would have to bear the costs and expenses associated with any such events out of our own resources. Nor do we maintain insurance coverage for any professional liability that arises from inaccurate or unreliable test results. Should a customer claim damages caused by our negligence during services, we would bear the full cost of defense. As of the Latest Practicable Date, we had not made nor been the subject of any material insurance claims. If such costs and expenses exceed the levels which we expect, there could be a material adverse effect on our business, results of operations and financial condition.

Failure in our information technology systems could significantly increase testing turn-around time and disrupt our operations.

Our laboratorial operations depend, in part, on the continued performance of our information technology systems that interconnect all of our service centers. Our information technology systems are potentially vulnerable to physical or electronic break-ins, computer viruses and similar disruptions. Sustained system failures or interruption of our systems in one or more of our service centers could disrupt our ability to process laboratorial requisitions, perform testing, and provide test results in a timely manner. In addition, tracking devices and monitors powered by our information technology systems play an indispensable part in our quality control procedures. Therefore, failure of our information technology systems could adversely affect our business, results of operations and financial condition.

We may be subject to additional social insurance and housing reserve fund contributions and late payments or fines imposed by relevant regulatory authorities.

During the Track Record Period, we did not make adequate social insurance and housing reserve fund for all of our employees. In addition, we did not register with the relevant housing reserve fund authorities or make housing reserve fund contributions for all of our employees in a timely manner during the Track Record Period.

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As advised by our PRC legal advisers, we may be subject to late fees and fines for our insufficient contributions to the social insurance plans and housing reserve fund and non-registration of an account for housing reserve fund. As of the Latest Practicable Date, we did not receive any notice from the local authorities on any claim from our current and former employees regarding our inadequate contributions. See “Business — Legal Proceedings and Compliance — Non-compliance — Social insurance plans and housing reserve fund.” We made full provision for the shortfall amounts in social insurance and housing reserve fund contributions. However, our provision does not anticipate and thus does not include fines that may be imposed by the competent government authorities if we fail to rectify the non-compliance within a prescribed timeframe or the late fees. If we are ordered to pay fines or late fees, we may need to make additional provision to make up for the shortfall, which may adversely affect our results of operations and financial condition.

Preferential tax treatments currently available to us could be discontinued or reduced.

In accordance with the Measures for the Administration of Designation of High and New Technology Enterprise, effective in January 2008, our principal PRC operating entity, Huaxia Lihong, renewed the high and new technology enterprises certificate, which entitles it to an enterprise income tax rate of 15.0% for a three-year period from 2014 to 2016. However, we cannot assure you that we will be able to continue to enjoy any further preferential tax treatments when the certificates expire, or that we will be able to pass the required assessment to qualify for preferential tax treatment. If there is any discontinuation or reduction of the preferential tax treatment, our business, results of operations and financial condition could be materially and adversely affected.

We may not be able to obtain additional capital at acceptable terms or at all.

We believe our current cash, cash equivalents and cash flow from operations will be sufficient to meet our anticipated cash needs including for working capital and capital expenditures. However, we may require additional cash resources due to evolved business conditions or other future developments. As we did not have any unutilized banking facilities as of the Latest Practicable Date, if our current cash resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity, equity-linked or debt securities or obtain a credit facility. The sale of additional equity or equity-linked securities could result in additional dilution to our Shareholders. The incurrence of indebtedness would result in increased debt service obligations and may result in operating and financing covenants that would restrict our operations and liquidity. We may also fail to obtain sufficient credit facility, or at all, since our asset-light business model to a large extent limits the value of collateral we can offer to a creditor.

In addition, our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors’ perception of, and demand for, securities of companies like us;
- conditions of the capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- PRC laws and regulations on the coal testing and inspection industry in China;

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- economic, political and other conditions in China; and
- PRC governmental policies relating to foreign currency borrowings.

We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. Any failure to raise additional funds on commercially reasonable terms could have a material adverse effect on our liquidity and financial condition.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

The economic, political and social conditions of China could affect our business, financial condition and results of operations.

All of our operations are conducted in China. Accordingly, our business, financial condition, results of operations and prospects are, to a significant degree, subject to the economic, political and social conditions in China. The Chinese economy differs from the economies in developed countries in many respects, including the degree of government involvement, control of capital investment, as well as the overall level of development. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through the allocation of resources, setting monetary policy and providing preferential treatment to particular industries or companies. We cannot predict future changes in China's economic, political and social condition and the effect that new government policies will have on our business and future prospects.

Any slowdown in the Chinese economy may affect the demand for power generation and the coal consumption volume and result in a material adverse effect on our business, results of operations and financial condition.

We derive substantially all of our revenue from the provision of coal testing and inspection services. We rely primarily on domestic demand to achieve growth in our revenue. Such demand is materially affected by the domestic coal consumption volume, which is in turn determined primarily by the demand for power generation. Any slowdown in the Chinese economy may adversely affect the demand for power generation and the domestic coal consumption volume, which may result in a decline in the demand for our services.

In addition, any slowdown in the Chinese economy may also adversely affect the coal market. Although the domestic coal market is currently oversupplied and the reduction in the coal supply is not likely to significantly constrain the coal consumption volume, which is determined primarily by the demand for power generation, we cannot assure you that any deterioration in the coal market would not be accompanied by slower coal trading activities and in turn weaker demand for our services, as they are all affected, directly or indirectly, by China's macroeconomic conditions.

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Furthermore, the global crisis in financial services and credit markets since 2008 caused a slowdown in the growth of the global economy with a corresponding impact on the Chinese economy. The past five years witnessed a downside trend regarding China's nominal GDP growth rate, which decreased from 9.5% to 6.9% for the period from 2010 to 2015, according to the Forward Report. If the crisis in global financial services and credit markets were to persist, there is no certainty as to its impact on the global economy, especially the Chinese economy. As a result of global economic cycles, we cannot assure you that the Chinese economy will grow in a sustained or steady manner. Any slowdown or recession in the Chinese economy may in turn have a material adverse effect on our business, results of operations and financial condition.

The PRC legal system is continuously evolving and has inherent uncertainties that could limit the legal protection available to you.

Our business and operations are primarily conducted in China and are governed by the PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as references. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial laws. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation of PRC laws and regulations still involves a significant degree of uncertainty, and may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until some time after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and may result in substantial costs and the diversion of resources and management attention.

Inspections, examinations or inquiries by PRC regulatory authorities may result in fines, other penalties or actions that could adversely affect our reputation.

As a company with substantially all of businesses in China, we are subject to various periodic inspections, examinations and inquiries by PRC regulatory authorities, such as local branches of the AQSIQ, under applicable PRC laws and regulations. In the past, we have never been subject to corrective actions by relevant regulators. However, we cannot assure you that future inspections, examinations and inquiries by PRC regulatory authorities will not result in fines, other penalties or actions that could materially and adversely affect our business, results of operations or financial condition. In addition, our reputation may be adversely affected if we are fined or otherwise penalized.

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Government control of currency conversion and the fluctuation of Renminbi may materially and adversely affect our operations and our ability to pay dividends.

All of our revenue is denominated and settled in Renminbi. The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE or its local branch, provided that we satisfy certain procedural requirements. However, capital account transactions must be approved by or registered with SAFE or its local branch or the banks supervised by the SAFE and its local branches. The PRC government may also at its discretion restrict access to foreign currencies for current account transactions in the future.

Since we expect all of our future cash flows from operations will be denominated in Renminbi, any fluctuation in exchange rate between RMB and other currencies may limit our ability to purchase goods and services outside China or make outbound investment or acquisition. For example, since the People's Bank of China announced that it had changed its calculation method for the RMB's daily central parity exchange rate against the U.S. dollar in August 2015, the recent steep depreciation of RMB, if proven to be lasting, will make it more expensive for us to make purchases or investment outside China in the future. In addition, if the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders, which would adversely affect the value of your investment.

We principally rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have and any limitation on our PRC subsidiaries' ability to make payments to us could have a material adverse effect on our ability to conduct our business or financial condition.

We are a Cayman Islands holding company and conduct substantially all of our operations through our PRC subsidiaries. We rely principally on dividends and other distributions on equity by our PRC subsidiaries, for our cash requirements, including the funds to pay dividends and to service any debt we may incur or financing we may need for our operations. In addition, if our PRC subsidiaries incur debt in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us as well. Furthermore, under PRC laws and regulations, our PRC subsidiaries are only permitted to pay dividends out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. Under PRC laws, our PRC subsidiaries are also required to set aside at least 10.0% of their after-tax profit based on PRC accounting standards each year to their general reserves until the cumulative amount of such reserves reaches 50.0% of its registered capital. These reserves are not distributable as cash dividends, loans or advances. Our PRC subsidiaries may also allocate a portion of their after-tax profits based on PRC accounting standards, as determined by their shareholder, to their staff welfare and bonus funds, which may not be distributed to us. In addition, under the PRC Enterprise Income Tax Law and its implementation rules, dividends generated from our PRC subsidiaries' business in China and payable to our Company generally will be subject to a withholding tax rate of 10.0%. As a result of these and other restrictions under PRC laws and regulations, our PRC subsidiaries are restricted from transferring a portion of its assets to us as dividends, loans or advances. We cannot assure you that our PRC subsidiaries will generate sufficient earnings and cash flows in the near future to pay dividends or otherwise distribute sufficient funds to enable us to meet our obligations, pay interest and expenses or declare dividends.

RISK FACTORS

PRC regulations over loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries.

Any funds we transfer to Huaxia Lihong, either as a shareholder loan or as an increase in registered capital, are subject approval by registration with relevant PRC regulatory authorities. According to the relevant PRC regulations on foreign-invested enterprises, capital contributions by an offshore holding company to its wholly-owned subsidiary in China are subject to approval of the MOFCOM or its local branches and registration with other regulatory authorities in China. In addition, any foreign loan procured by our PRC subsidiaries is required to be registered with the SAFE or its local branches, and our PRC subsidiaries may not procure loans exceeding the difference between their registered capital and their total investment amount as approved by the MOFCOM or its local branches. We may not obtain these government approvals or complete such registrations on a timely basis, or at all, with respect to future capital contributions or foreign loans by us to our PRC subsidiaries. If we fail to receive such approvals or complete such registration, our ability to use the proceeds of the Global Offering to fund our operations in China may be negatively affected, which in turn could adversely affect our ability to finance and expand our business.

Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident Shareholders to personal liability, limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, limit the ability of our PRC subsidiaries to distribute profits to us or otherwise materially and adversely affect us.

Pursuant to the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicle (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知), or Circular 37, which was promulgated by the State Administration of Foreign Exchange, or SAFE, and became effective on July 4, 2014, (1) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle, or an Overseas SPV, that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (2) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change in the Overseas SPV's PRC resident shareholder, name of the Overseas SPV, term of operation, or any increase or reduction of the contributions by the PRC resident, share transfer or swap, and merger or division. Additionally, further pursuant to the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (關於進一步簡化和改進直接投資外匯管理政策的通知), or Circular 13, which was promulgated on February 13, 2015 and became effective on June 1, 2015, the aforesaid registration shall be directly reviewed and handled by qualified banks in accordance with the Circular 13, and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks.

RISK FACTORS

As confirmed by our PRC legal advisers, Mr. LI Xiangli, Ms. ZHANG Aiyong, Mr. LIU Yi (劉翊), Mr. LI Dexin and Mr. ZHANG Jiaqi have completed the initial foreign exchange registration on November 5, 2015 with the Beijing Branch of China Merchants Bank (招商銀行股份有限公司北京分行營業部). As Circular 37 and Circular 13 were recently promulgated, it remains unclear how they will be interpreted and implemented, and how or whether SAFE will apply them to us. Therefore, we cannot predict how they will affect our business operations or future strategies. For example, the ability of our present and prospective PRC subsidiaries to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with Circular 37 and Circular 13 by our PRC resident beneficial holders. In addition, as we have little control over either our present or prospective, direct or indirect Shareholders or the outcome of such registration procedures, we cannot assure you that these Shareholders who are PRC residents will amend or update their registration as required under Circular 37 and Circular 13 in a timely manner or at all. Failure of our present or future Shareholders who are PRC residents to comply with Circular 37 and Circular 13 could subject these Shareholders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit the ability of our PRC subsidiaries to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

We may be unable to complete a business combination transaction efficiently or on favorable terms due to complicated merger and acquisition regulations.

The M&A Rules, governing the approval process by which a PRC company may participate in an acquisition of assets or equity interests by foreign investors, requires the PRC parties to make a series of applications and supplemental applications to the government agencies, depending on the structure of the transaction. In some instances, the application process may require presentation of economic data concerning a transaction, including appraisals of the target business, which are designed to allow the government to assess the transaction. Government approvals will have expiration dates by which a transaction must be completed and reported to the government agencies. Compliance with the M&A Rules is likely to be more time-consuming and expensive than in the past and the government can now exert more control over the combination of two businesses. Accordingly, due to the M&A Rules, business combination transactions with foreign investors have become significantly more complicated, time-consuming and expensive, and we may not be able to negotiate a transaction that is acceptable to our Shareholders or sufficiently protect their interests in a transaction.

The M&A Rules allow PRC government agencies to assess the economic terms of a business combination transaction. Parties to a business combination transaction may have to submit to MOFCOM and other relevant government agencies an appraisal report and the acquisition agreement, all of which form part of the application for approval, depending on the structure of the transaction. The M&A Rules also prohibit a transaction at an acquisition price obviously lower than the appraised value of the PRC business or assets and in certain transaction structures, require that consideration must be paid within defined periods, generally not in excess of a year. Therefore, such regulation may impede our ability to negotiate and complete a business combination transaction on financial terms that satisfy our investors and protect our Shareholders' economic interests.

RISK FACTORS

We may be deemed to be a PRC tax resident under the EIT Law, and as a result, our PRC-sourced income, dividends payable by us to our foreign investors and gains on the sale of our Shares may be subject to PRC withholding tax.

We are a holding company incorporated under the laws of the Cayman Islands and indirectly hold interests in our PRC subsidiaries. Pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), or the EIT Law, which took effect on January 1, 2008, dividends payable by a foreign-invested enterprise to its foreign corporate investors who are not deemed a PRC-resident enterprise are subject to a 10.0% withholding tax, unless such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. Under an arrangement between China and Hong Kong, which became effective on January 1, 2007, such dividend withholding tax rate is reduced to 5.0% for dividends paid by a PRC company to a Hong Kong-resident enterprise if such Hong Kong entity is a "beneficial owner" and such entity directly owns at least 25.0% of the equity interest of the PRC company. The Notice of the State Administration of Taxation on How to Comprehend and Determine the "Beneficial Owners" in Tax Treaties (國家稅務總局關於如何理解和認定稅收協定中"受益所有人"的通知), effective from October 27, 2009, provides certain conditions under which a company cannot be defined as a "beneficial owner" under the treaty, and further provides that an agent or "conduit company" (defined as a company registered in the country of domicile to satisfy the organizational form as required by law, but it does not engage in such substantial business operations as manufacturing, distribution and management) shall not be deemed a "beneficial owner." If the PRC tax authorities determine that our Hong Kong subsidiary is a "conduit company," we may not be able to enjoy a preferential withholding tax rate of 5.0% and dividend payable by our PRC subsidiaries to our Hong Kong subsidiary will be subject to withholding tax at the rate of 10.0%.

The EIT Law also provides that if an enterprise incorporated outside China has its "de facto management bodies" within China, such enterprise may be deemed a "PRC resident enterprise" for tax purposes and be subject to an enterprise income tax rate of 25.0% on its global incomes. "De facto management body" is defined as the body that has the significant and overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, SAT promulgated a circular to clarify the certain criteria for the determination of the "de facto management bodies" for foreign enterprises controlled by PRC enterprises. These criteria include: (1) the enterprise's day-to-day operational management is primarily exercised in China; (2) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organizations or personnel in China; (3) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in China; and (4) 50.0% or more of voting board members or senior executives of the enterprise habitually reside in China. However, there have been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises which are not controlled by PRC enterprises (including companies like ourselves). Therefore, it remains unclear how the tax authorities will treat a case such as ours. We do not believe we are a PRC resident enterprise as we are not controlled by any PRC company or PRC corporate group. However, if the PRC authorities were to subsequently determine, or any future regulation provides, that we should be treated as a PRC resident enterprise, we will be subject to the uniform 25.0% enterprise income tax on our global incomes. In addition, although the EIT Law provides that dividend payments between qualified PRC-resident enterprises are exempt from enterprise income tax, it remains unclear as to the detailed qualification requirements for this exemption and whether dividend payments by our PRC subsidiaries to us will meet such qualification requirements even if we are considered a PRC resident enterprise for tax purposes.

RISK FACTORS

Furthermore, Implementing Regulations of the EIT Law (中華人民共和國企業所得稅法實施條例) provides that, (1) if the enterprise that distributes dividends is domiciled in China, or (2) if gains are realized from transferring equity interest of enterprises domiciled in China, then such dividends or capital gains are treated as PRC-sourced income. It is not clear how “domicile” may be interpreted under the Implementing Regulations of EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered a PRC resident enterprise for tax purposes, any dividends we pay to our Shareholders may be regarded as income derived from sources within China and we may be required to withhold a 10.0% PRC withholding tax for the dividends we pay to our investors who are non-PRC corporate Shareholders, or a 20.0% withholding tax for the dividends we pay to our investors who are non-PRC individual Shareholders, including the holders of our Shares. In addition, our non-PRC Shareholders may be subject to PRC tax on gains realized on the sale or other disposition of our Shares, if such income is treated as sourced from within China. It is unclear whether our non-PRC Shareholders would be able to claim the benefits of any tax treaties between their tax residence and the PRC in the event that we are considered as a PRC resident enterprise.

There remains significant uncertainty as to the interpretation and application of applicable PRC tax laws and rules by the PRC tax authorities, and the PRC tax laws, rules and regulations may also change. If there is any change to applicable tax laws and rules and interpretation or application with respect to such laws and rules, the value of your investment in our Shares may be materially affected.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

We are incorporated in the Cayman Islands. Almost all of our assets and some of the assets of our Directors are located in China. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside China. China has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On July 14, 2006, the PRC Supreme Court and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under such arrangement, where any designated people’s court of the PRC or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people’s court of the PRC or Hong Kong court for recognition and enforcement of the judgment. The arrangement came into effect on August 1, 2008, but the outcome and enforceability of any action brought under the arrangement is still uncertain. In addition, China is not a party to any treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, most other Western countries or Japan, and therefore enforcement in China of judgments of a court in any of these jurisdictions may be difficult or impossible.

RISK FACTORS

An outbreak of any widespread public health problem, if uncontrolled, could have a negative impact on our business operations.

An outbreak of any widespread public health problem in China, such as severe acute respiratory syndrome (also known as SARS), avian influenza, H1N1 influenza or MERS, if protracted and uncontrolled, may result in the contraction of such disease among our employees or those with whom we conduct business on a regular basis, making it necessary to suspend or close certain parts of our operations to prevent the spread of the disease. In addition, if there is an outbreak of any widespread public health problem, we cannot assure you that the World Health Organization or the PRC government will not recommend, or even impose, travel restrictions and/or restrictions on the flow of goods to and from areas affected by the virus. For these reasons, an outbreak of any widespread public health problem could cause significant interruption to our business and have a significant impact upon our profitability.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior market for our Shares, and the liquidity and market price of our Shares following the Global Offering may be volatile.

Prior to the Global Offering, there has been no public market for our Shares. The initial price range disclosed to the public for our Shares was the result of negotiations among us and the Sole Global Coordinator on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for the Shares following the Global Offering. We have applied to list and deal in the Shares on the Stock Exchange. We cannot assure you that the Global Offering will result in the development of an active, liquid public trading market for the Shares. In addition, the price and trading volumes of the Shares may be volatile. Factors such as variations in our revenue, earnings and cash flows or any other developments relating to our Company may affect the volume and price at which the Shares will be traded.

Since there will be a gap of several days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered. As a result, investors may not be able to sell or deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse development, that could occur between the time of sale and the time trading begins.

Investors will experience immediate dilution to their attributable net tangible book value as the Offer Price of our Shares is higher than our net tangible book value per Share.

The Offer Price of the Shares is higher than the net tangible book value per Share as of December 31, 2015. Therefore, purchasers of the Shares in the Global Offering will experience an immediate dilution in pro forma net tangible book value of HK\$0.38 per Share based on our pro forma net tangible book value per Share as of December 31, 2015 (assuming an Offer Price of HK\$0.99, which is the mid-point of our indicative Offer Price range, and assuming the

RISK FACTORS

Over-allotment Option is not exercised), and our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per Share of their Shares. In addition, holders of our Shares may experience further dilution of their interests if the Underwriters exercise the Over-allotment Option or if we obtain additional capital in the future through equity offerings.

Any future sales, or perceived sale, of a substantial amount of our Shares in the public market could have an adverse effect on the prevailing market price of our Shares and our ability to raise capital in the future.

Future sales of a substantial amount of our Shares by our existing Shareholders, or the possibility of such sales, could negatively impact the market price of our Shares from time to time. See “Underwriting — Undertakings in Favor of the Stock Exchange pursuant to the Listing Rules” for a more detailed discussion of restrictions that may apply to future sales of our Shares. After these restrictions lapse, the market price of our Shares may decline as a result of future sales of a substantial amount of our Shares or other securities relating to our Shares in the public market, the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. This could negatively affect the market price of our Shares and our ability to raise equity capital in the future.

You may face difficulties in protecting your interests under Cayman Islands laws.

Our corporate affairs are governed by, among others, the Articles of Association, the Cayman Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority Shareholders and the fiduciary responsibilities of our Directors to us are to a large extent governed by the common law of the Cayman Islands and the Articles of Association. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. The remedies available to the minority shareholders may be limited compared to the laws of other jurisdictions. See “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix IV to this prospectus.

We may not be able to pay any dividends on our Shares.

We cannot guarantee when and in what form dividends will be paid on our Shares following the Global Offering. The declaration of dividends is proposed by the Board and is based on, and limited by, various factors, including without limitation, our business and financial performance, capital and regulatory requirements and general business conditions. We may not have sufficient or any profits to enable us to make dividend distributions to our shareholders in the future, even if our financial statements indicate that our operations have been profitable. For further details on our dividend policy, see “Financial Information — Dividend.”

RISK FACTORS

If securities or industry analysts do not publish research reports about our business, or if they adversely change their recommendations regarding our Shares, the market price and trading volume of our Shares may decline.

The trading market for our Shares will be influenced by research reports that industry or securities analysts publish about us or our business. If one or more analysts who cover us downgrade our Shares or publish negative opinions about us, the market price of our Shares would likely decline regardless of the accuracy of the information. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume of our Shares to decline.

Certain facts, forecasts and statistics in this prospectus relating to China, the economic conditions thereof and the coal testing and inspection industry derived from official government publications, market data providers and other independent third-party sources may not be reliable.

Facts, forecasts and other statistics in this prospectus relating to China, the economic conditions thereof, and the coal testing and inspection industry are derived from various official government publications, market data providers and other independent third-party sources, including the Forward Report, an independent industry expert, which we generally believe to be reliable. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by our Company, the Underwriters or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China.

We have, however, taken reasonable care in the reproduction or extraction of the official government publications and reports of other market data providers and other independent third-party sources for the purpose of disclosure in this prospectus. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, these facts and statistics in this prospectus may be inaccurate or may not be comparable to facts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts.

You should read the entire prospectus carefully and should not rely on any information contained in press articles or other media regarding us and the Global Offering.

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the Global Offering. Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering. Such press and media coverage may include references to certain information that does not appear in this prospectus, including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it and you should not rely on such information.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, we have sought the following waiver from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. The business operations of our Group are located in China. Due to the business requirements of our Group, none of the executive Directors has been, is or will be based in Hong Kong. Our Company considers that it would be impracticable and commercially infeasible to appoint two Hong Kong residents as executive Directors or to relocate the existing executive Directors to Hong Kong considering that the operations of our Group are based outside of Hong Kong. Accordingly, we have applied to the Stock Exchange for, and have received, a waiver from strict compliance with the requirement of Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will adopt the following measures:

- (a) Our Company has appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that we comply with the Listing Rules at all times. The two authorized representatives to be appointed are Mr. LI Xiangli, chairman, the chief executive officer and executive Director of our Company and Ms. LI Oi Lai, company secretary of our Company, respectively. Ms. LI Oi Lai is ordinarily resident in Hong Kong. Each of the authorized representatives will be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, e-mail and fax. Each of the two authorized representatives has been duly authorized to communicate on our Company's behalf with the Stock Exchange. Our Company will inform the Stock Exchange promptly in respect of any change in its authorized representatives.
- (b) Both authorized representatives have means to contact all Directors (including the independent non-executive Directors) promptly at all times and when the Stock Exchange wishes to contact our Directors for any matters. Our Company will implement a policy whereby (i) the executive Directors will provide valid phone numbers or other means of communication to the authorized representatives when they are travelling or out of office; and (ii) each Director will provide his mobile phone number, office phone number, e-mail address and, where available, fax number to the Stock Exchange.
- (c) All our executive Directors, non-executive Directors and independent non-executive Directors who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time if required.
- (d) Our Company has appointed CMB International as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules, who will act as our additional communication channel with the Stock Exchange and will be available to respond to enquiries from the Stock Exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with our Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for the Hong Kong Offer Shares" in this prospectus and on the relevant Applications Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The listing of our Shares on the Main Board of the Stock Exchange is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date. The Global Offering is managed by the Sole Global Coordinator.

The International Placing is expected to be underwritten by the International Underwriter.

For further information about the Underwriters and the underwriting arrangements, see the section headed "Underwriting" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price, which is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date.

If, for whatever reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on the Price Determination Date, the Global Offering will not become unconditional and will lapse immediately.

SELLING RESTRICTIONS

Each person acquiring Offer Shares will be required to confirm, or by his acquisition of Offer Shares be deemed to confirm, that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong or the distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein, including the Offer Shares, any Shares which may be issued pursuant to the Capitalization Issue and any Shares which may be issued or sold pursuant to the exercise of the Over-allotment Option. Dealings in our Shares on the Stock Exchange are expected to commence on Tuesday, July 12, 2016. None of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date as HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stock brokers or other professional advisers for details of the settlement arrangements that may affect their rights and interests. All necessary arrangements have been made for our Shares to be admitted into CCASS.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of or dealing in our Shares. None of us, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of their respective directors, agents, employees or advisers or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of, or dealing in, our Shares.

SHARE REGISTER AND STAMP DUTY

All Shares issued and to be issued pursuant to applications made in the Global Offering and any Shares to be issued upon exercise of the Over-allotment Option will be registered on our register of members to be maintained by our Hong Kong Share Registrar in Hong Kong. Our principal register of members will be maintained by our Cayman Share Registrar in the Cayman Islands. Only Shares registered on our Company's register of members maintained in Hong Kong may be traded on the Stock Exchange.

Dealings in the Shares registered on our Company's Hong Kong register of members will be subject to Hong Kong stamp duty.

PROCEDURE FOR APPLYING FOR HONG KONG OFFER SHARES

The procedure for applying for Hong Kong Offer Shares is set out in the section headed "How to Apply for the Hong Kong Offer Shares" in this prospectus and on the relevant Applications Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

EXCHANGE RATE

In this prospectus, unless otherwise stated, certain amounts denominated in RMB have been translated into HK dollars at an exchange rate of HK\$1.00 = RMB0.8468 for illustration purposes only. Such conversions shall not be construed as representations that amounts in RMB were or may have been converted into HK dollars at such rate or any other exchange rates.

ROUNDING

Certain amount and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
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Executive Directors

Mr. LI Xiangli (李向利) (Chairman)	Room 702, Unit 2, Building 6 Courtyard 16, Xinhua Lane Xicheng District Beijing China	Chinese
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Ms. ZHANG Aiyong (張愛英)	Room 702, Unit 2, Building 6 Courtyard 16, Xinhua Lane Xicheng District Beijing China	Chinese
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Mr. LIU Yi (劉翊)	Room 18, Unit 1, Building 13 Wenjing Jiayuan Haigang District Qinhuangdao Hebei China	Chinese
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Non-executive Director

Mr. WANG Gang (王綱)	Room 28A, The Sail at Victoria 86 Victoria Road Kennedy Town Hong Kong	Chinese
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Independent non-executive Directors

Mr. WANG Zichen (王梓臣)	Room 3004, Building 5 Bojin Bay Nanyuan Hexi District Tianjin China	Chinese
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Mr. YANG Rongbing (楊榮兵)	Room 422, Unit 4, Building 3 Guangqumen Wainan Street Chongwen District Beijing China	Chinese
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Mr. ZHAO Hong (趙虹)	Room 55-1-302, Qiushi Village Xihu District Hangzhou China	Chinese
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For more details of our Directors, see “Directors and Senior Management.”

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

CMB International Capital Limited
Units 1803-4, 18/F
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

**Sole Global Coordinator, Sole Bookrunner
and Sole Lead Manager**

CMB International Capital Limited
Units 1803-4, 18/F
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

Legal advisers to our Company

as to Hong Kong and US law:

Wilson Sonsini Goodrich & Rosati
Suite 1509, 15/F, Jardine House
1 Connaught Place
Central
Hong Kong

as to PRC law:

Commerce & Finance Law Offices
6/F, NCI Tower
12A Jianguomenwai Avenue
Chaoyang District
Beijing
PRC

as to Cayman Islands law:

Appleby
2206-19 Jardine House
1 Connaught Place
Central
Hong Kong

**Legal advisers to the Sole Sponsor and the
Underwriters**

as to Hong Kong law:

Orrick, Herrington & Sutcliffe
43/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

as to PRC law:

China Commercial Law Firm
22-23/F, Hong Kong CTS Building
4011 Shennan Road
Futian District
Shenzhen
PRC

Auditors and reporting accountants

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

Industry consultant

Shenzhen Forward Investment Advisory Co.,
Ltd.
19/F, Block A, First World Plaza
Hongli West Road
Futian District
Shenzhen
Guangdong
PRC

Property valuer

Vigers Appraisal & Consulting Limited
10/F, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

Receiving banks

Wing Lung Bank Limited
45 Des Voeux Road
Central
Hong Kong

Industrial and Commercial Bank of China
(Asia) Limited
33/F, ICBC Tower
3 Garden Road
Central
Hong Kong

Compliance adviser

CMB International Capital Limited
Units 1803-4, 18/F
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

CORPORATE INFORMATION

Registered office	PO Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Principal place of business in Hong Kong	18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Headquarters and principal place of business in China	11/F, Sanyuan Building 18 Xibahe East Lane Chaoyang District Beijing China
Company secretary	Ms. LI Oi Lai (李愛麗) (ACIS, ACS, FCPA, FAIA) 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Authorized representatives	Mr. LI Xiangli (李向利) Room 702, Unit 2, Building 6 Courtyard 16, Xinhua Lane Xicheng District Beijing China Ms. LI Oi Lai (李愛麗) (ACIS, ACS, FCPA, FAIA) 18/F, Tesbury Center 28 Queen's Road East Wanchai Hong Kong
Audit committee	Mr. YANG Rongbing (楊榮兵) (chairman) Mr. WANG Zichen (王梓臣) Mr. ZHAO Hong (趙虹)
Remuneration committee	Mr. ZHAO Hong (趙虹) (chairman) Ms. ZHANG Aiying (張愛英) Mr. WANG Zichen (王梓臣)

CORPORATE INFORMATION

Nomination committee	Mr. LI Xiangli (李向利) (chairman) Mr. ZHAO Hong (趙虹) Mr. WANG Zichen (王梓臣)
Principal share registrar	Estera Trust (Cayman) Limited Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108 Cayman Islands
Hong Kong share registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17/F Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal banker	China Construction Bank Jing'an Zhuang Sub-branch Building 6, Time International Building Courtyard 6, Shuguang West Lane Chaoyang District Beijing China
Company website address	<u>www.huaxialihong.com</u> <i>(Information contained in this website does not form a part of this prospectus)</i>

REGULATION

This section sets out summaries of certain aspects of PRC laws and regulations, which are relevant to our Group's operation and business.

PRC LAWS AND REGULATIONS RELATING TO THE ESTABLISHMENT, OPERATION AND MANAGEMENT OF A WHOLLY FOREIGN-OWNED ENTERPRISE IN THE PRC

The establishment, operation and management of corporate entities in China are governed by the Company Law of the PRC (中華人民共和國公司法) (the "Company Law") which was adopted by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) on December 29, 1993 and with effect from July 1, 1994. It was last amended on December 28, 2013 and with effect from March 1, 2014. Under the Company Law, Companies are generally classified into two categories, limited liability companies and companies limited by shares. The Company Law also applies to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have other stipulations, such stipulations shall prevail.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange, accounting practices, taxation and labor matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) which was promulgated on April 12, 1986 and amended on October 31, 2000, and the Implementation Rules to the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法實施細則) which was promulgated on December 12, 1990 and amended on February 19 and with effect from March 1, 2014.

The Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) (the "Catalogue"), which was amended and promulgated by the MOFCOM and the NDRC on March 10, 2015 and with effect from April 10, 2015, lists the industries in the categories of foreign investment encouraged industries, foreign investment restricted industries and foreign investment prohibited industries. Industries not listed in the Catalogue are generally open to foreign investment unless specifically prohibited or restricted by other PRC laws and regulations.

PRC LAWS AND REGULATIONS RELATING TO THE TESTING AND INSPECTION INDUSTRY

Pursuant to the Metrology Law of the PRC (中華人民共和國計量法) which was promulgated on September 6, 1985 and was last amended on April 24, 2015 and the Rules for the Implementation of the Metrology Law of the PRC (中華人民共和國計量法實施細則) which was promulgated on February 1, 1987 and became effective on the same date, the agencies for examination of product quality which provide the society with notarized data must be attested by administrative departments for measurement of the people's governments at or above provincial level. Pursuant to the Law of the PRC on Product Quality (中華人民共和國產品質量法) which was promulgated on February 22, 1993 and was last amended on August 27, 2009 with effect from the same date, product quality inspection institutions shall have the necessary testing facilities and competence and shall undertake inspection of product quality only after being appraised and endorsed by the department for supervision over product quality under the people's government at or above the provincial level or a department authorized by the said department. Any product quality inspection institution or certification institution that produces untrue results and thus leads to losses shall be held liable for corresponding compensations; if the losses are significant, the institution may be disqualified for inspection or certification.

REGULATION

Pursuant to the Administrative Measures for the Qualification Recognition of Testing and Inspection Institutions (檢驗檢測機構資質認定管理辦法) which was promulgated on April 9, 2015 and with effect from August 1, 2015, the AQSIQ shall be in charge of the qualification recognition of testing and inspection institutions at the national level. The Certification and Accreditation Administration of the PRC shall be responsible for the unified management, organization and implementation, and comprehensive coordination of the qualification recognition of testing and inspection institutions. The quality and technical supervision departments of the people's governments of all provinces, autonomous regions and municipalities directly under the Central Government of the Peoples' Republic of China shall be responsible for the qualification recognition of testing and inspection institutions within their respective jurisdictions. Qualification Recognition includes Metrological Accreditation of the testing and inspection institutions. Pursuant to the Accreditation Criteria for the Competence of Inspection Bodies (檢驗機構能力認可準則) which was promulgated on March 1, 2013 and with effect from June 1, 2015, and the Accreditation Criteria for the Competence of Testing and Calibration Laboratories (檢測和校準實驗室能力認可準則) which was promulgated on June 1, 2006 and with effect from June 1, 2015, laboratories shall meet requirements of relevant criteria to obtain the relevant certificates from the CNAS. The testing and inspection institutions shall be responsible for the testing and inspection data or results issued by them and bear the relevant legal responsibilities. For issuing the testing and inspection data or results in violation of the Administrative Measures for the Qualification Recognition of Testing and Inspection Institutions, the quality and technical supervision departments at or above the county level shall order the issuing testing and inspection institution to make corrections within one month; if they fail to make corrections within such time limit or fail to meet the requirements after corrections, a fine of not more than RMB10,000 shall be imposed. If the testing and inspection data or results issued are inaccurate, the quality and technical supervision departments at or above the county level shall order the issuing testing and inspection institutions to make corrections and impose a fine of no more than RMB30,000. For (1) issuing false testing and inspection data or results without inspection or testing or by tampering the data or results or otherwise; or (2) arbitrarily issuing testing and inspection data or results to the public during rectification period in violation of the Administrative Measures for the Qualification Recognition of Testing and Inspection Institutions or fail to make corrections within a time limit or fail to meet the requirements after corrections, the qualification accreditation departments shall revoke the qualification accreditation certificates of the issuing testing and inspection institutions.

Pursuant to the Law of the PRC on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法) which was promulgated on February 21, 1989 and was last amended on June 29, 2013, the administration for commodity inspection may, in accordance with the relevant regulations and after examining their qualifications, permit the qualified inspection bodies at home and abroad to undertake the inspection and survey of import and export commodities entrusted to them. Pursuant to the Administrative Measures for Imported and Exported Commodities Inspection and Certification Bodies (進出口商品檢驗鑒定機構管理辦法) which was promulgated on September 4, 2003 and with effect from January 1, 2004, a foreign-funded import and export commodity inspection and authentication institution may not handle import and export commodity inspection and authentication business until it has been permitted by the AQSIQ and the MOFCOM, and has legally gone through the industrial and commercial registration procedures.

REGULATION

Pursuant to the Regulations of the PRC on Certification and Accreditation (中華人民共和國認證認可條例) which was promulgated on September 3, 2003 and became effective on November 1, 2003, inspection body or laboratory that provides probative data or results to the public shall have the essential facilities and competence required by relevant laws and administrative regulations and it may engage in relevant activities only after such facilities and competence are verified and approved according to law, and the results of the verification and approval shall be published by the certification and accreditation regulatory department of the State Council. The accreditation bodies shall issue accreditation certificates to the certification bodies, inspection organizations and laboratories having obtained the accreditation, and have the lists of them publicized.

Pursuant to the Provisional Measures on Quality Management of Commercial Coal (商品煤質量管理暫行辦法), which was promulgated on September 3, 2014 and became effective on January 1, 2015, the production, processing, storage and transportation, sale, import, use and other relevant activities within the territory of China related to commercial coal shall meet certain measures or standards that, among others, set forth the specific quality of the coal.

PRC LAWS AND REGULATIONS RELATING TO TAXATION

Enterprise Income Tax

Pursuant to the Enterprises Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “EIT Law”) which was promulgated on March 16, 2007 and with effect from January 1, 2008, and the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) which was promulgated on December 6, 2007 and with effect from January 1, 2008, the income tax for both domestic and foreign-invested enterprises is at the same rate of 25.0%. Furthermore, resident enterprises, which refer to enterprises that are set up in accordance with the PRC law, or that are set up in accordance with the law of the foreign country (region) but with its actual administration institution in the PRC, shall pay enterprise income tax originating both within and outside the PRC. While non-resident enterprises that have set up institutions or premises in the PRC shall pay enterprise income tax in relation to the income originating from the PRC and obtained by their institutions or establishments, and the income incurred outside the PRC but there is an actual relationship with the institutions or establishments set up by such enterprises. Where non-resident enterprises that have not set up institutions or establishments in the PRC, or where institutions or establishments are set up but there is no actual relationship with the income obtained by the institutions or establishments set up by such enterprises, they shall pay enterprise income tax in relation to the income originating from the PRC.

Pursuant to the Administrative Measures for Certification of New and High Technology Enterprises (高新技術企業認定管理辦法) which was promulgated on April 14, 2008 and with effect from January 1, 2008, the high and new technology enterprises, which are recognized in accordance with these Measures, may apply for the tax preferential policy in accordance with the EIT Law and the Implementation Measures thereof, the Law of the PRC on the Administration of Tax Levying (中華人民共和國稅收徵收管理法) and Implementation Rules of the Law of the PRC on the Administration of Tax Levying (中華人民共和國稅收徵收管理法實施細則). The validity period of new and high technology enterprises shall be effective for three years from the date of issuance of the certificate of new and high technology enterprise. The enterprise shall apply for reexamination three months before the expiration of the qualification; where an enterprise fails to apply for reexamination or where an enterprise fails in the reexamination, its qualification as high and new technology enterprise shall be null and void automatically at the expiration of its valid period.

REGULATION

Value-added Tax

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) last amended and promulgated on November 10, 2008 and with effect from January 1, 2009 and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the importation of goods are required to pay value-added tax.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN CURRENCY EXCHANGE

The principal regulations governing foreign currency exchange in the PRC are the Foreign Exchange Administrative Regulations (外匯管理條例) (the “SAFE Regulations”), which was promulgated by the State Council and last amended on August 5, 2008. Under the SAFE Regulations, the RMB is generally freely convertible for current account items, including the distribution of dividends, trade and service related foreign exchange transactions, but not for capital account items, such as direct investment, loan, repatriation of investment and investment in securities outside the PRC, unless the prior approval of the SAFE is obtained. Foreign investment enterprises are permitted to remit their profits or dividends in foreign currencies out of their foreign exchange accounts or exchange RMB for foreign currencies through banks authorized to conduct foreign exchange business.

Pursuant to the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “SAFE Circular No. 37”), promulgated by SAFE and which became effective on July 4, 2014, (1) a PRC resident (“PRC Resident”) shall register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (“Overseas SPV”), that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing; and (2) following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of the Overseas SPV’s PRC Resident shareholder(s), name of the Overseas SPV, term of operation, or any increase or reduction of the Overseas SPV’s registered capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “Circular 13”), which was promulgated on February 13, 2015 and with effect from June 1, 2015, the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment is directly reviewed and handled by banks in accordance with the Circular 13, and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

PRC LAWS AND REGULATIONS RELATING TO LABOR PROTECTION REGULATIONS

Pursuant to the Labor Law of the PRC (中華人民共和國勞動法) and the Labor Contract Law of the PRC (中華人民共和國勞動合同法) which were separately with effect from January 1, 1995 (amended in 2009) and January 1, 2008 (amended in 2012), respectively, labor contracts shall be concluded if labor relationships are to be established between the employer and the employees.

REGULATION

Pursuant to the Social Insurance Law of the PRC (中華人民共和國社會保險法) which was promulgated on October 28, 2010 and with effect from July 1, 2011, employees shall participate in basic pension insurance, basic medical insurance schemes and unemployment insurance. Basic pension, medical and unemployment insurance contributions shall be paid by both employers and employees. Employees shall also participate in work-related injury insurance and maternity insurance schemes. Work-related injury insurance and maternity insurance contributions shall be paid by employers rather than employees. An employer shall make registration with the local social insurance agency in accordance with the provisions of the Social Insurance Law of PRC. Moreover, an employer shall declare and make social insurance contributions in full and on time. Pursuant to the Regulations on Management of Housing Provident Fund (住房公積金管理條例) which was effective from April 3, 1999 and amended in 2002, employers shall undertake registration at the competent administrative center of housing provident fund and then, upon the examination by such administrative center of housing provident fund, undergo the procedures of opening the account of housing provident fund for their employees at the relevant bank. Enterprises are also obliged to timely pay and deposit housing provident fund for their employees in full amount.

Pursuant to the Work Safety Law of the PRC (中華人民共和國安全生產法) which was promulgated by Standing Committee of the National People's Congress on June 29, 2002 and was last amended on August 31, 2014, all employees of production and business operation entities have the right of working under safety protection according to relevant laws and regulations, and shall also be obliged to perform their obligations regarding work safety.

PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Pursuant to the requirements of relevant laws and regulations such as the PRC Environmental Protection Law (中華人民共和國環境保護法) promulgated by the Standing Committee of the National People's Congress on December 26, 1989 and last amended on April 24, 2014 with effect from January 1, 2015, the Appraisal Measures for the Impact on the Environment of the PRC (中華人民共和國環境影響評價法) promulgated by the Standing Committee of the National People's Congress on October 28, 2002 and with effect from September 1, 2003, and the Regulations Governing Environmental Protection of Construction Projects (建設項目環境保護管理條例) promulgated by the State Council on November 29, 1998, project shall not commence until approval is obtained from the supervisory authority for environmental protection. On the basis of the extent of the effects exerted on the environment by construction projects, the State exercises, in a classified manner, control over the evaluation of the effects of construction projects on the environment. Where the document for evaluation of the environmental effects of a construction project is not examined, or is examined but not approved, by the examination and approval department specified by law, the department for examination and approval of the said project shall not be allowed to approve construction of the project and the construction unit shall not be allowed to start construction. Facilities for the prevention and control of pollution in a construction project shall be designed, built and put into construction and use together with the principal part of the project. Facilities for the prevention and control of pollution shall conform to the requirements of the approved document of environment impact assessment and shall not be dismantled or left idle without permission.

REGULATION

PRC LAWS AND REGULATIONS RELATING TO REAL PROPERTY RIGHTS

Pursuant to Real Rights Law of the PRC (中華人民共和國物權法), which was promulgated on March 16, 2007 and with effect from October 1, 2007, the real rights of the State, collectives, individuals or any other rights holder shall be protected by law, and no entity or individual may infringe upon these rights. The categories of real rights and their contents shall be prescribed by law. The creation, alteration, transfer or termination of a real right of an immovable shall be subject to registration in accordance with the law. The creation or transfer of a real right of a movable shall be delivered in accordance with the law.

In accordance with Law of the People's Republic of China on the Administration of Urban Real Estate (中華人民共和國城市房地產管理法), which was promulgated on July 5, 1994 and last amended on August 27, 2009, when real estate is assigned or changed, an application for registration of change in real estate shall be submitted to the real estate administration department of the local people's government above the county level, and an application for registration of change in land use rights shall be submitted to the land administration department of the local people's government at the same level on the strength of the building ownership certificates after change. When real estate is mortgaged, mortgage registration shall be handled with the departments authorized by the local people's government above the county level.

In accordance with Administrative Measures for the Lease of Commercial Buildings (商品房屋租賃管理辦法), which was promulgated on December 1, 2010 and with effect from February 1, 2011, the parties to a house lease shall file the lease contract with the competent construction (real estate) departments of the municipalities directly under the central government, cities and counties where the house is located within 30 days after the lease contract is entered into.

The Land Administration Law of the People's Republic of China (中華人民共和國土地管理法) which was promulgated on June 25, 1986 and was last amended on August 28, 2004 forbidden any units and individuals to leave cultivated land unused or let it lie waste. Pursuant to Measures for the Disposal of Idle Land (閒置土地處置辦法) which was promulgated on April 26, 1999 and last amended on May 22, 2012, where the delay in the commencement of the construction and development of a plot of State-owned land for construction use is caused by acts of any government or government department, department of land and resources at the municipal or county level shall dispose of the land in several ways, including but not limited to providing another plot of land in exchange for the land, through consultation with the holder of the land use right.

PRC LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY RIGHTS

Trademarks

Pursuant to the Trademark Law of the PRC (中華人民共和國商標法) (the "Trademark Law"), which was revised on August 30, 2013 and with effect from May 1, 2014, natural person, legal entity and other social organization who need to obtain the right to exclusive use of a registered trademark for their production and management shall apply to Trademark Office. And the period of validity of a registered trademark shall be ten years, counted from the day the registration is approved. Nevertheless, according to the Trademark Law, using a trademark that is identical with or similar to a registered trademark in connection with the same or similar goods without the authorization of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark.

REGULATION

Patents

Pursuant to the Patent Law of the PRC (中華人民共和國專利法) (the “Patent Law”), which was revised on December 27, 2008 and with effect from October 1, 2009, after the grant of the patent right for an invention or utility model, except where otherwise provided for in the Patent Law, no entity or individual may, without the authorization of the patent owner, exploit the patent, that is, to manufacture, use, offer to sell, sell or import the patented product, or use the patented process, or to use, offer to sell, sell or import any product which is a direct result of the use of the patented process, for production or business purposes. And after a patent right is granted for a design, no entity or individual shall, without the permission of the patent owner, exploit the patent, that is, for production or business purposes, to manufacture, offer to sell, sell, or import any product containing the patented design.

Computer Software Copyright

Pursuant to the Copyright Law of the PRC (中華人民共和國著作權法) which was promulgated on September 7, 1990 and was last amended on February 26, 2010 and the Regulations on Computers Software Protection (計算機軟件保護條例) which was promulgated on December 20, 2001 and was last amended on January 30, 2013, software developed by PRC citizens, legal persons or other organizations is automatically protected immediately after its development, without an application or approval. Software copyright may be registered with the designated agency and if registered, the certificate of registration issued by the software registration agency will be the preliminary evidence of the ownership of the copyright and other registered matters.

PRC MERGER & ACQUISITION REGULATIONS

Pursuant to the M&A Rules, the following scenarios qualify as an acquisition of a domestic enterprise by a foreign investor:

- the foreign investor purchases by agreement the equity interests of a pure domestic enterprise without foreign investment (a “domestic enterprise”) or subscribes for the increased capital of a domestic enterprise, and thus converts the domestic enterprise into a foreign-invested enterprise;
- the foreign investor establishes a foreign-invested enterprise and use such foreign-invested enterprise to purchase the assets of a domestic enterprise by agreement and operates such assets; or
- the foreign investor purchases the assets of a domestic enterprise by agreement and then use such assets as capital contribution to establish a foreign-invested enterprise and operates such assets.

INDUSTRY OVERVIEW

Certain information and statistics relating to our industry provided in this section have been derived from official government sources. In addition, this section and elsewhere in this prospectus contains information extracted from a report commissioned by us, or the Forward Report⁽¹⁾, prepared by Forward, an independent third party, for purposes of this prospectus. We believe that the sources of the information in this “Industry Overview” section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is materially false or misleading, and no fact has been omitted that would render such information materially false or misleading. Our Directors confirm that, after taking reasonable care, they are not aware of any adverse change in market information since the date of the Forward Report which may qualify, contradict or have an adverse impact on the quality of information in this section. However, the information has not been independently verified by us, the Sole Sponsor, the Underwriters or any other party involved in the Global Offering. Except as otherwise noted, all the data and forecast in this section are derived from the Forward Report.

MACRO-ECONOMY OF CHINA

China’s GDP growth has been slowing down since 2010, with the growth rate decreasing from 9.5% to 6.9% for the period from 2010 to 2015 due to economic transformation and structural adjustment. China’s economy is expected to experience a continued slower growth, considering the deepened domestic reform in China and slowing demand in both the domestic market and overseas market.

⁽¹⁾ This “Industry Overview” section contains information extracted from the Forward Report prepared by Forward for purposes of this prospectus. We expect to pay a total of RMB160,000 to Forward for the preparation and use of the Forward Report.

Research basis

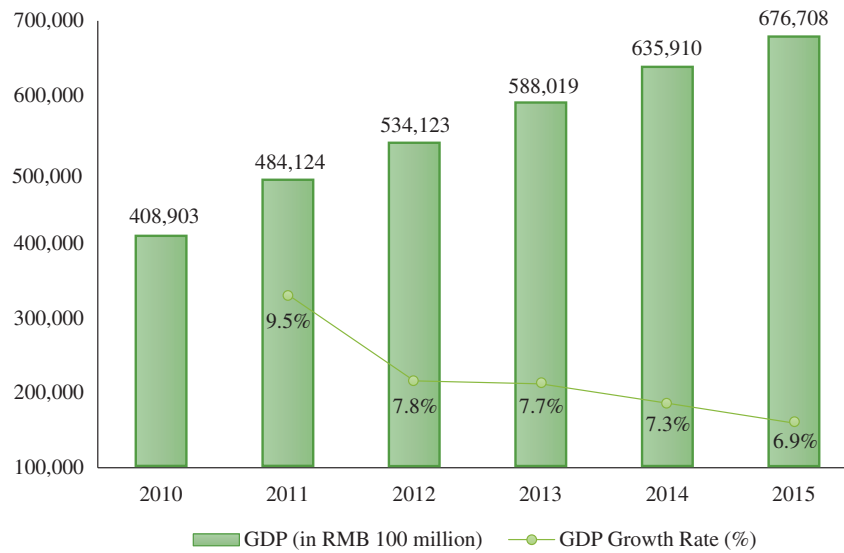
The Forward Report was compiled based on primary study, and all the data therein are from government authorities, institutions and enterprises, interviews with relevant persons in related industries and the forecast made by Forward in accordance with the conditions of the industry. Among the sources of the information contained in the Forward Report are the National Bureau of Statistics of the PRC, the World Bank, the Ministry of Land and Resources of the PRC, the National Energy Administration of the PRC, the China Electricity Council and the China Coal Resource. Information from the interviews with relevant persons in related industries is for reference only, and the findings in the Forward Report are not based on the results of such interviews.

About Forward

Forward is a professional agency engaged in provision of IPO advisory services in China, mainly providing pre-listing market segmentation research and feasibility studies. Forward’s services cover over 40 industry sectors (such as instrument manufacturing, new material, telecommunication, household, heavy industries and construction, healthcare, entertainment and media and energy and chemical) and have expanded into over 20 provinces and cities (including but not limited to Beijing, Guangdong, Hunan, Jiangsu, Shanghai, Sichuan and Zhejiang) in China.

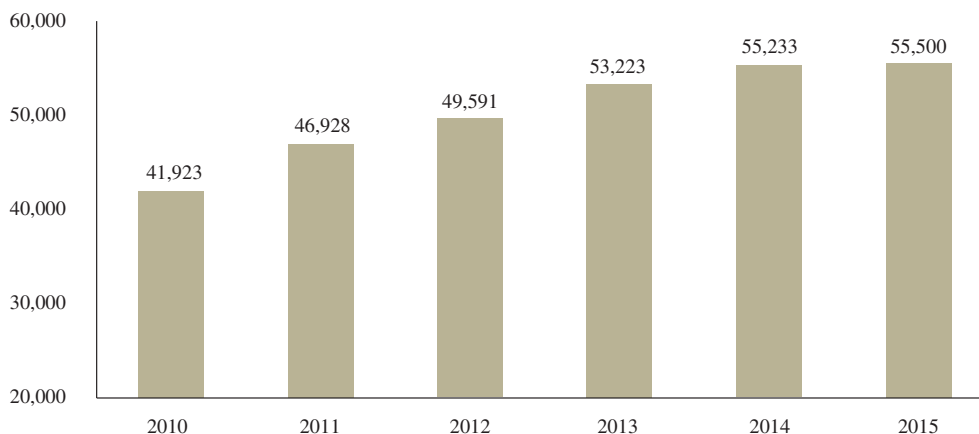
INDUSTRY OVERVIEW

The following chart illustrates China's GDP and its growth rates from 2010 to 2015.



Source: National Bureau of Statistics of the PRC

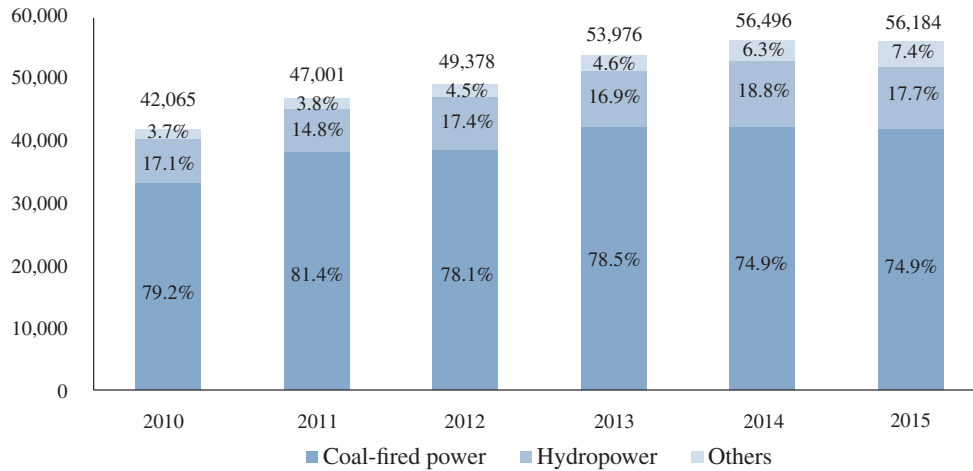
National economic development, which directly affects the energy consumption, may result in a fluctuation in coal consumption. When China's macroeconomic development drives the domestic consumption and leads to the expansion of major coal-consuming industries, the coal industry will also develop to satisfy the growing demand. The demand for energy in China continues to grow along with China's economic development, evidenced by a continuous growth in China's power consumption. The chart below illustrates China's power consumption (in 100 million kWh) from 2010 to 2015.



Source: National Energy Administration of the PRC, National Bureau of Statistics of the PRC

INDUSTRY OVERVIEW

In terms of the power generation portfolio, coal-fired power dominates the market. The coal-fired power is the most important source for power generation, accounting for 74.9% of the total amount of power generated in 2015 in China. The following chart illustrates a breakdown by source of China's power generation (in 100 million kWh) from 2010 to 2015.

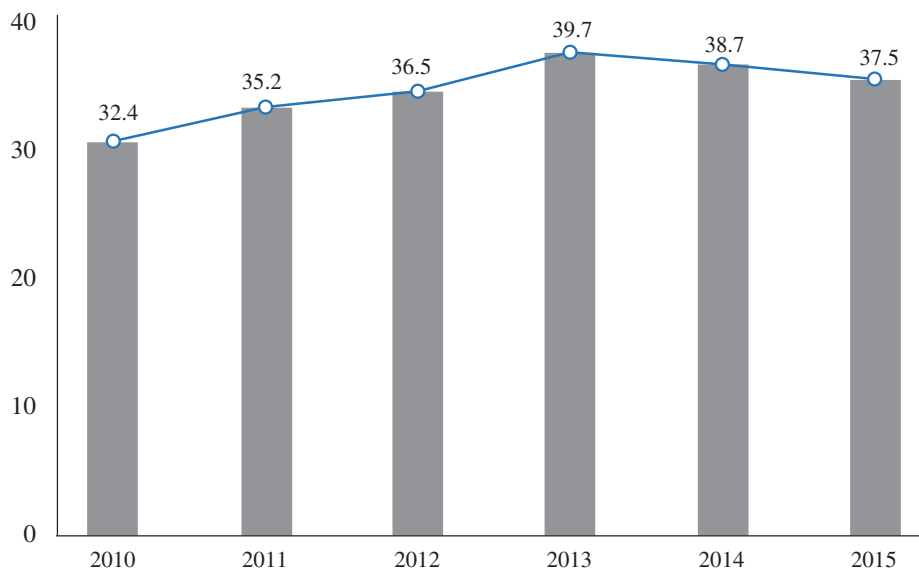


Source: National Bureau of Statistics of the PRC

COAL INDUSTRY OF CHINA

Overview

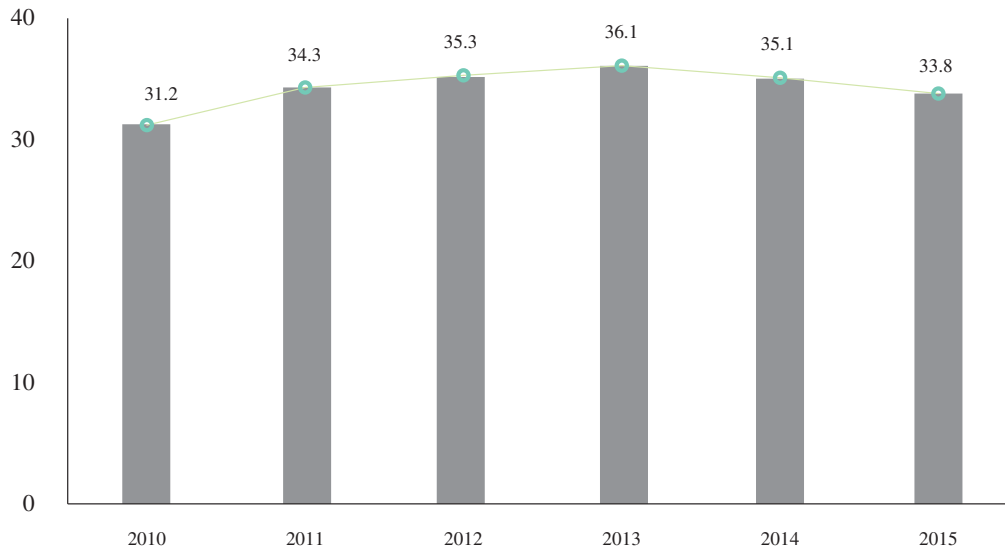
Coal is a fundamental source of energy in China and plays a vital role in China's economy development. The coal production volume in 2015 was 3.8 billion tonnes, representing a decrease of 3.3% compared to 2014. The following chart sets forth China's coal production (in 100 million tonnes) from 2010 to 2015.



Source: Statistical Communiques on the 2010 to 2015 National Economic and Social Development

INDUSTRY OVERVIEW

The coal consumption volume reached 3.4 billion tonnes in 2015, accounting for approximately 64.0% of total energy consumption in China. The following chart sets forth China's coal consumption (in 100 million tonnes) from 2010 to 2015.



Source: China Statistical Yearbook, National Statistics Bureau of the PRC

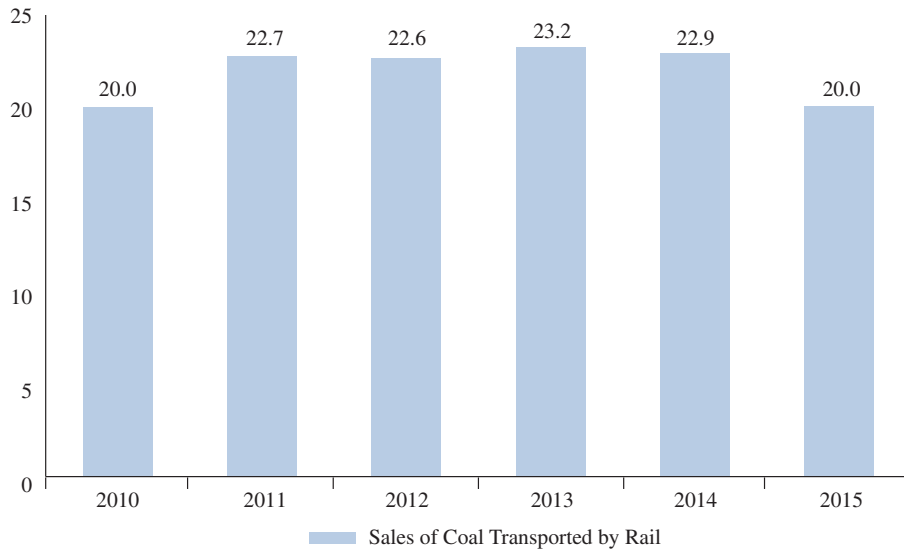
Coal demand and consumption in downstream industries mainly involve power generation and production of steel, building materials and chemicals, among which the power generation industry is the largest coal consumer. Since coal-fired power generators constitute more than 70.0% of China's power supply system, the demand for power directly affects the demand for coal.

China's coal market is currently oversupplied as domestic coal production continues to remain at a large base number while consumption weakened amid a slowing economy and competition from alternative, cleaner sources of energy. The PRC government has recently implemented policies to ease domestic oversupply of coal by eliminating inefficient coal mines.

Coal Transportation and Major Coal-trade Ports

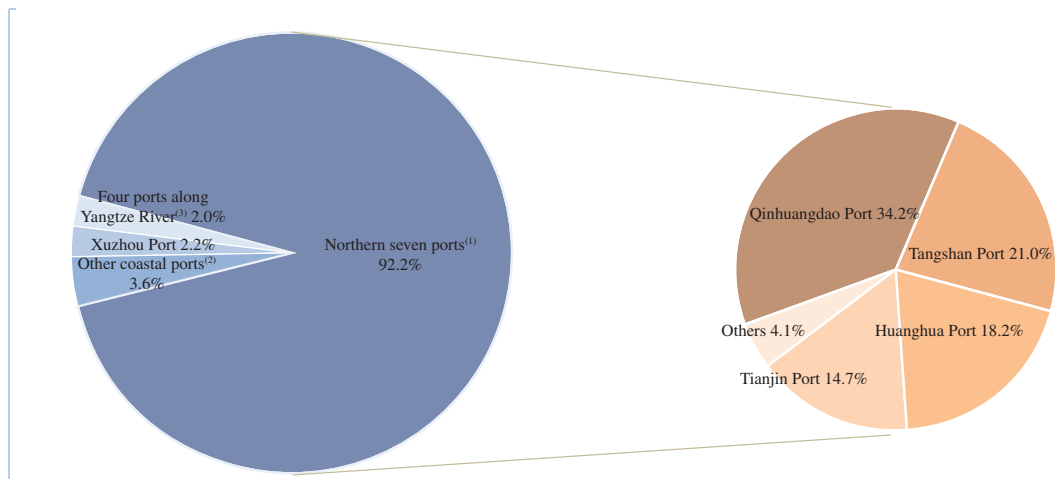
Coal is mainly transported by barge, rail or truck, among which rail is the primary coal transportation method. Since China's coal resources concentrate in the inland regions of north China, it is common to transport coal to ports by rail first, and then transship it by barge to regions that have high demand for coal, such as Bohai Rim, east China and south China. Multimodal transport combining rail and barge is the most important coal transportation method in China. In 2015, coal transported by rail accounted for 59.2% of total coal consumption in China. The chart below illustrates the total trading volume of coal transported by rail (in 100 million tonnes) in China from 2010 to 2015.

INDUSTRY OVERVIEW



Source: NDRC

Benefiting from their proximity to the coal resources, the ports in Bohai Rim, including Qinhuangdao port, Tangshan port, Huanghua port and Tianjin port (collectively known as the Four Northern Ports), are major coal-trade ports in China. Qinhuangdao port is the largest port in China in terms of coal throughput. The total coal transported by barge reached 643 million tonnes in 2015. The following chart sets forth the coal throughput of China's major coal-trade ports in 2015.



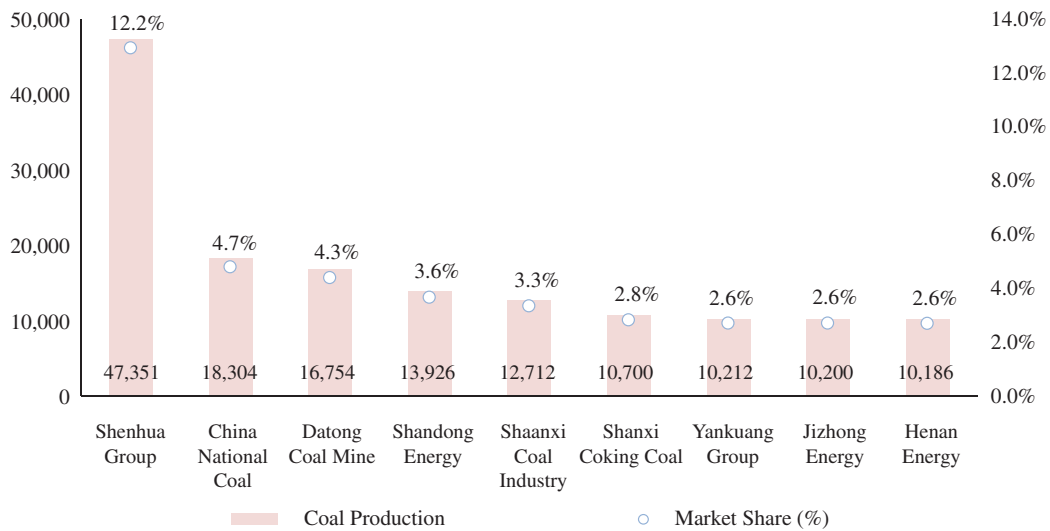
Source: Forward Industry Research Institute

- (1) Include Qinhuangdao port, Tangshan port, Huanghua port, Tianjin port, Qingdao port, Rizhao port and Lianyungang port.
- (2) Include Jinzhou port, Yingkou port, Fangcheng port and Yantai port.
- (3) Include Wuhu port, Nanjing port, Yichang port and Wuhan port.

INDUSTRY OVERVIEW

Major Companies in Coal Industry

Large-sized state-owned coal enterprises have commanded the leading position in the coal industry due to their abundant coal resources, economies of scale and intensive capital investments. The top three coal companies in terms of revenue in 2014 are Shenhua Group, Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司) and Jizhong Energy Group Co., Ltd. (冀中能源集團有限責任公司). The top three coal enterprises in terms of coal production volume in 2014 are Shenhua Group, China National Coal Group Corp. (中國中煤能源集團有限公司) and Datong Coal Mine Group Co., Ltd. (大同煤礦集團有限責任公司). The following chart sets forth the coal production (in 10,000 tonnes) and market share of major coal companies in 2014.

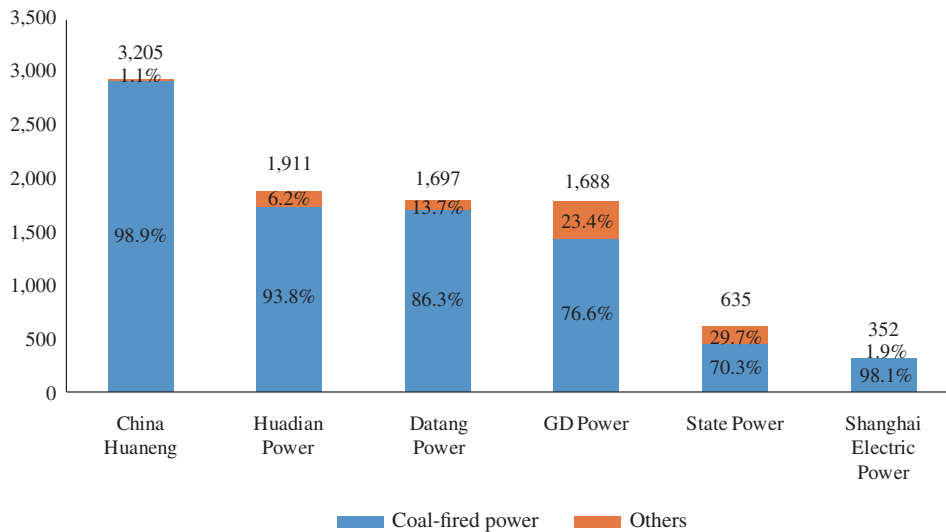


Source: <http://www.coalchina.org.cn>, National Bureau of Statistics of the PRC

Shenhua Group is the largest coal mining company in China in terms of revenue in 2014. It has considerable economies of scale, allowing it to weather a slowing coal industry. Leveraging its capital advantage, Shenhua Group has implemented smart mining technologies to improve mining efficiency and safety in support of its mining activities. In 2014, 2015 and the five months ended May 31, 2016, Shenhua Group accounted for approximately 38.2%, 35.4% and 53.7% of the aggregate coal throughput in the Four Northern Ports.

INDUSTRY OVERVIEW

Power generation companies in China primarily burn coal to generate electricity. The following chart sets forth the power generated (in 100 million kWh) and the sources of power generation of major power generation companies in 2015.



Source: Forward Report

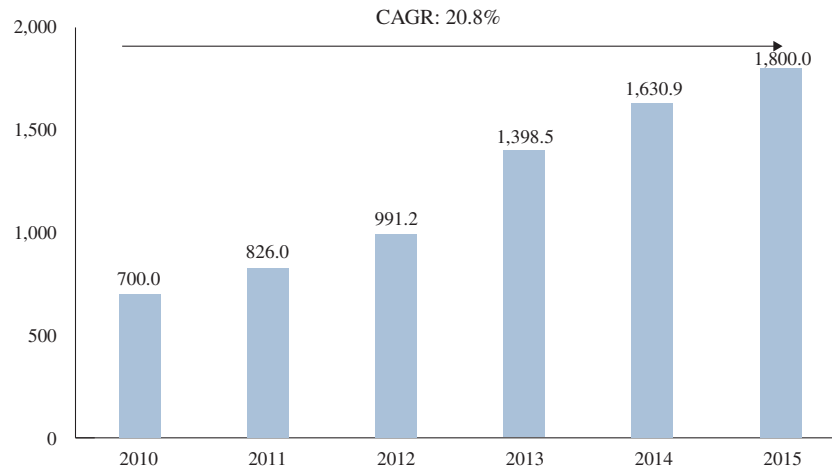
INDEPENDENT TESTING AND INSPECTION INDUSTRY OF CHINA

China's independent testing and inspection industry emerged with the growing requirements for product quality, hygiene, safety and environmental protection, and has developed steadily in response to rapid technological advancements, heightened regulatory scrutiny and evolving legislations enacted to set product standards. China's independent testing and inspection industry now serves a number of industrial sectors, including, among others, construction, environmental protection, hygiene, agriculture, quality inspection, food, drugs, machinery, electronics, light industry, textile, aviation and national defense.

Prior to the enactment of the Law of Import and Export Commodity Inspection of the PRC (中華人民共和國進出口商品檢驗法) in 1989, China's testing and inspection industry was under the regime of administrative law enforcement and dominated by government authorities, including primarily local entry-exit inspection and quarantine authorities, local technical supervision authorities and other inspection institutions established by competent authorities in different industrial sectors. The Law of Import and Export Commodity Inspection of the PRC opened this market to private capital, allowing certain independent testing and inspection service providers to undertake import and export commodity inspection work mandated by the state. The 2002 revision of the Law of Import and Export Commodity Inspection of the PRC distinguishes compulsory inspection (administrative law enforcement in nature) from mandated inspection, which may be conducted by independent testing and inspection service providers under the management of the AQSIQ. Compared with the more mature overseas markets, China's independent testing and inspection industry is at a relatively early stage. Not fully open to market participants, China's independent testing and inspection market is generally fragmented due to lack of unified and effective government supervision. The market has steady growth potential, however, in light of the continued economic development in China, substantial improvement of living standards, frequent international trade activities and gradual transformation of government functions.

INDUSTRY OVERVIEW

According to the AQSIQ and Certification and Accreditation Administration of the PRC, as of December 31, 2015, there were over 31,000 testing and inspection service providers in China (including over 15,000 state-owned or -controlled entities) with an aggregate revenue of approximately RMB180.0 billion in 2015, representing a CAGR of 20.8% from 2010 to 2015. The following chart sets forth the market size (in RMB100 million) of China's independent testing and inspection industry from 2010 to 2015.



Source: AQSIQ, Certification and Accreditation Administration of the PRC, Forward-compiled data

COAL TESTING AND INSPECTION INDUSTRY OF CHINA

Overview

The development of China's coal testing and inspection industry can be divided into three phases. From 1949 to early 1980s, China's coal industry was operated entirely under the planned economy system, whereby coal exploration, mining, transportation, sale, processing and utilization were all assigned by the state to individual enterprises under the state's economic development plan. During this phase, the supervision and inspection of coal quality were under direct management of the government. Beginning from the mid-1980s, China adopted more flexible policies on the management of the coal industry due to tight coal supply and established a dual-track system of "planned coal" and "market coal." During this second phase, coal testing and inspection were conducted by government-owned or -sponsored laboratories, but a demand for independent assurance of coal quality and quantity also gradually emerged due to the liberalization of the coal industry. The third phase of development began in 2001, when China gradually abandoned in principle the "government guided-price" for coal. At the end of 2007, the "coal demand and supply meetings" succeeded the former "coal ordering conferences" presided over by the NDRC, allowing coal suppliers and buyers to determine the coal price through consultations, which marked the preliminary marketization of China's coal prices. Nowadays, coal suppliers and buyers increasingly require testing and inspection from third parties disinterested in the test results to provide assurance of verifiable quality and quantity of coal, which now serves as a basis of price determination in coal trade.

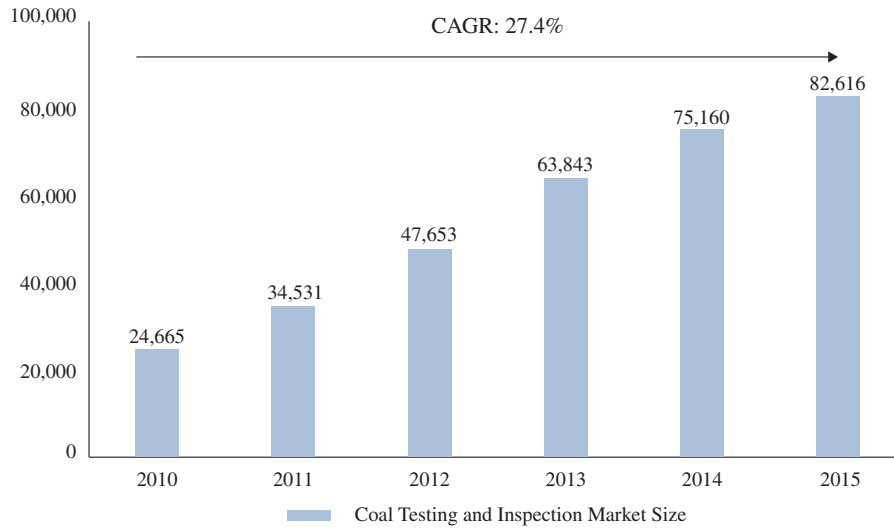
INDUSTRY OVERVIEW

Overall Market Size

Despite the slowdown of coal consumption and decrease in coal price over recent years, the revenue of China's coal testing and inspection industry continued to increase. In 2015, the revenue from coal testing and inspection services reached approximately RMB0.8 billion, increasing by 9.9% compared to 2014. The provision of a majority of coal testing and inspection services is limited to coal transported by barge. Although the volume of coal transported by rail accounted for approximately 59.2% of China's coal consumption in 2015, only approximately less than 5.0% of coal transported by rail was subject to independent testing or inspection, representing steady growth potential. In a typical transaction, either the coal seller or buyer will require testing or witnessing services from third parties disinterested in the test results to provide assurance of verifiable quality and quantity of coal, which now serves as a basis for determining coal price. Therefore, privately-owned independent testing companies began to play an increasingly more important role over recent years in the coal distribution chain. In addition, the coal testing and inspection industry is evolving to favor a higher degree of automation, informatization and reliability. In light of these industrial trends and the continued development of the coal industry, the coal testing and inspection industry will continue to experience substantial growth in the foreseeable future.

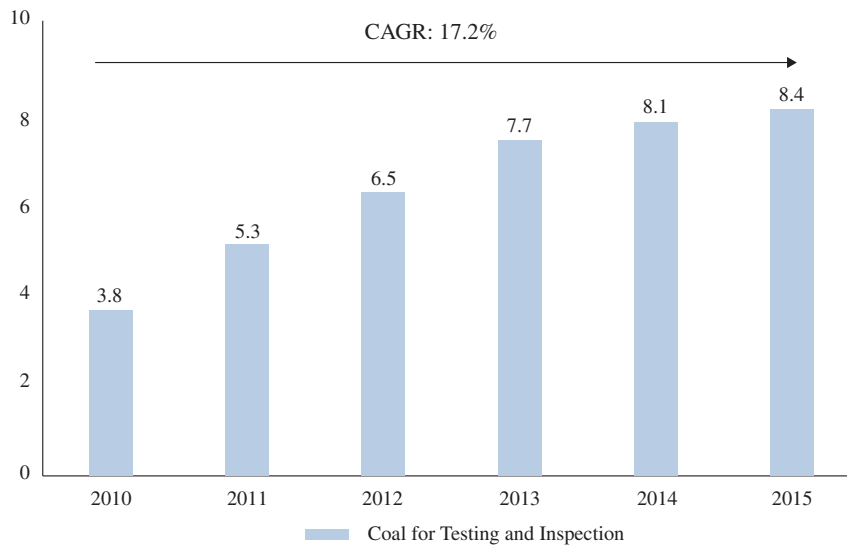
Compared to other countries, China's coal testing and inspection industry is at a relatively early stage. In general, the overall market is highly concentrated and only partially opened to market participants. Furthermore, governmental supervision over this market remains to be further unified and strengthened. Currently, it is market practice for coal testing and inspection to take place mainly during seaborne transportation stage, and with the further liberalization of coal trade, there is a growing trend for coal to subject to several instances of testing and inspection at different stages of its transportation, for example, before its leaving of ports mainly in north China, after its landing at ports in south China and during its transportation to power generators by rail or truck. As coal transactions become increasingly market-oriented, there will be a higher demand for quality assurance. The total market size of the coal testing and inspection therefore may far exceed the total coal throughput of existing ports and further extend to the coal transported by rail and truck, and therefore, the coal testing and inspection market has steady growth potentials in the future. The following chart sets forth the size of the coal testing and inspection market (in RMB10,000) from 2010 to 2015.

INDUSTRY OVERVIEW



Source: Forward Report

The following chart sets forth the quantity of coal subject to testing and inspection (in 100 million tonnes) from 2010 to 2015.



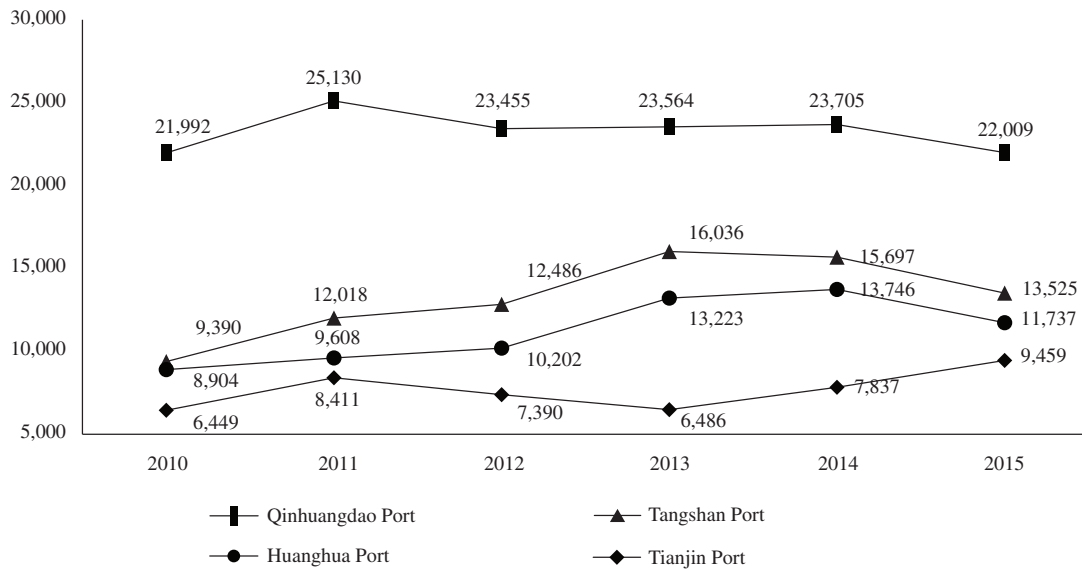
Source: Forward Report

INDUSTRY OVERVIEW

Major Regional Markets

Coal testing and inspection mainly occur in coastal and riverside regions with a robust demand for coal and abundant coal transactions, such as Bohai Rim region, east China, regions of central China along the Yangtze River and south China.

- Bohai Rim region.* Due to their geographic advantages, the Four Northern Ports, i.e., Qinhuangdao port, Tangshan port, Huanghua port and Tianjin port, accounted for over 80.0% of China’s total volume of seaborne coal sales in 2015, making Bohai Rim region one of the most important markets to the coal testing and inspection industry. As China’s coal export gradually restores, the total coal throughput of the ports in Bohai Rim region will further increase in the future benefiting from the coal transport railways such as Daqin Line, offering more opportunities to independent assurance providers with inspection qualifications for import and export commodities. Our Group has established testing laboratories in each of the Four Northern Ports. For a breakdown of the revenue and business volume of our Group in each of the Four Northern Ports, see “Business — Our Service Offerings.” The following chart sets forth the coal throughput of major ports in Bohai Rim region (in 10,000 tonnes) from 2010 to 2015.



Source: Forward Report

- East, central and south China.* As the more developed regions in China, east China, regions of central China along the Yangtze River and south China have a strong demand for power and also host numerous power generators, representing a sizeable market for coal testing and inspection supported by robust local coal transactions. Railway and highway transportations are also well-developed in these regions. As a result of the foregoing factors, these regions are important areas for the expansion of coal testing and inspection businesses. Coal-trade ports in north and south China serve different purposes and the coal testing and inspection markets in these two regions differ in aggregate demand for coal testing, quality and usage of coal, and transportation method.

INDUSTRY OVERVIEW

The following table sets forth the distribution of coal testing laboratories in major regional markets.

City/Region	Companies that own local coal testing laboratories
Qinhuangdao	Our Group, SGS, Qinhuangdao Entry-Exit Inspection and Quarantine Bureau Coal Inspection Technique Center (秦皇島出入境檢驗檢疫局煤炭檢測技術中心), Qinhuangdao Huazheng Coal Inspection Firm (秦皇島華正煤炭檢驗行), Qinhuangdao Coal Quality Supervision and Inspection Center (秦皇島煤炭質量監督檢驗中心)
Tangshan	Our Group, SGS, China Certification & Inspection Group Hebei Co., Ltd. Tangshan Port Branch (中國檢驗認證集團河北有限公司唐山港分公司), Tangshan City of Quality and Technical Supervision (唐山市產品質量監督檢驗所), Tianjin Shengxing Coal Inspection Ltd. (天津市盛興煤炭檢驗有限公司), Qinhuangdao Entry-Exit Inspection and Quarantine Bureau Coal Inspection Technique Center (秦皇島出入境檢驗檢疫局煤炭檢測技術中心), China Certification & Inspection Group Hebei Co., Ltd Caofeidian Branch (中國檢驗認證集團河北有限公司曹妃甸分公司), Tangshan Qinhuang Commodity Inspection Co., Ltd. (唐山秦華商品檢驗有限公司)
Cangzhou (Huanghua port)	Our Group, Huanghua Port Entry-Exit Inspection and Quarantine Bureau (黃驊港出入境檢驗檢疫局), China Coal (Cangzhou Bohai New Area) Coal Inspection Co., Ltd. (煤科(滄州渤海新區)煤炭檢測有限公司)
Tianjin	Our Group, the Chemicals and Minerals Laboratory of the Inspection Center of Tianjin Entry-Exit Inspection and Quarantine Bureau (天津出入境檢驗檢疫局化礦金屬材料檢測中心), China Coal Technology and Engineering Group (Tianjin) Coal Testing Co., Ltd. (煤科(天津)煤炭檢測有限公司), SGS, Intertek Testing Services Tianjin Ltd. (天祥(天津)質量技術服務有限公司), Inspectorate (Shanghai) Ltd. Tianjin Branch, Tianjin Tonggang Coal Inspection Center (天津市通港煤炭檢測中心), Tianjin Binhai New District Anran Minerals Inspection Ltd. (天津市濱海新區安然礦產品檢測有限公司)
Guangzhou	Our Group, SGS, Guangzhou Entry-Exit Inspection and Quarantine Bureau (廣州出入境檢驗檢疫局), China Certification & Inspection Group Guangdong Co., Ltd. (中國檢驗認證集團廣東有限公司), Intertek Testing Services Shenzhen Ltd. Guangzhou Branch, Inspectorate (Shanghai) Ltd. Guangzhou Branch (上海英斯貝克商品檢驗有限公司廣州分公司)
East China (Nanjing, Shanghai, Zhangjiagang, Rugao, Jiangyin)	Our Group, SGS, Shanghai SafeNet Fuel Testing Co., Ltd. (上海賽孚燃料檢測股份有限公司), Intertek Testing Services Shanghai Ltd., Inspectorate (Shanghai) Ltd. (上海英斯貝克檢測有限公司)
Hunan	Our Group, SGS, Coal Quality Testing Station of SIPG Jiujiang Port Co., Ltd. (上港集團九江港務有限公司煤炭檢驗質量站)

Source: Forward Report

INDUSTRY OVERVIEW

Outlook of China's Coal Testing and Inspection Industry

The development of China's coal testing and inspection industry mainly depends on the overall development of the coal industry and the further penetration of the coal testing and inspection industry. Given coal's long-term dominant position in China's energy structure, the coal testing and inspection industry also has steady growth potentials. Only a moderate portion of coal is currently subject to independent testing and inspection. The coal subject to quality testing or inspection in all modes of transportation in 2015 was 0.8 billion tonnes, accounting for approximately 24.9% of the coal consumed in the same year and representing steady growth potentials for the coal testing and inspection industry as the market demand deepens. In the long run, benefiting from the further liberalization of coal trade, the coal subject to testing and inspection may potentially account for close to the entirety of the coal for consumption. Moreover, in terms of future industrial concentration, the companies with high credibility, leading techniques and strong professionalism will compete more effectively, leading to a concentration of elite companies.

Government policies over coal consumption and coal quality will also have an impact on the coal testing and inspection industry. In February 2016, the State Council announced a policy to suspend the approval of new coal mines for the next three years starting from 2016 and reduce coal's share in China's energy mix. This policy reflects the PRC government's continued efforts to eliminate inefficient coal mines to ease domestic oversupply and make room for clean, renewable energy production. Also, in recent years, the PRC government has tightened regulations over coal quality to reduce the emission of toxic substance from combustion and imposed more severe penalty for environmental pollution. For example, the Provisional Measures on Quality Management of Commercial Coal (商品煤質量管理暫行辦法), effective on January 1, 2015, impose restrictions on the transportation, sale and use of commercial coal that contains ash, sulfur or toxic elements beyond certain percentage threshold in regions including Beijing, Tianjin, Hebei province, Yangtze River Delta and Pearl River Delta. Motivated by environmental concerns, the PRC government has also implemented measures to control the usage of bulk coal for heating purposes by households and factories and to subsidize electric vehicles to reduce exhausts. While government policies over coal consumption will have the effect of reducing coal trade, thereby negatively affecting the coal testing and inspection industry, the tightened regulations over coal quality may result in an increase in demand for independent assurance of coal quality for regulatory compliance.

Entry Barriers to China's Coal Testing and Inspection Industry

Qualification

China sets high qualification entry barriers for testing and inspection services providers. According to the Law of Import and Export Commodity Inspection of the PRC (中華人民共和國進出口商品檢驗法) and Measures for the Administration of Import and Export Commodity Testing and Inspection Institutions (進出口商品檢驗鑒定機構管理辦法), companies engaged in the business of import and export commodity testing and inspection are subject to the AQSIQ's approval and must obtain the Certificate of Qualification for Institution of Import & Export Commodity Inspection and Survey (進出口商品檢驗鑒定機構資格證書) from the AQSIQ. Moreover, according to the Metrology Law of the PRC (中華人民共和國計量法), in order to provide product quality data notarial service, a testing service provider must pass metrological certification organized by the quality and technology supervision authorities at or above the provincial level. At present, only a few independent assurance providers in China, including our Group, hold each of the Certificate of Qualification for Institution of Import & Export Commodity Inspection and Survey (進出口商品檢驗鑒定機構資格證書), the China Metrology Accreditation Certificate (計量認證證書), the Laboratory Accreditation Certificate (實驗室認可證書) and the Inspection Body Accreditation Certificate (檢查機構認可證書).

Technical barrier and skill

The coal testing and inspection industry is both skill and technology intensive. Due to its high dependence on advanced testing and inspection equipment and the speciality of technicians, the coal testing and inspection industry requires well-rounded laboratory management and operating systems, strong research and development capabilities and seasoned interdisciplinary technicians.

Brand and credibility

As an independent assurance provider provides quality assurance to parties to coal transactions, its credibility and brand recognition are therefore important factors that lead to service orders. An independent assurance provider's brand represents its market credibility and service quality and therefore determines user acceptance and market share.

Business scale

Independent assurance providers need to make substantial kick-off investments to establish specialized laboratories and purchase testing equipment. The business volume directly affects the profit margin of the coal testing and inspection business, as the variable cost of testing and inspection decreases significantly as the business volume increases.

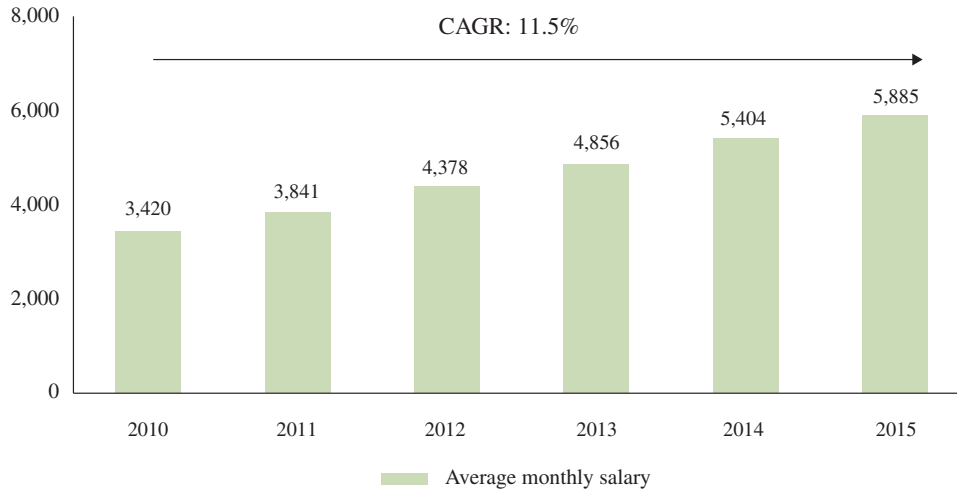
Comprehensive technical application ability

A comprehensive independent assurance provider needs to provide one-stop solutions to meet the customers' diversified testing and inspection requirements. In addition, it should have strong cross-industry and cross-specialty technical capabilities to integrate various specialized techniques.

INDUSTRY OVERVIEW

Labor Costs

The principal components of cost of sales for the coal testing and inspection industry are labor costs and port charges. Compensation bases of key employees, primarily technicians, have been constantly increasing over the past years due to the development of the overall coal testing and inspection market and a general rise in the cost of living in China. The following chart sets forth the average monthly salary of a key employee (in RMB) in the coal testing and inspection industry from 2010 to 2015.



Source: Forward Report

COMPETITIVE LANDSCAPE AND COMPETITIVE ADVANTAGES

Types of Independent Assurance Providers

Independent assurance providers are mainly classified as: (1) state-owned assurance providers, (2) foreign-invested assurance providers, and (3) domestic private assurance providers. Currently, there are approximately 300 independent assurance providers in China, of which more than half have government background, and approximately 25.0% are foreign-invested. State-owned assurance providers, as a whole, still dominate China's coal testing and inspection market with a combined market share of approximately 60.8% in terms of revenue in 2015. Currently, China's import and export coal inspection is conducted primarily by assurance providers under the commodity inspection authorities as required by law, foreign-invested and domestic private assurance providers therefore mainly compete in the market of coal testing and inspection in domestic transactions. In the domestic coal-trade market, independent assurance providers usually maintain stable business relationship with the major participants in the coal industry, including major coal mining companies and power generation companies, to maintain their market positions in the coal testing and inspection industry.

INDUSTRY OVERVIEW

Market Share of Major Competitors

China's coal testing and inspection industry is highly concentrated with approximately 300 independent assurance providers, of which only a few have developed an effective scale of economies. Our Group is the largest coal testing and inspection service provider in China with a market share of 18.9% in terms of revenue in 2015. The net volume of coal tested or inspected by our Group represents approximately 14.1% of China's coal output in 2015. The following table sets forth the respective market share of the independent assurance providers in China in terms of revenue for 2013, 2014 and 2015.

Name	Market share		
	2013	2014	2015
	(%)		
Our Group	15.7	17.6	18.9
SGS	15.7	15.3	14.2
CCIC	14.3	13.0	10.6
Qinhuangdao Entry-Exit Inspection and Quarantine Bureau Coal Inspection Technique Center (秦皇島出入境檢驗檢疫局煤炭檢測技術中心)	9.7	9.7	10.5
Test Center of China Coal Research Institute (煤炭科學技術研究院有限公司檢測分院(檢測中心))	5.5	5.3	6.9
Shanghai Saifu Fuel Inspection and Test Co., Ltd. (上海賽孚燃料檢測股份有限公司)	5.1	3.9	3.1
Bureau Veritas S.A.	2.1	5.2	1.8
Intertek Group plc	0.8	1.2	1.2

Source: Forward Report

The major players in the Four Northern Ports consist primarily of the assurance providers that run coal testing laboratories locally. Our Group is the only domestic private assurance provider that operates laboratories in each of the Four Northern Ports. See “— Coal Testing and Inspection Industry of China — Overall Market Size” for details.

- *Qinhuangdao port.* Five assurance providers operate coal testing laboratories in Qinhuangdao. Although the state-owned assurance providers have significant competitive advantages at this local market leveraging favorable policies and geographic location, our Group maintained its dominant position with a market share of 21.9% in terms of revenue in 2015.
- *Tangshan port.* Eight assurance providers operate coal testing laboratories in Tangshan, among which our Group, CCIC and SGS were the top three players. Our Group had a market share of 23.6% in terms of revenue in 2015.
- *Huanghua port (Cangzhou).* Three assurance providers operate coal testing laboratories in Cangzhou. Our Group maintained a dominant position with a market share of 55.1% in terms of revenue in 2015.
- *Tianjin port.* Eight assurance providers operate coal testing laboratories in Tianjin, among which our Group, SGS, Intertek Group plc and Test Center of China Coal Research Institute were the top players. Our Group had a market share of 39.3% in terms of revenue in 2015.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

HISTORY

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on July 29, 2015. Since its incorporation, our Company has been an investment holding company with no business operations. Our Company has become the holding company of our Group for the purpose of the Listing as a result of the Reorganization. See “— Corporate Reorganization” for more details.

Our history can be traced back to January 19, 2009 when our first operating entity Huaxia Lihong was established as a limited liability company in Beijing and was owned as to 90% by Ms. ZHANG Aiyong (張愛英), 5% by Mr. LI Dexin (李德新) and 5% by Mr. ZHANG Jiaqi (張佳琦), respectively. The initial funding of the then shareholders was primarily from their own financial resources. Mr. LI Xiangli (李向利), our chairman, chief executive officer and executive Director joined our Group in April 2009 and used his own funding to inject the capital into Huaxia Lihong and became the controlling shareholder of Huaxia Lihong in April 2011. Mr. LI Xiangli has extensive experience in coal testing and inspection industry. For more details of the background of Mr. LI Xiangli and Ms. ZHANG Aiyong, see “Directors and Senior Management.” Mr. LI Dexin used to work in a state-owned coal inspection center and Mr. ZHANG Jiaqi used to conduct coal trading, both of them gained deep understanding of coal testing and inspection industry.

We primarily provide coal testing and inspection services. As of the Latest Practicable Date, our Group owns and operates eight service centers throughout China. For further details on the principal business of our Group, see “Business — Our Service Offerings.”

KEY HISTORICAL MILESTONES

The following table illustrates the major business milestones and achievements in the founding and development of our Group.

January 2009	Huaxia Lihong was established in Beijing. Its then principal business includes coal inspection.
February 2009	We signed the first contract in providing testing service.
May 2009	We opened our first service center in Tangshan port and established our presence in north China.
April 2010	We expanded our service scope and signed the first contract in providing surveying service.
January 2011	We opened a service center in Huanghua port, which grows into our largest service center in terms of revenue during the Track Record Period.
November 2011	Huaxia Lihong was first recognized as a “high and new technology enterprise.”
June 2012	We expanded into south China market and opened a service center in Nanjing port, where we received our first order from power generator.
January 2013	We received first order from power generator to perform on-site testing and inspection service.
January 2014	Huaxia Lihong received Laboratory Accreditation Certificate and Inspection Body Accreditation Certificate from the CNAS.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

November 2015	We introduced China Dragon as a strategic investor.
December 2015	We entered into a strategic cooperation framework agreement with Shenhua Group, Chinese Society of Inspection and Quarantine and CIC.

OUR CORPORATE DEVELOPMENTS

Huaxia Lihong

Huaxia Lihong is primarily engaged in coal inspection and is the holding company of our other PRC operating subsidiaries, and was established in the PRC as a limited liability company on January 19, 2009 with an initial registered capital of RMB3.0 million. At the time of its establishment, Huaxia Lihong was owned as to 90% by Ms. ZHANG Aiyong, 5% by Mr. LI Dexin, and 5% by Mr. ZHANG Jiaqi, respectively.

On April 25, 2011, the registered capital of Huaxia Lihong was increased from RMB3.0 million to RMB15.0 million, of which RMB0.3 million, RMB1.35 million, RMB8.1 million and RMB2.25 million was contributed by Ms. ZHANG Aiyong, Mr. LI Dexin, Mr. LI Xiangli and Mr. LIU Yi (劉翊), respectively. Upon the completion of such capital increase, our Company was owned as to 54% by Mr. LI Xiangli, 20% by Ms. ZHANG Aiyong, 15% by Mr. LIU Yi (劉翊), 10% by Mr. LI Dexin and 1% by Mr. ZHANG Jiaqi, respectively.

On December 24, 2013, each of Mr. LI Xiangli and Ms. ZHANG Aiyong transferred their respective 44% and 10% equity interest in Huaxia Lihong to Lihong Investment, an investment holding company owned as to 80% by Mr. LI Xiangli and 20% by Ms. ZHANG Aiyong, at nil consideration. Upon the completion of the above equity transfers, Huaxia Lihong was owned as to 54% by Lihong Investment, 10% by Mr. LI Xiangli, 10% by Ms. ZHANG Aiyong, 10% by Mr. LI Dexin, 15% by Mr. LIU Yi (劉翊), and 1% by Mr. ZHANG Jiaqi, respectively.

Pursuant to a capital injection agreement dated September 5, 2015 and a joint venture agreement dated September 10, 2015, entered into by and among Mr. LI Xiangli, Ms. ZHANG Aiyong, Mr. LIU Yi (劉翊), Mr. LI Dexin, Mr. ZHANG Jiaqi, Lihong Investment and Leon HK, the registered capital of Huaxia Lihong was increased from RMB15 million to RMB15.79 million. Leon HK injected RMB2.7 million into Huaxia Lihong as the consideration to obtain approximately 5.00% equity interest of Huaxia Lihong, which was determined with reference to the net asset valuation of Huaxia Lihong as of July 31, 2015 conducted by an independent professional valuer. Subsequent to the capital injection, Huaxia Lihong was owned as to 9.50%, 9.50%, 14.25%, 9.50%, 0.95%, 51.30% and 5.00% by Mr. LI Xiangli, Ms. ZHANG Aiyong, Mr. LIU Yi (劉翊), Mr. LI Dexin, Mr. ZHANG Jiaqi, Lihong Investment and Leon HK, respectively.

As advised by our PRC legal advisers, such capital injection resulted in the conversion of Huaxia Lihong from a PRC domestic company into a sino-foreign joint venture company (中外合資企業), and required the prior approval of Commission of Commerce of Beijing Chaoyang District (北京市朝陽區商務委員會), which was obtained on October 30, 2015. Huaxia Lihong obtained the new business license from Beijing SAIC and became a Sino-foreign joint venture company on November 11, 2015.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Huaxia Lihong has been expanding its business activities. It has established various subsidiaries throughout China and invested in Guangzhou JV. Particulars of such subsidiaries and Guangzhou JV are set out as below:

	<u>Date of incorporation and commencement of business</u>	<u>Amount of registered capital</u>	<u>Amount of paid up capital</u>	<u>Equity interest attributable to our Group</u>	<u>Principal activities</u>
Huachuang Yiyuan	August 1, 2001	RMB1.7 million	RMB1.7 million	70% ⁽¹⁾	Technology promotion, product design, and sale of equipment
Qinhuangdao Lihong	May 4, 2009	RMB1.0 million	RMB1.0 million	100%	Coal and coke testing, inspection and relevant service
Tangshan Lihong	May 6, 2009	RMB1.0 million	RMB1.0 million	100%	Inspection, testing, appraisal and inspection technology development
Guangzhou Lihong	June 24, 2011	RMB1.44 million	RMB1.44 million	100%	Professional technique service
Baotou Lihong ⁽³⁾	August 18, 2011	RMB3.0 million	N/A	N/A	Coal and coke testing, inspection and relevant technique service
Tianjin Lihong	November 25, 2011	RMB1.0 million	RMB1.0 million	100%	Coal and coke inspection
Nanjing Lihong	June 5, 2012	RMB3.0 million	RMB3.0 million	100%	Coal, coke and minerals inspection
Hebei Lihong	January 14, 2013	RMB3.0 million	RMB3.0 million	100%	Coal inspection technique advisory service
Zhuhai Lihong	April 3, 2013	RMB1.0 million	RMB1.0 million	100%	Coal and minerals testing, inspection and advisory service
Lihong Software	December 18, 2013	RMB1.0 million	RMB1.0 million	100%	Software development, technique service and sale of computers and equipment
Hunan Lihong	July 17, 2014	RMB3.0 million	RMB3.0 million	100%	Coal, coke and minerals testing and inspection
Shengde Tiangong	November 27, 2014	RMB10.0 million	nil ⁽⁴⁾	100%	Scientific research, technique service and business service
Guangzhou JV	April 12, 2016	RMB3.0 million	RMB1.5 million	50% ⁽⁵⁾	Coal and chemical products testing, inspection and relevant services

(1) The remaining 30% equity interest of Huachuang Yiyuan was owned as to 12% by Ms. CHEN Qiuyan (陳秋艷) and 18% by Mr. ZHANG Zhenhua (張振華). We decided to liquidate Huachuang Yiyuan due to strategic change in our business focus and it is under the process of liquidation which is expected to complete in the third quarter of 2016.

(2) 82.64%, 13.89% and 3.47% equity interest of Guangzhou Lihong was acquired from Mr. LU Hao (路昊), Mr. WANG Gui'an (王貴安) and Mr. XIANG Xiaosong (向小松), at a consideration of RMB1.19 million, RMB0.2 million and RMB50,000, respectively, on May 28, 2012.

(3) Baotou Lihong was liquidated on October 18, 2013 due to strategic change in our geographic focus.

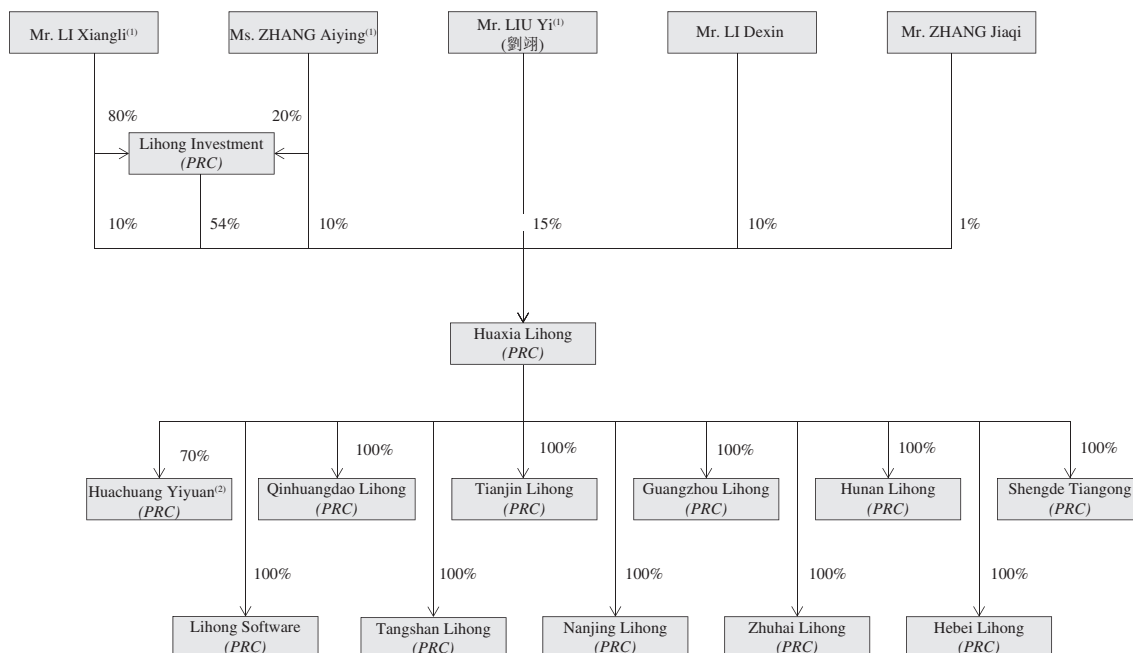
(4) We have not contributed registered capital to Shengde Tiangong yet, and the due date for such contribution is November 1, 2024, according to the articles of association of Shengde Tiangong.

(5) The remaining 50% equity interest of Guangzhou JV was owned by Guangzhou Development Fuel Group Co., Ltd. (廣州發展燃料集團有限公司). We have contributed our share of registered capital to Guangzhou JV, but Guangzhou Development Fuel Group Co., Ltd. has not yet contributed its share of registered capital to Guangzhou JV.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

CORPORATE REORGANIZATION

In order to streamline the corporate structure and rationalize our corporate structure for the Listing, our Group underwent the Reorganization and as a result, our Company became the ultimate holding company of our Group. The corporate structure of our Group immediately prior to the Reorganization was as follows:



- (1) On January 31, 2016, Mr. LI Xiangli, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) entered into an acting-in-concert deed to acknowledge and confirm that they are parties acting in concert in respect of each of the members of our Group during and since the Track Record Period and continue after the date of the deed. Pursuant to the deed, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) shall support Mr. LI Xiangli's decisions on material matters in relation to the operation and management of our Group by exercising their voting rights at the meetings of the shareholders and boards of the members of our Group in accordance with the decision of Mr. LI Xiangli. For details, see "Relationship with Controlling Shareholders — Our Controlling Shareholders Acting in Concert."
- (2) The remaining 30% equity interest of Huachuang Yiyuan was owned as to 12% by Ms. CHEN Qiuyan (陳秋艷) and 18% by Mr. ZHANG Zhenhua (張振華). We decided to liquidate Huachuang Yiyuan due to a strategic change in our business focus and the process of liquidation is expected to complete in the third quarter of 2016.

Incorporation of the Offshore Holding Companies

On July 29, 2015, our Company was incorporated in the Cayman Islands as an exempted company with limited liability as a holding company. At the time of its establishment, our Company was authorized to issue a maximum of 10,000 shares of US\$1.00 each, of which one share was allotted and issued to the initial subscriber, who immediately transferred the same to Hotek Asia. Hotek Asia was incorporated and wholly-owned by Hua Tai LP under the laws of the BVI on May 27, 2015.

On July 31, 2015, our Company incorporated Leon BVI under the laws of the BVI as a wholly-owned subsidiary. At the time of its establishment, Leon BVI was authorized to issue a maximum of 10,000 shares of US\$1.00 each, of which one share was issued to our Company.

On August 10, 2015, Leon BVI incorporated Leon HK in Hong Kong. At the time of its establishment, the share capital of Leon HK was HK\$100, consisting of one share of HK\$100, which was issued to Leon BVI.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On September 2, 2015, Mr. LI Xiangli, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) incorporated Leon Investment, Swan Stone and Hawk Flying under the laws of the BVI, respectively. On September 7, 2015, Mr. LI Dexin and Mr. ZHANG Jiaqi incorporated New Virtue and Fine Longbow under the laws of the BVI, respectively. At the time of their establishment, each of these companies was authorized to issue a maximum of 10,000 shares of US\$1.00 each, of which one share was issued to their respective founder.

Share Subscriptions by the Original Shareholders

On November 19, 2015, each of Mr. LI Xiangli, Ms. ZHANG Aiying, Mr. LIU Yi (劉翊), Mr. LI Dexin and Mr. ZHANG Jiaqi subscribed for 4,203 shares, 1,643 shares, 1,185 shares, 790 shares and 79 shares of our Company through their own investment holding companies, respectively, at par value, which was determined based on the arm's length negotiations among all parties.

Share Subscriptions by the Pre-IPO Investors

On November 27, 2015, each of Pre-IPO Investors, namely, China Dragon and Hotek Asia subscribed for 1,550 shares and 549 shares of our Company at a consideration of RMB31.2 million and RMB20.0 million, respectively pursuant to the Share Subscription Agreement entered into with our Company, Mr. LI Xiangli and Leon Investment on November 27, 2015. For details of the Pre-IPO Investments, see “— Pre-IPO Investments.”

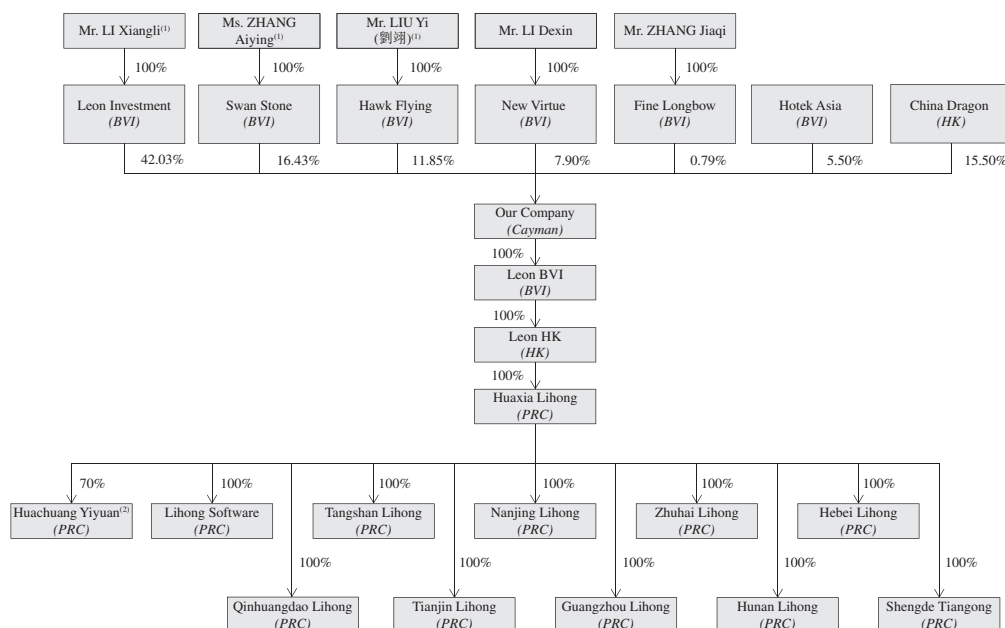
Upon the completion of the above share subscriptions, each of Mr. LI Xiangli, Ms. ZHANG Aiying, Mr. LIU Yi (劉翊), Mr. LI Dexin, Mr. ZHANG Jiaqi, China Dragon and Hotek Asia held 4,203, 1,643, 1,185, 790, 79, 1,550 and 550 shares of our Company, representing 42.03%, 16.43%, 11.85%, 7.90%, 0.79%, 15.50% and 5.50% of the issued share capital of our Company, respectively.

Transfers of the Equity Interest of Huaxia Lihong

On December 16, 2015, each of Mr. LI Xiangli, Ms. ZHANG Aiying, Mr. LIU Yi (劉翊), Mr. LI Dexin, Mr. ZHANG Jiaqi and Lihong Investment transferred their respective 9.50%, 9.50%, 14.25%, 9.50%, 0.95% and 51.30% of equity interests in Huaxia Lihong to Leon HK at a consideration of RMB4.84 million, RMB4.84 million, RMB7.26 million, RMB4.84 million, RMB0.48 million and RMB26.136 million, respectively, pursuant to an equity transfer agreement entered into with Leon HK on November 19, 2015. The consideration was determined with reference to the net asset valuation of Huaxia Lihong as of August 2, 2015 conducted by an independent professional valuer and settled on January 8, 2016. We obtained the approval for such equity transfers from Commission of Commerce of Beijing Chaoyang District (北京市朝陽區商務委員會) on December 7, 2015 and the approval certificate from the People's Government of Beijing on December 14, 2015. Subsequent to such transfers, Huaxia Lihong became a wholly-owned subsidiary of Leon HK.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The corporate structure of our Group immediately after the Reorganization but prior to the Capitalization Issue and the Global Offering is set out below:



- (1) On January 31, 2016, Mr. LI Xiangli, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) entered into an acting-in-concert deed to acknowledge and confirm that they are parties acting in concert in respect of each of the members of our Group during and since the Track Record Period and continue after the date of the deed. Pursuant to the deed, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) shall support Mr. LI Xiangli's decisions on material matters in relation to the operation and management of our Group by exercising their voting rights at the meetings of the shareholders and boards of the members of our Group in accordance with the decision of Mr. LI Xiangli. For details, see "Relationship with Controlling Shareholders — Our Controlling Shareholders Acting in Concert."
- (2) The remaining 30% equity interest of Huachuang Yiyuan was owned as to 12% by Ms. CHEN Qiuyan (陳秋艷) and 18% by Mr. ZHANG Zhenhua (張振華). We decided to liquidate Huachuang Yiyuan due to a strategic change in our business focus and the process of liquidation is expected to complete in the third quarter of 2016.

As advised by our PRC legal advisers, all necessary approvals and permits in relation to the Reorganization from the relevant PRC authorities have been obtained in accordance with relevant PRC laws and regulations.

PRE-IPO INVESTMENTS

Our Company entered into the Share Subscription Agreement on November 27, 2015 with Mr. LI Xiangli, Leon Investment and the Pre-IPO Investors, namely, China Dragon and Hotek Asia. Pursuant to the Share Subscription Agreement, subject to certain conditions, China Dragon and Hotek Asia agreed to subscribe for a total of 2,099 shares of our Company for an aggregate consideration of RMB51.2 million. Upon completion of the Pre-IPO Investments, China Dragon and Hotek Asia held 1,550 and 550 shares of our Company, respectively.

The proceeds from the Pre-IPO Investments were used primarily to settle the payment of consideration in connection with the transfers of the equity interest of Huaxia Lihong by certain onshore shareholders. See "— Corporate Reorganization — Transfers of the Equity Interest of Huaxia Lihong" for details.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Principal Terms of the Pre-IPO Investments

The table below summarizes the principal terms of the Pre-IPO Investments by the Pre-IPO Investors:

Name of Pre-IPO Investor	China Dragon	Hotek Asia
Date of the agreement	November 27, 2015	November 27, 2015
Amount of consideration paid	RMB31.2 million	RMB20.0 million
Payment date of consideration	November 30, 2015	November 30, 2015
Number of shares of our Company subscribed	1,550	549
Total percentage of the equity interest upon completion of Pre-IPO Investments	15.50%	5.50%
Cost per Share paid by Pre-IPO Investor (based on Shares held by each Pre-IPO Investor upon completion of the Global Offering and the Capitalization Issue, assuming the Over-allotment Option is not exercised)	approximately RMB0.67	approximately RMB1.21
Basis of determination of the consideration	Based on arm's length negotiations after taking into consideration the financial position of our Group as well as the strategic benefits and contribution to our Group from China Dragon, whose parent company is a state-owned testing and inspection institution	Based on arm's length negotiations after taking into consideration the financial position of our Group
Discount/(Premium) to the Offer Price (based on the mid-point of the proposed Offer Price range)	19.96%	(44.59)% ⁽¹⁾
Shareholding in our Company upon Listing (after the Capitalization Issue assuming the Over-allotment Option is not exercised)	11.63%	4.13%

(1) Hotek Asia is focused on exploring investment opportunities in the third-party inspection industry. It is familiar with the industry development and it recognizes the leading position which our Company holds in such industry. Hotek Asia is optimistic about our future and is willing to invest in our Company taking into account our Group's overall profile. The IPO price of the Shares of our Company will not be the sole factor which affects their confidence in our Company. Therefore, there is no adjustment mechanism regarding their pre-IPO investment in relation to the IPO pricing.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Lock-up Period	<p>(i) at any time during the period of six months (the “Initial Six-month Period”) from the Listing Date, none of China Dragon, Mr. LI Xiangli, Ms. ZHANG Aiying, Leon Investment or Swan Stone shall directly or indirectly dispose of, nor enter into any agreement to dispose of (“Dispose”) in respect of, any of the Shares held by him/her/it;</p> <p>(ii) at any time within 18 months after the Initial Six-month Period, if any of Mr. LI Xiangli, Ms. ZHANG Aiying, Leon Investment or Swan Stone directly or indirectly sells any Shares held by him/her/it, China Dragon shall be entitled to sell such number of Shares in proportion to its then shareholding percentage in our Company. Notwithstanding the foregoing, Mr. LI Xiangli, Ms. ZHANG Aiying, Leon Investment and Swan Stone shall remain as controlling shareholders of Huaxia Lihong during the aforesaid period. Other than as permitted by the preceding sentence, China Dragon shall not dispose of any Shares during the period of 18 months after the Initial Six-month Period; and</p> <p>(iii) each of China Dragon, Mr. LI Xiangli, Ms. ZHANG Aiying, Leon Investment and Swan Stone is not restricted to dispose of any of the Shares after 24 months from the Listing Date.</p>	N/A
Non-compete undertaking	during the period in which any Pre-IPO Investor holds 10% or more of Shares, such Pre-IPO Investor, Mr. LI Xiangli, Ms. ZHANG Aiying, Leon Investment and Swan Stone and their respective affiliates (in terms of China Dragon, its direct parent company and persons controlled by such parent company) shall not engage in any business competing with the coal testing and inspection business undertaken by our Group.	

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Special Rights of the Pre-IPO Investors

The Pre-IPO Investors are entitled to the special rights pursuant to the Shareholders Agreement. Such special rights include, among others:

- *Transfer restriction.* Save for the sale of shares of our Company to respective affiliates of each then shareholder of our Company and any share option scheme adopted by our Company, from the date of the Shareholders Agreement to the Listing Date, each of the shareholders shall not sell, transfer or place any lien or pledge on their respective shares of our Company.
- *Right of first refusal.* Each Pre-IPO Investor shall have a right of refusal to purchase all or any part of the shares of our Company offered to be sold (“Offered Shares”) by any other shareholder of our Company (“Offering Shareholder”). If other shareholders do not take up all of the Offered Shares, the Offering Shareholder may transfer the remaining portion of the Offered Shares to third parties.
- *Pre-emptive right.* Save for any share option scheme and capitalization issue for the purpose of the Listing, our Company shall not issue any new shares unless each of the then shareholders of our Company are granted a pre-emptive right to subscribe for the new shares issued by our Company on a pro rata basis.
- *Anti-dilution.* If our Company issues or sells any shares or other equity securities at an effective price per share (“New Issue Price”) that is less than the subscription price of the Pre-IPO Investors, our Company shall issue such number of shares at a price equal to par value per share, so that the average purchase price per share for the shares of our Company then held by Pre-IPO Investors is equal to the New Issue Price, unless they have been otherwise compensated by Original Shareholders to its reasonable satisfaction. With respect to such anti-dilution right, our Company undertakes that there will not be any additional pre-IPO investors prior to the Listing, and therefore, such anti-dilution right will not be actually triggered. The conditions of possible new issue of Shares to the pre-IPO investors are linked to the respective issue price for future pre-IPO investors instead of the Offer Price. For the avoidance of doubt, if the Offer Price is lower than the issue prices for pre-IPO investors, such anti-dilution right will not be triggered either.

In addition to the above, China Dragon is entitled to additional special rights as below:

- *Board appointment right.* China Dragon has the right to appoint a director to the Board of our Company.
- *Veto right.* Our Group has provided covenants not to take the following actions without prior written approval from China Dragon:
 - (a) alter, change or amend the Articles of Association of our Company;
 - (b) result in any material change of the business scope of our Company;
 - (c) reserve more than 5% of the issued share capital on fully diluted basis for share incentive scheme;

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (d) increase, decrease and change the registered capital of the subsidiaries of our Company;
 - (e) result in merger, acquisition, restructuring (other than those for the purpose of the Listing), disposal and substantial disposal of major assets and intellectual property rights of our Company, or grant intellectual property rights to other third parties on an exclusive basis;
 - (f) result in acquisition or disposal of major assets of our Company, including properties, land use rights, intellectual property rights and any other major assets which has a material impact on the ongoing business operation of our Company;
 - (g) enter into any connected transaction between our Company and the shareholders, the Directors and their respective associates (excluding dividend distribution based on shareholding percentage of each shareholder of our Company);
 - (h) make or incur a single payment or accrued payments in any one (1) month period with an amount exceeding RMB20 million out of the approved budget plan of our Company (excluding the payment for the restructuring for the purpose of the Listing);
 - (i) incur any indebtedness or extend any indebtedness to any other person (or enters into any transactions having a similar effect) of an amount exceeding RMB20 million in any twelve (12) month period out of the approved budget plan of our Company;
 - (j) advance or provide any loan, guarantee, mortgage or any other encumbrances out of the ordinary course of business to any other third parties;
 - (k) create or revise financing policies (except those in the ordinary course of business) and audit policies;
 - (l) appoint or change the auditor of our Company; or
 - (m) result in bankruptcy, dissolution or liquidation of our Company.
- *Put right.* China Dragon may request Mr. LI Xiangli to repurchase all its shares of our Company if the Listing does not take place on or before December 31, 2016.

All special rights of Pre-IPO Investors will be automatically terminated upon Listing.

Information Regarding the Pre-IPO Investors

Hotek Asia was established on May 27, 2015 and is wholly-owned by Hua Tai LP. Hua Tai LP is a private equity fund primarily engaged in investments in companies in independent testing, new materials and healthcare industries. The beneficial owners of Hua Tai LP, are independent third parties of our Company, save for their interests in our Company.

China Dragon was established on March 2, 1993 and is ultimately controlled by the AQSIQ. China Dragon is primarily engaged in providing testing services in various industries. The beneficial owners of China Dragon are independent third parties, save for their interest in our Company.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Our Directors are of the view that our Company can benefit from the Pre-IPO Investments and such investments demonstrate the Pre-IPO Investors' confidence in our Group's operation and serve as an endorsement of our Company's performance, strength and prospects.

Sole Sponsor's Confirmation

The Sole Sponsor has confirmed that the terms of the Pre-IPO Investments are under normal commercial terms and are in compliance with the Interim Guidance on Pre-IPO Investments issued on October 13, 2010 by the Stock Exchange, the Guidance Letter HKEx-GL-43-12 issued in October 2012 and updated in July 2013 by the Stock Exchange and the Guidance Letter HKEx-GL44-12 issued in October 2012 by the Stock Exchange.

SHARE SUBDIVISION, INCREASE OF AUTHORIZED SHARE CAPITAL AND CAPITALIZATION ISSUE

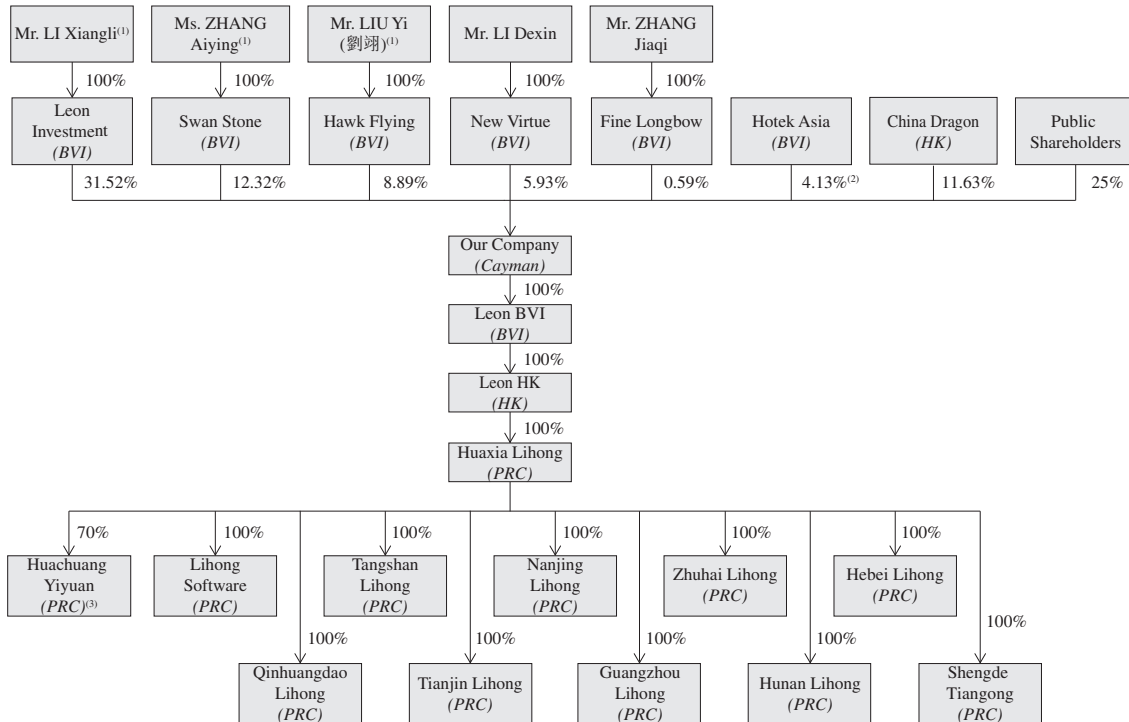
On June 18, 2016, each of the issued and unissued Share with a par value of US\$1.00 was subdivided into 20,000 Shares with a par value of US\$0.00005 each, such that the authorized share capital of our Company was US\$10,000 divided into 200,000,000 Shares of par value of US\$0.00005 each and the issued share capital of our Company was US\$10,000 divided into 200,000,000 Shares of par value of US\$0.00005 each.

On June 18, 2016, the authorized share capital of our Company was increased from US\$10,000 divided into 200,000,000 Shares of par value of US\$0.00005 each to US\$50,000 divided into 1,000,000,000 Shares of par value of US\$0.00005 each.

Subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of Offer Shares pursuant to the Global Offering, our Directors shall be authorized to allot and issue a total of 100,000,000 Shares credited as fully paid at par value to the Shareholders on the register of members of our Company at the close of business on the date immediately preceding the date on which the Global Offering becomes unconditional (or as it/they may direct) in proportion to their respective shareholdings in our Company (as nearly as possible without fractions) by way of capitalization of the sum of US\$5,000 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The corporate structure of our Group upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised) is set out below:



- (1) On January 31, 2016, Mr. LI Xiangli, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) entered into an acting-in-concert deed to acknowledge and confirm that they are parties acting in concert in respect of each of the members of our Group during and since the Track Record Period and continue after the date of the deed. Pursuant to the deed, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) shall support Mr. LI Xiangli's decisions on material matters in relation to the operation and management of our Group by exercising their voting rights at the meetings of the shareholders and boards of the members of our Group in accordance with the decision of Mr. LI Xiangli. For details, see "Relationship with Controlling Shareholders — Our Controlling Shareholders Acting in Concert."
- (2) The Shares held by Hotek Asia are considered as part of the public float under Rule 8.08 of the Listing Rules.
- (3) The remaining 30% equity interest of Huachuang Yiyuan was owned as to 12% by Ms. CHEN Qiuyan (陳秋艷) and 18% by Mr. ZHANG Zhenhua (張振華). We decided to liquidate Huachuang Yiyuan due to a strategic change in our business focus and the process of liquidation is expected to complete in the third quarter of 2016.

SAFE REGISTRATION

Pursuant to SAFE Circular No. 37 issued by the SAFE, before a domestic resident contributes its legally-owned onshore or offshore assets and equity into an Overseas SPV, the domestic resident shall conduct foreign exchange registration for offshore investment with the local branch of the SAFE. Pursuant to Circular 13, the aforesaid registration shall be directly reviewed and handled by qualified banks instead of the local branch of the SAFE.

As confirmed by our PRC legal advisers, our beneficial owners who are PRC citizens or residents under SAFE Circular No. 37, namely, Mr. LI Xiangli, Ms. ZHANG Aiying, Mr. LIU Yi (劉翊), Mr. LI Dexin and Mr. ZHANG Jiaqi, have completed the process of initial registration pursuant to Circular No. 37 and Circular 13 on November 5, 2015.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

THE RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

Under the M&A Rules which was issued by the MOFCOM and the other five governmental authorities on August 8, 2006 and implemented on September 8, 2006 and was amended by the MOFCOM on 22 June 2009, a foreign investor is required to obtain necessary approvals when (1) a foreign investor acquires equity in a domestic non-foreign invested enterprise (the “domestic company”) thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic company via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (2) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise.

Our PRC legal advisers are of the view that capital injection in Huaxia Lihong by Leon HK, details of which are set out in “— Our Corporate Developments,” is subject to the M&A Rules. On October 30, 2015, Commission of Commerce of Beijing Chaoyang District (北京市朝陽區商務委員會) approved the aforesaid capital injection and on November 3, 2015, the People’s Government of Beijing (北京市人民政府) granted the relevant approval certificate to Huaxia Lihong. On November 11, 2015, the Administration for Industry and Commerce of Beijing (北京市工商行政管理局) granted a new business license to Huaxia Lihong for conversion of Huaxia Lihong into a sino-foreign joint venture enterprise. As advised by our PRC legal advisers, the capital injection in Huaxia Lihong by Leon HK has obtained necessary approvals from relevant authorities under the M&A Rules.

For the equity transfer of 95% equity interest of Huaxia Lihong by Leon HK from Mr. LI Xiangli, Ms. ZHANG Aiying, Mr. LIU Yi (劉翊), Mr. LI Dexin, Mr. ZHANG Jiaqi and Lihong Investment, details of which are set out in “— Corporate Reorganization — Transfers of the equity interest of Huaxia Lihong,” our PRC legal advisers are of the view that since Mr. LI Xiangli, Ms. ZHANG Aiying, Mr. LIU Yi (劉翊), Mr. LI Dexin, Mr. ZHANG Jiaqi and Lihong Investment transferred their 95% equity interest in Huaxia Lihong to Leon HK after transformation of Huaxia Lihong into a sino-foreign joint venture enterprise, the aforesaid equity transfers in Huaxia Lihong are equity transfers in a foreign invested enterprise. Therefore, the M&A Rules is not applicable to such equity transfers. Instead, the aforesaid equity transfer of 95% equity interest of Huaxia Lihong shall comply with the Rules on the Changes of Shareholding of Foreign-invested Enterprise Investor (外商投資企業投資者股權變更的若干規定) (the “Rules”), which requires approval of the original approving authority (i.e. Commission of Commerce of Beijing Chaoyang District (北京市朝陽區商務委員會)). Our PRC legal advisers are also of the view that the aforesaid equity transfer has obtained necessary approval from relevant authorities under the Rules.

As advised by our PRC legal advisers, the Listing and the completion of the Global Offering do not require the approval from the CSRC or the MOFCOM under current PRC laws.

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OVERVIEW

We are the largest coal testing and inspection services provider in China, with a market share of approximately 18.9% in terms of revenue generated from such services in 2015, according to the Forward Report. Through our eight service centers strategically positioned primarily at major coal-trade ports in China, which collectively accounted for more than 80.0% of the total volume of China's seaborne coal trade in 2015, we offer our customers a comprehensive suite of services, including primarily (1) testing services to provide assurance of coal quality, (2) surveying services to ensure contractual compliance of coal quantity, and (3) witnessing and ancillary services to prevent dishonest or abnormal activities in the testing and transportation of coal and ensure the contractual compliance of the weight of coal carried on rail, truck or conveying belt or shipping conditions of the cargo. We are independent from our customers, who are participants in China's domestic coal trade, including primarily coal mining companies, coal distribution companies and power generation companies. We derived a majority of our revenue from testing services during the Track Record Period, representing 79.1%, 77.3% and 81.0% of our total revenue for 2013, 2014 and 2015, respectively.

We operate in the independent testing and inspection industry, which serves a number of domestic industrial sectors, including the coal industry. The coal testing and inspection industry is derivatively affected by the nationwide trading volume of coal, which in turn may be affected by the general economic activities in China. Independent coal testing and inspection services in China emerged with the abolition of the state control over coal pricing in the early 2000s and has experienced steady growth in recent years due to the formation of an increasingly market-oriented coal industry. The coal testing and inspection industry grew at a CAGR of 27.4% from 2010 to 2015, according to the Forward Report, despite the overall slowdown of the coal industry and the economy in China. Government-owned or -sponsored testing institutions dominated the coal testing and inspection market when coal trade was strictly under the state control. Beginning in recent years, privately-owned independent testing companies began to play an increasingly more important role in the coal distribution chain that conducts itself largely under the market forces. At each stage of the distribution chain, coal suppliers and consumers may require testing and inspection services from third parties disinterested in the test results to provide assurance of verifiable quality and quantity of coal, which now serves as a basis for determining coal price.

The demand for our services depends largely on our ability to serve our customers and our market reputation. We operate eight testing centers strategically located in Tianjin, Tangshan, Qinhuangdao, Cangzhou, Nanjing, Guangzhou, Zhuhai and Xiangtan, creating an integrated network that interconnects the major coal-trade ports and regions in China. We have attained significant market shares in each of the Four Northern Ports, which collectively accounted for more than 80.0% of the total volume of China's seaborne coal trade in 2015. Our ability to provide a wide range of services at each location has enabled us to provide services with consistently high quality to our large customers that operate on a nationwide basis, and also to scale up our business quickly.

Our market reputation is built upon the quality of our services, which is backed by our stringent quality control and operational measures to ensure stellar service standards. We market our services and endorse our testing and inspection reports with our brand name “華夏力鴻 (Huaxia Lihong),” well-recognized for reliability among participants in coal trade. We are one of the few independent assurance providers in China that hold each of the Certificate of Qualification for Institution of Import & Export Commodity Inspection and Survey (進出口商品檢驗鑒定機構資格證書), the China Metrology Accreditation Certificate (計量認證證書), the Laboratory Accreditation Certificate (實驗室認可證書), and the Inspection Organization Accreditation Certificate (檢查機構認可證書).

Our customer base consists primarily of state-owned and privately-run coal mining companies, coal distribution companies, and power generation companies. A majority of our customers are reputable large players in China's coal industry, with whom we have maintained

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long-term stable business relationship. Among our largest customers is Shenhua Group, the largest coal mining company in China, according to the Forward Report. We have earned solid reputation among our current and potential customers, enabling us to further expand and diversify our customer base.

Our revenue grew from RMB117.1 million in 2013 to RMB139.5 million in 2014 and further to RMB155.8 million in 2015, representing a CAGR of 15.3% from 2013 to 2015. Our gross profit grew from RMB68.8 million in 2013 to RMB78.2 million in 2014 and further to RMB80.4 million in 2015, representing a CAGR of 8.1% from 2013 to 2015.

COMPETITIVE STRENGTHS

We believe that the following strengths of our Company differentiate us from our competitors and help us compete effectively in the industry.

We are the largest coal testing and inspection services provider in China with a proven record of success and steady growth potential

We are the largest coal testing and inspection services provider in China in terms of revenue generated from such services in 2015. We are independent from our customers, who are participants in domestic flows of coal. According to the Forward Report, we had the largest market share of approximately 18.9% in terms of revenue generated from coal testing and inspection services in 2015, and are the only China-based independent assurance provider that operates laboratories in each of the Four Northern Ports, which process over 80.0% of the total volume of China's seaborne coal trade in 2015. We are also among the few assurance providers designated by the Zhengzhou Commodity Exchange in connection with trading coal futures. Founded in 2009, we have grown significantly to become one of the market leaders. Our revenue grew from RMB117.1 million in 2013 to RMB139.5 million in 2014 and further to RMB155.8 million in 2015, representing a CAGR of 15.3% from 2013 to 2015.

We provide a comprehensive suite of testing and inspection services to customers in the coal industry, including primarily coal miners, coal distributors and power generators. Our comprehensive suite of services includes not only the core service of coal testing but also surveying services and witnessing and ancillary services, such as scale-weighing inspection and technical consulting. Our business model is backed by an extensive network of service centers strategically located primarily at major coal-trade ports in China, including the Four Northern Ports, and stringent quality control and standardized operational measures that are applied across all of our local service facilities to ensure consistently high quality of our services. Our leading service capabilities have enabled us to attract and retain a large number of customers, including dominant coal mining companies and power generation companies, which in turn has enhanced our reputation among industry insiders.

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Our success is also attributable to our affirmative efforts to seek opportunities for collaboration with government agencies and industry associations and improve our service qualities and elevate industry-wide standards. Among other collaborations, we are a key member of the drafting committee for the formulation of the Technical Guidelines on Commercial Coal Quality Evaluation and Control (商品煤質量評價與控制技術指南) (GB/T 31356-2014), a national standard that became effective on January 1, 2015, and the Commercial Coal Quality — Raw Coal for Civil Use (商品煤質量—民用散煤), a pending national standard currently under review by the Standardization Administration of the People's Republic of China (中國國家標準化管理委員會). We also serve as the Secretariat of the Professional Committee of Coal Quality Inspection of China Association for Quality Inspection (中國質量檢驗協會煤炭質量檢驗專業委員會秘書處), an industry association instrumental in the normalization of the coal testing and inspection industry in China.

We believe our past operation has laid a solid foundation for steady future growth. Supported by our extensive network of service centers and strong research and development capabilities, we believe we are able to further scale up our operation and expand our service offerings quickly. In addition, leveraging our stable customer base and stringent quality controls, we are able to continue to provide reliable testing and inspection services chosen by our customers that are among the largest players in China's coal industry and benefit from China's massive production and consumption of coal.

We operate in a steadily growing coal testing and inspection industry benefiting from China's tightened regulations over coal quality and the liberalization of the coal industry

We operate in the coal testing and inspection industry which serves customers who are participants in coal trade, including primarily coal miners, coal distributors and power generators, and our business is therefore derivatively affected by the growth and contraction of the coal industry in China. Largely used for power generation and steel production, coal plays a vital role in China's economic development. Although China's coal production volume in 2015 decreased by approximately 3.3% to 3.8 billion tonnes as compared to 2014, the domestic coal market nonetheless represents a large base number in terms of coal volume with growth potential for the coal testing and inspection industry especially when only approximately 24.9% of the coal consumed in 2015 was tested or inspected by independent assurance providers. As an integral part of the energy source in China, coal accounted for over 60.0% of the total energy consumption in China during the Track Record Period, and is expected to remain the primary energy source in China in the foreseeable future, according to the Forward Report. As a result, amid the slowing coal market, the quantity of coal subject to testing and inspection increased from approximately 770 million tonnes in 2013 to approximately 810 million tonnes in 2014, and further to approximately 840 million tonnes in 2015. We believe that there is steady growth potential for our business and the coal testing and inspection industry generally.

We expect the demand for our services to increase as a result of the PRC government's continued efforts to contain the environmental impact from burning coal. In recent years, the PRC government has tightened regulations over coal quality to reduce the emission of toxic substance from combustion and imposed more severe penalty for environmental pollution. For example, the Provisional Measures on Quality Management of Commercial Coal (商品煤質量管理暫行辦法), effective on January 1, 2015, impose restrictions on the transportation, sale and use of commercial coal that contains ash, sulfur or toxic elements beyond certain percentage threshold in regions

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including Beijing, Tianjin, Hebei province, Yangtze River Delta and Pearl River Delta. Motivated by environmental concerns, the PRC government has also implemented measures to control the usage of bulk coal for heating purposes by households and factories and to subsidize electric vehicles to reduce exhausts. All these measures are expected to result in an increase in demand for electricity from licensed coal-based power generators that are subject to extensive government oversight in respect of environmental protection, and in turn an increase in demand for independent assurance of coal quality to comply with tightened regulatory oversight.

China's coal testing and inspection market experienced steady growth. According to the Forward Report, the total volume of coal subject to quality testing or inspection reached 0.8 billion tonnes in 2015, accounting for only approximately 24.9% of the coal consumed in the same year. Customarily in China, coal testing was performed by coal suppliers or consumers at the loading or discharge of shipments, so when the demand for independent testing services emerged, service providers first established business presence at major ports to accommodate such demand. However, according to the Forward Report, approximately 59.2% of the coal consumed in 2015 in China was transported by rail, while only approximately less than 5.0% of the coal transported by rail was tested or inspected by independent assurance providers. The testing demand for inland coal trade has not been fully addressed. In addition, China's coal industry is becoming increasingly market-oriented, whereby independent assurance of quality and quantity of coal has become a basis for determining coal price, resulting in a growing demand for testing and inspection services. Furthermore, coal testing and inspection services may be required and repeated at each stage of the coal distribution chain, for example, at the loading of the shipment when leaving coal suppliers and repeated at the discharge of the shipment when arriving at the coal consumers to establish and verify the quality and quantity of coal. We believe that there is steady growth potential as we expand our service coverage to inland coal trade and deepen our service offerings to capture the entire coal distribution chain.

Despite the overall slowdown in the coal trading volume nationwide and the general economy of China, the coal testing and inspection industry grew at a CAGR of 27.4% from 2010 to 2015, according to the Forward Report.

We maintain long-term stable business relationship with large and reputable customers in China's coal industry

A majority of our customers are state-owned or privately-run coal mining companies, coal distribution companies or power generation companies. Among our largest customers is Shenhua Group, a world-leading coal-based integrated energy company. According to the Forward Report, Shenhua Group is the largest coal mining company in China with a market share of approximately 12.2% in terms of coal production volume in 2014. We forged our business relationship with Shenhua Group since our inception in 2009, and have strengthened our business relationship over the years through provision of a variety of services of consistently high quality. In December 2015, we entered into a strategic cooperation framework agreement with Shenhua Group and certain other professional parties, pursuant to which we may reinforce our leading position in China's coal testing and inspection market in respect of sample preparation, testing and research and development by leveraging the respective expertise of Shenhua Group and the other professional parties. Our long-term business relationship with large customers, particularly Shenhua Group, is common in the coal testing and inspection industry, given that Shenhua Group is the largest coal mining and distribution company in China in terms of coal trading volume and recorded a coal trading volume in 2014 approximately three times larger than that of the second largest coal mining company in China, according to the Forward Report. As our largest customer, Shenhua Group accounted for approximately 46.1%, 47.0% and 52.7% of our revenue for 2013, 2014 and 2015, respectively.

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Serving the industry leader has earned us solid reputation among our current and potential customers and enabled us to expand and diversify our customer base. China Huaneng, Datang Power, and Guangdong Yudean, all leading coal-fired power generation companies in China, are among our other reputable largest customers, with stable business relationship ranging from three to six years. In January 2016, we became the annual testing service provider for Guangdong Yudean for the Four Northern Ports and Datang Power for Qinhuangdao port through open tender process. Our top five customers accounted for approximately 64.6%, 66.0% and 66.8% of our revenue for 2013, 2014 and 2015, respectively.

We obtain a majority of our business from our customers through an open tender process that focuses on quality and efficiency. We prevail in open tender process, leveraging our proven record of consistent high service standards and effective open-tender management. See “— Customers and Business Development — Open Tender” below for more details. We generally enter into standardized annual service agreements with our customers. Our business relationship with our customers has proven to be lasting and mutually beneficial. We did not experience any termination of services initiated by any customer as a result of customer complaint during the Track Record Period.

Our brand recognition among these large and reputable customers attests to the quality and reliability of our services. Leveraging our stable business relationship with these large customers, we believe we are well positioned to benefit from the massive production and consumption of coal and compete more effectively. Our cooperation also affords us unique opportunities for cross-selling our comprehensive quality management services to capture the entire coal distribution chain.

We implement stringent quality control and standardized operational measures to ensure stellar service standards

According to the Forward Report, we are one of the few independent assurance providers in China that hold each of the Certificate of Qualification for Institution of Import & Export Commodity Inspection and Survey (進出口商品檢驗鑒定機構資格證書), the China Metrology Accreditation Certificate (計量認證證書), the Laboratory Accreditation Certificate (實驗室認可證書) and the Inspection Body Accreditation Certificate (檢查機構認可證書). We believe that impartial and high-quality testing and inspection are critically important for our customers. To better serve the business needs from our customers, we are dedicated to delivering trustworthy coal testing and inspection services supported by quality control and operational measures consistent with statutory or industrial standards, which are strictly followed by our employees.

We have established a full set of stringent quality control and standardized operational measures that apply to each of our eight service centers in China. In implementing these measures, every service center is responsible for providing compliance guidance to our local employees in light of the distinct requests of our customers and local conditions. We have also designated quality control officers with extensive on-site experience at each of our service centers to supervise its day-to-day operation. Furthermore, we have set up a centralized quality control team at the headquarter level to formulate quality control measures and monitor quality control compliance of our entire network which ensures consistently high quality of our services across all of our service centers. Headed by Ms. SHI Yuying, our quality control team had 31 members as of the Latest Practicable Date. Ms. Shi is our chief technology officer and has over 30 years of relevant experience in coal testing and inspection. Ms. Shi also served as a consultant to the National Coal

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Standardization Technical Committee of China (全國煤炭標準化技術委員會) and an official examiner in charge of laboratory accreditation in China. The quality control team members have an average of five years of relevant experience. In response to a customer's specific needs, we tailor-make our quality control measures to maximize customer satisfaction cost-effectively. Our standardized operational procedures and protocols fully respond to our quality control measures, facilitating a seamless interaction between our business operation and quality control. Our operational measures and infrastructure allow us to trace and monitor every step of our service process, prevent improper tampering with samples and tests, and hold the relevant personnel accountable for the accuracy of test results. To this end, we have cultivated a working environment conducive to whistle-blowing and sought to relentlessly pursue sanctions against breach of our quality control and operational measures. See “— Quality Control” below.

Our stringent quality control measures, backed by our standardized operational procedures and protocols, have enabled us to ensure consistently high quality and efficiency among our service centers and reduce operational risks inherent in our operation. Our ability to deliver services with industry-leading standards has enhanced our brand recognition among our customers and industry insiders, and has further solidified our market leadership in China.

We operate through an extensive network of service centers strategically positioned primarily at major coal-trade ports in China

We operate eight service centers strategically positioned primarily at major coal-trade ports in China, including Tianjin, Tangshan, Qinhuangdao, Huanghua (Cangzhou), Nanjing, Xiangtan, Guangzhou and Zhuhai, with the Four Northern Ports collectively accounting for more than 80.0% of the total volume of China's seaborne coal trade in 2015, according to the Forward Report. Our market share at each of the Four Northern Ports in 2015 reached 39.3% (Tianjin), 23.6% (Tangshan), 21.9% (Qinhuangdao) and 55.1% (Huanghua), respectively, with steady growth potential resulting from our well-established market presence, brand reputation and our long-term stable business relationship with Shenhua Group, which transports its coal mainly through Tianjin port and Huanghua port. We provide a full range of our services at each service center. We are able to ensure consistently high quality of services provided at each service center through standardized employee training and laboratorial management measures as well as information technology that interconnects all of our service centers.

Our extensive service network has enabled us to provide services with consistently high quality to customers that operate on a nationwide basis. As our services primarily involve on-site operation, we believe that an extensive network allows us to serve our customers locally and scale up our business quickly. In addition, our strategic presence at ports in both north and south China also creates a synergy that benefits us in terms of resource allocation, service diversification and business development. According to the Forward Report, coal-trade ports in north and south China serve different purposes and the coal testing and inspection markets in these two regions differ in aggregate demand for coal testing, quality and usage of coal, and transportation method. Based on our knowledge from local presence in north and south China and the integrated resources within our extensive network, we have gained in-depth understanding of the differences among local markets and are able to tailor our services cost-effectively and capture the entire coal distribution chain.

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Setting up service centers is regulated locally and subject to stringent on-site pre-qualification audits and assessments. It may take up to nine months to obtain the requisite qualifications to open a service center, including pre-qualification trial operations. We believe that our extensive network with a stable business volume at each location represents an early mover advantage over our competitors.

We have strong research and development capabilities focused primarily on improving testing procedures in an evolving industry environment

We are highly committed to our research and development efforts. These efforts have contributed to our ability to continuously improve our services to better meet customer demand for faster and more accurate results in a cost-effective manner. On the one hand, we have collaborated with third-party institutions in developing integrated systems that manage and monitor unmanned coal testing and inspection. On the other hand, our internal research and development team is committed to developing proprietary technologies designed to be highly responsive to customer feedback and the latest trends in technical advancements, including automated sampling and testing process. Our research and development expenses increased from RMB6.9 million in 2013 to RMB7.6 million in 2014.

To ensure the relevancy of our improvement efforts, we staff our research and development team with technicians on the ground who understand the needs of our customers and how we can improve our services to address them. Our research and development team is led by Mr. LI Xiangli (李向利), our chairman and chief executive officer, and Mr. LIU Yi (劉翊), our vice president, both with over 25 years of experience in coal analysis and testing. As of the Latest Practicable Date, we had six registered inventions, six registered utility models and two inventions pending registration in China, relating primarily to mechanical sampling techniques and informatized management of coal testing.

We have a visionary and dedicated management team highly esteemed by industry associations

We are under the leadership of a visionary and dedicated management team. This team has led our efforts in growing our business significantly over these years. Mr. LI Xiangli, our chairman and chief executive officer, has over 25 years of experience in the coal testing and inspection industry, including serving as former vice director-in-chief of the Qinhuangdao Entry-Exit Inspection and Quarantine Bureau Coal Inspection Technique Center (秦皇島出入境檢驗檢疫局煤炭檢測技術中心), the largest coal testing center in China. In addition to his role with us, Mr. Li is also the deputy secretary general of the Professional Committee of Coal Quality Inspection of China Association for Quality Inspection (中國質量檢驗協會煤炭質量檢驗專業委員會) and the vice president of the Import and Export Commodity Inspection and Survey Institution Branch of China Entry & Exit Inspection and Quarantine Association (中國出入境檢驗檢疫協會進出口商品檢驗鑒定機構分會). Mr. Li's affiliation with these industry associations, both subordinate to the AQSIQ and regarded as quasi-government agencies with regulatory authority, has enabled us to access the latest industry information and expertise from well-known coal testing specialists within and outside China. In addition, Mr. Li brought together an experienced management team, including Mr. LIU Yi (劉翊), our vice president, Ms. SHI Yuying, our chief technology officer, and Ms. KANG Aiyun (康愛雲), our vice president in marketing. All of our management team members have worked closely together and developed strong synergies in their work and management style combining together their diverse and complementary skills and backgrounds. For more details of our management team, see "Directors and Senior Management."

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BUSINESS STRATEGY

Our long-term objective is to become a leading world-class coal testing and inspection services provider. To this end, we intend to implement a business strategy with the following key components.

Further solidify our leadership in coal testing and inspection industry

We believe that coal testing and inspection are our core competency. We intend to continue to solidify our leadership in this industry by (1) upgrading and expanding our network of service centers, (2) strengthening our research and development capabilities to improve our testing procedures and laboratorial capabilities, and (3) consolidating China's coal testing and inspection market through select acquisitions. To accomplish our goal, we also seek to deepen our collaboration with state-owned testing institutions. In November 2015, China Dragon subscribed for 1,550 shares of our Company at an investment amount of RMB31.2 million and became our strategic investor. For more details of our strategic investors, see "History, Reorganization and Corporate Structure — Pre-IPO Investments."

We intend to enlarge our core competency by identifying and capturing new growth opportunities in the coal testing and inspection market. As our services are being offered primarily to seaborne coal trade through the Northern Four Ports, we plan to expand our testing services to inland coal trade, a market largely untapped by independent assurance providers. According to the Forward Report, although the volume of coal transported by rail accounted for approximately 59.2% of China's coal consumption in 2015, only approximately less than 5.0% of coal transported by rail was tested or inspected by independent assurance providers, indicating steady growth potential for our expansion. We are in discussion with certain major customers that have strong presence in inland coal trade to pursue business opportunities and expand our service offerings to inland coal trade.

Through our long-term stable business relationship with large coal miners and power generators, we are able to capture and compile comprehensive data relating to quality testing results in our in-house information system. We will also adapt our in-house information system to interface with our customers' systems and facilitate our provision of comprehensive quality management services spanning the entire coal distribution chain. As we will build our management services upon our strong testing capabilities, we believe we are well positioned to leverage our established brand recognition and quality control measures to launch these new services.

Upgrade and expand our network of service centers

To improve our service capabilities and to accommodate increased business volume, we intend to upgrade our laboratorial facilities at our existing service centers located in the Four Northern Ports, our largest sources of revenue during the Track Record Period. To this end, we intend to secure land use right for enlarged or new office and laboratory sites, purchase and/or develop advanced sampling machinery and testing instruments, and retain additional qualified technicians to operate our upgraded service centers as and when needed. For details, see "— Our Service Offerings — Expansion Plans." Our expansion plans will further strengthen our market shares locally by allowing us to better market our service capabilities through site tours and provide improved customer experience.

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Our current service centers cover primarily major seaports for coal trade in China. As our operation continues to grow, we also plan to expand our service network to other regions that are strategically important to China's seaborne coal trade, including certain key seaports located in Shandong province (north) and Fujian province (south). As we further penetrate the coal testing and inspection market for coal transported via rail or truck, we expect to set up new service centers at strategically-located rail interchanges that are critical for inland coal trade. Our geographic expansion plans reflect our commitment to providing convenient access to our services by locating the nearest full-service testing facilities. An expanded network coverage of key seaports and rail interchanges will allow us to develop and provide comprehensive quality management services spanning the entire coal distribution chain.

Outside China, we intend to selectively open service facilities to provide coal testing services in countries with abundant coal export and import volume and represent large potential markets for us. Leveraging our integrated service capabilities, we intend to establish our presence in those countries through establishing subsidiaries, forming joint ventures with local business partners and/or acquiring existing service facilities. We will also upgrade our in-house information infrastructure to interconnect our overseas service facilities and allow seamless exchange of information and expertise, creating an integrated network to serve the domestic and cross-border flows of coal. As of the Latest Practicable Date, we had not identified any viable opportunity for outbound investment or acquisition.

Further strengthen our research and development efforts

We believe that technical improvements are critical to our service offerings and our ability to compete effectively in a concentrated market, and are therefore dedicated to deploying adequate resources to advance our research and development efforts. Automation is a principal focus of our research and development efforts. We plan to strengthen our internal research as well as collaboration with third-party institutions to develop automated service process, which will allow us to significantly reduce labor costs, minimize human error and improve efficiency for our services.

We also plan to develop and upgrade our in-house technology infrastructure to support our new business offerings, including comprehensive quality management services. Interfaced with our customers' systems, the upgraded technology infrastructure will capture and compile the test results from our complete service sessions, and enable us to manage holistically the coal quality over a stipulated period of time with a focus on a number of useful parameters, including utilization rate, desulfurization and denitration.

Pursue strategic acquisition or investment to enhance our service capabilities and expand our service coverage

We have built our business so far primarily through organic growth. There are still significant acquisition or investment opportunities in the coal testing and inspection market. Among these opportunities, we are focused on service capabilities or coverage that would enhance or complement our core service offerings. The key criteria we apply in selecting acquisition or investment targets include primarily their market size, customer base, technical capabilities and management team. We will not only consider independent assurance providers like us but also suitable assurance providers affiliated with coal miners or consumers. We believe that strategic acquisition or investment allows us to enlarge our technician base and laboratory size to support our growing business volume cost-effectively.

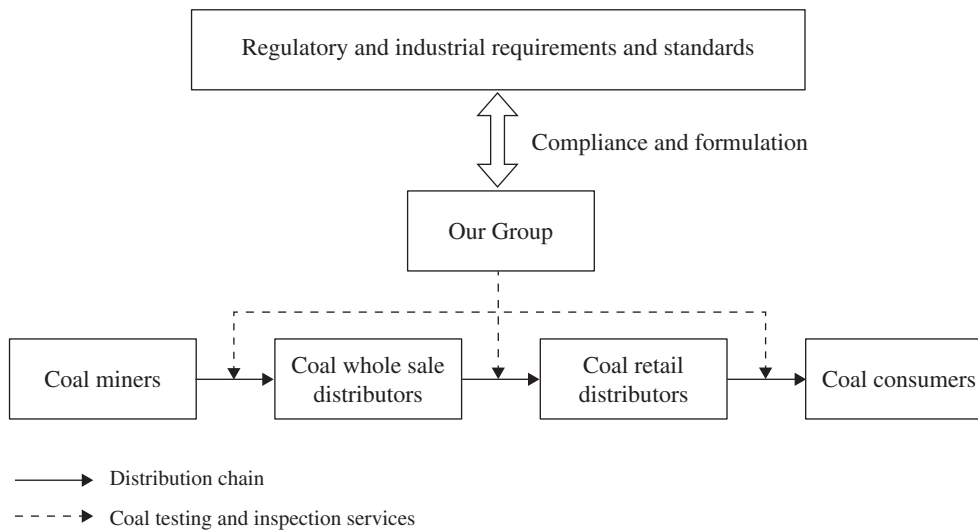
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We will also consider targets in other testing markets, including fuel, mineral and chemical products, if their growth prospects and profitability are sufficiently attractive. Benefiting from our stringent quality control and standardized operational measures, we believe that acquisition of or investment in complementary testing businesses will create synergy. We had not identified any target for acquisition or investment as of the Latest Practicable Date.

OUR BUSINESS MODEL

Leveraging our industry knowledge and experience, we provide a comprehensive suite of testing and inspection services to customers in the coal industry. We offer a comprehensive suite of services, which includes (1) testing services, (2) surveying services and (3) witnessing and ancillary services. Our customers include primarily major coal mining companies, coal distribution companies and power generation companies.

Our services may be required and repeated at each stage of the coal distribution chain. The following diagram illustrates a simplified coal distribution chain and the role of our service offerings.



Our service results reflect compliance with applicable contractual standards and facilitate transactions with trusted endorsement on the quality and quantity of coal. We operate in-house laboratories to perform analytical tests.

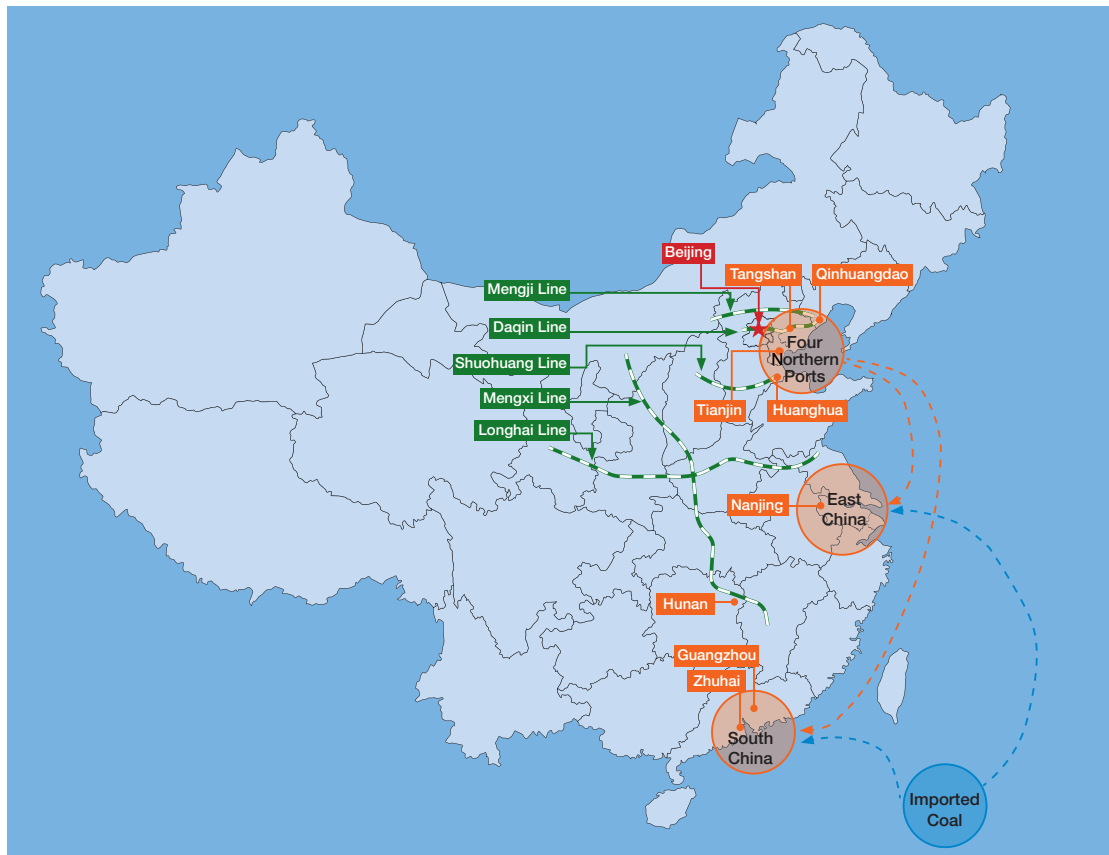
Service Centers

We are headquartered in Beijing and provide our services primarily through our professional teams and laboratories in eight service centers strategically located primarily at major coal-trade ports across China. We provide a full range of testing and inspection services at each local service center. To perform quality tests on coal samples, we have built an in-house laboratory at each service center. Our laboratories are equipped with advanced testing instrumentation and operated by skilled technicians. Our employees resident at each service center include (1) field inspectors that perform on-site sampling at the nearby port or on the premises of our power generator customers and other on-site surveying and witnessing services that take place at the loading or discharge of the cargo, and (2) technicians that perform sample preparation in our sampling workshops and

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analytical tests in our laboratories. Our service centers are interconnected by our in-house technology infrastructure, and backed by stringent quality control measures and standardized operational procedures to ensure consistently high quality of services delivered across our service centers. For further details, see “— Quality Control” below.

The following map illustrates the location of our headquarters and service centers as of December 31, 2015.



* In October 2013, we closed our service center in Baotou, Inner Mongolia Autonomous Region, which was originally established in August 2011. The closure was due to the strategic change in our geographic focus.

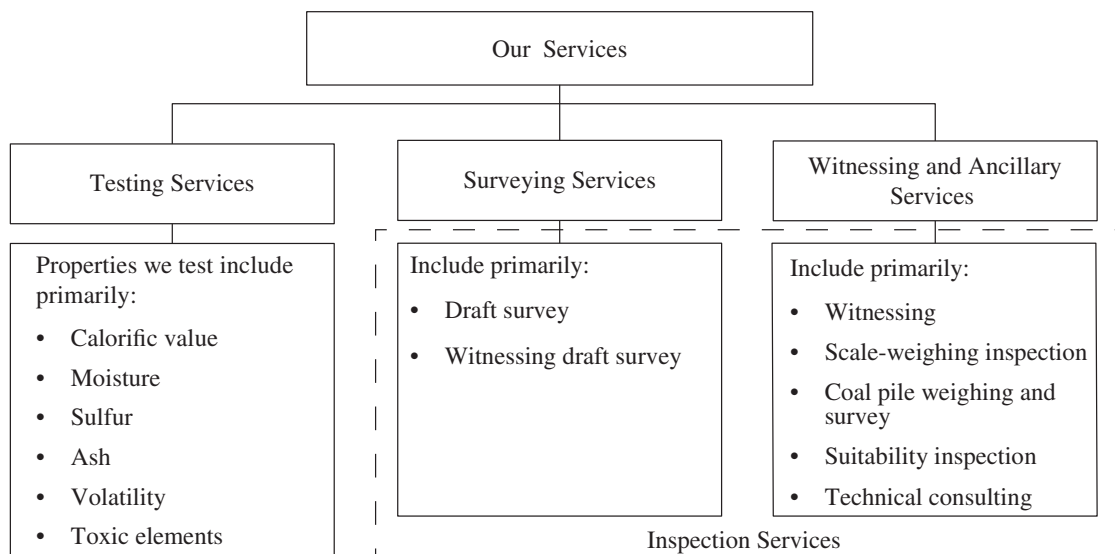
The Four Northern Ports represent our largest markets and generated revenue in the aggregate of RMB92.3 million, RMB100.6 million and RMB116.5 million for 2013, 2014 and 2015, respectively, representing 78.8%, 72.1% and 74.8% of our total revenue for the same periods, respectively.

Our extensive service network has enabled us to provide services with consistently high quality to consumers that operate on a nationwide basis. As our services primarily involve on-site operation, we believe that an extensive network allows us to further scale up our business quickly.

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OUR SERVICE OFFERINGS

We provide a comprehensive suite of testing and inspection services to our customers. The following diagram illustrates our main service offerings.



The following table sets forth a breakdown of revenue for the periods indicated.

	Year ended December 31,					
	2013		2014		2015	
	(RMB in thousands except for percentages)					
Service Offerings:						
Testing services	92,588	79.1%	107,777	77.3%	126,114	81.0%
Surveying services	17,700	15.1%	22,534	16.2%	21,814	14.0%
Witnessing and ancillary services	6,326	5.4%	9,064	6.4%	7,739	4.9%
Subtotal	<u>116,614</u>	<u>99.6%</u>	<u>139,375</u>	<u>99.9%</u>	<u>155,667</u>	<u>99.9%</u>
Others ⁽¹⁾	482	0.4%	105	0.1%	122	0.1%
Total	<u>117,096</u>	<u>100.0%</u>	<u>139,480</u>	<u>100.0%</u>	<u>155,789</u>	<u>100.0%</u>

(1) Represent revenue derived primarily from sales of testing equipment and instruments through a subsidiary, Huachuang Yiyuan, currently undergoing liquidation.

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During the Track Record Period, we generated over 70.0% of our revenue from the Four Northern Ports. The following table sets forth a breakdown of our revenue in terms of coal tested or inspected in each of the Four Northern Ports for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
	(RMB in thousands)		
Qinhuangdao port	35,220	33,316	29,997
Tangshan port	28,479	28,057	19,849
Huanghua port	13,521	14,021	40,205
Tianjin port	15,065	25,214	26,440
Total	92,285	100,608	116,491

The following table sets forth a breakdown of our business volume in terms of coal tested or inspected in each of the Four Northern Ports for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
	(In thousand tonnes) ⁽¹⁾		
Qinhuangdao port	125,185	116,789	101,368
Tangshan port	78,066	82,075	65,461
Huanghua port	131,517	141,861	191,357
Tianjin port	39,269	83,062	93,831
Total	374,037	423,787	452,017

(1) Represents the business volume we charged by weight. We occasionally charge our services by other units, such as number of coal piles. See “— Customers and Business Development — Pricing” for details.

The steady increase in our revenue and business volume generated from Huanghua port during the Track Record Period was primarily because a major customer gradually shifted its coal port loading from Qinhuangdao port and Tangshan port to self-owned docks in Huanghua port.

Testing Services

Our service offerings focus on quality assurance of coal through testing services. We primarily perform these analytical services on-site, in our sampling workshops and laboratories. Coal samples are first collected on-site by manual sampling or mechanical sampling, then prepared at our sampling workshops, and ultimately sent to our laboratories for tests. Our laboratories are equipped with the instrumentation to test coal samples for various physical and chemical properties, including calorific content, moisture, sulfur, ash, volatile matter and toxic elements, which are described in more detail below. The test results of these properties speak of coal quality in accordance with applicable regulatory and industrial standards.

- *Calorific value.* We test calorific value in coal samples by measuring the heat liberated when the samples undergo complete combustion in oxygen. This is the fundamental test in determining the quality of coal.
- *Moisture.* We test the moisture that exists in the coal at the site, time and under the conditions it is sampled. We measure the loss in weight of a coal sample after it is heated under prescribed conditions to drive off water not contained within the chemical structure of the coal sample.
- *Sulfur.* We test sulfur content in coal samples to determine the potential sulfur emissions from coal combustion. As coal-fired power generation emits sulfur dioxide, a toxic air pollutant posing a threat to public health, sulfur content becomes an important environmental protection indicator in determining the quality of coal.
- *Ash.* We test ash content in coal samples by analyzing the non-combustible residue after carbon, oxygen, sulfur and water are driven off during combustion.
- *Volatility.* We test the volatility of coal samples by heating coal samples under prescribed conditions where air is isolated and adjusting their moisture. Volatility is a key and fundamental component in determining the nature and use of coal, and it also constitutes the basis for coal blending. In addition, volatility represents safety concerns because coal high in volatility has an increased risk of spontaneous combustion.
- *Toxic elements.* We test and analyze five kinds of toxic elements, i.e., fluorine, chlorine, arsenic, hydrargyrum and phosphorus in coal samples, in order to determine whether the composition degree of such elements meets relevant contractual or regulatory requirements.

For more details of the key steps of the process of our testing services, see “— Key Service Process — Process for Testing Services” below.

Under the pricing arrangements between the coal sellers and buyers, the sales price is usually tied to the test results of these physical or chemical properties. For example, the sales contract may provide that the sales price can be adjusted downward if the calorific value is lower than an agreed threshold based on the test results.

We derived a majority of our revenue from testing services during the Track Record Period. Our revenue derived from testing services was RMB92.6 million, RMB107.8 million and RMB126.1 million for 2013, 2014 and 2015, respectively, representing 79.1%, 77.3% and 81.0% of our total revenue for the same periods, respectively.

Surveying Services

We provide surveying services, including primarily draft survey and witnessing draft survey, to determine or verify the coal quantity.

- *Draft survey.* Our draft survey determines the weight of the cargo being loaded into or discharged from a vessel. It measures the displacement of the water both before and after the loading or discharge, with the resulting difference between the two displacements representing the weight of the cargo.
- *Witnessing draft survey.* Our field inspectors monitor the draft survey process undertaken by assurance providers engaged by the counterparties of our customers to verify the suggested survey results independently.

We provide surveying services at the specific request of our customers on a standalone basis or in conjunction with our testing services. Draft survey is the principal component of our surveying services. Our revenue derived from surveying services was RMB17.7 million, RMB22.5 million and RMB21.8 million for 2013, 2014 and 2015, respectively, representing 15.1%, 16.2% and 14.0% of our total revenue for the same periods, respectively.

Witnessing Services

We provide witnessing services by observing testing and inspection activities conducted by the counterparties of our customers to prevent dishonesty or abnormality. To this goal, our field inspectors monitor every step of the trading process, including loading and discharge, transportation, sampling and quality testing.

- *Sampling and quality testing.* As sampling is one of the key steps in analyzing bulk cargo, our field inspectors closely monitor the sampling process by assurance providers engaged by the counterparties of our customers at all times to ensure adequate representation of the entire bulk cargo. Upon completion of sampling, our technicians perform independent tests on the coal samples in our laboratories in accordance with our own operational procedures and quality control measures. We then compare the test results from the counterparties of our customers with ours to provide our endorsement.
- *Loading and discharging.* Our field inspectors monitor the loading and discharge of the cargo at ports, freight yards or railway stations to ensure contractual compliance of the cargo and the conditions of the carriers and identify and record abnormalities that may affect the cargo or the transportation of the cargo.
- *Transportation.* Our field inspectors conduct on-site monitoring over the entire process of coal transportation by third-party carriers and provide our customers with objective feedbacks. We also inform our customers timely of any abnormalities that would impact the quality of coal in the course of transportation, and help our customers resolve these issues.

Ancillary Services

We provide a variety of ancillary services per specific customer request. These ancillary services include primarily scale-weighing inspection, coal pile weighing and survey. We provide these services primarily to ensure contractual compliance of the weight of coal carried on rail, truck or conveying belt or shipping conditions of the cargo. We are also a service provider accredited by China Tally Association (中國理貨協會) to perform suitability inspection. We recently expanded our spectrum of service to technical consulting.

- *Scale-weighing inspection.* Our field inspectors examine the scales that weigh the cargo and monitor the weighing process. Weighing inspection usually takes place on the cargo carried on rail, truck or conveying belt.
- *Coal pile weighing and survey.* Our field inspectors use portable stockpiled coal testing device to capture certain spots of a coal pile on-site, which allows them to create a three-dimensional model of the coal pile on computer and calculate the coal pile's weight.
- *Suitability inspection.* Our field inspectors perform visual inspection on the carriers to verify suitability for the cargo, including, among others, cleanliness, dryness, ventilation, sealability and cargo separation, at the time of loading or discharge. Our field inspectors record, photograph and report any abnormalities identified during the inspection process.
- *Technical consulting.* Our technical consulting includes primarily (1) performance assessment and hosting of large-scale machinery for mechanical sampling systems, and (2) consultancy on standardization of coal testing techniques, establishment and management of testing laboratories, and qualification application for sampling and laboratorial technicians. We have a robust team of consultants consisting of our in-house experts and professionals from the National Coal Standardization Technical Committee of China (全國煤炭標準化技術委員會) with thorough understanding of the industry. For each consulting session, we assign experienced consultants with the expertise that meets our customers' particular needs. As a newly launched service type, we provide performance assessment tests on the mechanical sampling systems used by our customers, including power generators and port companies. These assessment tests focus on a number of factors, including precision, reliability, maintainability and safety, to produce comprehensive test results for optimizing the sampling process. We also provide hosting service to power generators and port companies and manage the mechanical sampling systems they use.

Our revenue from witnessing and ancillary services was RMB6.3 million, RMB9.1 million and RMB7.7 million for 2013, 2014 and 2015, respectively, representing 5.4%, 6.4% and 4.9% of our total revenue for the same periods, respectively.

Expansion Plans

We currently operate all of our laboratories and workshops on premises leased from third parties. We plan to construct new service facilities on self-owned land in the Four Northern Ports to support our business growth. We expect the new facilities to function as regional coal testing centers to be equipped with advanced automated machinery on sampling and sample preparation and further strengthen our market shares in the Four Northern Ports.

Rationale for expansion

As a service provider, we attribute our success to our ability to serve our customers well and cost-effectively, which in turn depends on our people, our facilities and our service results. We do not use service capacity and utilization rate as meaningful indicators of our operational performance because, unlike a manufacturer operating standardized production lines, we rely primarily on our people to carry out the service process from on-site sampling to sampling preparation and to laboratorial testing. The computation of our service capacity and utilization rate is subject to a number of assumptions and estimates that necessarily involve the exercise of subjective judgment of our management. In particular, our service capacity is constrained primarily by the on-site sampling process, which operates at varied speeds. For details of our on-site sampling process, see “— Key Service Process — Process for Testing Services.”

Our expansion plans will therefore focus primarily on improving our service capabilities. We believe the expansion plans will support our future growth in the following aspects.

- *Enhanced stability.* Our current operations on leased premises are subject to a number of inherent risks and limitations, including restrictive lease terms, availability of new premises to expand our operations and property title defects that may result in forced relocation and business interruption. See “— Properties — Leased Properties” and “Risk Factors — Risks Relating to Our Business and Industry — We face certain risks relating to the properties we lease.” The planned new facilities on self-owned land will, to a large extent, eliminate these risks and limitations, allowing us more stability in business operations.
- *Upgrading.* We plan to construct multifunctional complexes on the self-owned land to include not only sampling workshops and testing laboratories but also research and training centers. See “— Our Service Offerings — Expansion Plans — New service facilities” for details. The planned new service facilities will be larger and equipped with more advanced machinery and laboratorial instruments. We will also be able to continuously upgrade our facilities by installing new equipment and remodeling and enlarging the premises as permitted by the relevant planning and construction authorities.
- *Strategic values.* The planned new facilities will allow us to further solidify our position in the local markets as we will be able to showcase our upgraded capabilities and capacities by offering site tours to our current and potential customers. These permanent establishments will also reflect our commitment to serving the local markets, thereby enhancing our brand name and image. We also believe that our investment in the self-owned land and facilities will make us a more attractive target for future strategic investment and/or partnership.

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Relocation

To ensure the continuity of our service offerings, we plan to relocate our business operations, including our employees and machinery and equipment, from our existing service centers to new service facilities, and close down the existing service centers upon completion of the relocation. As all the existing leases for our service centers in the Four Northern Ports will have expired by the time we are ready for the relocation, we will negotiate new lease terms upon expiration to accommodate the planned relocation. See “— Properties — Leased Properties” for details of our lease terms. We do not foresee any material difficulties in negotiating new lease terms with the landlords given our past relationship. If we and our landlords fail to agree upon the lease terms that suit the timing of our planned relocation and we terminate the leases without their consent, we may be subject to contractual penalties prescribed under the relevant leases. We believe that the payment of the early termination penalties will not have a material adverse impact on our expansion plans, business operations and financial condition.

For the business relocation, we will also procure new machinery and equipment for upgrades and replacements at our new service facilities. We plan to manage potential labor shortage that may result from increased business volume at these upgraded service facilities through internal deployment of human resources among service facilities in close proximity, and therefore do not currently intend to recruit a significant number of additional qualified employees in connection with our expansion plans.

As the planned new facilities will be in proximity with our current service centers, we do not expect to incur significant time or financial resources to complete the relocation. We also plan to maintain operations at our current facilities until our new facilities are fully operational to minimize potential interruption to our business operations during the relocation.

New service facilities

Set forth below is a summary of our planned new service facilities.

- *Huanghua site.* Designed to be a comprehensive coal testing and inspection center, our Huanghua site will consist of an office building (Stage No.1) and a laboratory complex (Stage No.2) with an estimated aggregate gross floor area of approximately 8,200 square meters. See “— Properties — Construction in Progress” for details on the ongoing construction work for Stage No.1.
- *Tangshan site.* Our new service facilities at our Tangshan site will be located in Jingtang port and Caofeidian port, respectively. The new facilities in Jingtang port will consist of an office building and a laboratory complex with an estimated aggregate gross floor area of approximately 5,696 square meters. The new facilities in Caofeidian port will consist of a sample preparation and testing complex with an estimated aggregate gross floor area of approximately 2,000 square meters. See “— Properties — Construction in Progress” for details on the ongoing construction work for the planned new facilities in Jingtang port.

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- *Tianjin site.* Designed to be the headquarters of our regional service centers in the Four Northern Ports, our new service facilities at our Tianjin site will also serve as the control center of our informatized management and a research center for coal testing techniques. This research center will focus on the development and upgrading of our in-house technology infrastructure to holistically share and manage testing data within our own network of service facilities and interfaced with our customers' systems. See “— Business Strategy — Further strengthen our research and development efforts” for more information. Our Tianjin site will consist of an office and research complex and a laboratory complex with an estimated aggregate gross floor area of approximately 6,067 square meters.

- *Qinhuangdao site.* In addition to its role as our service facilities, the new facilities at our Qinhuangdao site will also serve as a research and manufacture base to develop integrated systems that manage and monitor unmanned coal testing and inspection. Our Qinhuangdao site will consist of a research and testing complex and a manufacture workshop with an estimated aggregate gross floor area of approximately 4,000 square meters.

We plan to finance the capital expenditures in relation to our expansion plans with net proceeds from the Global Offering, cash generated from our operations and/or bank loans. As of December 31, 2015, the total costs incurred and to be incurred for the upgraded service facilities under our expansion plans were approximately RMB26.7 million and RMB134.1 million, respectively. The following table sets out further details of our expansion plans as described above:

<u>Project</u>	<u>(Expected) Construction Time⁽¹⁾</u>	<u>Expected Completion Time</u>	<u>Expected Capital Expenditure</u> (RMB in thousands)
Huanghua (Stage No.1)	December 2014	Third quarter of 2016	25,300
Huanghua (Stage No.2)	Third quarter of 2016	Third quarter of 2017	21,500
Tangshan (Jingtang port)	May 2016	Fourth quarter of 2016	27,500
Tangshan (Caofeidian port)	Second quarter of 2017	Fourth quarter of 2017	20,000
Tianjin	First quarter of 2018	First quarter of 2019	35,000
Qinhuangdao	First quarter of 2017	First quarter of 2018	31,500

(1) Excludes the preconstruction procurement of land use right and construction-related permits, which may take up to six months.

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The following table sets forth an estimated breakdown of the capital expenditures in relation to our expansion plans.

	Huanghua (Stage No. 1)	Huanghua (Stage No. 2)	Tangshan (Jingtang port)	Tangshan (Caofeidian port)	Tianjin	Qinhuangdao
	(RMB in thousands)					
Land	3,800	–	3,000	5,000	8,000	6,500
Construction	16,000	13,000	15,000	8,000	17,000	10,000
Machinery procurement and installation	3,000	7,000	7,000	5,000	7,000	10,000
Other costs	2,500	1,500	2,500	2,000	3,000	5,000
Total	25,300	21,500	27,500	20,000	35,000	31,500

The following table sets forth the projected time frame to incur the capital expenditures in relation to our expansion plans.

	Huanghua (Stage No. 1)	Huanghua (Stage No. 2)	Tangshan (Jingtang port)	Tangshan (Caofeidian port)	Tianjin	Qinhuangdao	Total
	(RMB in thousands)						
2015	17,130	–	3,270 ⁽¹⁾	6,300 ⁽¹⁾	–	–	26,700
2016	8,170	10,150	15,050	–	8,000 ⁽¹⁾	–	41,370
2017	–	11,350	9,180	6,000	–	11,300 ⁽²⁾	37,830
2018	–	–	–	7,700	12,000	20,200	39,900
2019	–	–	–	–	15,000	–	15,000
Total	25,300	21,500	27,500	20,000	35,000	31,500	160,800

(1) Represents the preconstruction procurement of land use right and construction-related permits.

(2) Including costs of procurement of the land use right and construction.

The construction projects in relation to our expansion plans are subject to project plan approval and development and construction approvals by relevant construction regulatory authorities. We are also required to update China Metrology Accreditation Certificates (計量認證證書) and business licenses for the relocation of our laboratories, which may take up to two months.

We may face a number of risks and challenges in implementing our expansion plans, including lengthy government approval procedures, the availability of skilled labor and service orders, our potential inability to maintain quality control, our potential liability to our landlords for terminating the leases without consent, and an increase in our depreciation charges. For details, see “Risk Factors — Risks Relating to Our Business and Industry — Our expansion plans or future acquisitions may entail certain risks and challenges.”

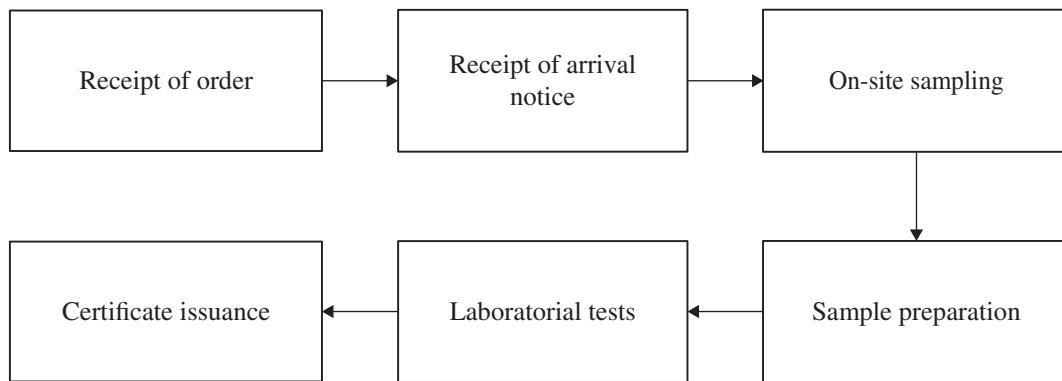
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KEY SERVICE PROCESS

Our service process encompasses the following major components: (1) on-site inspection of conditions and processes, (2) on-site surveying for a particular purpose, (3) on-site sampling, and (4) laboratorial testing. Our service process follows our standardized operational procedures and stringent quality control measures to ensure accurate results for our customers in a cost-effective manner. We also employ automated machinery in our service process to minimize human error and improve efficiency. For more details of our quality control measures, see “— Quality Control” below.

Process for Testing Services

We perform analytical tests for coal quality in our in-house laboratories at our local service centers. We typically agree to deliver test results within 48 hours upon completion of the on-site sampling. The following diagram illustrates the typical service process for our testing services.



- *Receipt of order.* Our long-term or other general customers typically provide us with an order form specifying the requirements of our testing services. Our operation department reviews the order form immediately upon receipt and formulates a testing scheme, including the method of sampling and properties to be tested.
- *Receipt of arrival notice.* Immediately upon arrival notification from the port or rail authorities, we dispatch field inspectors from our sampling team, usually two to eight persons depending on the size of the bulk cargo, to perform on-site sampling.
- *On-site sampling.* Sampling is one of the key steps for analyzing bulk cargo precisely because proper sampling will eliminate bias and ensure that the analytical results represent the entire cargo. The sampling process may be achieved through manual sampling or mechanical sampling depending on the sampling conditions and customer requirements. We rely on professional field inspectors from our sampling team to conduct manual sampling per customer requests, or if we encounter machinery breakdown, or if the coal quality is highly asymmetrical. Whenever possible, we also use mechanical sampling process to improve efficiency and minimize human errors that may occur in the course of manual sampling. The speed of manual sampling depends on the availability of labor resources, the skill and proficiency of our field workers, the work specifications and the on-site working conditions. Even in the case of mechanical sampling, the sampling speed also varies because customers may have different

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requirements on samples and the sampling equipment installed at each local port may operate at different speeds due to different models and specifications to suit the varied handling capacity of the local ports. We typically complete on-site sampling in synchronization with the process of coal loading or discharge at the port.

- *Sample preparation.* The gross samples obtained from on-site sampling are first anonymized at our premises by our operation department before being sent to our sampling workshops. For more details of the process of our anonymity practice, see “— Quality Control — Operational Procedures” below. At our sampling workshops, our technicians from the sample preparation team crush and process the gross samples into smaller particle size by mechanical means. Such samples, significantly reduced in quantity, serve as the basis for laboratorial tests.
- *Laboratorial tests.* Our technicians from the testing team perform various analytical tests on the refined samples for such physical and chemical properties as specified in the order form and record the test results. All of the analytical tests are performed in accordance with applicable regulatory and industrial standards in our laboratories equipped with advanced instrumentation.
- *Certificate issuance.* Test results are subject to review and unanimous approval by the certificate preparation team of the operation department, manager of the operation department and authorized certificate signatory. Upon approval, our operation department issues and delivers to our customers definitive testing certificates and/or reports. We usually issue testing certificates or reports within 24 to 48 hours after completion of the on-site sampling.

Process for Other Major Services

For surveying and witnessing services, our customers will complete an order form to specify the services requested from us. The time it takes for completion depends on the types of services involved.

- *Surveying services.* We dispatch field inspectors from our surveying team to perform on-site surveying services immediately upon arrival notification from the port or rail authorities. All of our surveying services are performed onboard or alongside the vessels or train wagons during loading or discharge process. We follow applicable regulatory and industrial standards and our customers’ specific requirements, including technical requirements for draft surveys for accurate results. We record our survey results and other findings in our definitive survey certificates or reports delivered to customers.
- *Witnessing services.* For loading, discharge or transportation of coal and draft survey, our field inspectors perform on-site monitoring after being notified of the time and location of such activity. Our post-monitoring feedbacks are summarized and incorporated into our definitive witnessing certificates or reports delivered to customers. For sampling and quality testing conducted by assurance providers engaged by the counterparties of our customers, we take two gross samples on-site and perform tests independently on one sample in our in-house laboratories so that we can compare our test results with those obtained from the counterparties of our customers. We follow the same operational procedures and quality control measures for these verification tests. We retain the other sample in accordance with our internal procedures.

LABORATORIES AND MAJOR ASSETS

Laboratories and Equipment

Each of our service centers houses a laboratory which is equipped with advanced machinery and equipment for sample preparation and testing sourced from leading domestic manufacturers and suppliers. Our sample preparation and testing machinery and equipment consist primarily of bulk sample processing equipment, calorimeters and large-capacity electric drying ovens, a number of which were designed and made specifically for our coal testing and inspection services. Our machinery and equipment generally have a replacement cycle of up to 10 years, with an estimated remaining useful life of approximately 27 months on average as of December 31, 2015. All of our machinery and equipment are currently in good condition for sustainable operation. We may from time to time procure new machinery and equipment for replacements and/or upgrades, depending on the machine condition and technological advancements. We plan to purchase new machinery and equipment in connection with our expansion plans. See “— Our Service Offerings — Expansion Plans” for more information.

In cases of mechanical sampling, we rely on high-precision automated and semi-automated mechanical sampling equipment owned by port companies, sampling equipment companies or power generation companies to collect coal samples. In cases of manual sampling, where all relevant sampling work is conducted by human effort, our field inspectors use manual tools such as shovels and sample bags to collect coal samples. In recent years, mechanical sampling systems have been widely adopted and applied in the coal testing and inspection industry, which, compared to the traditional manual sampling, significantly increase the efficiency and reduce human errors that may occur in the course of manual sampling. For reliable and accurate sampling results, the selection of representative coal samples necessarily requires the mechanical sampling systems to function with high performance and precision.

We own all of our machinery and equipment for our business operations except for mechanical sampling equipment. For more information about our arrangements on leased mechanical sampling equipment, see “— Suppliers and Labor Dispatch Providers — Port Companies and Sampling Equipment Companies.”

Vehicles

As of December 31, 2015, we owned 103 vehicles that are used for on-site sampling and transporting coal samples from ports or our customers’ premises to our laboratories and other general purposes in the ordinary course of business. Regular checkups, maintenances and cleanings of our vehicles are scheduled and performed in our own depots and workshops by designated staff members. In addition, each of our vehicles tasked with on-site sampling is installed with a GPS system such that its location can be tracked instantly or at a regular interval. By monitoring our vehicle itineraries, locations and driving speeds, we are able to achieve service efficiency. We perform periodic check to ensure all vehicles meet our safety and performance benchmarks. Moreover, when we purchase vehicles, safety and environmentally friendly features are important factors in our consideration. As of December 31, 2015, our vehicles generally had an estimated useful life of five years, and the carrying amount of our vehicles amounted to approximately RMB5.9 million.

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Machinery, Equipment and Vehicle Maintenance

To ensure proper maintenance of our machinery, equipment and vehicles, our operation departments at local facilities are responsible for regular check-ups or inspection and ordering prompt repair or replacement if required. Repair of our equipment may be performed by supplier or distributor in accordance with warranty policy or by our technical personnel. Repair of vehicles is performed by third-party vehicle service centers.

QUALITY CONTROL

Quality Control Function

Quality control is one of our core values and vital to our business. We implement stringent quality control measures throughout our service process and have promoted a brand associated with high-quality and reliable services.

We obtained two certificates from the CNAS, i.e., the Laboratory Accreditation Certificate (實驗室認可證書) and the Inspection Body Accreditation Certificate (檢查機構認可證書), attesting to our satisfaction of internationally recognized and authoritative standards for accrediting professional capabilities of testing and inspection institutions. We have also established a full set of standardized quality control and operational measures, such as procedure of inspection, testing and sampling, including standards for manual sampling and sample preparation, and guidelines on sampling on surface of coal piles (煤堆表面人工採樣), sampling of layers of loaded coal (煤堆裝船人工分層採樣), sampling of coal transported by rail (火車載煤人工採樣) and other sampling methods, that uniformly apply to each of our eight service centers in China. In implementing these measures, every service center is responsible for providing compliance guidance to our local employees in light of the distinct requests of our customers and local situations. For instance, it is common for our employees to perform field work at loading ports in north China, where coal is mostly transported by barge, while in south China our employees usually perform field work at the premises of our customers, such as power generators, as door-to-door transportation by rail or truck is customary. To minimize any impact that such difference might cause on the accuracy of test results, our local service center will follow the guidelines on relevant sampling methods and other specific aspects of testing and inspection in accordance with the local situations, in addition to our general technical standards and operational procedures.

Furthermore, we have set up a centralized quality control team at the headquarter level that formulates quality control measures and monitors quality control compliance of our entire network to ensure consistently high quality of our services provided by our local facilities. Headed by Ms. SHI Yuying, our quality control team had 31 members as of the Latest Practicable Date. Ms. Shi is our chief technology officer and has over 30 years of relevant experience in the area of coal testing and inspection. Ms. Shi also served as a consultant to the National Coal Standardization Technical Committee of China (全國煤炭標準化技術委員會) and an official examiner in charge of laboratory accreditation in China. The quality control team members have an average of five years of relevant experience. We also have designated quality control officers with extensive on-site experience at each of our service centers to supervise its day-to-day operation, and to report to our quality control team on a daily basis.

Quality Control System

Our centralized quality control team has formulated a comprehensive set of quality control measures and operational procedures and has updated these measures from time to time to reflect the latest development of regulatory or industrial requirements or to optimize our operational procedures that were shown to be deficient or susceptible to breach.

Based on the procedures and measures currently in place, our quality control system can be broadly divided into the following four major components.

- *Quality manual*, which demonstrates our general policies and goals related to quality, the framework document in our quality control system;
- *Technical standards*, which reflect the regulatory and industrial requirements, as well as our internal technical standards, applicable primarily to our testing and surveying services;
- *Guidance brochures*, which specify a set of standardized procedures that our service process follows to ensure impartiality and reliability of our service deliverables; and
- *Record forms*, which record the quality and technology at each step of our service process, constitute the first-hand materials for tracking our service quality.

Technical Standards

According to the Forward Report, we are one of the few independent assurance providers in China that hold each of the Certificate of Qualification for Institution of Import & Export Commodity Inspection and Survey (進出口商品檢驗鑒定機構資格證書), the China Metrology Accreditation Certificate (計量認證證書), the Laboratory Accreditation Certificate (實驗室認可證書) and the Inspection Body Accreditation Certificate (檢查機構認可證書). We require our operation to strictly comply with the requisite regulatory and widely-acknowledged industrial standards. We also adhere to our internal technical standards, particularly with respect to on-site sampling and sample preparation, that provide detailed guidance to our day-to-day business practice. These standards allow our field inspectors and laboratorial technicians to perform surveys or analytical tests with high accuracy in a cost-effective manner.

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The following table sets forth certain key national and industrial standards that we follow in our service process.

<u>Standard Code</u>	<u>Standard Name</u>	<u>Issuing Organization</u>	<u>Issuing Date</u>
GB 474-2008	Method of Coal Sampling (煤樣的製備方法)	AQSIQ, Standardization Administration of the People's Republic of China	December 4, 2008
GB 475-2008	Method for Manual Sampling of Commercial Coal (商品煤樣人工採取方法)	AQSIQ, Standardization Administration of the People's Republic of China	December 4, 2008
GB/T 19494.1-2004	Mechanical Sampling of Coal — Part 1: Method for Sampling (煤炭機械化採樣 第1部分: 採樣方法)	AQSIQ, Standardization Administration of the People's Republic of China	April 30, 2004
GB/T 19494.2-2004	Mechanical Sampling of Coal — Part 2: Method for Sample Preparation (煤炭機械化採樣 第2部分: 煤樣的製備)	AQSIQ, Standardization Administration of the People's Republic of China	April 30, 2004
GB/T 19494.3-2004	Mechanical Sampling of Coal — Part 3: Determination of Precision and Bias Test (煤炭機械化採樣 第3部分: 精密度測定和偏倚試驗)	AQSIQ, Standardization Administration of the People's Republic of China	April 30, 2004
GB/T 211-2007	Determination of Total Moisture in Coal (煤中全水分的測定方法)	AQSIQ, Standardization Administration of the People's Republic of China	November 1, 2007
GB/T 212-2008	Proximate Analysis of Coal (煤的工業分析方法)	AQSIQ, Standardization Administration of the People's Republic of China	July 29, 2008
GB/T 213-2008	Determination of Calorific Value of Coal (煤的發熱量測定方法)	AQSIQ, Standardization Administration of the People's Republic of China	July 29, 2008
GB/T 214-2007	Determination of Total Sulfur in Coal (煤中全硫的測定方法)	AQSIQ, Standardization Administration of the People's Republic of China	November 1, 2007

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Standard Code	Standard Name	Issuing Organization	Issuing Date
SN/T 3023.2-2012	Rules for the Weight Survey of Import and Export Commodities — Part 2: Weight Survey by Draft (進出口商品重量鑒定規程 第2部分:水尺計重)	AQSIQ	December 12, 2012

The following table sets forth certain key internal technical standards and procedures that we follow in our service process.

Standard Code	Standard Name	Issuing Date
HXLH-WI (01-08,11-12)-2012	Work Instructions of Coal Sampling (煤炭採樣作業指導書)	June 1, 2012
HXLH-WI/09-2012	Work Instructions of Coal Loading Supervision (煤炭裝船監裝作業指導書)	June 1, 2012
HXLH-WI/14-2012	Work Instructions of Coal Discharge Supervision (船載煤炭監視卸載作業指導書)	June 1, 2012
HXLH-WI/91-2012	Work Specifications of Final Draft Survey in the Loading Port (裝貨港末次水尺載貨重量鑒定工作規範)	June 1, 2012
HXLH-WI/16-2012	Work Instructions of Barge Operations and Management Supervision (駁船監運操作與管理作業指導書)	January 1, 2014
HXLH-WI/18-2012	Work Instructions of Coal Weight Survey (Vehicle Weighing) (煤炭重量鑒定(汽車衡)作業指導書)	January 1, 2014
HXLH-WI/19-2012	Work Instructions of Coal Weight Survey (Rail Weighing) (煤炭重量鑒定(軌道衡)作業指導書)	January 1, 2014
HXLH-WI/20-2012	Work Instructions of Coal Weight Survey (Belt Weighing) (煤炭重量鑒定(皮帶秤)作業指導書)	January 1, 2014
HXLH-WI/37-2012	Work Instructions of Stockpiled Coal with Portable Stockpiled Coal Testing Device (便攜式盤煤儀盤煤作業指導書)	March 17, 2015
HXLH-WI/43-2012	Work Instructions of (Small Container) Coal Bulk Density Determination (煤炭堆積密度(小容器)測定作業指導書)	March 17, 2015

Operational Procedures

Impartiality is a key element for attracting and retaining customers and growing our business. To this end, we have set standardized operational procedures and protocols that promote professionalism and reduce operational risks inherent in our service process. The following is the highlight of certain major components of our standardized operation procedures and protocols:

- *Traceability.* We have developed an in-house information system that functions as an integrated platform where service orders, on-site sampling, sample preparation, testing, test results verification, certificates and all other service-related activities are recorded, processed and managed. Such informatized management allows us to trace every step of our service process, including on-site sampling, which is traditionally the most untraceable and unmanageable segment in a testing service. For example, a uniform security code is affixed to each of our coal samples immediately upon on-site collection, which records the sample in our information system and allows us to use scanning devices to track their whereabouts. We also use GPS positioning devices to track vehicles we dispatch for field inspections and surveys. Similarly, all of our equipment and devices at laboratories are encoded and linked into the information system, whereby we are able to locate the exact machinery that performed any particular test. In addition, all of our sampling workshops and laboratories have web cameras installed to more closely monitor our testing process.

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The following pictures illustrate our informatized management at on-site sampling and sample preparation steps.



Security code affixation and recording at on-site sampling



Device recording at sample preparation

- *Authenticity.* We conduct comprehensive remote video monitoring over every step of our service process. For example, we have cameras installed in vehicles for samples transportation from the site to our service centers, in the workshops where samples are prepared, as well as in the laboratories where tests are performed. We have designated employees at both our local facilities and our headquarters to monitor the daily performance of each service by our laboratories from such remote video monitoring system around the clock. We are able to ensure the safety and intactness of samples, detect and deter misconducts or improper handling during our service performance, and enhance the reliability of our test results.

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The following screenshots, taken from our remote monitoring system, illustrate our close monitoring over each step and every detail of our services.



Monitoring over samples transportation



Monitoring over sample preparation



Monitoring over sample weighing



Monitoring over testing

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- *Anonymity.* To prevent manipulation of the test results, all of our tests are performed and processed strictly in accordance with our anonymity policy. Our gross samples are enclosed with security seals marked with a uniform security code for identification purposes when collected from on-site sampling. Immediately upon arriving at our premises, we replace those seals by seals with randomly assigned numbers before delivering the gross samples to our sampling workshops. Our technicians at the workshops or laboratories have no knowledge of, or access to, the identity or source of the coal samples. In addition, on-site sampling, sample preparation and laboratorial testing are operated by different work units that are isolated from each other to prevent collusion to manipulate the test results. Our operation department at each service center, which does not participate in the sample preparation or testing process, translates the security code and issues the final test certificates or reports. We grant access to testing data or results of a certain customer stored in our information system to employee strictly on a need-to-know basis only, and all hardcopies and electronic copies of such data will be removed upon the completion of the relevant work assignment.
- *Accountability.* Our authorized signatory at each laboratory is responsible for the accuracy of the test results. Any customer complaint is required to be reported to our quality control team to formulate an official response in order to avoid variation in local practice. As an internal policy to comply with regulatory standards, we generally retain spare coal samples for up to two months or any longer period per customer requests. In case of disputes, we may perform additional tests on these spare coal samples to verify our initial test results.

ANTI-BRIBERY COMPLIANCE

The coal industry in China poses elevated risks of anti-bribery violations. We have adopted internal policies and procedures designed to ensure compliance with China's anti-bribery laws. Such policies and procedures include organizing internal training programs to be conducted by in-house or external experts to educate our employees on ethical business practice, including anti-bribery practice, and initiating an investigation if we receive a report, or otherwise become aware, of any improper or suspicious conduct by our employees. In addition, we recently adopted a comprehensive anti-bribery policy and code of conduct for our employees to further improve our anti-bribery practice. In accordance with our internal policy, our internal audit department is responsible for carrying out our daily anti-bribery measures stipulated thereunder, such as assessing bribery risk within our Group on an annual basis, educating our employees on anti-bribery practice, investigating improper or suspicious conduct by our employees and proposing counter-measures against any bribery conduct. We have also set up a whistle-blowing channel to allow our employees to report internal bribery by telephone or email.

During the Track Record Period, neither we nor our directors, employees or, to our knowledge, our dispatched workers were involved in any bribery arrangements.

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CUSTOMERS AND BUSINESS DEVELOPMENT

Customer Base

Our customer base consists primarily of state-owned and privately-run coal mining companies, coal distribution companies, and power generation companies. We serve primarily a number of large customers with whom we have developed long-term stable business relationship. We also accept other general customers who engage us for specific services on a service-order basis.

We are independent from our customers without regard to their size or identity. Our customers, including coal buyers and sellers, may from time to time contractually agree to mutually designate a specific assurance provider, or designate a reputable assurance provider upon the consent of the counterparty, to ensure fair transactions. As such, we do not serve both the coal buyers and sellers in one transaction. To meet the independence requirements under the China Metrology Accreditation Certificate (計量認證證書), we implement stringent internal control measures to ensure independent test results, including traceability, authenticity, anonymity and accountability policies designed to prevent intentional or inadvertent contamination of coal samples or manipulation of test results. We require our employees to adhere to our anti-bribery policies and report bribery incidents. We also retain spare coal samples for up to two months or any longer period per customer requests to allow customers to perform cross-checks if desired. During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material customer disputes regarding the quality of our services or the reliability of our assurance reports.

We derived a majority of our revenue from coal suppliers during the Track Record Period. The following table sets forth a breakdown of our revenue by customer type for the periods indicated.

	Year ended December 31,					
	2013		2014		2015	
	(RMB in thousands except for percentages)					
Coal suppliers ⁽¹⁾	61,700	52.7%	80,219	57.5%	94,674	60.8%
Coal users ⁽²⁾	27,942	23.9%	31,073	22.3%	26,928	17.3%
Others ⁽³⁾	27,454	23.4%	28,188	20.2%	34,187	21.9%
Total	117,096	100.0%	139,480	100.0%	155,789	100.0%

(1) Include primarily coal miners.

(2) Include primarily power generators.

(3) Include various traders along the coal distribution chain and other end users.

The decrease in our revenues from coal users in 2015 was primarily due to reduced unit price we charged our power generator customers as a result of price competition through our increased participation in open tender process.

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The following table sets forth a breakdown of our customers by service type for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
Testing services ⁽¹⁾	783	777	1,038
Surveying services ⁽¹⁾	80	74	143
Witnessing and ancillary services ⁽¹⁾	81	132	48

(1) As certain customers engaged us for more than one type of services during the Track Record Period, the number of customers for each type of services may not add up to the total number of customers in a given year.

In 2014, we provided single-session ancillary services to a large number of general customers on a service-order basis, and many of such customers did not engage us for further services, which resulted in the decrease in our customers for witnessing and ancillary services in 2015.

During the Track Record Period, our largest customers include Shenhua Group (coal miner), China Huaneng (power generator), Datang Power (power generator), Guangdong Yudean (power generator), China National Coal Group Corp. (中國中煤能源集團有限公司) (coal miner) and Guangzhou Development Group Incorporated (廣州發展集團股份有限公司) (power generator), all of which are our long-term customers and have maintained stable business relationship with us ranging from three to six years. Our five largest customers accounted for approximately 64.6%, 66.0% and 66.8% of our revenue for 2013, 2014 and 2015, respectively. None of our Directors, their close associates or any Shareholders (which to the knowledge of our Directors owns more than 5.0% of our Shares) has any interest in any of our five largest customers during the Track Record Period.

Major Customers

The Four Northern Ports collectively accounted for more than 80.0% of the total volume of China's seaborne coal trade in 2015. As our largest customer, Shenhua Group accounted for approximately 46.1%, 47.0% and 52.7% of our revenue for 2013, 2014 and 2015, respectively. Shenhua Group's seaborne coal sales volume accounted for 35.7% of the total seaborne coal sales volume in the Four Northern Ports. In particular, Shenhua Group has a dominant market share in Huanghua port and Tianjin port, accounting for 85.2% and 46.6% of their seaborne coal sales volume in 2015, respectively. According to the Forward Report, Shenhua Group is the biggest coal vendor with the largest coal reserve in China.

As coal testing and inspection services are mostly transaction custom in seaborne coal trade, we have established strong presence in the Four Northern Ports to serve our customers, including Shenhua Group. Our revenue generated from services provided in the Four Northern Ports accounted for approximately 78.8%, 72.1% and 74.8% of our revenue for 2013, 2014 and 2015, respectively. Given Shenhua Group's dominant market position, we have forged our long-term business relationship with Shenhua Group since our inception in 2009. We believe our long-term business relationship with Shenhua Group is inevitable as we have a matching market position in the coal testing and inspection industry among a handful of independent assurance providers to meet Shenhua Group's requirements.

According to the Forward Report, we are the largest provider of coal testing and inspection services in China with a market share of approximately 18.9% in terms of revenue generated from coal testing and inspection services in 2015 and the only China-based independent assurance provider that operates laboratories in each of the Four Northern Ports.

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When selecting service providers, Shenhua Group normally sets out several criteria in its bidding invitation notice, including on-site testing laboratories, sufficient service capacities to handle its large-volume coal sales, and proven track record of service standards. We believe such criteria have disqualified most service providers in the market and our unequivocal market leading position makes us among one of the few top candidates eligible in its service provider pool.

We have been awarded retention agreements in open tender bidding for providing testing and inspection services to Shenhua Group for consecutive seven years. We believe that it is strategically important for Shenhua Group to secure a stable supply of consistently high quality services that satisfy its criteria to support its coal trading business and to reduce potential liabilities from trade disputes. Our long-term service agreements provide that (1) we shall provide testing services on certain properties of the coal at a preset unit price per tonne, see “— Customers and Business Development — Open Tender — Preparation of initial offer” for more details of the preset unit price; (2) we shall deliver the testing results within 36 hours for outbound coal transportation and 24 hours for inbound coal transportation after we complete on-site sampling or we are liable to penalty payment; (3) Shenhua Group shall settle the outstanding service fees on a monthly basis within 10 business days upon receipt of our service bills and tax invoices; and (4) Shenhua Group may decline to make payment or terminate the service agreements if we are found to have manipulated or adulterated the sample in violation of applicable regulatory or industrial standards.

Given Shenhua Group’s dominant market position and our long-term business relationship with it, we intend to maintain and strengthen our business liaison. In December 2015, we entered into a strategic cooperation framework agreement with Shenhua Group, Chinese Society of Inspection and Quarantine (中國檢驗檢疫學會) and CIC. Pursuant to this agreement, the parties agreed to collaborate to normalize the entire coal distribution chain, including coal testing, and establish a new industry association — the Professional Committee of Coal Inspection of Chinese Society of Inspection and Quarantine (中國檢驗檢疫學會煤炭檢測專業委員會) — to serve as a cross-sector platform that will combine the relevant resources from the coal testing, coal, power generation and metallurgical industries. This agreement has a term of five years and may be renewed for another five years.

Based on the foregoing facts and circumstances, our Directors reasonably believe that our Company does not have reliance issue in respect of the significant contribution to our revenue by Shenhua Group during the Track Record Period. For risks associated with our business relationship with our major customers, see “Risk Factors — Risks Relating to Our Business and Industry — We depend on a limited number of customers for a substantial portion of our revenue and may not be able to successfully maintain our business relationship with these customers.”

Diversification

According to the Forward Report, Shenhua Group gradually shifted its coal port loading to self-owned docks in Huanghua port and Tianjin port, and Shenhua Group only accounted for 15.4% and 3.5% of the seaborne sales volume in Qinhuangdao port and Tangshan port in 2015, respectively. However, we have managed to source customers, including other coal vendors and power generators, to maintain our revenue growth in Qinhuangdao port and Tangshan port. In 2014, our revenue from customers other than Shenhua Group at Qihuangdao port and Tangshan port increased by approximately 7.3% from 2013.

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In addition, as the coal industry further liberalizes, large power generators increasingly engage independent assurance providers to perform coal testing and inspection during the course of transportation and on-site loading to provide reliable assurance of coal quality and quantity. Our power generator customers include China Huaneng, Datang Power, and Guangdong Yudean, which were all our five largest customers during the Track Record Period, representing an important driver of our revenue growth.

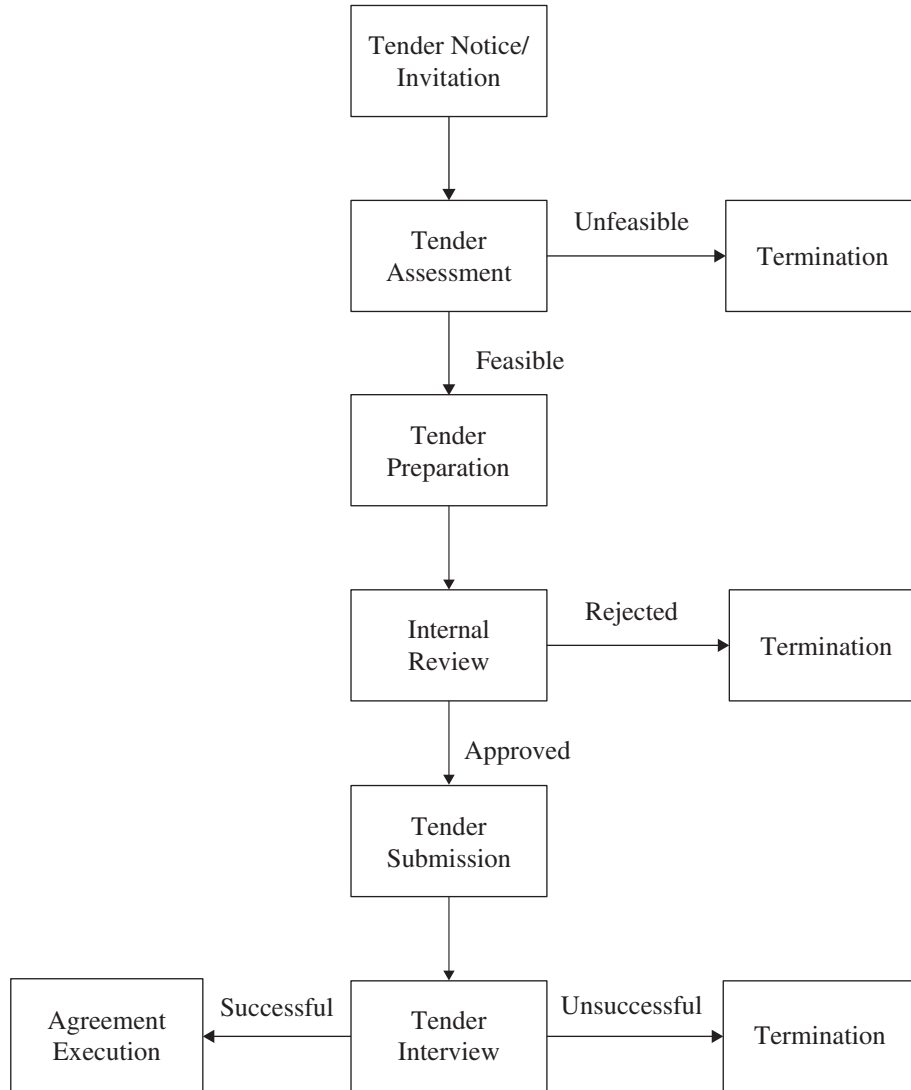
China's coal testing and inspection market experienced steady growth. According to the Forward Report, the total volume of coal subject to quality testing or inspection reached 0.8 billion tonnes in 2015, accounting for only approximately 24.9% of the coal consumed in the same year. As the coal industry liberalizes, coal suppliers and consumers increasingly require testing and inspection from third parties disinterested in the test results to provide assurance of verifiable quality and quantity of coal, which serves as a basis for price determination in coal trade. Leveraging our market leadership, we plan to capture such new growth opportunities in the coal testing and inspection market by exploring more power generator customers and customers in the entire coal distribution chain. We also intend to expand our service coverage to include the testing of fuel, mineral and chemical products to diversify our risk profile. For more details of our expansion strategies, see “— Business Strategy.”

Open Tender

Under the ongoing reform in China's coal industry over the past years, an increasing number of our state-owned enterprise customers have adopted open tender policies for outsourcing coal testing and inspection services. We began to participate in open tender process since 2012. In 2013, 2014 and 2015, we prevailed in eight, 10 and 25 open tender processes, respectively, which contributed approximately 47.7%, 49.3% and 58.6% of our revenue during the same periods. Our tender success rate was 72.7%, 90.9% and 67.6% in 2013, 2014 and 2015, respectively. The decline in the tender success rate in 2015 was primarily due to an increase in the overall number of bids we submitted to solicit new customers.

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The following diagram illustrates the typical work-flow of an open tender process.



Invitation for tender or quotation

We may receive tender or quotation invitations from our customers or otherwise participate in open tender process. We generally become aware of open tender invitations by weekly review of publicly available information such as industry websites and customers websites. In relation to our existing service agreements that are awarded through open tender and about to expire, the general timeframe for submitting new tenders for the service agreement with the same customer is approximately one to two months prior to expiration, depending on the receipt of a new tender invitation from the customer.

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Upon receipt of the tender or quotation details, our tender review team, which combines the expertise of our local manager, headquarters officers and members of the marketing department, first makes a preliminary assessment of the requirements of the tender or quotation. In our assessment, we consider, among other things, profitability of the service, feasibility of undertaking such service with reference to technical requirements, our expertise and capacity, our available manpower resources, schedule, quality expectation, quantity specifications, preliminary safety and environmental risk analysis and other possible risk factors associated with such service. Based on this assessment, our tender review team considers whether to bid for the tender or accept the request for a quotation.

Preparation of initial offer

To prepare the terms of our initial offer, we take into account a number of factors, including primarily (1) our relationship with the tenderee; (2) our business strategy; (3) prevailing market rates and market trends; (4) our available resources (including staffing, equipment and vehicles); (5) the need to procure additional resources (such as equipment or supplies); and (6) our budget. In cases of our long-term customers, we also make reference to previous agreements with such customers. Our initial offer proposal is reviewed and endorsed by our tender review team before being submitted to the customer for consideration.

As the fees charged by us are generally preset in our initial offer and subsequently fixed under our service agreement, we may bear the risk of any cost fluctuations. To mitigate cost fluctuation risks, during the preparation stage we carefully consider the terms of the tender including the service fees based on our pricing policies, service fee adjustment and payment terms as detailed in “— Customers and Business Development — Principal Terms of Service Agreements” and “— Pricing.”

Management of tender process

To better manage our participation in open tender processes, we have adopted both general policies to monitor open tender processes and detailed guidelines to manage each stage of open tender processes. Set forth below are certain key aspects of our internal policies and guidelines on open tender processes:

- For each open tender process that we intend to participate in, our tender review team must initiate preparation and other relevant first-stage work at least six months in advance, including analyzing other potential attending competitors, outlining our competitive highlights, and preparing bid documents;
- Throughout our preparation, we will communicate with the tenderee if clarification in the process is needed;
- Senior management members, including Mr. LI Xiangli, will personally participate in the tender review and oversee the tender preparation.

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We also strive to update our equipment and improve our technology to sustain a good cooperative relationship with our customers and establish a record of successful precedents at open tender processes. For example, as of the Latest Practicable Date, we had six registered inventions, six registered utility models and two inventions pending registration in China, which demonstrates our continuous efforts to upgrade our service capabilities. As of the Latest Practicable Date, we had not received any complaint from any of our major customers, including Shenhua Group, China Huaneng, Datang Power and Guangdong Yudean, in respect of significant quality incident. Our effective management of open tender process participation, improved testing and inspection services, and clean service record are among our advantages over our competitors in open tender processes.

Release of open tender results

If we are awarded the service and agree on the terms of the quotation, we will proceed to the agreement execution stage. In the event that we fail to secure the tender, we will gather information on the winning tenderer from public tender results and feedback from the tenderee. We use such information to trace and analyze market trends.

Following a successful open tender, we enter into a formal service agreement with the customer, the general terms of which are set out in the paragraph headed “Principal Terms of Service Agreements” below. Prior to signing, our tender review team will cross-check the terms of our initial offer with those of the service agreement for any material variation.

Principal Terms of Service Agreements

We generally enter into standardized annual service agreements with our long-term customers. From time to time, these customers will place service orders with us for specific services. In cases where services are ordered by our other general customers on a service-order basis, the service orders usually specify the type of services and payment terms, with other provisions substantially similar to those of annual service agreements. Set forth below are certain key aspects of our standardized service agreements.

- *Term.* Our standardized service agreements generally have a term of one year.
- *Scope of services.* Our standardized service agreements outline the intended scope of services we may be required to provide from time to time. Our customers will separately place service orders with us when any particular service is required, typically up to 24 hours before the cargo arrives at the ports or designated delivery places for transshipment near our local service centers.
- *Pricing.* Our standardized service agreements itemize the service fees we charge for each type of services we may be required to provide, adjustable in case of an increase in applicable port charges. For more details, see “— Customers and Business Development — Pricing.”

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- *Credit period and settlement.* Our customers are typically required to settle outstanding service fees on a monthly basis. For other general customers on a service-order basis, however, we typically require settlement of payment before we release the test results or reports, and sometime before we initiate services. The payment method is generally by cash or wire transfer. During the Track Record Period, all revenue from our services was denominated in Renminbi.
- *Delivery of test results.* For testing services, we are generally required to deliver the test results within 48 hours after we complete the on-site sampling and are liable to penalty payment for delays, which generally equals 0.1% of the total service fees accrued for each day in delay. We must timely inform our customers of any intervening events that may interrupt or delay our services and request grace periods to avoid penalty payment.
- *Coal sample retaining.* As a general practice and pursuant to relevant regulatory standards, we usually agree to retain our spare coal samples for our testing services for one to three months.
- *Termination.* Our customers may decline to make payment or terminate the service agreements if we are found to have manipulated or adulterated the sample in violation of applicable regulatory or industrial standards. Our customers are also entitled to claim damages with respect to losses caused by unreliable test results from our material misconduct in the provision of services.

During the Track Record Period and up to the Latest Practicable Date, we were not subject to any material penalty or liability for any late delivery or unreliability of our test results, nor were we involved in any material customer disputes surrounding the quality of our services.

Pricing

For the services awarded through open tender, they are offered at the price tendered in the bid documents. See “— Customers and Business Development — Open Tender — Preparation of initial offer” for more details of the preparation of the tendered price. We typically price our services with reference to, among other factors, required specifications, technical complexities, expected costs, market conditions, service volume and market prices for similar services, and therefore our price may vary geographically. As we consider a number of factors, our prices may also vary for the specific type of services we render. We periodically review and adjust our prices based on the foregoing factors.

We typically charge our services by weight (i.e., tonne), and occasionally by other units, such as number of coal piles when, for example, we are required to perform sampling on coal piles on short notice. The following table sets forth the unit price of our services charged by weight for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
	Price per tonne	Price per tonne (RMB)	Price per tonne
Testing services	0.15-1.0	0.15-1.5	0.13-1.2
Surveying services	0.09-0.2	0.09-0.2	0.09-0.2
Witnessing and ancillary services	0.2-0.6	0.2-0.6	0.2-0.6

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The decline in the unit price of our testing services in 2015 was primarily due to price competition through our increased participation in open tender process. Open tenders favor the customers by promoting information symmetry and enable the customers to readily compare the pricing information from a number of service providers. See “Risk Factors — Risks Relating to Our Business and Industry — Lowering of profit margin due to competition or our failure to control costs may adversely affect our profitability.”

Business Development

We have sales and marketing personnel based in our service centers strategically located at the major coal-trade ports in China.

- We had built a capable sales and marketing team, and substantially all of the team members have prior work experience in the coal industry or coal testing and inspection industry, enabling them to both understand and serve the needs of our customers better.
- We have successfully established our brand name “華夏力鴻 (Huaxia Lihong)” as a leading nationwide provider of coal testing and inspection services with reliability, expertise, and authority, which helps us attract new customers.
- Backed by our industry expertise and experience, we have established stable business relationship with a number of large and reputable customers through our local service centers, which allows us to reinforce our brand image and further expand our customer base.

SUPPLIERS AND LABOR DISPATCH PROVIDERS

Suppliers

Our suppliers include port companies, sampling equipment companies, third-party labor dispatch providers and landlords. We typically maintain at least two suppliers for each type of our major equipment, instruments or required services to minimize potential disruption of our operation, maintain sourcing stability and secure competitive prices from suppliers.

Qinhuangdao Future Creating Professional Services Co., Ltd. (秦皇島共創未來職業服務有限公司) and Tangshan Seaport Future Creating Labor Services Co., Ltd. (唐山海港共創未來勞務服務有限公司), labor dispatch providers under the common control of an individual shareholder, were our largest suppliers in 2013 and 2014, accounting for approximately 31.2% and 31.1% of our total purchase for 2013 and 2014, respectively. For 2015, Beijing Shenhua Hengyun Energy Technology Co., Ltd. (北京神華恒運能源科技有限公司), or Shenhua Hengyun, a sampling equipment company, was our largest supplier, accounting for approximately 33.3% of our total purchase. During the Track Record Period, our other top suppliers include Qinhuangdao Port Co., Ltd. (秦皇島港股份有限公司) (port company), Tianjin Port Lianfa Automatic Mechanical Coal Sampling Co., Ltd. (天津口岸聯發煤炭自動化機械取樣有限公司) (sampling equipment company), SDIC Caofeidian Port Co., Ltd. (國投曹妃甸港口有限公司) (port company) and CCIC Beijing Property Management Co., Ltd. (中檢集團北京物業管理有限公司) (landlord), all of which have maintained business relationships with us for four to six years. Our five largest suppliers accounted for approximately 83.5%, 76.3% and 76.3% of our total purchase for 2013, 2014 and 2015, respectively. None of our Directors, their close associates or any Shareholders (which to the knowledge of our Directors owns more than 5.0% of our Shares) has any interest in any of our five largest suppliers during the Track Record Period.

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Our total purchase amount from Shenhua Hengyun, an associate of Shenhua Group operating at Huanghua port and Tianjin port, was RMB10.6 million for 2015. We accessed the mechanical sampling equipment owned by it for on-site sampling activities at these two ports. Our Directors confirm that our transactions with Shenhua Hengyun have been conducted on normal commercial terms and that their terms are fair and reasonable to us.

Labor Dispatch Providers

We rely primarily on our own work force and our own testing equipment and vehicles for business operation. We also engage labor dispatch providers for additional staff to perform our services. We from time to time outsource staffing from labor dispatch providers to assist in on-site manual sampling work. We usually provide specialized training and assign basic work that requires no more than simple repetition to dispatched workers. We also arrange for experienced chief field inspectors to oversee the entire sampling process to ensure strict compliance with our quality control measures and operational procedures. During the Track Record Period, our labor dispatch providers included Qinhuangdao Future Creating Professional Services Co., Ltd. (秦皇島共創未來職業服務有限公司) and Tangshan Seaport Future Creating Labor Services Co., Ltd. (唐山海港共創未來勞務服務有限公司).

Principal terms of labor dispatch agreements

We generally enter into long-term labor dispatch agreements with our labor dispatch providers and demand their provision of manpower in accordance with the agreements from time to time. Set forth below are certain key aspects of our agreements with labor dispatch providers.

- *Term.* The labor dispatch agreements generally have a term of one year.
- *Scope of work.* The labor dispatch agreements specify the details of the manpower we may demand, including the types of work to perform, location of the work, number of workers to dispatch, and duration of the dispatch period. During the Track Record Period, the dispatched workers were assigned primarily to perform on-site sampling.
- *Labor dispatch fees.* The labor dispatch agreements specify that labor dispatch fees include predetermined compensation and social insurance contributions to each of the dispatched workers assigned to perform the work during the dispatch period, plus a base fee to the labor dispatch provider, which is typically a percentage of the overall compensation paid to the dispatched workers.
- *Settlement.* Compensation to the dispatched workers and the social insurance contributions are paid in a lump sum to the labor dispatch provider on monthly basis. The payment method is generally by wire transfer. Upon receipt of labor dispatch fees from us, the labor dispatch provider is obligated to pay the dispatched workers the agreed compensation and make relevant social insurance contributions, and will be liable for failure to make full payment in a timely manner. As advised by our PRC legal advisers, in accordance with Interim Provisions on Labor Dispatch (勞務派遣暫行規定), labor dispatch providers shall contribute social insurance premiums for the dispatched workers in accordance with the law and complete the relevant procedures in relation to social insurance, as required by the interim provisions and as agreed upon in the labor dispatch agreements.

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- *Responsibility of workplace safety.* We are responsible for providing safety technical training and necessary protective gear to the dispatched workers. If any dispatched worker suffers work-related injury during the dispatch period, we are responsible for all additional expenditures not covered by insurance.
- *Termination.* We may terminate the labor dispatch agreements and claim for damages if any dispatched worker violates any of our technical standards and operational procedures or any applicable laws or regulations. The labor dispatch provider may terminate the agreement and claim for the unpaid amount if we fail to make payment of labor dispatch fees within an agreed time after our receipt of the bills. If the agreement is terminated due to our failure to make full payment on labor dispatch fees, we are also required to compensate the dispatched workers, whose work relationship is thus terminated with us, pursuant to the relevant PRC laws and regulations.

Dispatched workers represented approximately 15.9%, 10.7% and 9.7% of our entire workforce in 2013, 2014 and 2015, respectively. We are not aware of any material labor dispute arising from our retention of dispatched workers during the Track Record Period.

Port Companies and Sampling Equipment Companies

We pay port charges to the local port companies for access to the port for on-site sampling. In case of mechanical sampling work, we generally rely on mechanical sampling equipment owned by the local port companies or sampling equipment companies, which are generally affiliates of the local port companies. The owner of the port (i.e., a port company) is customarily responsible for the construction of the port infrastructure and ensuring all port facilities are properly installed. As mechanical sampling equipment must be preinstalled and attached to the ground for proper functioning and therefore generally forms part of the port infrastructure, it is customary for coal testing and inspection companies to lease such equipment from the port companies that operate the local ports or their affiliated sampling equipment companies. Leasing cost is generally included in the port charges. During the Track Record Period, our top five suppliers included Qinguangdao Port Co., Ltd. (秦皇島港股份有限公司) (port company), Tianjin Port Lianfa Automatic Mechanical Coal Sample Co., Ltd. (天津口岸聯發煤炭自動化機械取樣有限公司) (sampling equipment company), SDIC Caofeidian Port Co., Ltd. (國投曹妃甸港口有限公司) (port company), and Shenhua Hengyun (sampling equipment company). We also rely on the mechanical sampling equipment installed by the power generation companies for mechanical sampling work and the leasing cost is reflected in our services fees.

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Principal terms of port-related agreements

We generally enter into port-related agreements with our port company suppliers and sampling equipment company suppliers. Set forth below are certain key aspects of these port-related agreements.

- *Term.* Port-related agreements generally have a term of one year.
- *Scope of activities.* Under on-site sampling service agreements, we are typically granted the right to access the port and conduct on-site sampling, and/or the right to mandate technicians from the port company or the sampling equipment company to operate their mechanical sampling equipment and conduct on-site sampling for us, in which case we are entitled to send field inspectors to supervise the mandated on-site sampling. Our field inspectors also communicate with the technicians from the port company or the sampling equipment company beforehand to ensure that they have a clear understanding of our sampling procedure and standards.
- *Leased mechanical sampling equipment.* We typically require the port company or the sampling equipment company to provide a performance test report and certificate on the functionality of the mechanical sampling equipment that we utilize. For the mechanical sampling equipment that we lease on a long-term basis, our field inspectors perform regular checks on its conditions and timely inform the lessor of any mechanical malfunction. Under our agreements, the lessor is responsible for the daily maintenance of the leased equipment pursuant to our specified quality control standards.
- *Fees and settlement.* We are required under the agreements to pay port charges and service expenses based on the actual quantity of coal subject to on-site sampling at a predetermined rate. We typically settle the outstanding port charges and service expenses on a monthly or quarterly basis. The payment method is generally by wire transfer.
- *Damages and termination.* In general, if we fail to make timely payment of the port charges or service expenses, we will be required to pay liquidated damages, and the supplier may be entitled to terminate the relevant agreement in case of significant payment delays.

Criteria for Supplier Selection

We generally maintain a list of approved suppliers. We review this list on an annual basis and consider whether any supplier should be removed or added. In selecting a new supplier, we generally consider whether the supplier candidate has passed the relevant quality authentication, obtained the relevant production permit, and/or received favorable recommendations.

During the Track Record Period, we did not experience any difficulty in procuring equipment or services from our suppliers and did not receive any material claims from our customers in respect of the quality of equipment or services from our suppliers.

RESEARCH AND DEVELOPMENT

Our research and development activities are focused primarily on optimizing the testing procedures, especially the sampling process, which is one of the key steps in our testing services to ensure that the results fairly and accurately represent the entire bulk cargo. The two key areas that we focus on are the automation of sampling and testing process and a computer-based information system to integrate the testing data from all of our service centers. The automation technology involves the utilization of automated and semi-automated machinery to reduce labor costs, minimize human error and improve efficiency for our services. The information system that we have put into practice is able to consolidate the testing data from every on-site sampling, sample preparation, inspection or test performed by each of our service centers into one database, which can facilitate information sharing and exchange within our network and enable our quality control team to better manage the process of service performance and monitor our overall service quality.

To ensure the relevancy of our improvement efforts, we have staffed our research and development team with technicians on the ground who understand the needs of our customers and how we can improve our services to address them. For example, our technicians independently developed a water suction checker device that allows us to discover hidden clogs in a vessel's water tank due to natural causes or dishonest act, which may improve the reliability of our inspection results by more accurate measurement of water displacements. Our research and development team is led by Mr. LI Xiangli (李向利), our chairman and chief executive officer, and Mr. LIU Yi (劉翊), our vice president, both with over 25 years of experience in coal analysis and testing. As of the Latest Practicable Date, we had six registered inventions, six registered utility models and two inventions pending registration in China, relating primarily to mechanical sampling techniques and informatized management of coal testing.

In addition to in-house improvement efforts, we have collaborated with third-party institutions in developing integrated systems that manage and monitor unmanned coal testing and inspection, which will further promote our automation and informatization capabilities. In October 2015, we entered into a strategic cooperation framework agreement with Shenyang Siasun Robot & Automation Co., Ltd. (瀋陽新松機器人自動化股份有限公司), a public company focusing on robotics and intelligent equipment manufacturing. Pursuant to this agreement, the parties agreed to collaborate in the development, design, production, testing and marketing of an integrated system that operates, manages and monitors unmanned coal testing and inspection. Upon the release of this system into the market, we will act as the distributor of this system and enjoy a preferential factory price granted by our partner. The intellectual property rights to the system will be jointly owned by both parties.

We incurred research and development expenses of approximately RMB6.9 million, RMB7.6 million and RMB7.1 million for 2013, 2014 and 2015, respectively.

INFORMATION TECHNOLOGY SYSTEMS

Our information technology systems are integral to many aspects of our business operations, including order processing, quality control, laboratory information management, customer service and financial management. Historically, we have incorporated a number of functions into our information technology systems to improve the efficiency and quality of our services and to further strengthen our quality control and financial management capabilities, which include the following.

- *Information technology system for service offerings* supports the key business process in our service offerings, including primarily on-site sampling monitoring, sample preparation monitoring, anonymized sample tracing, test results verification and certificate issuance.
- *Information technology system for financial management* supports the key function in our financial management, such as capital management and monitoring, financial reporting, budgeting management, account management and loan drawdown and repayment management.
- *Website*: we maintain our official website at www.huaxialihong.com, which includes an online application platform for our services, an online data base for issued certificates and reports, and a customer inquiry channel.

In 2013, we began to develop an in-house information system that is designed to encompass a broad array of operational, management and analytical functionalities, including an integrated customer management and business management system that interconnects our network of service centers, a real-time quality control system, a technical support system and a data room for market analysis and projection. Our in-house information system is intended to provide a streamlined business process management system, which will enable us to effectively monitor and manage our service offering across China, and a centralized data warehouse to support data analysis and information processing for our entire Group. Our in-house information system currently interconnects all of our service centers via the Internet into an integrated platform where each stage of our services, including on-site sampling at any location, can be closely monitored real-time and relevant data can be collected, recorded and processed live.

We may face information technology risks arising from the improper performance or malfunction of our information technology systems on which our operations significantly rely. We manage our information technology risks through information technology governance, information system formulation, system maintenance and information security. Our in-house information technology team collaborates with our third-party service providers to supervise the implementation of information technology-related rules and procedures.

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COMPETITION

The market size of the coal testing and inspection industry in China reached RMB0.8 billion in terms of revenue in 2015, growing at a CAGR of 27.4% from 2010 to 2015. According to the Forward Report, there are currently approximately 300 coal testing companies in China. A majority of these coal testing companies are local companies that serve a certain port or trading area, and the top five players commanded a combined market share of 61.1% in terms of revenue in 2015. We expect the competition to intensify as a result of the adoption of open tender policies by state-owned enterprises to outsource coal testing and inspection in recent years. As we are able to serve our customers from our service centers at all the major coal-trade ports in China, we compete primarily with coal testing companies with a nationwide coverage, including SGS and CCIC. See “Industry Overview” for more details.

As we focus our service offerings on coal testing and inspection, we compete with SGS, CCIC and other reputable players for the coal testing and inspection market by dedicating our efforts to building a management system and a quality control system specifically designed for coal testing. We may not be able to compete effectively if our multinational peers devote more financial and human resources to developing coal testing services in China, or if government policies change to favor our state-owned peers locally. We may be also compelled to open new service centers in the geographical markets where the competition has intensified, or to re-allocate our management attention and financial resources to reinforce a particular service offering that has become the focus of the competition. In a competitive open tender process, we may have to submit a lower tender price or offer more favorable terms to our customers in order to increase the competitiveness of our tender. Despite the intense competition we face, we believe that we are well-positioned to successfully compete against our competitors. See “— Competitive Strengths” above for more details.

MATERIAL AWARDS AND CERTIFICATES

During the Track Record Period, our services and operations have earned a number of recognitions, a summary of which is as follows.

<u>Award/Certificate</u>	<u>Issuing Organization</u>	<u>Issuing Date</u>	<u>Expiry Date</u>
Vice Chairman Unit of Professional Committee of Coal Quality Inspection of China Association for Quality Inspection (中國質量檢驗協會煤炭質量檢驗專業委員會副理事長單位)	Professional Committee of Coal Quality Inspection of China Association for Quality Inspection (中國質量檢驗協會煤炭質量檢驗專業委員會)	March 2012	February 2017
Vice President Unit of Import and Export Commodity Inspection and Survey Organization Branch of China Entry-Exit Inspection and Quarantine Association (中國出入境檢驗檢疫協會進出口商品檢驗鑒定機構分會副會長單位)	Import and Export Commodity Inspection and Survey Organization Branch of China Entry-Exit Inspection and Quarantine Association (中國出入境檢驗檢疫協會進出口商品檢驗鑒定機構分會)	September 28, 2012	N/A

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Award/Certificate	Issuing Organization	Issuing Date	Expiry Date
Zhongguancun Top 100 High Growth Enterprises (中關村高成長企業TOP100)	Beijing Zhongguancun High-tech Enterprises Association (北京中關村高新技術企業協會)	July 2013	N/A
Executive Director Unit of China Entry & Exit Inspection and Quarantine Association (中國出入境檢驗檢疫協會常務理事單位)	China Entry & Exit Inspection and Quarantine Association (中國出入境檢驗檢疫協會)	December 2013	December 2018
Laboratory Accreditation Certificate (實驗室認可證書)	CNAS	January 17, 2014	January 16, 2017
Inspection Body Accreditation Certificate (檢查機構認可證書)	CNAS	January 17, 2014	January 16, 2017
Patent Pilot Certificate (專利試點證書)	Beijing Intellectual Property Office (北京市知識產權局)	February 2014	N/A
Executive Director Unit of the First Council of China Society of Inspection and Quarantine (中國檢驗檢疫學會第一屆理事會常務理事單位)	China Society of Inspection and Quarantine (中國檢驗檢疫學會)	May 2014	May 2019
Director Unit of China Association for Consumer Products Quality and Safety Promotion (中國消費品質量安全促進會理事單位)	China Association for Consumer Products Quality and Safety Promotion (中國消費品質量安全促進會)	August 2014	July 2019
High and New Enterprise in Zhongguancun (中關村高新技術企業)	Administrative Committee of Zhongguancun Science Park (中關村科技園區管理委員會)	August 29, 2014	August 28, 2017

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Award/Certificate	Issuing Organization	Issuing Date	Expiry Date
High and New Enterprise Certificate (高新技術企業證書)	Beijing Municipal Science & Technology Commission (北京市科學技術委員會), Beijing Municipal Finance Bureau (北京市財政局), Beijing Municipal Office, SAT (北京市國家稅務局) and Beijing Local Taxation Bureau (北京市地方稅務局)	October 22, 2014	October 21, 2017
Quality Credit Rate of AAA+ (AAA+質量信用等級證書)	China Association for Quality Inspection (中國質量檢驗協會)	November 18, 2014	November 17, 2017
Top 100 Private Enterprises in Chaoyang District, Beijing (北京市朝陽區百強民營企業)	Federation of Industry and Commerce of Chaoyang District, Beijing (北京市朝陽區工商業聯合會)	February 6, 2015	N/A
Certificate of Registration (ISO 9001:2008)	Guardian Independent Certification Ltd.	November 2, 2015	September 15, 2018
Certificate of Registration (OHSAS 18001: 2007)	Guardian Independent Certification Ltd.	November 2, 2015	November 1, 2018

INTELLECTUAL PROPERTIES

As of the Latest Practicable Date, we were the registered owner of three trademarks, nine domain names, six inventions, six utility models, one software copyright in China and one trademark in Hong Kong. We also have applied for the registration of two inventions in China. For details of our intellectual properties, see “Appendix V — Statutory and General Information.” We rely primarily on laws of trademark, patent, copyright, and trade secrets, as well as on confidentiality agreements entered into with employees or third parties to protect our intellectual property. During the Track Record Period, no material claims or disputes were brought against us in relation to any infringement of trademark, patent, or any other intellectual property. In addition, we had not experienced any infringement of our intellectual property rights which had a material adverse effect on our business and results of operation as of the Latest Practicable Date. While we rely to a certain extent on our brand name when marketing our services, our business is otherwise not materially dependent on any intellectual property right.

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INSURANCE

We maintain automobile insurance and personal injury insurance. We do not maintain insurance coverage for non-performance of contracts for our services and other risks associated with our business, such as professional liability. See “Regulation – PRC Laws and Regulations Relating to the Testing and Inspection Industry” for details of potential liability for violation of the applicable statutory standards in rendering testing and inspection services. We were informed by several major insurance companies in China that such insurance coverage is not yet available for coal testing companies. We are also advised by our PRC legal advisers that there is no regulatory requirement for a coal testing and inspection services provider to maintain insurance coverage for professional liability in China. Our Directors therefore reasonably believe that the insurance coverage for professional liability is not yet available in the coal testing and inspection industry. As such, we do not maintain insurance coverage for professional liability, which we believe is consistent with industry practice in China. For risks related to our lack of insurance coverage for professional liability, see “Risk Factors – Risks Relating to Our Business and Industry – Our insurance coverage may not be sufficient to cover all losses and we may incur substantial costs as a result of a severe business liability or disruption or other unexpected events.”

As of the Latest Practicable Date, we had not made nor been the subject of any material insurance claims. Our Directors believe that the insurance coverage maintained by us is consistent with our current business operation and industry practice.

PROPERTIES

Our PRC headquarters are located in Beijing, China. We occupy certain properties elsewhere in China in connection with our business operation. All of our properties were in safe and habitable conditions during the Track Record Period and up to the Latest Practicable Date. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include premises for our offices, laboratories, workshops and employee dormitories. See “Appendix III – Property Valuation” for further details.

Owned Properties

As of the Latest Practicable Date, we owned five properties with an aggregate gross floor area of approximately 1,055 square meters in China, primarily located in Beijing and Cangzhou, Hebei province. The properties we owned in China are primarily used for investment and employee residence. We have obtained valid building ownership certificates for all five properties. We have been advised by our PRC legal advisers that we have legal ownership over these properties. The property located in Beijing has been mortgaged to secure a bank loan and we may not dispose of the property without the prior written consent from the bank.

Land Use Rights

As of the Latest Practicable Date, we owned the land use right to two parcels of land located in Tangshan, Hebei province and Cangzhou, Hebei province, respectively, with a total site area of approximately 9,580 square meters. We have obtained the land use right certificates of all two parcels of land and, as advised by our PRC legal advisers, have obtained land use rights of these parcels of land. We plan to construct new service facilities on these parcels of land or the replacement land as part of our expansion plans. For details, see “— Our Service Offerings — Expansion Plans.”

- *Tangshan land.* This parcel of land has a site area of approximately 5,928 square meters and is for wholesaling and retailing use. We obtained this parcel of land in September 2015 through assignment. As of the Latest Practicable Date, there was a construction project under development on this parcel of land.
- *Cangzhou land.* This parcel of land has a site area of approximately 3,652 square meters and is for commercial use. We purchased this parcel of land and the construction work on it in December 2014 from an independent third party. As of the Latest Practicable Date, there was a construction project under development on this parcel of land, see “— Properties — Construction in Progress” for details.

In May 2016, we succeeded in bidding for the state-owned land use right to a parcel of land located in the Binhai New District, Tianjin, with a site area of approximately 12,627 square meters. We plan to use this parcel of land as the site of our new service facilities in Tianjin. See “— Our Service Offerings — Expansion Plans.” We expect to enter into an assignment agreement relating to this parcel of land with the competent land regulatory authority in the third quarter of 2016. As confirmed by our PRC legal advisers, there are no legal obstacles to our obtaining the relevant land use right if we fulfill our obligations under the assignment agreement.

Construction in Progress

As of the Latest Practicable Date, we had two projects under development in Tangshan, Hebei province and Huanghua (Cangzhou), Hebei province, respectively, with an aggregate planned gross floor area of approximately 9,717 square meters.

- *Tangshan project.* This project has an aggregate planned gross floor area of approximately 5,696 square meters, and will function as our new service facilities in Tangshan after completion. See “— Our Service Offerings — Expansion Plans.”
- *Cangzhou project.* This project has an aggregate planned gross floor area of approximately 4,021 square meters, and will function as our new service facilities in Cangzhou after completion. See “— Our Service Offerings — Expansion Plans.” We purchased the construction project from an independent third party. Pursuant to a confirmation letter dated December 22, 2015 issued by the Cangzhou Bohai New Area Bureau of Administrative Examination and Approval (滄州渤海新區行政審批局), the seller applied for the relevant pre-completion approval procedures for the construction project and the construction-related permits and approvals are still in effect. Therefore, as confirmed by the Cangzhou Bohai New Area Bureau of Administrative Examination

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and Approval, we may proceed to the inspection and acceptance stage upon completion of the construction and are not required to separately obtain the construction-related permits and approvals. We have been advised by our PRC legal advisers that the Cangzhou Bohai New Area Bureau of Administrative Examination and Approval is the competent authority to issue such confirmation letter. Based on the foregoing facts and circumstances, our Directors reasonably believe that there are no substantive legal obstacles to obtain relevant building ownership certificates after passing inspection upon completion of the construction.

Leased Properties

As of the Latest Practicable Date, we leased from various independent third parties 20 properties in China, 15 of which had an aggregate leased area of approximately 10,068 square meters according to relevant lease agreements, and five of which had an aggregate leased area of approximately 2,028 square meters based on reasonable estimates of our Directors. We have been advised by our PRC legal advisers that all of our leases are legal and valid save as disclosed below.

The following table sets forth the lease terms and expiry dates for the properties leased by each of our service centers.

<u>Tianjin</u>	<u>Tangshan</u>	<u>Qinhuangdao</u>	<u>Huanghua</u>	<u>Nanjing</u>	<u>Xiangtan</u>	<u>Guangzhou</u>	<u>Zhuhai</u>
<ul style="list-style-type: none"> • July 2016 to June 2017 	<ul style="list-style-type: none"> • May 2016 to December 2016 	<ul style="list-style-type: none"> No written lease⁽¹⁾ 	<ul style="list-style-type: none"> • June 2014 to August 2016 	<ul style="list-style-type: none"> • September 2012 to September 2022 	<ul style="list-style-type: none"> • June 2014 to May 2017 	<ul style="list-style-type: none"> • September 2012 to August 2016 	<ul style="list-style-type: none"> • January 2016 to December 2017
<ul style="list-style-type: none"> • January 2016 to December 2016 	<ul style="list-style-type: none"> • January 2016 to December 2016 			<ul style="list-style-type: none"> • December 2014 to December 2016 	<ul style="list-style-type: none"> • June 2014 to May 2017 	<ul style="list-style-type: none"> • September 2012 to August 2016 	<ul style="list-style-type: none"> • July 2013 to June 2018
<ul style="list-style-type: none"> • January 2016 to December 2016 							<ul style="list-style-type: none"> • July 2013 to June 2018
<ul style="list-style-type: none"> • May 2015 to April 2017 							

(1) See “— Properties — Leased Properties — Title defects” for details about the title defects of our leased property in Qinhuangdao.

Our current operations on leased premises are exposed to a number of inherent risks and limitations, including restrictive lease terms, availability of new premises to expand our operations and property title defects. See “Risk Factors — Risks Relating to Our Business and Industry — We face certain risks relating to the properties we lease.” We plan to construct new service facilities on self-owned land in the Four Northern Ports to support our business growth, which will, to a large extent, eliminate these risks and limitations, allowing us more stability in business operations. See “— Our Service Offerings — Expansion Plans.” Subject to the progress of our expansion plans, we will renew our leases or negotiate new lease terms when the existing leases expire. We did not experience material difficulties in negotiating renewal of our leases with our landlords during the Track Record Period.

Title defects

In respect of seven of our leased properties with an aggregate leased area of approximately 11,012 square meters which are primarily used as offices and laboratories, our landlords have not provided us with evidence of their valid building ownership rights or land use rights, the relevant title documents or evidence of their relevant rights or authority to lease such properties. There remains uncertainty about the validity of the leases of such properties. Should disputes arise due to title encumbrances to such properties or government action, we may encounter difficulties in continuing to lease such properties and may be required to relocate. Set forth below are our relocation plans if we are required to vacate from any of our other leased properties. See “— Legal Proceedings and Compliance — Internal Controls” for more details about our measures to avoid title defects in our leased properties in the future.

- *Leased properties in Xiangtan.* Two leased properties in Xiangtan, Hunan province, with an aggregate leased area of approximately 1,308 square meters, are used primarily for business operation purposes. For 2013, 2014 and 2015, we generated a revenue of nil, nil and RMB8.1 million from the usage of these properties, respectively, accounting for nil, nil and 5.2% of our total revenue for the same periods, respectively. Should we be required to vacate from these properties, our Directors estimated that the time to relocate is approximately seven days, and the cost to relocate is approximately RMB46,000.
- *Leased property in Qinhuangdao.* One leased property in Qinhuangdao, Hebei province, with a leased area of approximately 9,000 square meters, is used primarily for business operation purposes. For 2013, 2014 and 2015, we generated a revenue of RMB35.2 million, RMB33.3 million and RMB30.0 million from the usage of this property, respectively, accounting for 30.1%, 23.9% and 19.3% of our total revenue for the same periods, respectively. Should we be required to vacate from this property, our Directors estimated that the time to relocate is approximately eight days, and the cost to relocate is approximately RMB27,400.
- *Leased properties in Zhuhai.* Three leased properties in Zhuhai, Guangdong province, with an aggregate leased area of approximately 688 square meters, are used primarily for business operation purposes. For 2013, 2014 and 2015, we generated a revenue of nil, RMB6.3 million and RMB5.5 million from the usage of these properties, respectively, accounting for nil, 4.5% and 3.6% of our total revenue for the same periods, respectively. Should we be required to vacate from these properties, our Directors estimated that the time to relocate is approximately four days, and the cost to relocate is approximately RMB16,000.
- *Leased property in Guangzhou.* One leased property in Guangzhou, Guangdong province, with a leased area of approximately 16 square meters, is used for office purposes. Our Directors consider that its title defect does not have a material adverse effect on our business and results of operations as we are able to relocate our office to comparable premises nearby.

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As of the Latest Practicable Date, we were not aware of any challenge being made by a third party or government authority on the titles of any of these leased properties that might affect our current occupation. In addition, our Directors do not anticipate any material practical difficulty in identifying comparable alternative premises for any of the defective premises above. Save for the relocation costs disclosed above, our Directors believe that relocation will not have a material adverse impact on our business, results of operation and financial position.

The lessors of five properties of the above seven properties have provided us with written confirmation letters in respect of an aggregate leased area of approximately 1,996 square meters and undertaken to indemnify us for all losses arising from disputes or title defects on the property ownership of such leased properties that may affect our interests under the relevant lease agreements. In cases where our ability to continue leasing such properties is affected by a third-party objection, we may seek indemnity from the lessor based on the undertaking. Five of these seven lease agreements have not been registered with relevant administrative authorities.

Non-registration

We have 13 leased properties with legal and valid leases. In respect of five of the 13 leased properties with an aggregate leased area of approximately 2,729 square meters, their relevant lease agreements have not been registered with relevant administrative authorities. We have been advised by our PRC legal advisers that the non-registration of the lease agreements will not affect the validity of such lease agreements, but competent administrative authorities may order parties to the lease agreements to complete the registration within a certain time limit and impose a fine ranging from RMB1,000 to RMB10,000 if the relevant parties fail to do so. As such, we are entitled to use the properties according to the lease agreements. Our Directors confirm that our business, financial condition, results of operations and prospects would not be materially affected by any potential fines or penalties that may be imposed by the administrative authorities for non-registration of the lease agreements.

The lessors of three properties of the five leased properties have provided us with written confirmation letters in respect of an aggregate leased area of approximately 2,674 square meters and undertaken to indemnify us for all losses arising from non-registration of the lease agreements.

BUSINESS

EMPLOYEES

We believe we owe much of our success to our people. Therefore, we strive to build and maintain a strong team of employees. We recruit our employees based on a number of factors, including their work experience, educational background and the needs of our vacancies, and provide our employees with on-the-job education, training and other opportunities to improve their skills and knowledge. We also from time to time outsource staffing from labor dispatch providers to assist in on-site manual sampling work. For details, see “— Suppliers and Labor Dispatch Providers — Labor Dispatch Providers.” As of the Latest Practicable Date, we had 744 employees in total. The following table sets forth the number of our employees by function as of the Latest Practicable Date.

<u>Function</u>	<u>Number of Employees</u>	<u>Percentage of Total</u>
Management	32	4.3%
Finance	15	2.0%
Administration	69	9.2%
Operation	525	70.5%
Quality control	31	4.2%
Research and development	30	4.1%
Sales and marketing	19	2.6%
Others	23	3.1%
Total	<u>744</u>	<u>100.0%</u>

The following table sets forth the number of our employees by geographic location as of the Latest Practicable Date.

<u>Geographic Location</u>	<u>Number of Employees</u>	<u>Percentage of Total</u>
Beijing headquarters	68	9.1%
Qinhuangdao	87	11.7%
Tangshan	116	15.6%
Tianjin	125	16.8%
Cangzhou	150	20.2%
Other regions	198	26.6%
Total	<u>744</u>	<u>100.0%</u>

BUSINESS

Our employee compensation includes base salary, bonuses and cash subsidies. In general, we determine employee compensation based on each employee's performance, qualifications, position and seniority. We are subject to social insurance contribution plans organized by PRC local governments. In accordance with the relevant national and local social welfare and housing reserve fund laws and regulations, we are required to pay, on behalf of our employees, monthly social insurance premiums covering basic pension insurance, basic medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing reserve fund.

We believe we have maintained good relationships with our employees. Our employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements. We have not experienced strikes or significant labor disputes which have had or are likely to have a material adverse effect on our business operation.

As of the Latest Practicable Date, we had 84 employees that held the Certificate of Qualification for Proficiency Test of Practitioner at Institution of Import and Export Commodity Inspection and Survey (進出口商品檢驗鑒定機構人員水平考試合格證書), which is a qualification license that permits the holder to perform quality testing and inspection on imported or exported commodities in China. Thirty of these holders were from the testing team, 26 from the sampling team, 19 from the quality control team and nine from the sample preparation team. While this certificate attests to the holder's adherence to nationwide industrial standards in quality testing and inspection, it is not mandatory for our current service offerings which focus on domestic coal trade. We believe we are prepared to perform quality testing and inspection on imported or exported coal in China should the opportunities arise.

ENVIRONMENTAL, HEALTH AND WORKPLACE SAFETY MATTERS

We are subject to national and local environmental laws and regulations where our operations concerning, among others, emissions to the air, the generation, handling, storage, transportation, treatment and disposal of waste and other materials, and the remediation of environmental pollution relating to our properties and operations. See "Regulation" for additional information.

Environmental Protection

Waste water and waste residuals are the primary wastes from our operations. As a standard internal procedure, our technicians working at sampling workshops and laboratories are responsible for collecting waste water and waste residuals on a timely basis. These wastes are stored in waste containers separately from household waste for an appropriate period of time, and then processed with neutralizing chemicals to dissolve the polluting components before emission. In addition, we provide regular education sessions on environmental protection to our employees.

We obtained the Laboratory Accreditation Certificate (實驗室認可證書) and the Inspection Body Accreditation Certificate (檢查機構認可證書) from the CNAS, which represents our compliance with the CNAS's requirements on environmental protection measures. The CNAS requires the adoption of specific internal policies on pollution control and installation of relevant anti-pollution equipment in all of the laboratories in operation.

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For additional information on the environmental impact assessment reporting procedures, see “— Legal Proceedings and Compliance — Non-compliance — Environmental protection-related procedures.”

We did not incur material environmental compliance cost during the Track Record Period. We expect our annual cost of compliance with environmental protection laws and regulations for 2016 to be approximately RMB182,000.

Health and Workplace Safety Law

We are also subject to the PRC laws and regulations regarding labor, safety and work-related incidents. All of our employees and dispatched contract workers receive safety training and education on a regular basis. We have designated field safety inspectors to conduct real-time inspections and oversee the operation of our workshops and laboratories to maintain proper and safe working environment. Our safety inspectors are generally experienced field staff or technicians that have in-depth knowledge of our safety protocols as applied in practice. To ensure the safety and improve the work conditions of our staff, field inspectors are required to wear safety helmets and reflective vests when conducting on-site sampling, and staff working at workshops and laboratories are required to wear necessary protective gear such as dusk masks and work gloves. During the Track Record Period, we did not experience any material accident that caused injury to our staff or damage to our properties.

During the Track Record Period, no administrative sanctions or penalties that had a material adverse effect on our financial condition or business operations had been imposed upon us for the violation of environmental protection or safety laws or regulations.

APPROVALS, LICENSES AND PERMITS

As advised by our PRC legal advisers, during the Track Record Period and up to the Latest Practicable Date, we had obtained all the requisite approvals, licenses and permits from the relevant regulatory authorities for our operation in China and all of them are in force as of the Latest Practicable Date. For details of the requisite approvals, licenses and permits, see “Regulation.” A summary of our approvals, licenses and permits is as follows:

<u>Approval/ License/Permit</u>	<u>Issuing Organization</u>	<u>Holder</u>	<u>Issuing Date</u>	<u>Expiry Date</u>
Certificate of Qualification for Institution of Import & Export Commodity Inspection and Survey (進出口商品檢驗鑒定機構資格證書)	AQSIQ	Cangzhou Branch of Huaxia Lihong	December 24, 2013	December 23, 2016

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<u>Approval/ License/Permit</u>	<u>Issuing Organization</u>	<u>Holder</u>	<u>Issuing Date</u>	<u>Expiry Date</u>
China Metrology Accreditation Certificate (計量認證證書)	Administration of Quality and Technology Supervision of Guangdong Province (廣東省質量技術監督局)	Zhuhai Lihong	June 30, 2014	June 29, 2017
China Metrology Accreditation Certificate (計量認證證書)	Hebei Provincial Administration of Quality and Technical Supervision (河北省質量技術監督局)	Cangzhou Branch of Huaxia Lihong	October 29, 2014	October 28, 2017
Certificate of Qualification for Institution of Import & Export Commodity Inspection and Survey (進出口商品檢驗鑒定機構資格證書)	AQSIQ	Huaxia Lihong	November 24, 2014	November 23, 2017
China Metrology Accreditation Certificate (計量認證證書)	Administration of Quality and Technology Supervision of Guangdong Province (廣東省質量技術監督局)	Guangzhou Lihong	December 2, 2014	December 1, 2017
China Metrology Accreditation Certificate (計量認證證書)	Administration of Quality and Technology Supervision of Hunan Province (湖南省質量技術監督局)	Hunan Lihong	January 9, 2015	January 8, 2018
China Metrology Accreditation Certificate (計量認證證書)	Hebei Provincial Administration of Quality and Technical Supervision (河北省質量技術監督局)	Tangshan Lihong	June 4, 2015	May 26, 2018
China Metrology Accreditation Certificate (計量認證證書)	Tianjin Market and Quality Supervision Administration (天津市市場和質量監督管理委員會)	Tianjin Lihong	June 5, 2015	June 4, 2018

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<u>Approval/ License/Permit</u>	<u>Issuing Organization</u>	<u>Holder</u>	<u>Issuing Date</u>	<u>Expiry Date</u>
China Metrology Accreditation Certificate (計量認證證書)	Hebei Provincial Administration of Quality and Technical Supervision (河北省質量技術監督局)	Qinhuangdao Lihong	July 31, 2015	August 28, 2018
Testing and Inspection Institution Qualification Recognition Certificate (檢驗檢測機構資質認定證書) ⁽¹⁾	Jiangsu Quality and Technology Supervision Administration (江蘇省質量技術監督局)	Nanjing Branch of Huaxia Lihong	December 14, 2015	December 13, 2021

- (1) Pursuant to the Testing and Inspection Institution Qualification Recognition Certificate and Requirements on Use (檢驗檢測機構資質認定證書及其使用要求), a supplementary procedure to the Administrative Measures for the Qualification Recognition of Testing and Inspection Agencies (檢驗檢測機構資質認定管理辦法), effective on August 1, 2015, a qualified candidate will be granted a Testing and Inspection Institution Qualification Recognition Certificate (檢驗檢測機構資質認定證書) in lieu of the former China Metrology Accreditation Certificate (計量認證證書).

RISK MANAGEMENT

We are exposed to various risks during our operation. For more details, see “Risk Factors.” We have implemented various policies and procedures to ensure effective risk management at each aspect of our operation, including the provision of on-site inspection, surveying and sampling services, performance of analytical tests in our laboratories, administration of daily operation, financial reporting and recording, fund management, compliance with applicable laws and regulations on environmental protection and workplace safety. Our Board oversees and manages the overall risks associated with our operation. We have established an audit committee to review and supervise the financial reporting process and internal control system of our Group. See “Directors and Senior Management — Board Committees — Audit Committee” for the qualifications and experience of the committee members as well as a detailed description of the responsibility of our audit committee.

We have prepared written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We are subject to legal proceedings, investigations and claims incidental to the operation of our business from time to time. During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material litigation or arbitration proceedings pending or, to our knowledge, threatened against us or any of our directors that could have a material adverse effect on our business, financial condition or results of operation.

Non-compliance

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in China. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any non-compliance that, in the opinion of our Directors, is likely to have a material adverse effect on our business, financial condition or results of operation. As advised by our PRC legal advisers, during the Track Record Period and up to the Latest Practicable Date, save as the incidents of non-compliance as set out below, we had complied with applicable PRC laws and regulations in all material respects.

Social insurance plans and housing reserve fund

During the Track Record Period, we did not make adequate social insurances for our employees. In addition, we did not register with the relevant housing reserve fund authorities or make adequate housing reserve fund contributions for all of our employees in a timely manner during the Track Record Period. Our non-compliance was primarily due to employee oversight and lack of communication with the relevant authorities with regard to specific local practice.

As advised by our PRC legal advisers, late fees and fines may be imposed on an employer for not making full social insurance contributions for employees in a timely manner. If any of the relevant social insurance authorities is of the view that the social insurance contributions we made for our employees do not comply with the requirements under the relevant PRC laws and regulations, it may order us to pay the outstanding balance within a prescribed time period plus a late fee of 0.05% (0.2% if the non-compliance occurred prior to July 1, 2011) of the total outstanding balance per day. If we fail to do so within the prescribed period, we may be subject to a fine ranging between one to three times of the total outstanding balance.

As advised by our PRC legal advisers, if any of the relevant housing reserve fund authorities is of the view that our contributions to the housing reserve fund do not satisfy the requirements under the relevant PRC laws and regulations, it may order us to pay the outstanding balance within a prescribed period. If we fail to do so within the prescribed period, the relevant housing reserve fund authority may apply to a PRC court for an order of payment. In addition, if an employer fails to register and establish an account for housing reserve fund contributions for its employees, the relevant housing reserve fund authority may order the employer to do so within a prescribed time limit. If the employer fails to do so within such prescribed time limit, a fine ranging from RMB10,000 to RMB50,000 will be imposed.

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As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant regulatory authorities with respect to our social insurance or housing reserve fund contributions, nor had we received any order to settle the outstanding amount of such contributions. In addition, we made full provision for the shortfall amounts in social insurance and housing reserve fund contributions. See “Financial Information — Discussion of Certain Items from the Consolidated Statements of Financial Position — Advance from Customers, Other Payables and Accruals.” We will also pay the shortfall amounts in social insurance and housing reserve fund contributions in a timely manner if requested by the relevant regulatory authorities. We estimate that the total shortfall amounts were approximately RMB10.4 million as of December 31, 2015, and believe that the payment of the shortfall amounts would not have a material adverse impact on our business operations and financial condition, considering our cash available and available-for-sale investments which can be redeemed on a same-day basis or otherwise within a short notice period as of April 30, 2016. Based on the foregoing facts and circumstances, and as confirmed by our PRC legal advisers, the Directors reasonably believe that the likelihood that we will be subject to fines due to inadequate social insurance or housing reserve fund contributions is remote.

Beginning in August 2015, we have complied with our obligations for social insurance and housing reserve fund contributions for our employees in accordance with the applicable PRC laws and regulations. As an annual compliance measure following the Listing, we will continue to communicate with our employees with regard to the employee social insurance plans and housing reserve fund, and contribute to the employee social insurance plans and housing reserve fund consistent with the standards stipulated under applicable PRC laws and regulations.

Environmental protection-related procedures

During the Track Record Period, we did not complete the environmental impact assessment reporting procedures for our laboratories. Our non-compliance was primarily due to employee oversight and lack of sufficient knowledge on compliance with environmental protection laws.

As advised by our PRC legal advisers, we may be subject to a fine ranging from RMB50,000 to RMB200,000 per incident for failure to complete the environmental impact assessment reporting procedures within the time period as prescribed in the order by the competent administrative department of environmental protection in accordance with the Law of the PRC on Environment Impact Assessment (中華人民共和國環境影響評價法). As of the Latest Practicable Date, we had not received any order from the competent environmental protection authorities, and no administrative action, fine or penalty had been imposed by the relevant regulatory authorities with respect to our compliance with environmental protection laws, including with environmental impact assessment reporting procedures.

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We have completed the environmental protection-related procedures for six laboratories, and we are applying for the completion acceptance of environmental protection for the other two laboratories. If we are ordered to rectify the non-compliance within a time period by the competent environmental protection authorities and we fail to rectify such non-compliance, we estimate that the maximum penalty for such non-compliance is approximately RMB1.6 million, and believe that paying the penalty would not have a material adverse impact on our business operations and financial condition. Based on the foregoing facts and circumstances, as advised by our PRC legal advisers, the likelihood that we will be subject to fines and/or ordered to cease operations is remote since we had not received any order to rectify such non-compliance from the competent environmental protection authorities as of the Latest Practicable Date, and we have completed the environment impact assessment reporting procedures. Our Directors therefore consider it not necessary to make full provision for such fines or other administrative penalties.

Internal Controls

Our Directors are responsible for monitoring our internal control system and for reviewing its effectiveness. In accordance with the applicable PRC and Hong Kong laws and regulations, we have implemented internal procedures. Particularly, in view of the above issues in respect of our non-compliance incidents and property defects, we will implement the following internal control procedures to ensure our compliance with legal or regulatory requirements in respect of our business operation, and to reduce our exposure to risk of penalties from the PRC regulatory authorities and cost associated in rectifying or responding to property defects:

- We have maintained a list of standards, licenses and filings that are required in order for us to properly operate our business and implement our expansion plans, and will update this list from time to time based on our experience with local authorities and advice from our external advisers.
- We will monitor the attainment of licenses and filings against the list referred to above and ensure that all relevant licenses and filings are obtained and up-to-date.
- We will regularly communicate with our employees with regard to contributions to social insurance plans and housing reserve fund, and with local labor and housing reserve fund authorities with regard to specific local practice. We have designated our internal compliance officer, with the assistance of our external counsel, to study applicable PRC laws and regulations and ensure that we are updated on the latest legal and regulatory requirements.
- We will verify the requisite licenses, qualifications and permits of our counterparty before entering into a binding contract, and negotiate appropriate protective provisions in case our counterparty breaches its contractual obligations, including making relevant government filings.
- We will organize internal training programs to be conducted by in-house or external experts to educate our employees on ethical business practice, including anti-bribery practice. We will initiate an investigation if we receive a report, or otherwise become aware, of any improper or suspicious conduct by our employees.

BUSINESS

We have appointed an internal compliance officer, Mr. WANG Zhao (王釗), a certified public accountant in China with over 10 years of relevant experience in financial system monitoring, management and evaluation. Mr. Wang directly reports to Mr. LI Xiangli, our chairman, and oversees the application and maintenance of required registrations, licenses, permits, filings and approvals for our operations. For further information on Mr. Wang's biography, see "Director and Senior Management — Senior Management."

In addition, we will continue to engage external professional advisers as necessary and work with our internal audit and legal teams to conduct regular review to ensure that all registrations, licenses, permits, filings and approvals are valid and that the renewals of such documents are made in a timely manner. We have also appointed CMB International as our external compliance adviser with effect from the date of the Listing to advise on on-going compliance with the Listing Rules. During the Track Record Period, our Directors did not identify any material internal control weaknesses or failures.

Having considered the facts and circumstances leading to the non-compliance incidents in relation to the employee social insurance and housing reserve fund contributions and environmental impact assessment reporting, the relevant rectification and on-going compliance measures mentioned above, our Directors are of the view that our Group has adequate internal control procedures in place and that these past non-compliance incidents do not affect the suitability of our Directors to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules, and the suitability for listing of our Company under Rule 8.04 of the Listing Rules. The Sole Sponsor concurred with such view of our Directors on the same basis as described above.

DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information regarding our current Directors and senior management. All of our Directors and senior management meet the qualification requirements under relevant PRC laws and regulations and the Listing Rules for their respective positions.

Name	Age	Position	Effective date of appointment of current position	Date of joining our Group	Responsibilities	Relationship with other Directors and senior management
Directors						
Mr. LI Xiangli (李向利)	53	Chairman, executive Director and chief executive officer	January 13, 2016	April 2009	The strategic planning and overall management of our Group, and serving as the chairman of the nomination committee of the Board	Spouse of Ms. ZHANG Aiying
Ms. ZHANG Aiying (張愛英)	53	Executive Director and vice president	January 13, 2016	January 2009	Overall business management, overall management of the procurement and human resources department of our Group, and serving as a member of the remuneration committee of the Board	Spouse of Mr. LI Xiangli
Mr. LIU Yi (劉翊)	51	Executive Director and vice president	January 13, 2016	February 2010	Overall management of sales, quality control and research and development of our Group	N/A
Mr. WANG Gang (王綱)	46	Non-executive Director	January 13, 2016	January 2016	Providing business guidance in relation to the industry to our Group	N/A
Mr. YANG Rongbing (楊榮兵)	36	Independent non-executive Director	June 18, 2016	June 2016	Providing independent advice and judgment to our Board, and serving as the chairman of the audit committee of the Board	N/A
Mr. WANG Zichen (王梓臣)	49	Independent non-executive Director	June 18, 2016	June 2016	Providing independent advice and judgment to the Board, and serving as a member of the audit committee, the remuneration committee and the nomination committee of the Board	N/A

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Effective date of appointment of current position	Date of joining our Group	Responsibilities	Relationship with other Directors and senior management
Mr. ZHAO Hong (趙虹)	54	Independent non-executive Director	June 18, 2016	June 2016	Providing independent advice and judgment to the Board, and serving as the chairman of the remuneration committee and a member of the audit committee and the nomination committee of the Board	N/A

Senior Management (other than Mr. LI Xiangli, Mr. LIU Yi (劉翊) and Ms. ZHANG Aiying, all of whom are executive Directors)

Name	Age	Position	Effective date of appointment of current position	Date of joining our Group	Responsibilities	Relationship with other Directors and senior management
Ms. KANG Aiyun (康愛雲)	44	Vice president	January 2016	January 2016	Overall management of market development of our Group	N/A
Mr. WANG Zhao (王釗)	39	Chief financial officer	January 2016	November 2014	Overall accounting and financial management of our Group	N/A
Mr. LIU Yi (劉藝)	37	Secretary to the Board and assistant to the chief executive officer	January 2016	July 2011	Responsible for managing daily work of the Board; assisting the chief executive officer in managing the business operation of our Group	N/A

BOARD OF DIRECTORS

The Board comprises seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. The powers and duties of our Board include managing our business, convening general meetings and reporting our Board's work at our Shareholder's meetings, preparing financial budgets and final reports, formulating proposals for profit distributions as well as exercising other powers, functions and duties as conferred by our Articles of Association. We have entered into a service contract with each of our executive Directors. We have also entered into a letter of appointment with each of our non-executive Director and independent non-executive Directors.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. LI Xiangli (李向利), aged 53, is the chairman, chief executive officer of our Company and an executive Director. He is the spouse of Ms. ZHANG Aiyong. Mr. Li is primarily responsible for the strategic planning and overall management of our Group. He is also the chairman of the nomination committee of the Board. Mr. Li joined our Group in April 2009 and subsequently established Qinhuangdao Lihong (as legal representative, executive director and general manager), and Tangshan Lihong (as legal representative and executive director), being the only two then subsidiaries of Huaxia Lihong. Mr. Li was appointed as our executive Director on January 13, 2016. He is also the legal representative and executive director of Huaxia Lihong, Qinhuangdao Lihong, Tangshan Lihong, Nanjing Lihong and Hebei Lihong, and the general manager of Qinhuangdao Lihong and Hebei Lihong.

Mr. Li has approximately 27 years of experience in the coal testing and inspection industry. Prior to joining our Group, from October 2008 to April 2009, Mr. Li served as a project manager of CCIC, a state-owned testing company that serves different industries, and was responsible for the establishment of the platform for mineral inspection. From January 1989 to September 2008, he worked at the coal inspection technology center of Qinhuangdao Entry-Exit Inspection and Quarantine Bureau (秦皇島出入境檢驗檢疫局) and was promoted to a deputy director in April 2004, responsible for coal testing and inspection.

Mr. Li obtained a bachelor's degree in chemistry from Hebei Normal College (河北師範學院) in the PRC in July 1985, and a master's degree in materials science from Yanshan University (燕山大學) in the PRC in December 1999. He obtained the qualification as a senior engineer in November 2001 granted by State Administration for Entry-Exit Inspection and Quarantine of the PRC (國家出入境檢驗檢疫局).

Mr. Li had not been a director of any publicly listed company during the three years preceding the Latest Practicable Date.

Ms. ZHANG Aiyong (張愛英), aged 53, is a vice president of our Company and an executive Director. She is the spouse of Mr. LI Xiangli. Ms. Zhang is primarily responsible for overall business management, overall management of the procurement and human resources department of our Group. She is also a member of the remuneration committee of the Board. Ms. Zhang established Huaxia Lihong in January 2009 and acted as an executive director, and was appointed as our executive Director on January 13, 2016. She is also the legal representative, executive director and general manager of Hunan Lihong and Lihong Software, as well as the supervisor of Qinhuangdao Lihong.

Ms. Zhang has over 15 years of experience in coal industry. Prior to joining our Group, from May 1995 to February 2005, Ms. Zhang served as a manager of examination department of Shanxi Coal Import & Export Group Qinhuangdao Branch (山西煤炭進出口集團秦皇島分公司), a company primarily engaged in coal trading, and was responsible for coal testings. From August 1988 to May 1995, she was a teacher at No. 11 High School of Qinhuangdao (秦皇島市第十一中學), and was responsible for teaching chemistry.

Ms. Zhang obtained a bachelor's degree in chemistry from Hebei Normal College (河北師範學院) in the PRC in July 1988.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Zhang had not been a director of any publicly listed company during the three years preceding the Latest Practicable Date.

Mr. LIU Yi (劉翊), aged 51, is a vice president of our Company and an executive Director. He is primarily responsible for overall management of sales, quality control and research and development of our Group. Mr. Liu joined our Group in February 2010 as deputy general manager of Huaxia Lihong, and was appointed as our executive Director on January 13, 2016. He is also the legal representative and executive director of Tianjin Lihong.

Mr. Liu has approximately 28 years of experience in the coal testing and inspection industry. Prior to joining our Group, from September 1988 to January 2010, Mr. Liu worked with Qinhuangdao Entry-Exit Inspection and Quarantine Bureau (秦皇島出入境檢驗檢疫局) and was promoted to the director of the coal inspection technology center in September 2003, responsible for coal inspection. From July 1987 to September 1988, he was a teacher at Hebei Building Materials Vocational and Technical College (河北建材職業技術學院), and was responsible for teaching analytical chemistry.

Mr. Liu obtained a master's degree in materials engineering from Yanshan University (燕山大學) in the PRC in November 2006. He obtained the qualification as a senior engineer in June 1998 granted by National Commodity Inspection Bureau (國家商品檢驗局), currently known as General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局).

Mr. Liu had not been a director of any publicly listed company during the three years preceding the Latest Practicable Date.

Non-executive Directors

Mr. WANG Gang (王綱), aged 46, is a non-executive Director of our Company. He is primarily responsible for providing business guidance in relation to the industry to our Group. Mr. Wang was appointed as our non-executive Director on January 13, 2016.

Mr. Wang has approximately 17 years of experience in testing industry. Since August 2011, Mr. Wang has been serving as a general manager of operation department and legal and investment department of CIC, a company primarily engaged in inspection and certification service, and has been responsible for the overall management of operation, strategic, quality control and investment. From January 2010 to July 2011, Mr. Wang served as the director of the inspection and supervision department of Zhejiang Entry-Exit Inspection and Quarantine Bureau (浙江出入境檢驗檢疫局) and was responsible for the overall management of the inspection and supervision department. From December 2003 to January 2010, Mr. Wang served as a deputy general manager of China Certification & Inspection Group Zhejiang Co., Ltd. (中國檢驗認證集團浙江有限公司), a company primarily engaged in inspection and certification service, and was responsible for inspection and quality management. From December 1999 to December 2003, Mr. Wang served as the head of Zhejiang Entry-Exit Inspection and Quarantine Firm (浙江出入境檢驗檢疫鑒定所) and was responsible for its overall management.

Mr. Wang obtained a bachelor's degree in electrical engineering from Zhejiang University (浙江大學) in the PRC in July 1992. He also obtained a master's degree in finance from Zhejiang University in the PRC in July 2005.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang had not been a director of any publicly listed company during the three years preceding the Latest Practicable Date.

Independent non-executive Directors

Mr. YANG Rongbing (楊榮兵), aged 36, is an independent non-executive Director of our Company. Mr. Yang is primarily responsible for providing independent opinion and judgment to our Board. He is also the chairman of the audit committee of the Board. Mr. Yang was appointed as our independent non-executive Director on June 18, 2016.

Mr. Yang has approximately 10 years of experience in financial management. Mr. Yang is an expert in project investment, financing and management, and is familiar with relevant areas with regard to corporate governance, including financial and taxation policies, operation analysis and cost accounting. Since May 2013, Mr. Yang has been serving as an executive director and vice president of SMI Holdings Group Limited (星美控股集團有限公司), a company listed on the main board of the Stock Exchange (stock code: 0198) and primarily engaged in theater operation, and has been responsible for corporate strategy and overseeing a list of key operational departments including finance and investment departments. From April 2010 to May 2013, Mr. Yang also served in major positions such as manager in financial management of SMI Holdings Group Limited, and was responsible for financial management, capital planning, internal control, investment and financing, and capital operation. From September 2006 to December 2009, Mr. Yang served as a project financial officer of Foreign Economic Cooperation Office of Ministry of Environmental Protection (國家環境保護部對外合作中心), and was responsible for project investment.

Mr. Yang obtained a bachelor's degree in accounting from China University of Mining and Technology (中國礦業大學) in the PRC in July 2002, and a master's degree in business administration from Central University of Finance and Economics (中央財經大學) in the PRC in June 2011. He qualified as a medium-level accountant in December 2008 certified by Beijing Municipal Bureau of Personnel (北京市人事局).

Mr. WANG Zichen (王梓臣), aged 49, is an independent non-executive Director of our Company. Mr. Wang is primarily responsible for providing independent advice and judgment to our Board. He is also a member of the audit committee, the remuneration committee and the nomination committee of the Board. Mr. Wang was appointed as our independent non-executive Director on June 18, 2016.

Since September 2007, Mr. Wang has been working with China Bohai Bank Co., Ltd (渤海銀行股份有限公司) and is currently a branch head of China Bohai Bank Co., Ltd Tianjin Fifth Avenue Branch (渤海銀行股份有限公司天津第五大街支行), responsible for the management and operation of the branch.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang obtained a master's degree in software engineering from Beijing University of Aeronautics and Astronautics (北京航空航天大學) in the PRC in July 2010. He obtained the qualification as a certified cost engineer (註冊造價工程師) granted by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) in 2001. He also obtained the qualification as a senior engineer granted by China State Construction Engineering Corporation (中國建築工程總公司) in December 2008.

Mr. Wang had not been a director of any publicly listed company during the three years preceding the Latest Practicable Date.

Mr. ZHAO Hong (趙虹), aged 54, is an independent non-executive Director of our Company. Mr. Zhao is primarily responsible for providing independent advice and judgment to our Board. He is also the chairman of the remuneration committee and a member of the audit committee and the nomination committee of the Board. Mr. Zhao was appointed as our independent non-executive Director on June 18, 2016.

Mr. Zhao has over 20 years of experience in thermal engineering. Since March 1991, Mr. Zhao has been serving as a teacher in College of Energy Engineering of Zhejiang University and has been responsible for teaching and scientific research.

Mr. Zhao obtained a bachelor's degree in thermal energy from Zhejiang University in the PRC in July 1984, and a master's degree in engineering from Zhejiang University in the PRC in January 1991. He obtained the qualification as a professor in December 2001 granted by Personnel Department of Zhejiang Province (浙江省人事廳).

Mr. Zhao had not been a director of any publicly listed company during the three years preceding the Latest Practicable Date.

Save as disclosed in this prospectus, there are no other matters concerning each of the appointment of Directors that need to be brought to the attention of the Shareholders and the Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Mr. LI Xiangli, see “— Board of Directors” for details.

Ms. ZHANG Aiyong, see “— Board of Directors” for details.

Mr. LIU Yi (劉翊), see “— Board of Directors” for details.

Ms. KANG Aiyun (康愛雲), aged 44, is a vice president of our Company. Ms. Kang is primarily responsible for overall management of market development of our Group. Ms. Kang joined our Group in January 2016 as a vice president of our Company. She is also the general manager of Huaxia Lihong.

Ms. Kang has over 10 years of experience in coal industry. Prior to joining our Group, from August 2009 to January 2016, Ms. Kang worked with the Sales Company of China Coal Group (Sales Center of China Coal Corporation) (中煤集團銷售公司(中煤股份銷售中心)), a state-owned company mainly engaged in coal trading, and served as a vice manager of the No.1 Sales Department from August 2009 to July 2012, the manager of the No.1 Sales Department from July

DIRECTORS AND SENIOR MANAGEMENT

2012 to January 2016, and assistant to the general manager from August 2013 to January 2016, and was mainly responsible for sales and marketing. From March 2007 to August 2009, she served as a vice manager of sales department in Coal Sales Center of China Coal Energy Co., Ltd. (中國中煤能源股份有限公司), a state-owned company mainly engaged in coal production and trading, and she was responsible for sales and marketing. From September 2003 to March 2007, she served as a client manager of the No.2 Sales Department of China Coal Import and Export Co., Ltd. (中國煤炭進出口公司), a state-owned company mainly engaged in coal trading, and was responsible for sales and client relationship. From October 1997 to September 2003, she was an employee in China Coal Industry Import and Export Co., Ltd. (中國煤炭工業進出口集團公司) in trade headquarter from March 2000 to September 2003, in corporate planning department and No.1 Business Department from October 1997 to March 2000. From July 1995 to October 1997, she was an employee in policy research office of Coal Industry Import and Export Corporation (中國煤炭工業進出口總公司), a state-owned company mainly engaged in coal trading.

Ms. Kang obtained a bachelor's degree in economics from Renmin University of China (中國人民大學) in the PRC in July 1995.

Mr. WANG Zhao (王釗), aged 39, is the chief financial officer of our Company. Mr. Wang is primarily responsible for overall accounting and financial management of our Group. Mr. Wang joined our Group in November 2014 as a vice financial controller of Huaxia Lihong and was appointed current position on January 16, 2016.

Mr. Wang has over 10 years of experience in financing. Prior to joining our Group, from September 2004 to September 2014, Mr. Wang served as the audit manager of Ernst & Young Hua Ming LLP (安永華明會計師事務所(特殊普通合伙)) and was responsible for audit service.

Mr. Wang obtained a bachelor's degree in international economics from University of International Business and Economics (對外經濟貿易大學) in the PRC in July 1999. He obtained the qualification as a certified public accountant (註冊會計師) in October 2008 granted by Beijing Institute of Certified Public Accountants (北京註冊會計師協會).

Mr. LIU Yi (劉藝), aged 37, is the secretary to the Board and assistant to the chief executive officer of our Company. Mr. Liu is primarily responsible for managing daily work of the Board and assisting the chief executive officer in managing the business operation of our Group. Mr. Liu joined our Group in July 2011 as assistant to the general manager of Huaxia Lihong and was appointed current position on January 16, 2016. He is also the supervisor of Lihong Software.

Mr. Liu has over 10 years of experience in testing industry. Prior to joining our Group, from August 2009 to July 2011, Mr. Liu served as the project manager of China Certification & Inspection Group Beijing Co., Ltd. (中國檢驗認證集團北京有限公司), a company primarily engaged in import and export commodity inspection, and was responsible for inspection business. From August 2006 to July 2009, Mr. Liu served as the business line manager of Sinoswiss Inspection Co., Ltd. (中瑞檢驗有限公司), a company primarily engaged in import and export commodity inspection, and was responsible for inspection business management. From July 2004 to July 2006, Mr. Liu served as the inspection supervisor of CCIC, and was responsible for import and export commodity inspection management.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu obtained a bachelor's degree in chemistry in July 2001 and a master's degree in chemistry from Tsinghua University (清華大學) in the PRC in July 2004. He obtained the qualification as chemical analysis engineer (化學分析工程師) in September 2013 granted by Beijing Intermediate Professional and Technical Qualification Evaluation Committee.

COMPANY SECRETARY

Ms. LI Oi Lai (李愛麗), aged 43, was appointed as the company secretary of our Company on January 16, 2016. Ms. Li is a manager of SW Corporate Services Group Limited. Ms. Li is the company secretary of China Titans Energy Technology Group Co., Limited (中國泰坦能源技術集團有限公司), a company listed on the main board of the Stock Exchange (stock code: 2188). She has over ten years of experience in auditing, accounting and company secretarial matters. She obtained a bachelor's degree in commerce (with honor) in accounting from Hong Kong Shue Yan University in October 2010 and a master's degree in professional accounting from the Hong Kong Polytechnic University in November 2003. She has been a member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom since October 2006, a fellow member of the Association of International Accountants since November 2014 and a fellow member of the Hong Kong Institute of Certified Public Accountants since March 2015.

MANAGEMENT PRESENCE IN HONG KONG

We have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver under Rule 8.12 of the Listing Rules regarding the requirement of management presence in Hong Kong. For details of the waiver, see "Waiver from Strict Compliance with the Listing Rules."

BOARD COMMITTEES

The Board delegates certain responsibilities to various Board committees. In accordance with the relevant PRC laws and regulations, the Articles and the Listing Rules, we have established our audit committee, remuneration committee and nomination committee.

Audit Committee

We have established an audit committee with terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The audit committee consists of three independent non-executive Directors, Mr. WANG Zichen, Mr. YANG Rongbing and Mr. ZHAO Hong, with Mr. YANG Rongbing being the chairman of the committee.

The primary function of the audit committee is to assist our Board in providing an independent view of our financial reporting process, internal control and risk management system, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

Remuneration Committee

We have established a remuneration committee with terms of reference in compliance with paragraph B1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The remuneration committee consists of three members, namely Ms. ZHANG Aiyang, Mr. WANG Zichen and Mr. ZHAO Hong, with Mr. ZHAO Hong being the chairman of the committee. Two of the members are our independent non-executive Directors.

DIRECTORS AND SENIOR MANAGEMENT

The primary function of the remuneration committee is to develop remuneration policies of our Directors, evaluate the performance, make recommendations on the remuneration packages of our Directors and senior management and evaluate and make recommendations on employee benefit arrangements.

Nomination Committee

We have established a nomination committee with terms of reference in compliance with paragraph A5 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The nomination committee consists of three members, namely Mr. LI Xiangli, Mr. WANG Zichen and Mr. ZHAO Hong, with Mr. LI Xiangli being the chairman of the committee. Two of the members are our independent non-executive Directors.

The primary function of the nomination committee is to make recommendations to our Board in relation to the appointment and removal of Directors.

EMOLUMENT OF DIRECTORS AND SENIOR MANAGEMENT

We offer our executive Directors and senior management members, who are also employees of our Company, emolument in the form of salaries, allowances, remuneration, pension, discretionary bonus and other welfares. Our non-executive Director does not receive any emolument from our Group. Our independent non-executive Directors receive emolument based on their responsibilities (including being members or chairman of Board committees). We adopt a market and incentive-based employee emolument structure and implement a multi-layered evaluation system which focuses on performance and management goals.

The aggregate amount of emolument (including salaries, allowance, remuneration, pension, discretionary bonus and other welfares) paid to our Directors for the three years ended December 31, 2013, 2014 and 2015 were approximately RMB2.5 million, RMB3.1 million and RMB2.7 million, respectively. It is estimated that under the arrangements currently in force, the aggregate emolument payable to the Directors for the year ending December 31, 2016, will be approximately RMB2.8 million.

For the three years ended December 31, 2013, 2014 and 2015, the aggregate amount of emolument paid to the five highest paid individuals of our Group, including Directors, were approximately RMB3.4 million, RMB4.3 million and RMB3.9 million, respectively.

During the Track Record Period, no remuneration was paid to, or receivable by, our Directors or the five highest paid individuals of our Company as an inducement to join or upon joining our Company or as a compensation for loss of office in the Track Record Period. Further, none of our Directors had waived any emolument during the same period.

Except as disclosed above, no other payments have been paid, or are payable, by our Company or any of our subsidiaries to our Directors or the five highest paid individuals of our Company during the Track Record Period.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

We have appointed CMB International as our compliance adviser pursuant to Rules 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- (a) before publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might constitute a notifiable or connected transaction under the Listing Rules, is contemplated, including share issues and securities repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results of operation deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares or any other matters under Rule 13.10 of the Listing Rules.

The term of the appointment will commence on the Listing Date and end on the date on which we distribute the annual report of the first full financial year commencing after the Listing Date pursuant to the Rule 13.46 of the Listing Rules.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS ACTING IN CONCERT

Mr. LI Xiangli acquainted with Mr. LIU Yi (劉翊) since January 1989 as colleagues of Qinhuangdao Entry-Exit Inspection Quarantine Bureau (秦皇島出入境檢驗檢疫局). Mr. LI Xiangli and Ms. ZHANG Aiying are spouses. Since the appointment of Mr. LIU Yi (劉翊) as a director of Huaxia Lihong in March 2011, Mr. LI Xiangli, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) have reached a consensus among themselves that Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) shall support Mr. LI Xiangli's decisions on material matters in relation to the operation and management of members of our Group, including without limitation, appointing directors, issuing bonds, declaration of dividends, approving budget, business and investment plan, amending articles of association, by exercising their voting rights at the meetings of the shareholders and boards of the members of our Group in accordance with the decision of Mr. LI Xiangli.

On January 31, 2016, Mr. LI Xiangli, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) entered into an acting-in-concert deed to acknowledge and confirm the existence of such acting-in-concert arrangement during and since the Track Record Period. Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) have undertaken that, during the period when they directly or indirectly hold equity interests in any members of our Group, they will continue to fully comply with such acting-in-concert arrangement. They have further undertaken that, during the same period, they will not purchase, sell, transfer or dispose in any other manner any equity interests in any members of our Group without prior consent of Mr. LI Xiangli. Mr. LI Xiangli, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) will discharge their fiduciary duties as Directors in any event by ensuring to go through necessary facts and details and having an active and thorough discussion together before reaching consensus on major decisions. Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) are entitled to opportunities to fully communicate with Mr. LI Xiangli for their point of views on the operation and management of our Group. Their views will be fully reflected in Mr. LI Xiangli's decisions and their fiduciary duties as Directors will therefore be properly carried out.

Immediately upon completion of the Capitalization Issue and the Global Offering without taking into account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, Mr. LI Xiangli, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊), as a group of persons acting in concert, will be interested in, via Leon Investment, Swan Stone and Hawk Flying, in total approximately 52.73% of the issued share capital of our Company, and hence Mr. LI Xiangli, Ms. ZHANG Aiying, Mr. LIU Yi (劉翊), Leon Investment, Swan Stone and Hawk Flying are our Controlling Shareholders.

Leon Investment is an investment holding company and is wholly-owned by Mr. LI Xiangli, who is a Controlling Shareholder, the chairman, the chief executive officer and an executive Director of our Company. Swan Stone is an investment holding company and is wholly-owned by Ms. ZHANG Aiying, who is a Controlling Shareholder, an executive Director and a vice president of our Company and the spouse of Mr. LI Xiangli. Hawk Flying is an investment holding company and is wholly-owned by Mr. LIU Yi (劉翊), who is a Controlling Shareholder, an executive Director and a vice president of our Company. Further details of background of Mr. LI Xiangli, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) are set out in "Directors and Senior Management — Board of Directors — Executive Directors."

Our Controlling Shareholders confirm that they do not have any interest in any business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are of the view that our Group is able to operate our business independently from our Controlling Shareholders and their close associates:

Management independence

Our Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors.

Our Directors believe that our Board and senior management will function independently from our Controlling Shareholders for the following reasons:

- (i) each Director is aware of his fiduciary duties as a Director of our Company which requires, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest;
- (ii) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions, and shall not be counted in the quorum;
- (iii) our Board comprises seven Directors, and three of them are independent non-executive Directors, which represents more than one-third of the members of the Board. Our independent non-executive Directors have extensive experience in different areas and have been appointed in accordance with the requirements of the Listing Rules to ensure that the decisions of the Board are made after due consideration of independent and impartial opinions; and
- (iv) our senior management members, other than our Controlling Shareholders themselves, are independent from our Controlling Shareholders. They have substantial experience in the industry which we are engaged in. Accordingly, they are able to discharge their duties independently from our Controlling Shareholders.

Financial independence

As of December 31, 2015, there was no loans, advances or balances due to and from our Group to our Controlling Shareholders and their close associates. All guarantees provided by our Controlling Shareholders and their close associates will be released before the Listing Date.

Our Group has an independent financial system and makes financial decisions according to its own business needs. We will not rely on Controlling Shareholders for financing and will be able to obtain financing from external sources after the Listing as we have sufficient working capital to operate our business independently.

Based on the above, our Directors believe that our Group is able to operate with financial independence from our Controlling Shareholders and their close associates.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Operational Independence

We have our own staff to support our operations and management. We have all the required assets and licenses for operation of our business. We also have independent access to our customers, suppliers as well as an independent management team to handle our day-to-day operations. We do not rely on our Controlling Shareholders for any significant part of our revenue or procurement and sales activities. Based on the above, our Board believe that our operations are independent from our Controlling Shareholders and their close associates.

DEED OF NON-COMPETITION

On June 18, 2016, our Controlling Shareholders entered into the Deed of Non-competition in favor of our Company, pursuant to which our Controlling Shareholders irrevocably undertake to our Company that they will not and will procure their close associates (except any member of our Group) not to, directly or indirectly (whether in the capacity of principal or agent, whether for its own benefit or jointly with or on behalf of any person, firm or company, whether within or outside China), commence, engage in, participate in or acquire any business which competes or may compete directly or indirectly with the core business of our Group, being coal inspection and examination businesses (“Restricted Business”) or own any rights or interests in such business.

Our Controlling Shareholders have further irrevocably undertaken that during the Restricted Period (as defined below), they should and will procure their close associates (except any member of our Group) (our Controlling Shareholders and their close associates together, “Offeror”) to offer new business opportunities to us first in the following manner when any business, investment or other business opportunities (“New Business Opportunities”) related to the Restricted Business become available to the Offeror:

- (i) the Offeror will make referral of the New Business Opportunities to us, and will as soon as possible inform us in writing (“Offer Notice”) about all necessary and reasonably required information in respect of any New Business Opportunities (including but not limited to details of the nature and investment or acquisition cost of the New Business Opportunities) for us to consider (a) whether the relevant New Business Opportunities will compete with our business, and (b) whether taking up the New Business Opportunities is in the interest of our Group.
- (ii) upon receipt of the Offer Notice, the independent non-executive Directors will consider whether to pursue the New Business Opportunities taking into account whether the relevant New Business Opportunities would be able to achieve a sustainable profitability level, whether they are in line with the prevailing development strategies of our Group, and whether they are in the best interest of the Shareholders. Our Company must inform the Offeror in writing within 20 Business Days after receipt of the Offer Notice about its decision on whether the New Business Opportunities will be pursued.
- (iii) only when (a) the Offeror has received our notice to reject the New Business Opportunities and our confirmation that the relevant New Business Opportunities are not considered to be able to compete with our core business; or (b) the Offeror has not received the relevant notice from our Company within the period as stated above in paragraph (ii) after the Offer Notice has been received by us, then the Offeror is entitled to take up the New Business Opportunities on terms and conditions not more favorable than those specified in the Offer Notice issued to us.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

If material changes occur in the terms and conditions of the New Business Opportunities after the referral of which have been made or procured to be made to us by the Offeror, referral of the revised New Business Opportunities shall be made by the Offeror to us again in the manner as stated above.

The undertakings under the Deed of Non-competition are not applicable in the following circumstances:

- (i) our Controlling Shareholders and/or their close associates engage in the Restricted Business directly or indirectly through the ownership of equity interest in any member of our Group; or
- (ii) our Controlling Shareholders and/or their close associates engage in the Restricted Business directly or indirectly through the ownership of equity interest in listed companies other than our Group, with the following conditions being satisfied:
 - (a) The Restricted Business (and relevant assets) conducted or carried out by such company represents less than 10% of the revenue or total assets of such company according to the latest audited accounts of such company; and
 - (b) our Controlling Shareholders and/or their close associates (except any member of our Group) hold in aggregate not more than 10% of the issued share capital of relevant class of shares of such company, and our Controlling Shareholders and/or their close associates (except any member of our Group) have no right to appoint the majority of directors of such company or participate in the management of such company.

Pursuant to the Deed of Non-competition, the Restricted Period refers to the period commencing from the Listing Date and ending on the following dates (whichever is earlier):

- (i) the date when the shares of our Company cease to be listed on the Stock Exchange; and
- (ii) the date when our Controlling Shareholders cease to be controlling shareholders of our Company.

CORPORATE GOVERNANCE MEASURES

We have put in place sufficient corporate governance measures to manage the conflict of interest and potential competition from our Controlling Shareholders and safeguard the interest of the Shareholders, including:

- (i) if a Director has a material interest in a particular transaction, he shall abstain from voting in any matters relating to such transaction being considered at the Board meeting and he will not be counted as a quorum of the Board meeting;
- (ii) if disinterested Directors (including the independent non-executive Directors) reasonably seek to obtain independent and professional advice (such as financial adviser advice), the costs incurred for obtaining such advice will be borne by our Company;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (iii) the independent non-executive Directors will review the compliance with the undertakings under the Deed of Non-competition by our Controlling Shareholders on an annual basis;
- (iv) our Controlling Shareholders will provide or procure the provision of all necessary information required for the Board's annual review of compliance with the Deed of Non-competition;
- (v) our Company will disclose in its annual report the decisions (if any) of the independent non-executive Directors on matters relating to the New Business Opportunities and the relevant basis; and
- (vi) our Controlling Shareholders will make an annual declaration on its compliance with the Deed of Non-competition in our annual report.

SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and after completion of the Global Offering (without taking into account the exercise of the Over-allotment Option) and the Capitalization Issue.

Authorized share capital:		Nominal value
		US\$
1,000,000,000	Shares of US\$0.00005 each	50,000
Issued and to be issued, fully paid or credited as fully paid:		Nominal value
		US\$
200,000,000	Shares in issue as of the date of this prospectus	10,000
100,000,000	Shares to be issued pursuant to the Capitalization Issue	5,000
<u>100,000,000</u>	Shares to be issued under the Global Offering	<u>5,000</u>
<u><u>400,000,000</u></u>	Total	<u><u>20,000</u></u>

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the issuance of Shares pursuant to the Global Offering. It does not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or the general mandate given to the Directors for allotment and issuance of Shares referred to in Appendix V to this prospectus or repurchased pursuant to the repurchase mandate referred to in Appendix V to this prospectus, as the case may be.

RANKINGS

The Offer Shares will be ordinary shares in the share capital of our Company and will rank equally with all Shares currently in issue or to be issued as mentioned in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus save for the entitlement under the Capitalization Issue.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Assuming the Global Offering becomes unconditional, our Directors will be granted a general mandate to allot, issue and deal with Shares with a total number not more than:

- 20% of the number of Shares in issue immediately following completion of the Global Offering and the Capitalization Issue but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option; and
- the total number of Shares repurchased by us under the mandate as mentioned in the paragraph entitled “— General Mandate to Repurchase Shares” below.

The general mandate is in addition to the powers of our Directors to allot, issue or deal with Shares under any rights issue, scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend in accordance with our Articles of Association, or under the Global Offering or upon the exercise of the Over-allotment Option.

This general mandate to issue Shares will remain in effect until the earliest of:

- the conclusion of our Company’s next annual general meeting;
- the expiration of the period within which our Company is required by any applicable laws of the Cayman Islands or the Articles of Association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Particulars of this general mandate to allot, issue and deal with Shares are set forth under Appendix V entitled “Statutory and General Information — A. Further Information about Our Company — 5. Resolutions of the Shareholders of our Company passed on June 18, 2016” in this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus, our Directors will be granted a general mandate to exercise all our powers to repurchase Shares with a total number not more than 10% of the number of Shares in issue immediately following the completion of the Global Offering and the Capitalization Issue, excluding Shares which may be allotted and issued upon the exercise of the Over-allotment Option.

SHARE CAPITAL

This general mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in Appendix V entitled “Statutory and General Information — A. Further Information about Our Company — 6. Repurchase by our Company of its own Shares” in this prospectus.

The general mandate to repurchase Shares will remain in effect until the earliest of:

- the conclusion of our Company’s next annual general meeting;
- the expiration of the period within which our Company is required by any applicable laws of the Cayman Islands or the Articles of Association to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Particulars of this general mandate to repurchase Shares are set out in Appendix V entitled “Statutory and General Information — A. Further Information about Our Company — 6. Repurchase by our Company of its own Shares” in this prospectus.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors or chief executive officer as of the Latest Practicable Date, immediately prior to and following the completion of the Global Offering (assuming the Over-allotment Option is not exercised) and the Capitalization Issue, the following persons will have interests or short positions in Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be, directly or indirectly, interested in 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company and are therefore regarded as substantial shareholders of our Company under the Listing Rules:

Name of Shareholder	Nature of Interest	Shares held immediately prior to the Capitalization Issue and the Global Offering		Shares held immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised)	
		Number	Percentage (approx.)	Number	Percentage (approx.)
Mr. LI Xiangli ⁽¹⁾⁽²⁾⁽³⁾	Interests held jointly with another person; interests of a controlled corporation; interests of spouse	7,031 (L) ⁽⁴⁾	70.31%	210,930,000 (L)	52.73%
Ms. ZHANG Aiying ⁽¹⁾⁽³⁾⁽⁵⁾	Interests held jointly with another person; interests of a controlled corporation; interests of spouse	7,031 (L)	70.31%	210,930,000 (L)	52.73%
Mr. LIU Yi (劉翊) ⁽¹⁾⁽⁶⁾	Interests held jointly with another person; interests of a controlled corporation	7,031 (L)	70.31%	210,930,000 (L)	52.73%
Ms. WEI Yajuan (魏雅娟) ⁽⁷⁾	Interests of spouse	7,031 (L)	70.31%	210,930,000 (L)	52.73%
Leon Investment ⁽²⁾	Beneficial owner	4,203 (L)	42.03%	126,090,000 (L)	31.52%
Swan Stone ⁽⁵⁾	Beneficial owner	1,643 (L)	16.43%	49,290,000 (L)	12.32%
CCIC ⁽⁸⁾	Interests of a controlled corporation	1,550 (L)	15.50%	46,500,000 (L)	11.63%
CIC ⁽⁸⁾	Interests of a controlled corporation	1,550 (L)	15.50%	46,500,000 (L)	11.63%
China Dragon ⁽⁸⁾	Beneficial owner	1,550 (L)	15.50%	46,500,000 (L)	11.63%
Hawk Flying ⁽⁶⁾	Beneficial owner	1,185 (L)	11.85%	35,550,000 (L)	8.89%
Mr. LI Dexin (李德新) ⁽⁹⁾	Interests of a controlled corporation	790 (L)	7.90%	23,700,000 (L)	5.93%
Ms. ZHENG Guangping (鄭光平) ⁽¹⁰⁾	Interests of spouse	790 (L)	7.90%	23,700,000 (L)	5.93%
New Virtue ⁽⁹⁾	Beneficial owner	790 (L)	7.90%	23,700,000 (L)	5.93%

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Nature of Interest	Shares held immediately prior to the Capitalization Issue and the Global Offering		Shares held immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised)	
		Number	Percentage (approx.)	Number	Percentage (approx.)
Centre Testing International Group Co., Ltd. (華測檢測認證集團股份有限公司) ⁽¹¹⁾	Interests of a controlled corporation	550 (L)	5.50%	16,500,000 (L)	4.13%
CTI Investment Management (Shenzhen) Company Limited (深圳華測投資管理有限公司) ⁽¹¹⁾	Interests of a controlled corporation	550 (L)	5.50%	16,500,000 (L)	4.13%
Ti Capital Management Co. LTD (鈦和資本管理有限公司) ⁽¹¹⁾	Interests of a controlled corporation	550 (L)	5.50%	16,500,000 (L)	4.13%
Ms. PAN Jing (潘晶) ⁽¹¹⁾	Interests of a controlled corporation	550 (L)	5.50%	16,500,000 (L)	4.13%
Hua Tai LP ⁽¹¹⁾	Interests of a controlled corporation	550 (L)	5.50%	16,500,000 (L)	4.13%
Hotek Asia ⁽¹¹⁾	Beneficial owner	550 (L)	5.50%	16,500,000 (L)	4.13%

- (1) On January 31, 2016, Mr. LI Xiangli, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) entered into an acting-in-concert deed to acknowledge and confirm that they are parties acting in concert in respect of each of the members of our Group during and since the Track Record Period and continue after the date of the deed. Pursuant to the deed, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) shall support Mr. LI Xiangli's decisions on material matters in relation to the operation and management of our Group by exercising their voting rights at the meetings of the shareholders and boards of the members of our Group in accordance with the decision of Mr. LI Xiangli. For details, see "Relationship with Controlling Shareholders — Our Controlling Shareholders Acting in Concert." By virtue of the SFO, Mr. LI Xiangli, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) are deemed to be interested in our Shares which are interested by each other.
- (2) Leon Investment is beneficially and wholly-owned by Mr. LI Xiangli. By virtue of the SFO, Mr. LI Xiangli is deemed to be interested in our Shares held by Leon Investment.
- (3) Mr. LI Xiangli and Ms. ZHANG Aiying are spouse. By virtue of the SFO, Mr. LI Xiangli and Ms. ZHANG Aiying are deemed to be interested in our Shares which are interested by each other.
- (4) The letter "L" denotes the person's long position in our Shares.
- (5) Swan Stone is beneficially and wholly-owned by Ms. ZHANG Aiying. By virtue of the SFO, Ms. ZHANG Aiying is deemed to be interested in our Shares held by Swan Stone.
- (6) Hawk Flying is beneficially and wholly-owned by Mr. LIU Yi (劉翊). By virtue of the SFO, Mr. LIU Yi (劉翊) is deemed to be interested in our Shares held by Hawk Flying.
- (7) Ms. WEI Yajuan is the spouse of Mr. LIU Yi (劉翊). By virtue of the SFO, Ms. WEI Yajuan is deemed to be interested in our Shares which are interested by Mr. LIU Yi (劉翊).
- (8) China Dragon is a subsidiary of CIC, which is a subsidiary of CCIC. By virtue of the SFO, CIC and CCIC are deemed to be interested in our Shares held by China Dragon.
- (9) New Virtue is beneficially and wholly-owned by Mr. LI Dexin. By Virtue of the SFO, Mr. LI Dexin is deemed to be interested in our Shares held by New Virtue.

SUBSTANTIAL SHAREHOLDERS

- (10) Ms. ZHENG Guangping is the spouse of Mr. LI Dexin. By virtue of the SFO, Ms. ZHENG Guangping is deemed to be interested in our Shares which are interested by Mr. LI Dexin.

- (11) Hotek Asia is wholly-owned by Hua Tai LP. The general partners of Hua Tai LP are Ti Capital Management Co. LTD (“Ti Capital”) and CTI Investment Management (Shenzhen) Company Limited (深圳華測投資管理有限公司) (“CTI Investment”). Ti Capital is owned as to approximately 74% by Ms. PAN Jing (潘晶). CTI Investment is wholly-owned by Centre Testing International Group Co., Ltd. (華測檢測認證集團股份有限公司) (“CTI Group”). By virtue of the SFO, Hua Tai LP, Ti Capital, Ms. PAN Jing, CTI Investment and CTI Group are deemed to be interested in the Shares held by Hotek Asia.

Save as disclosed herein, our Directors and our chief executive officer are not aware of any persons who will, immediately prior to and following the completion of the Global Offering (assuming the Over-allotment Option is not exercised) and the Capitalization Issue, have interests or short positions in Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be, directly or indirectly, interested in 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company. For any persons holding 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of other members of our Group, see “Statutory and General Information.”

FINANCIAL INFORMATION

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. Our consolidated financial statements have been prepared in accordance with IFRS. Potential investors should read the Accountants' Report set out in Appendix I in its entirety and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, see "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We are the largest coal testing and inspection services provider in China, with a market share of approximately 18.9% in terms of revenue generated from such services in 2015, according to the Forward Report. Through our eight service centers strategically positioned primarily at major coal-trade ports in China, which collectively accounted for more than 80.0% of the total volume of China's seaborne coal trade in 2015, we offer our customers a comprehensive suite of services, including primarily (1) testing services to provide assurance of coal quality, (2) surveying services to ensure contractual compliance of coal quantity, and (3) witnessing and ancillary services to prevent dishonest or abnormal activities in the testing and transportation of coal and ensure the contractual compliance of the weight of coal carried on rail, truck or conveying belt or shipping conditions of the cargo. We are independent from our customers, who are participants in China's domestic coal trade, including primarily coal mining companies, coal distribution companies and power generation companies. We derived a majority of our revenue from testing services during the Track Record Period, representing 79.1%, 77.3% and 81.0% of our total revenue for 2013, 2014 and 2015, respectively.

Our revenue grew from RMB117.1 million in 2013 to RMB139.5 million in 2014 and further to RMB155.8 million in 2015, representing a CAGR of 15.3% from 2013 to 2015. Our gross profit grew from RMB68.8 million in 2013 to RMB78.2 million in 2014 and further to RMB80.4 million in 2015, representing a CAGR of 8.1% from 2013 to 2015.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The coal testing and inspection industry in China is derivatively affected by the growth and contraction of the coal industry, which in turn is affected by the general economic activities in China. Despite the overall slowdown of the coal industry and the economy, the coal testing and inspection industry grew at a CAGR of 27.4% from 2010 to 2015, according to the Forward Report. In particular, our financial condition and results of operations in any given period are expected to be affected by the following factors.

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Macroeconomic Environment

As our customers are participants in domestic trade of coal, including primarily coal mining companies, coal distribution companies and power generation companies, the growth or contraction of the coal industry, particularly the production, transportation and consumption of coal, will affect our business and results of operations. Furthermore, largely used for power generation and steel production, coal plays a vital role in China's economic development, and therefore the demand for coal is susceptible to the impact of China's general economic condition. The economic growth in China has experienced a slowdown since late 2008, and as a result, China's GDP growth decreased from 9.5% to 6.9% for the period from 2010 to 2015. The coal consumption weakened during the corresponding period, and the coal testing and inspection industry also experienced a slower pace of growth but maintained a CAGR of 27.4% from 2010 to 2015 due to the reduced and nonetheless massive scale of coal consumption and the continued penetration of independent quality assurance services in a steadily growing coal testing and inspection market. For details, see "Industry Overview — Coal Testing and Inspection Industry of China."

As a result, our business operations and financial condition are in part subject to the economic growth in China inasmuch as it affects the production and consumption of coal. Any economic downturn in China may have an impact on the production and consumption of coal and the demand for our services.

Development of Coal Testing and Inspection Industry

The coal testing and inspection industry involving independent assurance providers has a relatively short history in China. As the liberalization of China's coal industry deepens, coal suppliers and consumers increasingly seek advice from independent testing companies to ensure fair play. China's coal testing and inspection industry grew at a CAGR of 27.4% from 2010 to 2015 despite the overall slowdown of China's economy and coal consumption in recent years. Our business operations, financial condition and prospects are therefore subject to the future development of China's coal testing and inspection industry.

China's coal testing and inspection market experienced steady growth. According to the Forward Report, the total volume of coal subject to quality testing or inspection reached 0.8 billion tonnes in 2015, accounting for only approximately 24.9% of the coal consumed in the same year. Customarily in China, coal testing was performed by coal suppliers or consumers at the loading or discharge of shipments. As the coal industry liberalizes, coal suppliers and consumers increasingly require testing and inspection from third parties disinterested in the testing results to provide assurance of verifiable quality and quantity of coal, which now serves as a basis for determining coal price.

The tightening of regulations on the production and consumption of coal may also have an impact on our business operations and financial condition. Tightened regulations on environmental protection may impose liabilities on the production, distribution or consumption of coal of inferior quality, which may lead to a rise in demand for independent assurance services. Also, in recent years, we are increasingly requested by customers to test toxic substance to meet the heightened regulatory requirements, and we usually charge a higher price of such additional tests.

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Ability to Manage Labor Costs

Our results of operations are affected by our ability to manage our labor costs, which are the largest component of our cost of sales. For 2013, 2014 and 2015, the labor costs among our cost of sales were RMB27.2 million, RMB36.4 million and RMB39.4 million, respectively, accounting for 23.2%, 26.1% and 25.3% of our total revenue for the same periods, respectively. Our labor costs consist primarily of salaries, bonuses and social insurance benefits paid to our employees. The increase in our labor costs reflected an increase in headcounts and compensation bases as a result of our business expansion during the Track Record Period. In addition, our ability to attract and retain key personnel, and in particular, qualified testing and inspection professionals and research and development personnel, is a critical aspect of our competitiveness. Competition for these individuals could require us to offer higher compensation and other benefits in order to attract and retain them, which would increase our labor costs.

In part motivated to contain our rising labor costs, we have devoted our research and development efforts to building an automated sampling and testing process, which may reduce human efforts involved in our service process and improve efficiency for our services. See “Business — Research and Development” for more details. Our results of operations, financial condition and profitability may be materially and adversely affected if we cannot effectively manage our labor costs.

The following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations on our labor costs with all other factors remaining unchanged. Fluctuations are assumed to be 10.0% and 30.0% for each of 2013, 2014 and 2015, which reflected the approximate historical fluctuations.

Hypothetical fluctuations on our labor costs	+10%	-10%	+30%	-30%
	(%)			
<i>Impact on certain financial indicators for 2013</i>				
Change in gross profit margin	-2.3	2.3	-7.0	7.0
Change in net profit margin	-2.0	2.0	-6.0	6.0
<i>Impact on certain financial indicators for 2014</i>				
Change in gross profit margin	-2.6	2.6	-7.8	7.8
Change in net profit margin	-2.2	2.2	-6.7	6.7
<i>Impact on certain financial indicators for 2015</i>				
Change in gross profit margin	-2.5	2.5	-7.6	7.6
Change in net profit margin	-2.1	2.1	-6.3	6.3

Open Tender Practice

A majority of our customers are state-owned coal mining companies, and these customers have increasingly required open tender process for outsourcing coal testing and inspection services in recent years. As the open tender is usually intended for an annual retention of services for a specified port or area, if we are unable to meet the requirements specified in the open tender, we may lose business from a customer for a certain port or area for the contractual period, which may have a material adverse effect on our results of operations and financial condition.

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In addition, the open tender is a competitive bidding process that factors in a number of criteria including quality and price. We may prevail in a bidding process for non-price considerations, for example, test quality and brand recognition, and may also be compelled to submit a quotation lower than what we would otherwise charge our customers without the open tender in a competitive situation. Therefore, the adoption of the open tender practice by our customers may have an impact on our results of operations, financial condition and profitability.

Preferential Tax Treatment

Our results of operations are affected by changes in the applicable tax rates in China, where we operate and derive all of our revenue. The enterprise income tax rate generally applicable in China is 25.0%. Preferential tax treatments are available to certain companies, industries and regions. For example, Huaxia Lihong, our principal PRC operating entity, was recognized as a “high and new technology enterprise” in November 2011, and was accordingly entitled to a preferential income tax rate of 15.0% for 2011, 2012 and 2013. The “high and new technology enterprise” qualification is reviewed for renewal every three years, and Huaxia Lihong renewed its “high and new technology enterprise” qualification in October 2014, allowing it to continue to enjoy the preferential income tax rate of 15.0% for 2014, 2015 and 2016. We may not be able to continue to enjoy such preferential enterprise income tax rate in the future if we are unable to renew such qualification upon expiration, which may have a material adverse effect on our results of operations, financial condition and profitability.

Competition

According to the Forward Report, there are currently approximately 300 coal testing companies in China. A majority of these coal testing companies are local companies that serve a certain port or trading area, and the top five players commanded a combined market share of 61.1% in terms of revenue in 2015. We expect the competition to intensify as a result of the adoption of open tender policies by state-owned enterprises to outsource coal testing and inspection services in recent years. As we are able to serve our customers from our service centers at major coal-trade ports in China, we compete primarily with coal testing companies with a nationwide coverage, including SGS and CCIC. See “Industry Overview” for more details.

As we focus our service offerings on coal testing and inspection, we compete with our competitors for the coal testing and inspection market by dedicating our efforts to building a management system and a quality control system specifically designed for coal testing. We may not be able to compete effectively if our multinational peers devote more financial and human resources to developing coal testing services in China, or if government policies change to favor our state-owned peers. We may be also compelled to open new service centers in the geographical markets where the competition has intensified, or to re-allocate our management attention and financial resources to reinforce a particular service offering that has become the focus of the competition. In a competitive open tender process, we may have to submit a lower tender price or offer more favorable terms to our customers in order to increase the competitiveness of our tender. Any failure for us to compete effectively in China’s coal testing and inspection industry may have a material adverse effect on our results of operations, financial condition and prospect.

FINANCIAL INFORMATION

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on July 29, 2015 as an exempted company with limited liability. Upon completion of the Reorganization, our Company became the holding company of the companies comprising our Group on December 16, 2015. Our Group, including our Company and its subsidiaries resulting from the Reorganization, is regarded as a continuing entity and our consolidated financial statements are prepared as if the current group structure had been in existence through the Track Record Period, or since the respective dates of incorporation or acquisition of the relevant entity where this is a shorter period. For details of the Reorganization, see “History, Reorganization and Corporate Structure.”

The consolidated income statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of our Group for the Track Record Period and the consolidated statements of financial position of our Group as of December 31, 2013, 2014 and 2015 are prepared as if the current group structure had been in existence throughout the Track Record Period, or since the respective dates of incorporation or acquisition of the relevant entity, as applicable. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of the Reorganization.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies and estimates that are significant to the preparation of our financial statements. Our significant accounting policies and estimates, which are important for an understanding of our financial condition and results of operations, are set forth in details in Notes 2 and 3 to the Accountants’ Report in Appendix I to this prospectus. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgment relating to accounting items. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (1) our selection of critical accounting policies, (2) the judgment and other uncertainties affecting the application of such policies, and (3) the sensitivity of reported results to changes in conditions and assumptions. We set forth below the accounting policies that we believe involve the most significant estimates and judgment used in the preparation of our financial statements.

Impairment of Financial Assets

At the end of each reporting period, we assess whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Impairment exists if one or more events that occur 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, and the impact can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, a debtor or a group of debtors is in default or delinquency on interest or principal payments, a probability that a debtor or a group of debtors will enter bankruptcy or other financial reorganization, 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 Non-financial Assets (Other than Goodwill)

At the end of each reporting period, we assess whether there are any indicators of impairment for all non-financial assets. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists if the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, our management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful Lives and Residual Values of Items of Property, Plant and Equipment and Investment Properties

In determining the useful lives and residual values of items of property, plant and equipment and investment properties, we periodically review the changes in market conditions, the expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on our historical experience with similar assets that are used in a similar way. Depreciation amounts will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment and investment properties are different from previous estimation. Useful lives and residual values are reviewed at the end of each reporting period based on changes in circumstances.

We calculate depreciation 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:

Buildings	4.75%
Vehicles	23.75%
Electronic equipment and others	19% to 31.67%
Leasehold improvements	20% to 33.33%

Income Tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which our Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table sets forth a summary of our consolidated statements of profit or loss and other comprehensive income for the periods indicated.

	Year ended December 31,					
	2013		2014		2015	
	(RMB in thousands except for percentages)					
Revenue	117,096	100%	139,480	100%	155,789	100%
Cost of sales	(48,307)	41.3%	(61,270)	43.9%	(75,340)	48.4%
Gross profit	68,789	58.7%	78,210	56.1%	80,449	51.6%
Selling and distribution expenses	(1,603)	1.4%	(930)	0.7%	(1,374)	0.9%
Administrative expenses	(27,322)	23.3%	(32,410)	23.2%	(45,548)	29.2%
Other income and gains	1,097	0.9%	793	0.6%	1,209	0.8%
Other expenses	(221)	0.2%	(1,095)	0.8%	(602)	0.4%
Finance costs	(88)	0.1%	—	—	(1,111)	0.7%
Profit before income tax	40,652	34.7%	44,568	32.0%	33,023	21.2%
Income tax expense	(5,489)	4.7%	(6,565)	4.7%	(5,448)	3.5%
Profit for the year	<u>35,163</u>	<u>30.0%</u>	<u>38,003</u>	<u>27.2%</u>	<u>27,575</u>	<u>17.7%</u>
Attributable to:						
Owners of our Company	35,303	30.1%	38,044	27.3%	27,607	17.7%
Non-controlling interests	(140)	0.1%	(41)	0.03%	(32)	0.02%
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax)						
Exchange difference on translation of foreign operation	—	—	—	—	753	0.5%
Total Comprehensive Income for the Year	<u>35,163</u>	<u>30.0%</u>	<u>38,003</u>	<u>27.3%</u>	<u>28,328</u>	<u>18.2%</u>
Attributable to:						
Owners of our Company	35,303	30.1%	38,044	27.3%	28,360	18.2%
Non-controlling interests	(140)	0.1%	(41)	0.03%	(32)	0.02%

FINANCIAL INFORMATION

Revenue

During the Track Record Period, we generated revenue primarily from our comprehensive suite of services, including primarily (1) testing services to provide assurance of coal quality, (2) surveying services to ensure contractual compliance of coal quantity, and (3) witnessing and ancillary services to prevent dishonest or abnormal activities in the testing and transportation of coal and ensure the contractual compliance of the weight of coal carried on rail, truck or conveying belt. We also recorded a small amount of revenue primarily from sales of testing equipment and instruments. For 2013, 2014 and 2015, our total revenue was RMB117.1 million, RMB139.5 million and RMB155.8 million, respectively. The following table sets forth the components of our revenue for the periods indicated.

	Year ended December 31,					
	2013		2014		2015	
	(RMB in thousands except for percentages)					
Service offerings	116,614	99.6%	139,375	99.9%	155,667	99.9%
Others ⁽¹⁾	482	0.4%	105	0.1%	122	0.1%
Total	117,096	100.0%	139,480	100.0%	155,789	100.0%

(1) Represent revenue derived primarily from sale of testing equipment and instruments through a subsidiary, Huachuang Yiyuan, currently undergoing liquidation.

The following table sets forth a breakdown of our service offerings revenue by service type for the periods indicated.

	Year ended December 31,					
	2013		2014		2015	
	(RMB in thousands except for percentages)					
Testing services	92,588	79.1%	107,777	77.3%	126,114	81.0%
Surveying services	17,700	15.1%	22,534	16.2%	21,814	14.0%
Witnessing and ancillary services	6,326	5.4%	9,064	6.4%	7,739	4.9%
Total	116,614	99.6%	139,375	99.9%	155,667	99.9%

FINANCIAL INFORMATION

We provide coal testing services since our inception and have since developed a full spectrum of tests to examine various coal quality indicators. Our revenue from testing services increased from RMB92.6 million in 2013 to RMB107.8 million in 2014. The growth in our testing services income during these periods was primarily due to an increase in business volume through open tender or private negotiation. For 2015, our revenue from testing services further increased to RMB126.1 million, primarily due to increased service orders from certain large customers as a result of our effort to deepen our business relationships with them. Testing services were our largest source of revenue during the Track Record Period, representing 79.1%, 77.3% and 81.0% of our total revenue for 2013, 2014 and 2015, respectively.

Surveying services also contributed a significant portion of our revenue during the Track Record Period. Our revenue from surveying services increased from RMB17.7 million in 2013 to RMB22.5 million in 2014, primarily due to an increase in business volume through open tender or private negotiation. For 2015, our revenue from surveying services declined slightly to RMB21.8 million, primarily due to reduced service pricing, partially offset by increased business volume at certain ports. Surveying services were our second largest source of revenue during the Track Record Period, representing 15.1%, 16.2% and 14.0% of our total revenue for 2013, 2014 and 2015, respectively.

We also derived revenue from offering witnessing and ancillary services, including witnessing, scale-weighting inspection, coal pile weighing and survey, and technical consulting, during the Track Record Period. We are committed to diversifying our service offerings and provide an integrated solution for our customers. Our revenue from witnessing and ancillary services accounted for 5.4%, 6.4% and 4.9% of our total revenue for 2013, 2014 and 2015, respectively.

Cost of Sales

Our cost of sales consists primarily of labor costs, port charges, rental expenses, vehicle expenses and various other expenses related to our business. For 2013, 2014 and 2015, our cost of sales was approximately RMB48.3 million, RMB61.3 million and RMB75.3 million, respectively, representing 41.3%, 43.9% and 48.4% of our revenue for the same periods, respectively. The increase in our cost of sales during the Track Record Period was driven primarily by higher labor costs from more headcounts and increased compensation bases and higher port charges, generally consistent with the growth of our business.

FINANCIAL INFORMATION

The following table sets forth the components of our cost of sales for the periods indicated.

	Year ended December 31,					
	2013		2014		2015	
(RMB in thousands except for percentages)						
Labor costs	27,151	23.2%	36,392	26.1%	39,416	25.3%
Port charges	10,613	9.1%	10,190	7.3%	20,234	13.0%
Rental expenses	2,143	1.8%	3,771	2.7%	4,072	2.6%
Vehicle expenses	2,459	2.1%	3,114	2.2%	3,591	2.3%
Depreciation and amortization	1,863	1.6%	2,226	1.6%	2,923	1.9%
Travel expenses	1,332	1.2%	1,764	1.3%	1,446	0.9%
Others ⁽¹⁾	2,746	2.3%	3,813	2.7%	3,658	2.4%
Total	48,307	41.3%	61,270	43.9%	75,340	48.4%

(1) Include primarily office expenses, communication expenses, workplace safety expenses, consumables and repairs.

During the Track Record Period, labor costs, port charges, rental expenses and vehicle expenses were the principal types of cost for our business. The labor costs primarily consist of salaries, bonuses and social insurance benefits paid to our employees. The increase in our labor costs reflected an increase in headcounts and compensation bases as a result of our business expansion during the Track Record Period. For 2013, 2014 and 2015, the labor costs among our cost of sales accounted for 23.2%, 26.1% and 25.3% of our total revenue, respectively. The port charges consist primarily of monthly or quarterly payments we make to the port authorities to allow our technicians and field inspectors to use their facilities, equipment and premises of the ports for sampling, draft survey and other on-site activities. The increase in port charges was primarily attributable to the growth of our business volume, especially at the ports in north China, during the Track Record Period. Rental expenses consist primarily of rents paid for leased premises for our laboratories and employee dormitories. The increase in rental expenses was primarily due to additional leased premises to support our growing business volume and accommodate more headcounts.

Gross Profit and Gross Profit Margin

For 2013, 2014 and 2015, our gross profit was RMB68.8 million, RMB78.2 million and RMB80.4 million, respectively. For 2013, 2014 and 2015, our gross profit margin was 58.7%, 56.1% and 51.6%, respectively. The increase in our gross profit during the Track Record Period was generally consistent with the increase in our business volume. The slight decrease in our gross profit margin during the Track Record Period was primarily due to the decline in the coal market and an increase in labor costs from increased headcount and compensation bases.

FINANCIAL INFORMATION

Other Income and Gains

We had other income and gains of RMB1.1 million, RMB0.8 million and RMB1.2 million in 2013, 2014 and 2015, respectively. Other income and gains consist primarily of government grants and gain on disposal of available-for-sale investments. Government grants were non-recurring subsidies granted to qualified recipients by competent regulatory bodies. In 2013, 2014 and 2015, the government grants we received were RMB618,000, RMB57,000 and RMB149,000, respectively. In 2013, we received a one-time subsidy of RMB600,000 from the Science and Technology Commission of Chaoyang District, Beijing to support our research and development activities. We also received gains on disposal of available-for-sale investments totaling RMB397,000, RMB661,000 and RMB901,000 in 2013, 2014 and 2015, respectively. These investments mainly included low-risk financial products we purchased using our cash on hand from commercial banks. For more information about our treasury policy, see “— Discussion of Certain Items from the Consolidated Statements of Financial Position — Available-for-sale Investments.”

Selling and Distribution Expenses

Our selling and distribution expenses consist primarily of labor costs and tender offer expenses. Our labor costs included salaries, bonuses and social insurance benefits paid to our sales staff, and remained stable during the Track Record Period. Our tender offer expenses were incurred for preliminary research and assessment of tenders, preparation of bid documents and other activities related to open tender processes. Our tender offer expenses decreased in 2014 primarily because a major customer did not invite tenders in that year. The following table sets forth the components of our selling and distribution expenses for the periods indicated.

	Year ended December 31,					
	2013		2014		2015	
	(RMB in thousands except for percentages)					
Labor costs	375	0.3%	397	0.3%	491	0.3%
Open tender expenses	325	0.3%	151	0.1%	327	0.2%
Advertising expenses	529	0.5%	—	—	—	—
Vehicle expenses	3	0.0%	138	0.1%	23	0.1%
Travel expenses	205	0.2%	70	0.1%	202	0.1%
Others	166	0.1%	174	0.1%	331	0.2%
Total	1,603	1.4%	930	0.7%	1,374	0.9%

Our advertising expenses in 2013 were incurred primarily for a corporate event where we invited customers and industry insiders to celebrate our fifth anniversary, which assisted in fostering business relationships with customers and enhancing our brand recognition. Excluding this one-time expense, our selling and distribution expenses remained stable from 2013 to 2014. The increase of our selling and distribution expenses to RMB1.4 million in 2015 primarily reflected increased open tender expenses.

FINANCIAL INFORMATION

Administrative Expenses

The following table sets forth the components of our administrative expenses for the periods indicated.

	Year ended December 31,					
	2013		2014		2015	
(RMB in thousands except for percentages)						
Labor costs	8,657	7.4%	10,948	7.8%	13,523	8.7%
Research and development expenses	6,935	5.9%	7,632	5.5%	7,079	4.5%
Depreciation and amortization	3,787	3.2%	4,243	3.0%	3,713	2.4%
Vehicle expenses	1,346	1.2%	1,004	0.7%	1,101	0.7%
Rental and property expenses	1,973	1.7%	2,195	1.6%	2,607	1.7%
Office expenses	1,440	1.2%	3,169	2.3%	3,304	2.1%
Service expenses	751	0.6%	899	0.6%	10,826	6.9%
Others	2,433	2.1%	2,320	1.7%	3,395	2.2%
Total	27,322	23.3%	32,410	23.2%	45,548	29.2%

Our administrative expenses consist primarily of labor costs for our administrative staff and research and development expenses. Our labor costs included salaries, bonuses and social insurance benefits paid to our administrative staff, and an increase in the labor costs during the Track Record Period primarily reflected more headcounts and increased compensation bases for administrative staff. Our service expenses included fees paid for professional services in connection with business operations and the Global Offering. The significant increase in 2015 was primarily due to the fees of RMB10.0 million we paid for services provided by professional advisers in relation to the Global Offering.

Other Expenses

We recorded other expenses of RMB0.2 million, RMB1.1 million and RMB0.6 million in 2013, 2014 and 2015, respectively, which consisted primarily of processing fees paid to banks and bad-debt provisions.

Finance Costs

Our finance costs primarily represent interests on our borrowings. We incurred finance costs of RMB0.1 million in 2013 as a result of interest payments for a borrowing from a related party, which was repaid in full in 2013. We incurred finance costs of RMB1.1 million in 2015 as a result of interest payments for borrowings we incurred in 2015.

FINANCIAL INFORMATION

Income Tax Expenses

Our income tax consists primarily of PRC enterprise income tax charged on our Group and deferred tax expenses arising from the timing difference between accounting and taxable profits. The following table sets forth our income tax expenses for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
	(RMB in thousands)		
Current income tax	5,923	7,424	5,425
Deferred income tax	(434)	(859)	23
Total income tax expenses	5,489	6,565	5,448

We were not subject to any income, estate, corporation, capital gains or other tax in the Cayman Islands pursuant to the tax rules and regulations of the Cayman Islands during the Track Record Period. Additionally, dividend payments made by us are not subject to withholding tax in the Cayman Islands and the British Virgin Islands.

We did not make provision for Hong Kong profit tax as we did not have any assessable profit subject to Hong Kong profit tax during the Track Record Period.

The provision for PRC enterprise income tax is based on the statutory rate of 25.0% of the assessable profits of PRC companies as determined in accordance with the EIT Law. The EIT Law imposes a unified enterprise income tax rate of 25.0% on all domestic and foreign-invested enterprises unless they are qualified for preferential tax treatments. Under the EIT Law and its implementation rules, our PRC subsidiaries are subject to enterprise income tax at the tax rate of 25.0% during the Track Record Period, with the exception of Huaxia Lihong. In November 2011, Huaxia Lihong was recognized as a “high and new technology enterprise” by Beijing Municipal Science and Technology Commission, and was accordingly entitled to a preferential income tax rate of 15.0% for 2011, 2012 and 2013. In October 2014, Huaxia Lihong renewed its “high and new technology enterprise” status, allowing it to continue the preferential income tax rate of 15.0% for 2014, 2015 and 2016. Our effective income tax rate for 2013, 2014 and 2015 was 13.5%, 14.7% and 16.5%, respectively.

During the Track Record Period, we made all material tax filings and paid all material outstanding tax liabilities with the relevant tax authorities in China, and we are not aware of any outstanding or potential dispute with such tax authorities.

Profit for the Year

As a result of the foregoing, we had profit for the year of RMB35.2 million, RMB38.0 million and RMB27.6 million for 2013, 2014 and 2015, respectively.

FINANCIAL INFORMATION

Total Comprehensive Income Attributable to Owners of Our Company

As a result of the foregoing, we recorded total comprehensive income attributable to owners of our Company of RMB35.3 million, RMB38.0 million and RMB28.4 million for 2013, 2014 and 2015, respectively.

RESULTS OF OPERATIONS

2015 Compared to 2014

Revenue

Our total revenue increased by 11.7% from RMB139.5 million in 2014 to RMB155.8 million in 2015, mainly reflecting (1) a 17.0% increase in revenue from our testing services, partially offset by (2) a 3.1% decrease in revenue from our surveying services.

Testing services

Revenue from our testing services increased by 17.0% from RMB107.8 million in 2014 to RMB126.1 million in 2015, primarily due to increased service orders from certain large customers as a result of our effort to deepen our business relationships with them.

Surveying services

Revenue from our surveying services decreased by 3.1% from RMB22.5 million in 2014 to RMB21.8 million in 2015, primarily due to (1) reduced service pricing as a result of price competition through open tender process and the decline of the coal market during the period, partially offset by (2) increased business volume at certain ports.

Witnessing and ancillary services

Revenue from our witnessing and ancillary services were RMB9.1 million and RMB7.7 million in 2014 and 2015, respectively.

Cost of sales

Our cost of sales increased by 22.8% from RMB61.3 million in 2014 to RMB75.3 million in 2015. The increase was primarily due to higher labor costs generally and port charges of RMB9.6 million from Huanghua port as we commenced testing services at Huanghua port.

Gross profit and gross profit margin

Our gross profit increased by 2.8% from RMB78.2 million in 2014 to RMB80.4 million in 2015. Our gross profit margin decreased from 56.1% in 2014 to 51.6% in 2015, primarily due to a moderate decline in service pricing for our testing services as a result of price competition through open tender process and the increase in cost of sales.

FINANCIAL INFORMATION

Other income and gains

We had other income and gains of RMB0.8 million and RMB1.2 million in 2014 and 2015, respectively. The increase in other income and gains primarily reflected an increased level of investment in low-risk financial products purchased from commercial banks using our available cash.

Selling and distribution expenses

Our selling and distribution expenses increased by 55.6% from RMB0.9 million in 2014 to RMB1.4 million in 2015, primarily due to an increase in open tender expenses resulting from our increased participation in the open tender processes.

Administrative expenses

Our administrative expenses increased by 40.4% from RMB32.4 million in 2014 to RMB45.5 million in 2015, primarily due to (1) an increase in labor costs by RMB2.6 million resulting from more headcounts in our local business operation department to support our newly-launched testing services at Huanghua port, and (2) service expenses of RMB10.0 million for services provided by professional advisers in relation to the Global Offering.

Other expenses

Our other expenses decreased by 45.5% from RMB1.1 million in 2014 to RMB0.6 million in 2015, primarily due to a decrease in provision for bad debts which were collected or written off in 2015.

Finance costs

We incurred finance costs of RMB1.1 million for 2015, primarily due to interest payments for borrowings of RMB50.0 million.

Profit before tax

As a result of the foregoing, our profit before tax decreased by approximately 26.0% from RMB44.6 million for 2014 to RMB33.0 million for 2015.

Income tax expenses

Our income tax expenses decreased by 18.2% from RMB6.6 million in 2014 to RMB5.4 million for 2015, primarily because the increase in our gross profit was partially offset by the listing expenses in connection with the Global Offering. Our effective tax rate was 14.7% and 16.5% for 2014 and 2015, respectively.

Profit for the year

As a result of the foregoing, our net profit decreased by 27.4% from RMB38.0 million in 2014 to RMB27.6 million in 2015.

FINANCIAL INFORMATION

2014 Compared to 2013

Revenue

Our total revenue increased by 19.1% from RMB117.1 million in 2013 to RMB139.5 million in 2014, mainly reflecting (1) a 16.4% increase in revenue from our testing services, (2) a 27.1% increase in revenue from our surveying services, and (3) a 44.4% increase in revenue from our witnessing and ancillary services.

Testing services

Revenue from our testing services increased by 16.4% from RMB92.6 million in 2013 to RMB107.8 million in 2014. The growth in 2014 was driven primarily by (1) an increase in business at Nanjing and Tianjin ports as a result of increased service orders from an existing major customer, (2) an increase in business at Tianjin port as a result of a successful open tender bidding with a major customer in mid 2013, and (3) revenue contribution from our new service center in Zhuhai, which was opened in 2014, partially offset by (4) a decrease in business at Qinhuangdao port and Guangzhou port primarily due to the decline of the coal market.

Surveying services

Revenue from our surveying services increased by 27.1% from RMB17.7 million in 2013 to RMB22.5 million in 2014, primarily due to (1) a full-year revenue contribution from Tianjin port due to a successful open tender bidding with a major customer in mid 2013, (2) an increase in business at Qinhuangdao port from a new annual service agreement obtained through private negotiation, and (3) revenue contribution from our new service center in Zhuhai, which was opened in 2014.

Witnessing and ancillary services

Revenue from our witnessing and ancillary services increased by 44.4% from RMB6.3 million in 2013 to RMB9.1 million in 2014, primarily due to our effort to diversify our service offerings by promoting our witnessing and ancillary services.

Cost of sales

Our cost of sales increased by 26.9% from RMB48.3 million in 2013 to RMB61.3 million in 2014. The increase was primarily due to an increase in labor costs from more headcounts to support our growth and increased compensation bases to retain talents.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 13.7% from RMB68.8 million in 2013 to RMB78.2 million in 2014. Our gross profit margin decreased from 58.7% in 2013 to 56.1% in 2014, primarily due to a 34.0% increase in labor costs from more headcounts to support our growth and increased compensation bases to retain talents.

Other income and gains

We had other income and gains of RMB1.1 million and RMB0.8 million in 2013 and 2014, respectively. Our other income and gains in 2014 consisted primarily of our investment in financial products. Our other income and gains in 2013 consisted primarily of a one-time government subsidy of RMB600,000 to support our research and development activities.

FINANCIAL INFORMATION

Selling and distribution expenses

Our selling and distribution expenses decreased by 43.8% from RMB1.6 million in 2013 to RMB0.9 million in 2014, primarily due to a one-time advertising expense incurred in 2013 for a corporate event where we invited customers and industry insiders to celebrate our fifth anniversary, which assisted in fostering business relationships with customers and enhancing our brand recognition.

Administrative expenses

Our administrative expenses increased by 18.7% from RMB27.3 million in 2013 to RMB32.4 million in 2014, primarily due to an increase in (1) labor costs of our administrative staff resulting from increased headcount of administrative staff and their compensation, and (2) office expenses relating to internal training sessions and conferences and purchase of office supplies.

Other expenses

We had other expenses of RMB0.2 million and RMB1.1 million in 2013 and 2014, respectively. In 2014, we made a provision for bad debts of RMB0.8 million due from a major customer.

Finance costs

We incurred finance costs of RMB88,000 in 2013 for interest payments for a borrowing from a related party which was fully repaid in 2013.

Profit before tax

As a result of the foregoing, our profit before tax increased by approximately 9.6% to RMB44.6 million in 2014 from RMB40.7 million in 2013.

Income tax expenses

Our income tax expenses increased by 20.0% from RMB5.5 million in 2013 to RMB6.6 million in 2014 reflecting the increase in our revenue. Our effective tax rate was 13.5% and 14.7% in 2013 and 2014, respectively.

Profit for the year

As a result of the foregoing, our net profit increased by 8.0% from RMB35.2 million in 2013 to RMB38.0 million in 2014.

FINANCIAL INFORMATION

DISCUSSION OF CERTAIN ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth our summary consolidated statements of financial position as of the dates indicated.

	As of December 31,		
	2013	2014	2015
	(RMB in thousands)		
ASSETS			
Non-current assets			
Property, plant and equipment	20,629	50,494	35,455
Investment properties	—	—	23,493
Prepaid land lease payments	4,054	7,744	10,572
Goodwill	572	572	572
Intangible assets	54	57	50
Deferred tax assets	1,658	2,517	2,494
Prepayments, deposits and other receivables	417	1,923	322
Total Non-current Assets	27,384	63,307	72,958
Current assets			
Inventories	401	305	—
Trade receivables	25,053	17,180	29,039
Prepayments, deposits and other receivables	2,712	4,091	9,339
Available-for-sale investments	11,000	31,500	26,000
Pledged deposits	—	933	33
Cash and cash equivalents	29,091	20,066	58,147
Total Current Assets	68,257	74,075	122,558
EQUITY			
Equity attributable to owners of our Company			
Share capital	—	—	65
Contributed surplus	15,000	15,000	—
Reserves	56,995	95,066	60,773
Non-controlling interests	513	193	161
TOTAL EQUITY	72,508	110,259	60,999
LIABILITIES			
Current liabilities			
Trade payables	2,005	2,205	4,096
Advance from customers, other payables and accruals	19,430	23,388	75,558
Interest-bearing bank loan	—	—	30,000
Tax payable	1,698	1,530	4,603
TOTAL CURRENT LIABILITIES	23,133	27,123	114,257
NET CURRENT ASSETS	45,124	46,952	8,301
TOTAL ASSETS LESS CURRENT LIABILITIES	72,508	110,259	81,259
Non-current liabilities			
Interest-bearing other borrowing	—	—	20,000
Interest payable	—	—	260
TOTAL NON-CURRENT LIABILITIES	—	—	20,260
NET ASSETS	72,508	110,259	60,999

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Property, Plant and Equipment

Our property, plant and equipment consist primarily of buildings, vehicles, equipment and construction in progress. We had property, plant and equipment of RMB20.6 million, RMB50.5 million and RMB35.5 million as of December 31, 2013, 2014 and 2015, respectively. The substantial increase as of December 31, 2014 was primarily due to our purchase of a commercial property for RMB25.5 million and our construction of an office building in Cangzhou to support our business expansion.

Investment Properties

Our investment properties consist of a commercial property in Beijing, which was originally purchased at RMB25.5 million in April 2014 for non-investment purposes. We initially planned to set up a branch office at this commercial property but subsequently abandoned this plan primarily due to the inconvenient location of such property. We have, instead, leased such property for investment returns. The property was valued on December 31, 2015 based on valuations performed by Vigers Appraisal & Consulting Limited, an independent professionally qualified valuer, at RMB27.3 million on an open market, existing use basis. As of December 31, 2015, our investment properties had a carrying value of RMB23.5 million and was mortgaged to secure a bank loan with a principal amount of RMB30.0 million.

Prepaid Land Lease Payments

Prepaid land lease payments refer to payments for land use right. We had prepaid land lease payments of RMB4.1 million, RMB7.7 million and RMB10.6 million as of December 31, 2013, 2014 and 2015. The increase in our prepaid land lease payments as of the date indicated was generally consistent with the expansion of our business during the Track Record Period.

Inventories

Our inventories consist primarily of raw materials, work in progress and finished goods, which mainly include testing equipment such as muffle furnaces, crucibles and annealing furnaces. During the Track Record Period, we generated a small amount of revenue from sale of goods through our subsidiary, Huachuang Yiyuan, which is currently undergoing liquidation process. The following table sets forth the details of our inventories as of the dates indicated.

	As of December 31,		
	2013	2014	2015
	(RMB in thousands)		
Raw materials	85	65	—
Work in progress	95	18	—
Finished goods	221	222	—
Total	401	305	—

FINANCIAL INFORMATION

The decrease in our inventories during the Track Record Period reflected a decrease in raw material procurement and production volume of Huachuang Yiyuan as we focused our business on service offerings.

Trade Receivables

During the Track Record Period, our trade receivables primarily represented amounts receivable from our customers for our services provided in the ordinary course of business. As of December 31, 2013, 2014 and 2015, we had trade receivables of RMB25.1 million, RMB17.2 million and RMB29.0 million, respectively. The table below sets forth the details of our trade receivables as of the dates indicated.

	As of December 31,		
	2013	2014	2015
	(RMB in thousands)		
Trade receivables	25,102	18,283	29,798
Less: provision for impairment	(49)	(1,103)	(759)
Trade receivables — net	25,053	17,180	29,039

Our trading terms are generally on credit, except for new customers or other general customers on a service-order basis, in which case we usually require advance payment for services. We generally grant credit periods of up to 90 days with a maximum credit limit to our repeat customers pursuant to annual service agreements. The decrease in our trade receivables as of December 31, 2014 from December 31, 2013 was primarily due to our enhanced collection efforts to improve our liquidity position. To strengthen our business relationship with large, creditworthy customers, we have allowed more flexible credit arrangements and accepted delayed payments on a case-by-case basis, which also contributed to the significant increase in trade receivables as of December 31, 2015. As of the Latest Practicable Date, approximately 90% of our trade receivables outstanding as of December 31, 2015 were settled. The increase in provision for impairment as of December 31, 2014 and 2015 was primarily due to overdue payments from one major customer.

We seek to maintain strict control over outstanding receivables and have established a credit control department to minimize credit risk. In addition, our overdue balances are reviewed regularly by senior management. We do not hold any collateral or other credit enhancements over our trade receivables balances, and our trade receivables are non-interest-bearing.

FINANCIAL INFORMATION

Our policy for impairment loss on trade receivables is based on an evaluation of collectability and aged analysis of the receivables, which requires the use of judgment and estimation. Provisions are applied to the receivables when there are events or changes in circumstances indicate that the balances may not be collectible. We closely review the trade receivable balance and any overdue balances on an ongoing basis and assess the collectability of overdue balances. The table below sets forth an aged analysis of our trade receivables based on the invoice date and net of provision as of the dates indicated.

	As of December 31,		
	2013	2014	2015
	(RMB in thousands)		
Within three months	19,305	14,985	22,916
Three to six months	4,987	1,461	3,435
Six months to one year	761	711	2,688
One to two years	—	23	—
Total	25,053	17,180	29,039

Trade receivables that were neither past due nor impaired at the end of the reporting period were related to a large number of diversified customers for whom there was no recent history of default. Trade receivables that were past due but not impaired related to a number of independent customers that have a good track record with our Group. Based on our past experience, our management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality of the trade receivables from the date that credit was initially granted up to the end of each reporting period and that the overdue amounts can be recovered. The table below sets forth an aged analysis of our trade receivables that are not considered to be impaired as of the dates indicated.

	As of December 31,		
	2013	2014	2015
	(RMB in thousands)		
Neither past due nor impaired	19,305	14,087	21,623
Less than three months past due	4,987	1,100	2,466
Three to nine months past due	754	171	1,295
Total	25,046	15,358	25,384

The following table sets forth our average trade receivables turnover days for the periods indicated:

	Year ended December 31,		
	2013	2014	2015
Trade receivables turnover days ⁽¹⁾	59	55	54

(1) Trade receivables turnover days were calculated based on the average of the opening and closing trade receivables divided by revenue for the relevant year multiplied by 365 days.

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Our average trade receivables turnover days were stable for 2013, 2014 and 2015. In respect of the receivables that are past due, we regularly follow up with such customers for payment and monitor their credit worthiness. We do not consider that the increase in the average trade receivables turnover days during the Track Record Period had a material adverse effect on our cash generated from our operating activities.

Prepayments, Deposits and Other Receivables

Our prepayments, deposits and other receivables primarily represent rental payments, value-added tax, prepayment for construction in process and deposits paid to enter open tender process. As of December 31, 2013, 2014 and 2015, we had prepayments, deposits and other receivables of RMB2.7 million, RMB4.1 million and RMB9.3 million, respectively. The increase in 2014 was primarily due to an increase of RMB1.5 million primarily for prepayments for construction in process for the expansion of our facilities to support our growing business. The increase in 2015 was primarily due to our increased participation in open tender and our prepayment to professional advisers in connection with the Global Offering. The table below sets forth the details of our prepayments, deposits and other receivables as of the dates indicated.

	As of December 31,		
	2013	2014	2015
	(RMB in thousands)		
Prepaid land lease payments	84	248	322
Prepayments	1,479	3,765	6,772
Deposits and other receivables	1,627	2,001	2,567
Less: provision for impairment	(61)	—	—
Less: portion classified as non-current assets	(417)	(1,923)	(322)
	(417)	(1,923)	(322)
Prepayments, deposits and other receivables — current portion	2,712	4,091	9,339

We did not experience material impairment of our prepayments, deposits and other receivables during the Track Record Period. The financial assets included in the above balances were related to receivables for which there was no recent history of default.

Available-for-sale Investments

Our available-for-sale investments primarily represent low-risk financial products that we purchased from commercial banks using our cash on hand since 2011. As of December 31, 2013, 2014 and 2015, the fair value of our financial products reached RMB11.0 million, RMB31.5 million and RMB26.0 million, respectively. We have a prudent treasury operation to manage our investments in financial products. We only invest in low risk financial instruments from reputable commercial banks that can be redeemed on a same-day basis or otherwise within a short notice period, including primarily bank-sponsored wealth management products, such as bonds, money market funds and interbank deposits. We purchase and redeem financial products multiple times over the course of a year as and when needed to meet our real-time funding requirements, as a result of which our cash flows related to the purchase and disposal of financial products were significantly higher than the year-end balance amounts. Our risk control measures include primarily (1) selection of reputable commercial banks, (2) selection of financial products with a focus on liquidity rather than returns, and (3) stringent internal control procedures, such as tiered reporting system, annual

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budget control and periodic audits. All investment plans are subject to review and pre-approval by our general manager and chief financial officer. We believe that investing in low-risk financial products helps us preserve the value of cash on hand with manageable risk exposure and expect to continue such investment activities following the Listing.

Cash and Cash Equivalents and Pledged Deposits

Cash and cash equivalents consist primarily of our cash and bank balances. The following table sets forth the components of our cash and cash equivalents as of the dates indicated.

	As of December 31,		
	2013	2014	2015
	(RMB in thousands)		
Cash and bank balances	29,091	20,066	58,147
Time deposits	–	933	33
Less: Time deposits pledged for construction in the process	–	(933)	(33)
Cash and cash equivalents	29,091	20,066	58,147

The significant increase in our cash and cash equivalents as of December 31, 2015 was primarily due to proceeds from the Pre-IPO Investments of RMB51.2 million, partially offset by profit distribution of RMB81.0 million.

Trade Payables

Our trade payables primarily represent amounts payable for port charges. As of December 31, 2013, 2014 and 2015, we had trade payables of RMB2.0 million, RMB2.2 million and RMB4.1 million, respectively. The table below sets forth the details of our trade payables as of the dates indicated.

	As of December 31,		
	2013	2014	2015
	(RMB in thousands)		
Trade payables	2,005	2,205	4,096

Our trade payables were generally stable during the Track Record Period. The significant increase as of December 31, 2015 was primarily due to outstanding port charges payable to the port company at Huanghua port as we spent a longer time to negotiate with the port company to agree on our payment.

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Our trade payables are non-interest-bearing and are normally settled on a 90-day credit period. The following table sets forth the aged analysis of our trade payables as of the dates indicated.

	As of December 31,		
	2013	2014	2015
	(RMB in thousands)		
Within three months	1,897	2,170	4,027
Three to six months	16	—	—
Six months to one year	—	1	1
One to two years	92	13	61
Two to three years	—	21	3
Over three years	—	—	4
Total	2,005	2,205	4,096

The following table sets forth our average trade payables turnover days for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
Trade payables turnover days ⁽¹⁾	15	13	15

(1) Trade payables turnover days were calculated based on the average of the opening and closing trade payables divided by cost of sales for the relevant year multiplied by 365 days.

The increase of the trade payables turnover days in 2015 was primarily due to our outstanding port charges payable to the port company at the Huanghua port. During the Track Record Period, we did not default on any trade payables that would have a material adverse effect on our financial position.

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Advance from Customers, Other Payables and Accruals

Our advance from customers, other payables and accruals primarily represent advance from customers, accrued salaries, wages and benefits, other taxes payable and other payables. As of December 31, 2013, 2014 and 2015, we had advance from customers, other payables and accruals of RMB19.4 million, RMB23.4 million and RMB75.6 million, respectively. The increase was primarily attributable to the continuous growth of our employee salaries during the Track Record Period generally consistent with the expansion of our business, and outstanding payments for construction of business facilities. For details, see “Business — Properties — Construction in Progress.” The payable to shareholders as of December 31, 2015 represents the balance of consideration payable to the onshore shareholders of Huaxia Lihong in an equity-transfer transaction in December 2015. See “History, Reorganization and Corporate Structure — Corporate Reorganization — Transfers of the Equity Interest of Huaxia Lihong.” The payment of the outstanding balance was settled in January 2016. Our advance from customers, other payables and accruals are non-interest-bearing and have no fixed terms of settlement. The table below sets forth the details of our advance from customers, other payables and accruals as of the dates indicated.

	As of December 31,		
	2013	2014	2015
	(RMB in thousands)		
Advance from customers	453	389	616
Accrued salaries, wages and benefits	14,296	16,954	17,771
Other taxes payable	683	574	582
Payable to vendors of plant, property and equipment	2,511	4,687	1,805
Payable to shareholders	—	—	47,877
Others	1,487	784	6,907
Total	19,430	23,388	75,558

Interest-bearing Bank Loan and Other Borrowings

See “— Indebtedness and Contingent Liabilities” for further discussions.

SHAREHOLDERS’ EQUITY

As of December 31, 2013, 2014 and 2015, our total equity was RMB72.5 million, RMB110.3 million and RMB61.0 million, respectively. Our strategic investors include China Dragon and Hotek Asia. For details, see “History, Reorganization and Corporate Structure — Pre-IPO Investments.”

As of December 31, 2015, we had RMB33.2 million in retained profits, representing reserves available for distribution to Shareholders.

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LIQUIDITY AND CAPITAL RESOURCES

Our business operations and expansion plans require a significant amount of capital, including upgrading our existing coal testing equipment and techniques, and establishing new service facilities. Historically, we have financed our capital expenditures and working capital requirements mainly through cash generated from operations, proceeds from borrowings and capital injection from shareholders.

Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
	(RMB in thousands)		
Net cash generated from operating activities	35,694	52,515	39,397
Net cash used in investing activities	(17,299)	(61,288)	(13,628)
Net cash from/(used in) financing activities	(2,129)	(252)	11,559
Net increase/(decrease) in cash and cash equivalents	16,266	(9,025)	37,328
Effect of foreign exchange rate changes, net	–	–	753
Cash and cash equivalents at beginning of the year	12,825	29,091	20,066
Cash and cash equivalents at end of the year	29,091	20,066	58,147

Net cash generated from operating activities

We derive our cash inflow from operating activities primarily through our service offerings. Cash outflow from operating activities primarily consists of payments for coal testing equipment, weighing instruments and chemicals, payments for port charges, employee compensation and benefits, and other operating expenses. Our net cash flow generated from operating activities reflects our profit before income tax, as adjusted for non-cash items, such as depreciation of property, plant and equipment, and the effects of changes in working capital items.

For 2015, we had net cash generated from operating activities of RMB39.4 million, primarily attributable to profit before tax of RMB33.0 million, adjusted to reflect an increase in trade receivables of RMB11.5 million consistent with the growth of our business volume, partially offset by adding back (1) depreciation of property, plant and equipment of RMB7.2 million, (2) RMB10.0 million accrued for services rendered by professional advisers in connection with the Global Offering, and (3) increase in trade payables of RMB1.9 million.

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For 2014, we had net cash generated from operating activities of RMB52.5 million, primarily attributable to profit before tax of RMB44.6 million, partially offset by adding back (1) depreciation of property, plant and equipment of RMB7.5 million, and (2) a decrease in trade receivables of RMB6.8 million primarily due to our enhanced collection efforts to improve our liquidity position.

For 2013, we had net cash generated from operating activities of RMB35.7 million, primarily attributable to profit before tax of RMB40.7 million, adjusted to reflect an increase in trade receivables of RMB12.5 million consistent with the growth of our business volume, partially offset by adding back (1) depreciation of property, plant and equipment of RMB6.0 million, and (2) an increase in advance from customers, other payables and accruals of RMB6.3 million primarily due to increased employee salaries.

Net cash used in investing activities

Our net cash used in investing activities during the Track Record Period primarily represents cash paid for (1) purchases of property, plant and equipment and (2) prepaid land lease payments in each reporting period.

Net cash from/(used in) financing activities

In 2013, our net cash used in financing activities was primarily due to repayment of a borrowing from a related party of RMB2.0 million. In 2015, our net cash from financing activities was primarily due to (1) a new bank loan and other borrowing totaling RMB50.0 million, and (2) proceeds of RMB51.2 million from issue of shares to our strategic investors, partially offset by (1) distribution of dividend of RMB81.0 million, and (2) payment of RMB7.9 million for services rendered by professional advisers in connection with the Global Offering.

Capital Management

The primary objectives of our capital management are to safeguard our ability to continue as a going concern and to maintain healthy capital ratios in order to support our business and maximize our Shareholders' value. We manage and adjust our capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust our capital structure, we may adjust dividend payments to shareholders, return capital to shareholders or raise funds through issuing new equity. No changes were made to the objectives, policies or processes for managing capital during the Track Record Period.

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Working Capital

The following table sets forth our current assets and current liabilities as of the dates indicated.

	As of December 31,			As of April 30,
	2013	2014	2015	2016
	(RMB in thousands)			(Unaudited)
Current assets				
Inventories	401	305	—	—
Trade receivables	25,053	17,180	29,039	39,888
Prepayments, deposits and other receivables	2,712	4,091	9,339	10,504
Available-for-sale investments	11,000	31,500	26,000	15,500
Pledged deposits	—	933	33	33
Cash and cash equivalents	29,091	20,066	58,147	7,675
Total Current Assets	68,257	74,075	122,558	73,600
Current liabilities				
Trade payables	2,005	2,205	4,096	8,470
Advance from customers, other payables and accruals	19,430	23,388	75,558	21,063
Interest-bearing bank loan	—	—	30,000	20,000
Tax payable	1,698	1,530	4,603	4,628
Total Current Liabilities	23,133	27,123	114,257	54,161
Net Current Assets	45,124	46,952	8,301	19,439

We generally maintained stable working capital position during the Track Record Period. The significant decrease in our net current assets as of December 31, 2015 and April 30, 2016 was primarily due to our profit distribution of RMB81.0 million in 2015.

The significant increase in advance from customers, other payables and accruals as of December 31, 2015 was primarily due to the balance of consideration payable to the onshore shareholders of Huaxia Lihong in an equity-transfer transaction in December 2015. For details, see “History, Reorganization and Corporate Structure — Corporate Reorganization — Transfers of the Equity Interest of Huaxia Lihong.” The payment of outstanding balance was settled in January 2016.

As of April 30, 2016, we had no other present plan for dividend distribution, and therefore we believe that our liquidity risk would decrease following the Listing. Going forward, we intend to continue to enhance our liquidity risk management capabilities by matching closely the maturity profiles of our assets and liabilities.

Taking into consideration of the financial resources presently available to us, including the expected cash generated from our operations and the estimated net proceeds from the Global Offering, our Directors are of the opinion that we have sufficient working capital for our present working capital requirements for at least the next 12 months from the date of this prospectus.

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Capital Expenditures and Commitments

During the Track Record Period, our capital expenditures included primarily expenditures for purchases of property, plant and equipment relating to our operations. We had capital expenditures of RMB7.0 million, RMB42.7 million and RMB18.1 million in 2013, 2014 and 2015, respectively.

We expect to incur additional capital expenditures following the completion of the Global Offering, which relates primarily to the construction of new service facilities. We intend to fund our planned capital expenditures through a combination of cash flow from operating activities and the estimated net proceeds from the Global Offering. See “Future Plans and Use of Proceeds.”

The table below sets forth our capital commitments as of the dates indicated:

	As of December 31,		
	2013	2014	2015
	(RMB in thousands)		
Property, plant and equipment and land use rights:			
Contracted but not provided for	1,575	2,272	9,982

OPERATING LEASE COMMITMENTS

We lease a number of properties under operating leases for our office premise, laboratories and warehouses. These leases are non-cancellable with a term of one year to 10 years, under which we pay fixed monthly rents. None of the leases includes any contingent rental or renewal options. The table below sets forth details of our operating lease commitments by due date as of the dates indicated.

	As of December 31,		
	2013	2014	2015
	(RMB in thousands)		
Less than one year	3,231	4,949	2,886
More than one year and less than five years (both inclusive)	6,298	5,136	3,145
More than five years	2,225	1,625	1,050
Total	11,754	11,710	7,081

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INDEBTEDNESS AND CONTINGENT LIABILITIES

Our indebtedness during the Track Record Period consists primarily of borrowings from a bank and individuals, all denominated in Renminbi. The table below sets forth the components of our indebtedness as of the dates indicated.

	As of December 31,			As of April 30, 2016
	2013	2014	2015	(Unaudited)
	(RMB in thousands)			
Current				
Short term bank loan	—	—	30,000	20,000
Other borrowing	—	—	—	—
Non-current				
Other borrowing	—	—	20,000	20,000
Interest payable	—	—	260	573
Total	—	—	50,260	40,573

Our indebtedness as of December 31, 2015 and April 30, 2016 reflected primarily (1) a guaranteed short-term loan from a commercial bank and (2) an unsecured loan from an individual who is an independent third party. The bank loan, falling due in June 2016, bears an annual interest rate of 5.7% and is guaranteed by an independent third party with a counter-guarantee by mortgage over our investment property of carrying value of RMB23.1 million as of April 30, 2016 and pledge of our trade receivables of RMB11.9 million pursuant to a pledge agreement dated March 7, 2016. Prior to the pledge, two shareholders, Mr. LI Xiangli (李向利) and Ms. ZHANG Aiyong (張愛英), provided personal guarantee to the bank and personal counter-guarantee to the independent third party. Both the personal guarantee and counter-guarantee were released on March 14, 2016. The third-party borrowing, falling due in September 2018, bears an annual interest of 4.75%. The lender of this third-party borrowing is a businessman engaged in, among others, property development and construction business, and also a family friend of Mr. LI Xiangli. We negotiated the terms of such loan, including the interest rate, at arm's length. We expect to repay our borrowings primarily with the cash generated from our operations when they become due. We did not have any unutilized banking facilities as of the Latest Practicable Date.

We did not experience any difficulties in obtaining financing from licensed financial institutions during the Track Record Period. We chose non-banking financing sources, however, because loans from non-banking sources usually offer more flexible terms (including less restriction on the use of loan proceeds) and faster and simpler approval process.

We applied the proceeds from the bank loan primarily to our working capital and the proceeds from the third-party borrowing to dividend payment. See “— Dividend” for details. Under the bank loan agreement, we are bound by certain restrictive covenants that require us to obtain prior written consent from the lender for engaging in material corporate transactions, such as incurrence of substantial indebtedness, mergers and consolidations, decrease in registered capital, change in control, substantial investment and disposal of substantial assets, that may affect the lender's interests. During the Track Record Period and as of the Latest Practicable Date, we are not aware of any incident of our non-compliance with any material undertaking under or material defaults in payment of our bank loan that gave rise to any actions taken by our lender.

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As of April 30, 2016, the latest practicable date for purpose of this indebtedness statements, saved as disclosed in this prospectus, we did not have any loan capital or debt securities issued or agreed to be issued, outstanding bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits, finance leases or hire purchase commitments or guarantees or material contingent liabilities. Our Directors confirm that, as of the Latest Practicable Date, there is no material adverse change in our Company's indebtedness and contingent liabilities since April 30, 2016.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet arrangements.

KEY FINANCIAL RATIOS

	Year ended December 31,		
	2013	2014	2015
	(%)		
Profitability ratios			
Gross profit margin ⁽¹⁾	58.7	56.1	51.6
Net profit margin ⁽²⁾	30.0	27.2	17.7
Return on equity ⁽³⁾	48.8	34.5	45.3
Return on total assets ⁽⁴⁾	36.8	27.7	14.1
Liquidity ratios			
Current ratio ⁽⁵⁾	295.1	273.1	107.3
Capital adequacy ratios			
Gearing ratio ⁽⁶⁾	0.0	0.0	82.0

(1) The calculation of gross profit margin is based on gross profit for the year divided by revenue for the respective year and multiplied by 100.0%.

(2) The calculation of net profit margin is based on profit for the year divided by revenue for the respective year and multiplied by 100.0%.

(3) The calculation of return on equity is based on profit for the year divided by equity attributable to owners of our Company and multiplied by 100.0%.

(4) The calculation of return on total assets is based on profit for the year divided by total assets and multiplied by 100.0%.

(5) The calculation of current ratio is based on current assets divided by current liabilities and multiplied by 100.0%.

(6) The calculation of gearing ratio is based on total debt divided by the total equity and multiplied by 100.0%.

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Profit Margin

See “— Results of Operations” for a discussion of the factors affecting our gross profit margin during the Track Record Period.

Net Profit Margin

Our net profit margin was 30.0%, 27.2% and 17.7% for 2013, 2014 and 2015, respectively. Our net profit margin was affected primarily by the same factors affecting our gross profit margin during the Track Record Period. See “— Results of Operations.” The decrease in the net profit margin in 2015 was also attributable to the listing expenses incurred in connection with the Global Offering.

Return on Equity

Our return on equity decreased from 48.8% in 2013 to 34.5% in 2014 primarily due to an 8.1% increase in profit compared with a 66.8% increase in reserve in 2014. Our return on equity increased to 45.3% in 2015 primarily due to a 55.2% decrease in reserve in 2015, which was used mainly for profit distribution.

Return on Total Assets

Our return on total assets from 36.8% in 2013 decreased to 27.7% in 2014 primarily due to the purchase of a commercial property for investment during the year. Our return on total assets further decreased to 14.1% in 2015 primarily due to our profit distribution of RMB81.0 million in 2015.

Current Ratio

We generally maintained stable working capital position during the Track Record Period. The significant decrease in our current ratio as of December 31, 2015 was primarily due to borrowings totaling RMB50.0 million in 2015.

Gearing Ratio

We relied primarily on cash generated from our operations to finance our business growth during the Track Record Period. The significant increase in our gearing ratio as of December 31, 2015 was due to borrowings totaling RMB50.0 million in 2015.

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RELATED PARTY TRANSACTIONS

We borrowed from a Shareholder and our executive Director, Ms. ZHANG Aiying, an unsecured loan of RMB3.3 million with a three-year term in November 2009. The loan had an annual interest rate of 5.4% and a penalty interest rate of 5.8% for overdue payments. We fully paid the outstanding balance and interest of this loan as of December 31, 2013. The following table sets forth our transactions with related parties as of the dates indicated.

	As of December 31,		
	2013	2014	2015
	(RMB in thousands)		
Other borrowing interest expense paid or payable to ZHANG Aiying, a shareholder	88	—	—
Total	88	—	—

We borrowed from Ms. ZHANG Aiying to renovate certain business facilities at an early stage of our development when other channels of financial resources were not readily available to us at the time. As our business grew, we began to borrow from sources independent from us to support our operations.

In June 2015, we borrowed a short-term loan of a principal amount of RMB30.0 million from a commercial bank, guaranteed by an independent third party with a counter-guarantee by mortgage over our investment properties with a carrying value of RMB23.1 million as of April 30, 2016 and pledge of our trade receivables of RMB11.9 million pursuant to a pledge agreement dated March 7, 2016. Prior to the pledge, Mr. LI Xiangli and Ms. ZHANG Aiying provided personal guarantee to the bank and personal counter-guarantee to the independent third party. Both the personal guarantee and counter-guarantee were released on March 14, 2016.

For further details of our related party transactions, see Note 33 to the Accountants' Report in Appendix I to this prospectus. Our Directors confirm that these related party transactions were conducted on normal commercial terms that are considered fair and reasonable and in the interest of our Shareholders as a whole, and would not distort our results of operations during the Track Record Period or make our historical results not reflective of our future performance.

FINANCIAL RISKS

Our principal financial instruments comprise interest-bearing bank loan and other borrowings, pledged deposits, and cash and cash equivalents, the main purpose of which is to finance our operations. We have various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from our operations.

We are exposed to various types of financial risks in the ordinary course of business, primarily including credit risk, liquidity risk and interest rate risk. For further details of our financial risk management, see Note 36 to the Accountants' Report in Appendix I to this prospectus.

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Credit Risk

Credit risk is the risk of loss arising from a customer's or counterparty's inability to meet its obligations.

We enter into transactions only with recognized and creditworthy parties. It is our policy that all customers who wish to have credit transactions with us are subject to credit verification procedures taking into account the customers' financial position and our past experience with the customers. In addition, we monitor receivable balances on an ongoing basis, and our exposure to bad debts is not significant. Our management evaluates the creditworthiness of our existing and prospective customers and ensures that the customers have adequate financing for the projects as well as the source of the financing. No collateral is required.

Our other financial assets include other receivables, available-for-sale financial instruments and cash and cash equivalents. The credit risk of these financial assets arises from default of the counterparty. The maximum exposure to credit risk equals to the carrying amounts of these assets.

The quantitative data of our exposure to credit risk arising from trade receivables, other receivables, available-for-sale financial instruments and cash and cash equivalents are disclosed in Notes 20-23 to the Accountants' Report in Appendix I to this prospectus.

Liquidity Risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from mismatches in amounts or duration with regard to the maturity of financial assets and liabilities. Our liquidity is primarily dependent on our ability to maintain adequate cash inflows from operations. Our finance department monitors cash flow projection to ensure that we have sufficient working capital available to meet our operational needs.

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The following table sets forth the maturity profile of our financial assets and liabilities based on the contractual undiscounted cash flows as of the dates indicated.

	As of December 31, 2013
	Within one year
	(RMB in thousands)
Trade payables	2,005
Financial liabilities included in advance from customers, other payables and accruals	3,998
Total	6,003

	As of December 31, 2014
	Within one year
	(RMB in thousands)
Trade payables	2,205
Financial liabilities included in advance from customers, other payables and accruals	5,471
Total	7,676

	As of December 31, 2015		
	Within one year	In third year	Total
	(RMB in thousands)		
Trade payables	4,096	–	4,096
Financial liabilities included in advance from customers, other payables and accruals	56,589	–	56,589
Interest-bearing bank loans and other borrowing	30,000	20,000	50,000
Interest payable on bank loan and other borrowing	618	2,850	3,468
Total	91,303	22,850	114,153

Interest Rate Risk

We are exposed to cash flow interest rate risk, which arises from fluctuations in the prevailing market interest rates on cash and cash equivalents, time deposits and borrowings issued at floating interest rates. Our management considers that these bank balances are not sensitive to fluctuations in interest rates.

Our fair value interest rate risk is primarily related to fixed-rate bank loan and other borrowings. Our interest rate profile is monitored by our management.

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LISTING EXPENSES

The listing expenses in connection with the Global Offering consist primarily of underwriting commission and professional fees, and are estimated to be approximately HK\$28.5 million (RMB24.2 million) comprising HK\$2.5 million underwriting commission and HK\$26.0 million other expenses assuming an Offer Price of HK\$0.99 per Offer Share, being the mid-point of the indicative Offer Price range. During the Track Record Period, we incurred listing expenses of approximately RMB13.3 million, of which approximately RMB10.0 million was charged to our consolidated statements of comprehensive income during the Track Record Period, while the remaining amount of approximately RMB3.3 million was recorded as deferred listing expenses and will be capitalized and deducted from the share premium upon the completion of the Global Offering. We expect to further incur underwriting commission and other listing expenses of approximately RMB10.9 million (including the underwriting commission of approximately RMB2.1 million) upon the completion of the Global Offering, out of which approximately RMB6.6 million will be charged to the consolidated statements of comprehensive income, and approximately RMB4.3 million will be deducted from the share premium.

DIVIDEND

We declared and paid profit distribution of RMB81.0 million in 2015 from our cash and a RMB20.0 million borrowing from an individual who is an independent third party.

We are a holding company incorporated in the Cayman Islands. The payment and amount of our future dividends will depend on the availability of dividends received from our subsidiaries. Distributions from us and our subsidiaries may also be subject to any restrictive covenants in bank credit facilities or loan agreements or other agreements that we or they may enter into in the future.

We currently do not have any pre-determined dividend payout ratio. The amount of dividends actually distributed to our Shareholders will depend on our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our Shareholders. Our Board has the absolute discretion to recommend any dividends. Our dividend distribution record in the past may not be useful as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there were no circumstances which would give rise to a disclosure required under Rules 13.13 to 13.19 of the Listing Rules upon the listing of the Shares on the Stock Exchange.

DISTRIBUTABLE RESERVES

As of December 31, 2015, our Company had RMB33.2 million distributable reserves.

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UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Our unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position had the Capitalization Issue and the Global Offering been completed as of December 31, 2015 or at any future date.

	Consolidated Net Tangible Assets of Our Group Attributable to Equity Holders of the Company as of December 31, 2015 ⁽¹⁾	Estimated Net Proceeds from the Global Offering ⁽²⁾	Unaudited Pro Forma Adjusted Net Tangible Assets Attributable to Equity Holders of the Company as of December 31, 2015 ⁽⁴⁾	Unaudited Pro Forma Adjusted Net Tangible Assets per Ordinary Share ⁽³⁾⁽⁵⁾	
(RMB in thousands except for per share data)					
					RMB HK\$
Based on an Offer Price of HK\$0.73 per share	60,216	48,153	108,369	0.27	0.32
Based on an Offer Price of HK\$1.24 per share	60,216	90,260	150,476	0.38	0.45

- (1) The consolidated net tangible assets attributable to our Shareholders as of December 31, 2015 is based on our audited consolidated net assets attributable to our Shareholders as of December 31, 2015 of approximately RMB60.8 million after the deduction of goodwill of RMB0.6 million and other intangible assets of RMB0.05 million as of December 31, 2015, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK\$0.73 and HK\$1.24 per share, being the lower end to higher end of the stated offer price range, after deduction of the underwriting fees and listing related expenses and takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate. The estimated net process from Global Offering are converted from Hong Kong dollars into Renminbi at the PBOC rate of HK\$1.00 to RMB0.8468 prevailing on June 20, 2016.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived after adjustments referred to in the preceding paragraphs and on the basis of 400,000,000 Shares are in issue assuming that the Capitalization Issue and the Global Offering had been completed on December 31, 2015, but takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate.
- (4) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to December 31, 2015.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of HK\$1.00 to RMB0.8468. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

FINANCIAL INFORMATION

PROPERTY INTERESTS

The following table sets forth the reconciliation of our properties from the audited consolidated financial statements as of December 31, 2015 to the Property Valuation in Appendix III to this prospectus as of April 30, 2016.

	<u>As of December 31,</u> <u>2015</u>	<u>As of April 30,</u> <u>2016</u>
	(RMB in thousands)	
Valuation of properties as of April 30, 2016, as set out in the Property Valuation in Appendix III to this prospectus		46,960
Net book value as of December 31, 2015:		
Properties	54,242	
Less: Depreciation of properties during the period from December 31, 2015 to April 30, 2016	<u>(552)</u>	
Net book value of properties of our Group as of April 30, 2016		53,690
Revaluation deficit, before corporate income tax and land appreciation tax		<u>(6,730)</u>

The revaluation deficit of RMB6.7 million is primarily due to the fact that our property valuer has valued our property in Cangzhou as of April 30, 2016 at a price lower than the purchase price paid by us for such property in the end of 2014 in accordance with its valuation method. We believe the price premium is justified because the relevant property is strategically located near the port which would facilitate our business expansion, and the acquisition of such property is in line with our business development.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2.3 to the Accountants' Report in Appendix I to this prospectus.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus there has been no material adverse change in our financial, operational or trading position since December 31, 2015.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

We strive to become a leading world-class coal testing and inspection services provider. We intend to leverage our existing platform of resources and large customer base to expand the spectrum of our service offerings. We intend to continue to upgrade and expand our service centers. See “Business — Business Strategy” and “— Our Service Offerings — Expansion Plans” for a detailed description of our future plans.

USE OF PROCEEDS

The following table sets forth the estimate of net proceeds from the Global Offering which we are expected to receive after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering:

	<u>Assuming the Over-allotment Option is not exercised</u>	<u>Assuming the Over-allotment Option is exercised in full</u>
Assuming an Offer Price of HK\$0.99 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	Approximately HK\$70.5 million	N/A
Assuming an Offer Price of HK\$1.24 per Offer Share (being the high end of the Offer Price range stated in this prospectus)	Approximately HK\$94.9 million	Approximately HK\$113.0 million
Assuming an Offer Price of HK\$0.73 per Offer Share (being the low end of the Offer Price range stated in this prospectus)	Approximately HK\$45.2 million	N/A

We intend to use the net proceeds of the Global Offering for the following purposes:

- approximately 30.0% of the net proceeds will be used to construct new service facilities at Huanghua port;
- approximately 25.0% of the net proceeds will be used to construct new service facilities at Tangshan port;
- approximately 20.0% of the net proceeds will be used to construct new service facilities at Tianjin port;
- approximately 15.0% of the net proceeds will be used to construct new service facilities at Qinhuangdao port; and
- approximately 10.0% of the net proceeds will be used to fund general corporate purposes.

For more information about the construction of new service facilities, see “Business — Our Service Offerings — Expansion Plans.”

FUTURE PLANS AND USE OF PROCEEDS

The above allocation of the proceeds will be adjusted on a pro-rata basis if the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range. To the extent that the net proceeds from the Global Offering are not immediately used for the above purposes and to the extent permitted by applicable laws and regulations, we may allocate part or all of the proceeds to short-term interest-bearing deposits or money market instruments with authorized financial institutions or licensed banks.

We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

CORNERSTONE INVESTOR

THE CORNERSTONE PLACING

We have entered into a cornerstone investment agreement with an investor (the “Cornerstone Investor”), pursuant to which the Cornerstone Investor has agreed to purchase at the Offer Price such number of Offer Shares as may be purchased with HK\$20 million (rounded down to the nearest whole board lot, excluding applicable brokerage fee, SFC transaction levy and Stock Exchange trading fee) (the “Cornerstone Placing”).

Assuming an Offer Price of HK\$0.73 (being the low-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investor would be 27,396,000 Shares, representing approximately 6.85% of Shares in issue upon the completion of the Global Offering.

Assuming an Offer Price of HK\$0.99 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investor would be 20,200,000, representing approximately 5.05% of Shares in issue upon the completion of the Global Offering.

Assuming an Offer Price of HK\$1.24 (being the high-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investor would be 16,128,000, representing approximately 4.03% of Shares in issue upon the completion of the Global Offering.

To the best knowledge of our Company, the Cornerstone Investor is independent of our Company, our connected persons and the respective associates of our connected persons. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investor will be disclosed in the allotment results announcement to be issued by our Company on or around July 8, 2016.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investor will rank *pari passu* in all respects with the other fully paid Offer Shares in issue and will be counted towards the public float of our Company. The Cornerstone Investor will not subscribe for any Offer Shares under the Global Offering (other than and pursuant to the cornerstone investment agreement). Immediately following the completion of the Global Offering, the Cornerstone Investor will not have any board representation in our Company, nor will the Cornerstone Investor become a substantial shareholder of our Company (as defined under the Listing Rules).

The Offer Shares to be subscribed for by the Cornerstone Investor might be affected by reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in “Structure of the Global Offering – Hong Kong Public Offering – Reallocation.”

CORNERSTONE INVESTOR

CORNERSTONE INVESTOR

We have entered into a cornerstone investment agreement with the following Cornerstone Investor in respect of the Cornerstone Placing. The information about the background of our Cornerstone Investor set forth below has been provided by the Cornerstone Investor:

Sinotruk (Hong Kong) Capital Holding Limited (“Sinotruk HK”) is a company incorporated in Hong Kong with limited liability, which is wholly-owned and controlled by Sinotruk (Hong Kong) Limited (中國重汽(香港)有限公司), a company incorporated in Hong Kong with limited liability and listed on the Stock Exchange (stock code: 3808). The principal activities of Sinotruk HK include not only assembling and trading of truck parts but also sales and marketing. Sinotruk HK is also involved in investment activities such as corporation restructurings, acquisitions, private equity and fund investments. Sinotruk (Hong Kong) Limited is one of the leading heavy truck manufacturers in China and is primarily engaged in the research, development and manufacturing of heavy duty trucks, light duty trucks and buses and related key parts and components.

Conditions Precedent

The subscription obligation of the Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become effective and unconditional and not having been terminated (in accordance with their respective original terms or as subsequently varied by agreement of the parties thereto); and
- (ii) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Shares and that such approval or permission has not been revoked.

Restrictions on the Cornerstone Investor

The Cornerstone Investor has agreed that, without the prior written consent of our Company and the Sole Global Coordinator, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date, dispose of (as defined in the relevant cornerstone investment agreement) any of the Shares or any interest in any company or entity holding any of the relevant Shares, other than in certain limited circumstances such as transfers to any wholly-owned subsidiary of such Cornerstone Investor, provided that, among others, such wholly-owned subsidiary undertakes to, and the Cornerstone Investor undertakes to procure that such subsidiary will, be bound by the obligations imposed on the Cornerstone Investor.

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SOLE GLOBAL COORDINATOR

CMB International Capital Limited

SOLE BOOKRUNNER

CMB International Capital Limited

HONG KONG UNDERWRITER

CMB International Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

(a) Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering 10,000,000 Hong Kong Offer Shares (subject to adjustment) for subscription on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price.

Subject to (i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares (including the additional Shares to be issued pursuant to the Capitalization Issue, and pursuant to the exercise of the Over-allotment Option); and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriter has agreed to apply or procure applications, on the terms and conditions of this prospectus, the related Application Forms and the Hong Kong Underwriting Agreement, for the Hong Kong Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Placing Agreement having been signed and becoming unconditional.

Grounds for Termination

The obligations of the Hong Kong Underwriter to subscribe or procure subscribers for the Hong Kong Offer Shares are subject to termination if prior to 8:00 a.m. on the Listing Date:

- (A) there shall develop, occur, exist or come into effect:
- (1) any change or prospective change (whether or not permanent) in the business or in the earnings, operations, financial or trading position or prospects of our Group or any change in capital stock or long-term debt of our Company or any other member of our Group, which (in any such case) is not set forth or contemplated in this prospectus; or
 - (2) any change or development involving a prospective change or development, or any event or series of events resulting or representing or may result in any change or development involving a prospective change or deterioration (whether or not permanent) in local, national, regional or international financial, political, military,

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industrial, economic, legal framework, regulatory, fiscal, currency, credit or market conditions (including, without limitation, conditions in the equity securities, stock and bond markets, money and foreign exchange markets, inter-bank markets and credit markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollar or an appreciation of the Renminbi against any foreign currencies in or affecting any of Hong Kong, the PRC, the BVI, the Cayman Islands, the United States, the United Kingdom, any member of the European Union, Singapore, Japan or any other jurisdictions where any member of our Group is incorporated (collectively, the “Relevant Jurisdictions”)); or

- (3) any deterioration of any pre-existing local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions in or affecting any of the Relevant Jurisdictions; or
- (4) any new law or regulation, or any change (whether or not forming part of a series of changes) or development involving a prospective change or any event or series of events resulting or representing or may result in any change or development involving a prospective change in existing laws or regulation, or in the interpretation or application thereof by any court or governmental authority in or affecting any of the Relevant Jurisdictions; or
- (5) a change or development or event involving a prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in or affecting any of the Relevant Jurisdictions adversely affecting an investment in shares; or
- (6) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting any of the Relevant Jurisdictions; or
- (7) any event, act or omission which gives rise to or may give rise to any liability of any of our Company, our executive Directors and our Controlling Shareholders pursuant to the indemnity contained in the Hong Kong Underwriting Agreement; or
- (8) (i) any moratorium, suspension or restriction in or on dealings in shares or securities generally on the New York Stock Exchange, the NASDAQ Stock Market, the London Stock Exchange, the Toronto Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Tokyo Stock Exchange, the Stock Exchange and Singapore Stock Exchange or any other major international stock exchange or any minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any regulatory or governmental authority or (ii) any moratorium on commercial banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any of the Relevant Jurisdictions; or

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- (9) the imposition of economic, political or other sanctions, in whatever form, directly or indirectly, in or affecting any of the Relevant Jurisdictions; or

- (10) any event, or series of events, in the nature of force majeure (including without limitation, any acts of God, acts of government, declaration of a national or international emergency or war, acts or threat of war, calamity, crisis, economic sanction, riot, public disorder, civil commotion, fire, drought, flooding, severe snow or hail storms, explosion, earthquake, hurricanes, tornadoes, volcanic eruption, epidemic (including but not limited to severe acute respiratory syndrome or avian flu), pandemic, outbreak of disease, radiation or chemical contaminations, terrorism, strike or lockout) in or affecting any of the Relevant Jurisdictions; or

- (11) any change or development or event involving a prospective change, or a materialization of, any of the risks set out in the section headed “Risk Factors” of this prospectus; or

- (12) any change in the system under which the value of the HK dollar or is linked to that of the U.S. dollar or the value of the Renminbi (the lawful currency of the PRC) is determined with reference to a basket of world currencies or a material devaluation of Hong Kong dollars or the Renminbi against any foreign currency; or

- (13) any demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or

- (14) a contravention by any member of our Group of the Listing Rules or applicable laws; or

- (15) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including the Shares which may be issued pursuant to the Over-allotment Option) pursuant to the terms of the Global Offering; or

- (16) non-compliance of any statement or disclosure of this prospectus or Application Forms or any aspect of the Global Offering with the Listing Rules or any other applicable law; or

- (17) other than with the prior approval of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter), the issue or requirement to issue by our Company of a supplementary prospectus (or any other documents used in connection with the contemplated subscription and sale of the Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

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- (18) an order is made or a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (19) any litigation or claim of any third party being threatened or instigated against any member of our Group; or
- (20) a Director being charged with an indictable offense or prohibited by operation of law or is otherwise disqualified from being a director or taking part in the management of a company; or
- (21) the chairman or chief executive officer or chief financial officer of our Company vacating his office; or
- (22) the commencement by any governmental, regulatory, political or judicial body or organization of any action against a Director or any member of our Group or an announcement by any governmental, regulatory, political or judicial body or organization that it intends to take any such action; or
- (23) our Company withdraws any of the Offer Documents (as defined in the Hong Kong Underwriting Agreement) (and/or any other documents used in connection with the contemplated subscription of the Offer Shares); or
- (24) any person (other than the Hong Kong Underwriter) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents (as defined in the Hong Kong Underwriting Agreement) and/or any other documents used in connection with the contemplated subscription of the Offer Shares, or to the issue of any such documents; or
- (25) a significant portion of the investment commitments by the cornerstone investor after signing of agreement with such cornerstone investor, have been withdrawn, terminated or cancelled,

which, whether individually or in the aggregate, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter):

- (a) has or will or may have a material adverse effect on the assets, liabilities, general affairs, management, shareholder's equity, profits, losses, rules of operations, business, financial, trading or other condition or prospects of any member of our Group or our Group taken as a whole and/or to any present or prospective shareholder in its capacity as such; or

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- (b) has or will or may have a material adverse effect on the success of the Hong Kong Public Offering, the International Placing or the level of Offer Shares being applied for or accepted or the distribution of the Offer Shares; or
 - (c) is or will or may make it impracticable, inadvisable, inexpedient or not commercially viable (i) for any part of the Hong Kong Underwriting Agreement, the International Placing Agreement, the Hong Kong Public Offering, the International Placing and/or the Global Offering to be performed or implemented as envisaged or (ii) to proceed with or to market the Hong Kong Public Offering, the International Placing and/or the Global Offering on the terms and in the manner contemplated in this prospectus; or
- (B) the Hong Kong Underwriter shall become aware of the fact that, or have cause to believe that:
- (1) any of the warranties or undertakings given by our Company, our executive Directors and/or our Controlling Shareholders pursuant to the Hong Kong Underwriting Agreement is untrue, inaccurate, misleading or breached in any respect when given or as repeated as determined by the Sole Global Coordinator in its sole and absolute discretion or has been declared or determined by any court or governmental authorities to be illegal, invalid or unenforceable; or
 - (2) any statement contained in the Offer Documents (as defined in the Hong Kong Underwriting Agreement), the formal notice or any announcements issued by our Company in respect of the Hong Kong Public Offering, the International Placing and/or the Global Offering was or is untrue, incorrect or misleading in any material respect, or any matter arises or is discovered which would, if the Offer Documents (as defined in the Hong Kong Underwriting Agreement), the formal notice and any announcements issued by our Company in respect of the Hong Kong Public Offering, the International Placing and/or the Global Offering were to be issued at that time, constitute a material omission therefrom as determined by the Sole Global Coordinator in its sole and absolute discretion; or
 - (3) any forecasts, expressions of opinion, intention or expectation expressed in the Offer Documents (as defined in the Hong Kong Underwriting Agreement), formal notice and/or any notices or announcements issued by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) are not fair and honest nor based on reasonable assumptions; or
 - (4) there has been a material breach on the part of any of our Company, our executive Directors and/or our Controlling Shareholders of any of the provisions of the Hong Kong Underwriting Agreement or the International Placing Agreement as determined by the Sole Global Coordinator in its sole and absolute discretion,

then the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter) may in its sole and absolute discretion terminate the Hong Kong Underwriting Agreement with immediate effect by notice (orally or in writing) to our Company.

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(b) International Placing Agreement

In connection with the International Placing, it is expected that we will enter into the International Placing Agreement with, among others, the International Underwriter.

Our Company expects to grant the Over-allotment Option to the International Underwriter (exercisable by the Sole Global Coordinator on behalf of the International Underwriter) under the International Placing Agreement if the total value of the Offer Shares at the Offer Price is not less than HK\$100 million from the Listing Date until and including the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 15,000,000 Shares, representing in aggregate 15% of the Offer Shares initially available under the Global Offering at the Offer Price, to cover over-allocations, if any, in the International Placing.

(c) Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings of our Company

Except pursuant to the Capitalization Issue and the Global Offering (including pursuant to the Over-allotment Option), during the period commencing on the date of this prospectus up to and including the date falling six months after the Listing Date (the “First Lock-up Period”), our Company has undertaken to each of the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Hong Kong Underwriter and the Sole Sponsor not to, and to procure each other member of our Group not to, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter) and subject always to the provisions of the Listing Rules:

- (1) offer, allot, issue or sell, or agree to allot, issue or sell, hedge, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates), either directly or indirectly, conditionally or unconditionally, any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or any securities convertible into or exchangeable for such Shares (or any interest in any Shares or any voting or other right attaching to any Shares); or
- (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or such securities; or
- (3) enter into any transaction with the same economic effect as any transaction specified in (1) or (2) above; or
- (4) offer or agree to do any of the foregoing transactions and publicly disclose any intention to effect such transaction;

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whether any of the transactions specified in (1), (2), (3) or (4) above is to be settled by delivery of share capital or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). In the event that, during the 18-month period immediately following the expiry of the First Lock-up Period (the “Second Lock-up Period”), our Company does any of the acts specified in (1), (2), (3) or (4) above, our Company shall take all steps to ensure that any such act, if done will not create a disorderly or false market for the Shares or other securities of our Company or any interest therein. Each of our Controlling Shareholders undertakes to each of the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Hong Kong Underwriter and the Sole Sponsor to procure our Company to comply with the undertakings above.

Undertakings of our Controlling Shareholders

Our Controlling Shareholders have also undertaken to each of the Sole Sponsor, the Sole Global Coordinator, the Hong Kong Underwriter and our Company that:

- (1) except pursuant to the Stock Borrowing Agreement, he/she/it will not, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriter) and will procure that none of his/her/its associates (as defined in the Listing Rules) or companies continued by him/her/it or any nominee or trustee holding in trust for him/her/it shall, directly or indirectly: at any time during the First Lock-up Period, (i) offer, pledge, sell, mortgage, assign, charge, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right, or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital or any other securities of our Company or any interest therein, beneficially owned by him/her/it or through such associates, companies, nominees or trustee as of the Listing Date (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, any such share capital or other securities of our Company or any interest therein) immediately following the completion of the Global Offering, or (ii) enter into any swap, derivatives or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of subscription or ownership of any such share capital or securities of our Company or any interest therein or (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or (iv) offer to or agree to contract to or publicly announce any intention to enter into any transaction described in (i), (ii) or (iii) above, whether any of the foregoing transactions described in (i), (ii) or (iii) above is to be settled by delivery of share capital or such other securities of our Company or in cash or otherwise;
- (2) he/she/it will not, and will procure that such associate, companies, nominee or trustee will not, without the prior written consent of the Sole Global Coordinator, dispose of or otherwise create any options, rights, interests or encumbrances in respect of any Shares, or any interest therein at any time during the Second Lock-up Period, such that immediately following such disposal or upon exercise or enforcement of such options, rights, interests or encumbrances shall result in any of the Controlling Shareholders, directly or indirectly, ceasing to be a controlling shareholder (as defined in the Listing Rules) of the Company at any time during the Second Lock-up Period; and

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- (3) he/she/it shall take all steps to ensure that any such act, if done, will not create a disorderly or false market for any Shares or other securities of the Company or any interest therein.

(d) Underwriting Commission and Listing Expenses

The Hong Kong Underwriter will receive an underwriting commission of 2.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Underwriting Agreement. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay a placing commission at the rate applicable to the International Placing and such commission will be paid to the International Underwriter and not the Hong Kong Underwriter. In addition, we agreed, at our sole discretion, to pay the Sole Global Coordinator a discretionary incentive fee of up to 1.0% of the aggregate Offer Price payable for the Offer Shares, including any additional Shares allotted and issued pursuant to the Over-allotment Option.

The aggregate commissions and fees (exclusive of any discretionary incentive fees), including the Stock Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering, which are currently estimated to be approximately HK\$28.5 million in aggregate (based on an Offer Price of HK\$0.99 per Offer Share, being the mid-point of the stated price range of the Offer Price between HK\$0.73 and HK\$1.24 per Offer Share, and the assumption that the Over-allotment Option is not exercised) are to be borne by our Company.

(e) Underwriters' Interests in our Company

Save for its obligations under the relevant Underwriting Agreements or as otherwise disclosed in this prospectus, neither of the Underwriters owns any shares or securities in our Company or any other member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares or securities in our Company or any member of our Group.

UNDERTAKINGS IN FAVOR OF THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES

(a) By our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) will be issued by our Company or form the subject of any agreement to such an issue by our Company within six months from the Listing Date (whether or not such issue of Shares or securities of our Company will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

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(b) By our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to us, the Stock Exchange and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter) and the Hong Kong Underwriter that he/she/it shall not and shall procure that the relevant registered holder shall not, without the prior written consent of the Stock Exchange, except pursuant to the Global Offering or the Capitalization Issue or the Over-allotment Option or the Stock Borrowing Agreement:

- (i) at any time during the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “First Six-Month Period”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she/it is shown in this prospectus to be the beneficial owner; or
- (ii) at any time during the period of six months commencing on the date on which the period referred to in paragraph (i) above expires (the “Second Six-Month Period”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be our Controlling Shareholder (as defined in the Listing Rules).

Each of our Controlling Shareholders has also undertaken to us, the Stock Exchange, the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter), the Hong Kong Underwriter and the Sole Sponsor and that it will, within the period commencing on the date of this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us and the Stock Exchange, the Sole Global Coordinator, the Hong Kong Underwriter and the Sole Sponsor of:

- (i) any pledges or charges of, directly or indirectly, any of the Shares or securities of our Company beneficially owned by him/her/it in favor of any authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)), and the number of such Shares or securities of our Company so pledged or charged; and
- (ii) any indication received by him/her/it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares will be disposed of.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. CMB International Capital Limited is the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner and the Sole Lead Manager for the Global Offering. We intend to initially make available up to 100,000,000 Shares under the Global Offering, of which 90,000,000 Shares will be conditionally placed pursuant to the International Placing to professional, institutional and other investors and the remaining 10,000,000 Shares will be offered to the public in Hong Kong at the Offer Price under the Hong Kong Public Offering (subject, in each case, to reallocation on the basis described below under the paragraph headed “Hong Kong Public Offering”).

The 100,000,000 Offer Shares initially being offered in the Global Offering will represent approximately 25% of our enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The placing arrangements, and the respective Underwriting Agreements, are summarized in the section headed “Underwriting.”

Investors may apply for the Shares under the Hong Kong Public Offering or apply for or indicate an interest for the Shares under the International Placing, but may not apply under both of these methods for the Offer Shares. In other words, you may only receive Offer Shares under either the Hong Kong Public Offering or the International Placing, but not under both of these methods. The number of Shares to be offered under the Hong Kong Public Offering and the International Placing respectively may be subject to re-allocation as described in the paragraph headed “Allocation” below.

HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price. The Hong Kong Public Offering and the International Placing are subject to the conditions set forth in the paragraph headed “Conditions of the Global Offering” below. The Hong Kong Underwriting Agreement and the International Underwriting Agreement are expected to be conditional upon each other.

Number of Shares Initially Offered

The Hong Kong Public Offering is a fully underwritten public offering (subject to satisfaction or waiver of the other conditions set forth in the Hong Kong Underwriting Agreement and described in the paragraph below headed “Conditions of the Global Offering”) for the subscription in Hong Kong of, initially 10,000,000 Shares at the Offer Price (representing 10% of the total number of the Offer Shares).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by

STRUCTURE OF THE GLOBAL OFFERING

applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Subject to any adjustment in the number of Offer Shares allocated between the International Placing and the Hong Kong Public Offering, the total number of Shares available under the Hong Kong Public Offering will represent 10% of our Company's enlarged issued share capital immediately after completion of the Global Offering assuming that the Over-allotment Option is not exercised. It is to be divided equally into two pools for allocation purposes (subject to any adjustment in the number of Offer Shares allocated between the International Placing and the Hong Kong Public Offering): pool A and pool B. The Shares in pool A will be allocated on an equitable basis to successful applicants who have applied for Shares with an aggregate subscription price of HK\$5 million or less (excluding the amounts of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% per board lot of 4,000 Shares). The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to successful applicants who have applied for our Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% per board lot of 4,000 Shares) and up to the value of pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools and may only apply for Hong Kong Offer Shares in either pool A or pool B but not in both pools. Multiple or suspected multiple applications within pool A or pool B, and between the two pools, and any application for more than the total number of our Shares originally allocated to each pool will be rejected.

Reallocation

The allocation of the Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment. If the number of Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, or (iii) 100 times or more of the number of Shares initially available under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Placing, such that the total number of Shares available under the Hong Kong Public Offering will be increased to 30,000,000 Shares (in the case of (i)), 40,000,000 Shares (in the case of (ii)) and 50,000,000 Shares (in the case of (iii)) representing 30%, 40% and 50% of the Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Shares reallocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of Shares allocated to the International Placing will be correspondingly reduced in such manner as the Sole Global Coordinator deem appropriate. In addition, the Sole Global Coordinator may, in their sole discretion, allocate Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed for, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Sole Global Coordinator deem appropriate.

STRUCTURE OF THE GLOBAL OFFERING

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form(s) submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application may be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or he or she has been or will be placed or allocated Offer Shares under the International Placing.

The listing of the Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$1.24 per Offer Share in addition to any brokerage fee, SFC transaction levy and Stock Exchange trading fee payable on each Share.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offering.

INTERNATIONAL PLACING

The International Placing is expected to be fully underwritten by the International Underwriter. Our Company expects to enter into the International Placing Agreement relating to the International Placing with, among others, our Controlling Shareholders, the International Underwriter and the Sole Global Coordinator. The International Placing is subject to the Hong Kong Public Offering becoming unconditional.

Number of Shares Offered

Subject to reallocation as described above, the number of Offer Shares to be initially offered under the International Placing will be 90,000,000 Shares, representing 90% of the Offer Shares under the Global Offering, assuming the Over-allotment Option is not exercised.

Allocation

Pursuant to the International Placing, 90,000,000 Offer Shares will be conditionally placed on behalf of our Company, by the International Underwriter or through selling agents appointed by them. The International Placing will involve selective marketing of the Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of International Placing Shares will be determined by the Sole Global Coordinator, and will be effected in accordance with the "book-building" process described in the section headed "Pricing of the Global Offering" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to our Company's benefit and that of our Shareholders as a whole.

STRUCTURE OF THE GLOBAL OFFERING

Our Directors, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company will take reasonable steps to identify and reject applicants under the Hong Kong Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Offer Shares in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION AND STOCK BORROWING ARRANGEMENT

In connection with the Global Offering, our Company intends to grant the Over-allotment Option, if the total value of the Offer Shares at the Offer Price is not less than HK\$100 million, to the International Underwriter exercisable by the Sole Global Coordinator on behalf of the International Underwriter.

Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the date of the International Placing Agreement until the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering and from time to time, to require our Company to allot and issue up to an aggregate of 15,000,000 additional Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share at which Offer Shares were initially offered under the International Placing, to cover over-allocations in the International Placing, if any, on the same terms and conditions as the Offer Shares that are subject to the Global Offering. The Sole Global Coordinator may, at its option, also cover such over-allocations by purchasing the Offer Shares in the secondary market or through stock borrowing arrangements from holders of Shares or exercise of Over-allotment Option, or by a combination of these means or otherwise as may be permitted under applicable laws, rules and regulations. If the Sole Global Coordinator exercises the Over-allotment Option in full, the additional Offer Shares will represent approximately 3.61% of our Company's enlarged issued share capital immediately following completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made.

In order to facilitate settlement of over-allocations in connection with the International Placing, the Stabilizing Manager will enter into the Stock Borrowing Agreement with Leon Investment. Under the Stock Borrowing Agreement, Leon Investment agrees with the Stabilizing Manager, that if requested by the Stabilizing Manager, it will, subject to the terms of the Stock Borrowing Agreement, make available to the Stabilizing Manager up to 15,000,000 Shares held by it, by way of stock lending, in order to cover over-allocations in connection with the International Placing, if any.

The Stock Borrowing Agreement, in compliance with Rule 10.07(3) of the Listing Rules, provides that:

- such stock borrowing arrangement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from Leon Investment under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon full exercise of the Over-allotment Option;
- the same number of Shares so borrowed may be returned to Leon Investment or its nominees (as the case may be) within three business days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full;

STRUCTURE OF THE GLOBAL OFFERING

- borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable listing rules, laws, rules and regulatory requirements; and
- no payment will be made to Leon Investment by the Stabilizing Manager in relation to such borrowing arrangement.

PRICING OF THE GLOBAL OFFERING

The International Underwriter will be soliciting from prospective investors indications of interest in acquiring International Placing Shares. Prospective professional, institutional and other investors will be required to specify the number of International Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to the Price Determination Date.

Pricing for the Offer Shares for the purpose of the offerings under the Global Offering will be fixed on the Price Determination Date, when market demand for the Shares will be determined, which is expected to be on or around Tuesday, July 5, 2016, and in any event on or before Friday, July 8, 2016, by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company and the number of Shares to be allocated under offerings will be determined shortly thereafter. If, for any reason, the Offer Price is not agreed by Friday, July 8, 2016 between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

The Offer Price will not be more than HK\$1.24 per Offer Share and is expected to be not less than HK\$0.73 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Applicants under the Global Offering must pay, on application, the maximum Offer Price of HK\$1.24 per Offer Share plus 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee amounting to a total of HK\$5,009.98 per board lot of 4,000 Shares. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus. If the Offer Price, as finally determined in the manner described below, is lower than HK\$1.24, being the maximum Offer Price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus monies) to successful applicants, without interest. See “How to apply for the Hong Kong Offer Shares” for further details.

The Sole Global Coordinator, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with our Company’s consent, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In case of such a reduction, our Company will, as soon as practicable following the decision to make the reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and the website of the Stock Exchange (www.hkexnews.hk) and the website of our Company (www.huaxialihong.com) notices of the reduction in the number of Hong Kong Offer Shares and/or

STRUCTURE OF THE GLOBAL OFFERING

the indicative Offer Price range. Upon issue of these notices, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator, on behalf of the Underwriters, and us, will be fixed within this revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. The notices will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set forth in this prospectus, and any other financial information which may change as a result of such reduction. Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once they are submitted, even if the number of Hong Kong Offer Shares and/or the Offer Price range is reduced as described in this paragraph. In the absence of any notice of reduction published as described in this paragraph, the Offer Price, if agreed upon between our Company and the Sole Global Coordinator, on behalf of the Underwriters, will be within the Offer Price range as stated in the prospectus.

The net proceeds of the Global Offering accruing to our Company (after deduction of placing fees and estimated expenses payable by our Company in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$94.9 million, assuming an Offer Price of HK\$1.24 per Offer Share, or approximately HK\$45.2 million, assuming an Offer Price of HK\$0.73 per Offer Share (or if the Over-allotment Option is exercised in full, approximately HK\$113.0 million, assuming an Offer Price of HK\$1.24 per Offer Share).

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allotment of Shares available under the Hong Kong Public Offering, are expected to be announced on Monday, July 11, 2016 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and the website of the Stock Exchange (www.hkexnews.hk) and the website of our Company (www.huaxialihong.com).

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimize and, if possible, prevent a decline in the initial public offer prices of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, CMBIS, as the Stabilizing Manager, its affiliates or any person acting for it, on behalf of the Underwriters, subject to the total value of the Offer Shares at the Offer Price being not less than HK\$100 million, may over-allocate or effect transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. CMBIS has been appointed as the Stabilizing Manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules made under the SFO.

Any such stabilizing activity will be made in compliance with all applicable laws, rules and regulations in place in Hong Kong on stabilization including the Securities and Futures (Price Stabilizing) Rules made under the SFO. However, there is no obligation on CMBIS, its affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the

STRUCTURE OF THE GLOBAL OFFERING

absolute discretion of CMBIS, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. Any such stabilizing activity is required to be brought to an end within 30 days from the last day for lodging application under the Hong Kong Public Offering which is expected to be on or around July 5, 2016. The number of Shares that may be over-allocated will not be greater than the number of Shares which may be sold upon exercise of the Over-allotment Option, being 15,000,000 Shares, which is 15% of the Shares initially available under the Global Offering.

Following any over-allocation of Shares in connection with the Global Offering, CMBIS, its affiliates or any person acting for it may take all or any of the following stabilizing actions in Hong Kong during the stabilization period to cover such over-allocation by (among other methods) making purchases in the secondary market, selling Shares to liquidate a position held as a result of those purchases, exercising the Over-allotment Option in full or in part, stock borrowing or by any combination of any of the foregoing.

The possible stabilizing action which may be taken by CMBIS, its affiliates or any person acting for it in connection with the Global Offering may involve (among other things) (i) purchases of Shares, (ii) establishing, hedging and liquidating positions in Shares, (iii) exercising the Over-allotment Option in whole or in part, (iv) stock borrowing and/or (v) offering or attempting to do any of (i), (ii), (iii) or (iv) above.

Specifically, prospective applicants for and investors in Offer Shares should note that:

- CMBIS, its affiliates or any person acting for it may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which CMBIS, its affiliates or any person acting for it will maintain such a position;
- liquidation of any such long position by CMBIS, its affiliates or any person acting for it may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of any security (including the Shares) cannot be assured to stay at or above its Offer Price by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on July 12, 2016, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on July 12, 2016.

STRUCTURE OF THE GLOBAL OFFERING

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, among other things:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares being offered pursuant to the Global Offering (including the additional Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment), and such listing and permission not having been revoked prior to the commencement of dealings in Shares on the Stock Exchange;
- (ii) the Offer Price having been duly agreed on or before the Price Determination Date; and
- (iii) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Global Coordinator, on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements;

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Hong Kong Public Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set forth in the section headed “How to apply for the Hong Kong Offer Shares.” In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

We expect to issue share certificates for the Offer Shares on July 11, 2016. Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on July 12, 2016 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Underwriting Agreement — Grounds for Termination” has not been exercised.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, June 29, 2016 until 12:00 noon on Tuesday, July 5, 2016 from:

- (i) CMB International Capital Limited, Units 1803-4, 18/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong; or
- (ii) any of the branches of the following receiving banks:

Industrial and Commercial Bank of China (Asia) Limited

District	Branch Name	Address
Hong Kong Island	Central Branch	1/F., 9 Queen's Road Central, Hong Kong
	Causeway Bay Branch	Shop A on G/F, 1/F, Hennessy Apartments, 488 & 490 Hennessy Road, Hong Kong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

District	Branch Name	Address
Kowloon	Mongkok Branch	G/F, Belgian Bank Building, 721-725 Nathan Road, Mongkok, Kowloon
	Kwun Tong Branch	Shop 5 & 6, 1/F, Crocodile Center, 79 Hoi Yuen Road, Kwun Tong, Kowloon
	Hung Hom Branch	Shop 2A, G/F, Hung Hom Shopping Mall, 2-34E Tak Man Street, Hung Hom, Kowloon
New Territories	Shatin Branch	Shop 22J, Level 3, Shatin Centre, New Territories

Wing Lung Bank Limited

District	Branch Name	Address
Hong Kong Island	Head Office	45 Des Voeux Road Central
	Johnston Road Branch	118 Johnston Road
	North Point Branch	361 King's Road
Kowloon	Tsim Sha Tsui Branch	4 Carnarvon Road
	Mongkok Branch	B/F Wing Lung Bank Centre, 636 Nathan Road
	San Po Kong Branch	8 Shung Ling Street
New Territories	Tsuen Wan Branch	251 Sha Tsui Road
	Sheung Shui Branch	128 San Fung Avenue

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, June 29, 2016 until 12:00 noon on Tuesday, July 5, 2016 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Wing Lung Bank (Nominees) Limited – China Leon Open Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Wednesday, June 29, 2016 – 9:00 a.m. to 5:00 p.m.
- Thursday, June 30, 2016 – 9:00 a.m. to 5:00 p.m.
- Saturday, July 2, 2016 – 9:00 a.m. to 1:00 p.m.
- Monday, July 4, 2016 – 9:00 a.m. to 5:00 p.m.
- Tuesday, July 5, 2016 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, July 5, 2016, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize our Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

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- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in "Personal Collection" section in the prospectus to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

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- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m., Wednesday, June 29, 2016 until 11:30 a.m., Tuesday, July 5, 2016 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon, Tuesday, July 5, 2016 or such later time under the “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “China Leon Inspection Holding Limited” **White Form eIPO** application submitted via the website www.eipo.com.hk to support the funding of “Source of Dong Jiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
 - confirm that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

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- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Cap. 32 Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 4,000 Hong Kong Offer Shares. Instructions for more than 4,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Wednesday, June 29, 2016 – 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Thursday, June 30, 2016 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Saturday, July 2, 2016 – 8:00 a.m. to 1:00 p.m.⁽¹⁾
- Monday, July 4, 2016 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Tuesday, July 5, 2016 – 8:00 a.m.⁽¹⁾ to 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

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CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m., Wednesday, June 29, 2016 until 12:00 noon, Tuesday, July 5, 2016 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon, Tuesday, July 5, 2016, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, our Hong Kong Share Registrar, the receiving banks, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, July 5, 2016.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

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You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 4,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 4,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing of the Global Offering.”

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, July 5, 2016. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, July 5, 2016 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, July 11, 2016 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese), on our Company’s website at www.huaxialihong.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at www.huaxialihong.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m. on Monday, July 11, 2016;

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- from the designated results of allocations website at www.iporesults.com.hk with a “search by ID” function on a 24-hour basis from 8:00 a.m., on Monday, July 11, 2016 to 12:00 midnight on Sunday, July 17, 2016;
- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, July 11, 2016 to Thursday, July 14, 2016;
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, July 11, 2016, Tuesday, July 12, 2016 and Wednesday, July 13, 2016 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering.”

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

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(ii) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$1.24 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Offering — Conditions of the Global Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Monday, July 11, 2016.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s)

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Monday, July 11, 2016. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, July 12, 2016 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, July 11, 2016 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Monday, July 11, 2016, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Monday, July 11, 2016, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, July 11, 2016, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, July 11, 2016 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(iii) If you apply through the White Form eIPO service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, July 11, 2016, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, July 11, 2016 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, July 11, 2016, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Monday, July 11, 2016. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, July 11, 2016 or such other date as determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, July 11, 2016. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, July 11, 2016.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, received from Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, for the purpose of incorporation in this document.



22/F, CITIC Tower,
1 Tim Mei Avenue,
Central,
Hong Kong

29 June 2016

The Directors
China Leon Inspection Holding Limited
CMB International Capital Limited

Dear Sirs,

We set out below our report on the financial information of China Leon Inspection Holding Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2013, 2014 and 2015 (the “Relevant Periods”), and the consolidated statements of financial position of the Group as at 31 December 2013, 2014 and 2015, and the statement of financial position of the Company as at 31 December 2015, together with the notes thereto (the “Financial Information”), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 29 June 2016 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 29 July 2015. Pursuant to a group reorganization (the “Reorganization”) as set out in note 2.1 of Section II below, which was completed on 16 December 2015, the Company became the holding company of the other subsidiaries comprising the Group. Apart from the Reorganization, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the consolidated financial statements of the Group (the “Underlying Financial Statements”) in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International

Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended 31 December 2013, 2014 and 2015 were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("IAASB").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors' responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the Hong Kong Institute of Certified Public Accountants.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the financial position of the Group as at 31 December 2013, 2014 and 2015 and of the Company as at 31 December 2015 and of the consolidated financial performance and cash flows of the Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

(A) Consolidated statements of profit or loss and other comprehensive income

	Notes	Year ended 31 December		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
REVENUE	5	117,096	139,480	155,789
Cost of sales		(48,307)	(61,270)	(75,340)
Gross profit		68,789	78,210	80,449
Other income and gains	5	1,097	793	1,209
Selling and distribution expenses		(1,603)	(930)	(1,374)
Administrative expenses		(27,322)	(32,410)	(45,548)
Other expenses		(221)	(1,095)	(602)
Finance costs	7	(88)	—	(1,111)
PROFIT BEFORE TAX	6	40,652	44,568	33,023
Income tax expense	10	(5,489)	(6,565)	(5,448)
PROFIT FOR THE YEAR		<u>35,163</u>	<u>38,003</u>	<u>27,575</u>
Attributable to:				
Owners of the parent		35,303	38,044	27,607
Non-controlling interests		(140)	(41)	(32)
		<u>35,163</u>	<u>38,003</u>	<u>27,575</u>
OTHER COMPREHENSIVE INCOME				
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):				
Exchange differences on translation of foreign operations		—	—	753
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>35,163</u>	<u>38,003</u>	<u>28,328</u>
Attributable to:				
Owners of the parent		35,303	38,044	28,360
Non-controlling interests		(140)	(41)	(32)
		<u>35,163</u>	<u>38,003</u>	<u>28,328</u>
EARNINGS PER SHARE				
ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT				
Basic and diluted	11	N/A	N/A	N/A

(B) Consolidated statements of financial position

	Notes	As at 31 December		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	12	20,629	50,494	35,455
Investment properties	13	—	—	23,493
Prepaid land lease payments	14	4,054	7,744	10,572
Goodwill	15	572	572	572
Intangible assets	16	54	57	50
Deferred tax assets	18	1,658	2,517	2,494
Prepayments, deposits and other receivables	21	417	1,923	322
Total non-current assets		27,384	63,307	72,958
CURRENT ASSETS				
Inventories	19	401	305	—
Trade receivables	20	25,053	17,180	29,039
Prepayments, deposits and other receivables	21	2,712	4,091	9,339
Available-for-sale investments	22	11,000	31,500	26,000
Pledged deposits	23	—	933	33
Cash and cash equivalents	23	29,091	20,066	58,147
Total current assets		68,257	74,075	122,558
CURRENT LIABILITIES				
Trade payables	24	2,005	2,205	4,096
Advance from customers, other payables and accruals	25	19,430	23,388	75,558
Interest-bearing bank loan	26	—	—	30,000
Tax payable		1,698	1,530	4,603
Total current liabilities		23,133	27,123	114,257
NET CURRENT ASSETS		45,124	46,952	8,301
TOTAL ASSETS LESS CURRENT LIABILITIES				
		72,508	110,259	81,259
NON-CURRENT LIABILITIES				
Interest-bearing other borrowing	26	—	—	20,000
Interest payable	27	—	—	260
Total non-current liabilities		—	—	20,260
Net assets		72,508	110,259	60,999
EQUITY				
Equity attributable to owners of the parent				
Share capital	28	—	—	65
Contributed surplus		15,000	15,000	—
Reserves	29	56,995	95,066	60,773
		71,995	110,066	60,838
Non-controlling interests		513	193	161
Total equity		72,508	110,259	60,999

(C) Consolidated statements of changes in equity

	Attributable to owners of the parent						Total	Non-controlling interests	Total equity
	Share capital	Contributed surplus	*Capital reserve	*Statutory reserves	*Exchange fluctuation reserve	*Retained profits			
	RMB'000	(note 1) RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
As at 1 January 2013	—	15,000	—	3,049	—	18,643	36,692	353	37,045
Profit for the year	—	—	—	—	—	35,303	35,303	(140)	35,163
Total comprehensive income for the year	—	—	—	—	—	35,303	35,303	(140)	35,163
Capital contribution from a non-controlling shareholder	—	—	—	—	—	—	—	300	300
Transfer from retained profits	—	—	—	3,651	—	(3,651)	—	—	—
As at 31 December 2013 and 1 January 2014	—	15,000	—	6,700	—	50,295	71,995	513	72,508
Profit for the year	—	—	—	—	—	38,044	38,044	(41)	38,003
Total comprehensive income for the year	—	—	—	—	—	38,044	38,044	(41)	38,003
Acquisition of a non-controlling interest	—	—	27	—	—	—	27	(279)	(252)
Transfer from retained profits	—	—	—	1,247	—	(1,247)	—	—	—
As at 31 December 2014 and 1 January 2015	—	15,000	27	7,947	—	87,092	110,066	193	110,259
Profit for the year	—	—	—	—	—	27,607	27,607	(32)	27,575
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	—	—	—	—	753	—	753	—	753
Total comprehensive income for the year	—	—	—	—	753	27,607	28,360	(32)	28,328
Contributed surplus transfer to capital reserve	—	(15,000)	15,000	—	—	—	—	—	—
Capital contribution	65	—	51,224	—	—	—	51,289	—	51,289
Deemed distribution (note 2)	—	—	(47,877)	—	—	—	(47,877)	—	(47,877)
Profit distribution (note 3)	—	—	—	—	—	(81,000)	(81,000)	—	(81,000)
Transfer from retained profits	—	—	—	543	—	(543)	—	—	—
As at 31 December 2015	65	—	18,374	8,490	753	33,156	60,838	161	60,999

* These reserve accounts comprise the consolidated reserves of RMB56,995,000, RMB95,066,000 and RMB60,773,000 in the consolidated statements of financial position as at 31 December 2013, 2014 and 2015, respectively.

Note 1: The Group's contributed surplus represents the issued capital of Beijing Huaxia Lihong Commodity Inspection Co., Ltd. ("Beijing Huaxia Lihong").

Note 2: Pursuant to the Reorganization as more fully explained in the section headed "History, Reorganization and Corporate Structure" to the Prospectus, each of LI Xiangli, ZHANG Aiyong, LIU Yi, LI Dexin, ZHANG Jiaqi and Beijing Lihong Cornerstone Investment Co., Ltd. transferred their total equity interests in Beijing Huaxia Lihong to Huaxia Leon Inspection Limited, the subsidiary held by the Company. The consideration was RMB47,877,000 and settled in January 2016.

Note 3: Prior to the incorporation of the Company and the completion of the Reorganization, the main operating activities were carried out by Beijing Huaxia Lihong and its subsidiaries. In 2015, Beijing Huaxia Lihong totally distributed retained profits of RMB81,000,000 to the then shareholders.

(D) Consolidated statements of cash flows

	Notes	Year ended 31 December		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		40,652	44,568	33,023
Adjustments for:				
Finance costs	7	88	—	1,111
Depreciation of property, plant and equipment	6	6,018	7,471	7,159
Depreciation of investment properties	6	—	—	808
Amortisation of prepaid land lease payments	6	63	98	295
Amortisation of intangible assets	6	7	7	7
Loss on disposal of items of property, plant and equipment, net	6	151	24	27
Gain on disposal of available-for-sale investments	6	(397)	(661)	(901)
Initial public offering related fee		—	—	9,962
Impairment/(reversal of impairment) of trade and other receivables	6	42	1,039	(7)
		46,624	52,546	51,484
Decrease in inventories		390	96	305
(Increase)/decrease in trade receivables		(12,464)	6,819	(11,515)
Increase in prepayments, deposits and other receivables		(261)	(1,116)	(1,724)
Increase/(decrease) in trade payables		(40)	200	1,891
Increase in advance from customers, other payables and accruals		6,268	1,512	1,308
Cash generated from operations		40,517	60,057	41,749
Income tax paid		(4,823)	(7,542)	(2,352)
Net cash flows from operating activities		35,694	52,515	39,397
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(6,534)	(36,561)	(17,750)
Payment for prepaid land lease payments		(162)	(3,952)	(3,197)
Payment for intangible assets		—	(10)	—
Proceeds from disposal of items of property, plant and equipment		—	7	18
Purchase of available-for-sale investments		(104,000)	(155,000)	(136,210)
Disposal of available-for-sale investments		93,000	134,500	141,710
Gain on disposal of available-for-sale investments	6	397	661	901
(Increase)/decrease in pledged deposits		—	(933)	900
Net cash flows used in investing activities		(17,299)	(61,288)	(13,628)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares		—	—	51,238
New bank loan and other borrowing		400	—	50,000
Repayment of bank loan and other borrowing		(2,388)	—	—
Interest paid		(441)	—	(823)
Distribution		—	—	(81,000)
Payment for initial public offering related fee		—	—	(7,856)
Acquisition of non-controlling interests		—	(252)	—
Capital contribution from a non-controlling shareholder		300	—	—
Net cash flows from/(used in) financing activities		(2,129)	(252)	11,559
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
		16,266	(9,025)	37,328
Effect of foreign exchange rate changes, net		—	—	753
Cash and cash equivalents at beginning of year		12,825	29,091	20,066
CASH AND CASH EQUIVALENTS AT END OF YEAR		29,091	20,066	58,147

(E) Statement of financial position of the Company

	<i>Notes</i>	As at 31 December 2015
		<u>RMB'000</u>
NON-CURRENT ASSET		
Investment in a subsidiary	<i>17</i>	<u>51,238</u>
Total non-current asset		<u>51,238</u>
CURRENT ASSETS		
Other receivables	<i>21</i>	<u>51</u>
Total current assets		<u>51</u>
Net asset		<u><u>51,289</u></u>
EQUITY		
Share capital	<i>28</i>	65
Reserves	<i>29</i>	<u>51,224</u>
Total equity		<u><u>51,289</u></u>

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 29 July 2015. The registered office of the Company is located at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands.

The Company is an investment holding company. The Group are principally engaged in the testing and inspection of coal and coke in the People's Republic of China (the "PRC").

In preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), the Group underwent the Reorganization as set out in the section headed "History, Reorganization and Corporate Structure" in the Prospectus.

As at 31 December 2015, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name*	Notes	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the parent		Principal activities
				Direct	Indirect	
China Leon Inspection Holding (BVI) Limited ("Leon BVI")		British Virgin Island 31 July 2015	US\$1.00	100	—	Investment holding
Huaxia Leon Inspection Limited		The PRC Hong Kong 10 August 2015	HK\$100	—	100	Investment holding
Beijing Huaxia Lihong (北京華夏力鴻商品檢驗有限公司)	(a)	The PRC Mainland China 19 January 2009	RMB15,790,000	—	100	Coal inspection
Qinhuangdao Lihong Coal Testing Co., Ltd. (秦皇島力鴻煤炭檢測有限公司)	(b)	The PRC Mainland China 4 May 2009	RMB1,000,000	—	100	Coal and coke testing, inspection and relevant service
Tangshan Huaxia Lihong Commodity Inspection Co., Ltd. (唐山華夏力鴻商品檢驗有限公司)	(b)	The PRC Mainland China 6 May 2009	RMB1,000,000	—	100	Inspection, testing, appraisal and inspection technology development
Tianjin Huaxia Lihong Coal Testing Co., Ltd. (天津華夏力鴻煤炭檢測有限公司)	(b)	The PRC Mainland China 25 November 2011	RMB1,000,000	—	100	Coal and coke inspection
Nanjing Lihong Coal Testing Co., Ltd. (南京力鴻煤炭檢測有限公司)	(b)	The PRC Mainland China 5 June 2012	RMB3,000,000	—	100	Coal, coke and minerals inspection
Guangzhou Lihong Coal Testing Co., Ltd. (廣州力鴻煤炭檢測有限公司)	(b)	The PRC Mainland China 24 June 2011	RMB1,440,000	—	100	Professional technique service
Hebei Lihong Minerals Inspection Co., Ltd. (河北力鴻礦產品檢驗有限公司)	(d)	The PRC Mainland China 14 January 2013	RMB3,000,000	—	100	Coal inspection technique advisory service

Name*	Notes	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the parent		Principal activities
				Direct	Indirect	
Hunan Lihong Coal Testing Co., Ltd. (湖南力鴻煤炭檢測有限公司)	(c)	The PRC Mainland China 17 July 2014	RMB3,000,000	—	100	Coal, coke and minerals testing and inspection
Zhuhai Lidaohongtu Coal Testing Technology Services Co., Ltd. (珠海力道鴻途煤炭檢測技術服務有限公司)	(b)	The PRC Mainland China 3 April 2013	RMB1,000,000	—	100	Coal and minerals testing, inspection and advisory service
Beijing Huaxia Lihong Software Development Co., Ltd. (北京華夏力鴻軟件開發有限公司)	(d)	The PRC Mainland China 18 December 2013	RMB1,000,000	—	100	Software development, technique service and sale of computers and equipment
Tianjin Shengde Tiangong Sampling Technology Co., Ltd. (天津聖德天工採樣技術有限公司)	(d)	The PRC Mainland China 27 November 2014	RMB10,000,000	—	100	Scientific research, technique service and business service
Beijing Huachuang Yiyuan Technology Development Co., Ltd. (北京華創億源科技開發有限公司)	(d)	The PRC Mainland China 1 August 2001	RMB1,700,000	—	70	Technology promotion, production design, and sale of equipment

* The English names of the companies registered in the PRC represent the best efforts of the management of the Company in the directly translating the Chinese names of the companies as no English names have been registered.

Notes:

- (a) The statutory financial statements of the entity for the years ended 31 December 2013, 2014 and 2015 prepared under PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by Hongxin Certified Public Accountants Co., Ltd. (宏信會計師事務所) ("Hongxin CPA"), certified public accountants registered in the PRC.
- (b) The statutory financial statements of these entities for the year ended 31 December 2014 and 2015 prepared under PRC GAAP were audited by Hongxin CPA. No audited financial statements have been prepared for these entities for the year ended 31 December 2013, as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in the PRC.
- (c) The Statutory financial statements of the entity for the year ended 31 December 2015 prepared under PRC GAAP were audited by Hongxin CPA. No audited financial statements have been prepared for the entity for the years ended 31 December 2014, as the entity was not subject to any statutory audit requirements under the relevant rules and regulations in the PRC.
- (d) No audited financial statements have been prepared for these entities for the years ended 31 December 2013, 2014 and 2015 (or since date of incorporation, where later than the beginning of the Relevant periods), as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in the PRC.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganization as more fully explained in the section headed "History, Reorganization and Corporate Structure" to the Prospectus, the Company became the holding company of the companies now comprising the Group on 16 December 2015. The companies now comprising the Group were under the common control before and after the Reorganization. The Financial Information has been prepared by applying the principles of merger accounting, to consolidate all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries first came under common control, where this is a shorter period.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB. All IFRSs effective for the accounting period commencing from 1 January 2015, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention, except for available-for-sale investments, which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the Relevant Periods. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) 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 parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. 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.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described for subsidiaries above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in the Financial Information.

IFRS 9	<i>Financial Instruments</i> ³
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁶
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> ¹
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ¹
IFRS 14	<i>Regulatory Deferral Accounts</i> ⁵
IFRS 15	<i>Revenue from Contracts with Customers</i> ³
Amendments to IAS 1	<i>Disclosure Initiative</i> ¹
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> ¹
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> ¹
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of IFRSs ¹
Amendments to IAS 7	<i>Disclosure Initiative</i> ²
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ²
IFRS 16	<i>Leases</i> ⁴

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2017

³ Effective for annual periods beginning on or after 1 January 2018

⁴ Effective for annual periods beginning on or after 1 January 2019

⁵ Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

⁶ No mandatory effective date yet determined but is available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2015, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value of financial assets currently held at fair value.

(b) Impairment

IFRS 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 IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 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 IFRS 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 IFRSs. In July 2015, the IASB issued an amendment to IFRS 15 regarding a one-year deferral of the mandatory effective date of IFRS 15 to 1 January 2018. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i) the materiality requirements in IAS 1;
- (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
- (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRS 16 was issued by IASB in January 2016. It will be effective for annual periods beginning on or after 1 January 2019. This new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. The new standard maintains substantially the lessor accounting requirements in the current standard.

A lessee is required to recognise a right-of-use asset and a lease liability at the commencement of lease arrangement. Right-of-use asset includes the amount of initial measurement of lease liability, any lease payment made to the lessor at or before the lease commencement date, estimated cost to be incurred by the lessee for dismantling or removing the underlying assets from and restoring the site, as well as any other initial direct cost incurred by the lessee. Lease liability represents the present value of the lease payments. Subsequently, depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 *Property, Plant and Equipment*, while lease liability will be increased by the interest accrual, which will be charged to profit or loss, and deducted by lease payments. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

As set out in note 31 to the Financial Information, total operating lease commitment of the Group in respect of leased premises as at 31 December 2015 amounted to RMB7,081,000. The directors of the Company do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in significant impact on the Group's result but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTANT POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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 is measured at fair value with changes in fair value recognised in profit or loss. 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.

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 performs 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.

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 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

For assets and liabilities that are recognised in the 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, deferred tax assets, financial assets and investment properties), 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 the statement of 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 the statement of profit or loss in the period in which it arises.

Related parties

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 over 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.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. 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 the statement of 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:

Land and Buildings	4.75%
Vehicles	23.75%
Electronic equipment and others	19% to 31.67%
Leasehold improvements	20% to 33.33%

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 the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress representing property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises 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.

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. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method over the estimated useful lives years. Owner-occupied property is transferred to investment property when there is a change in use evidenced by the end of owner occupation.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year in which the item is derecognised.

Intangible assets (other than goodwill)

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.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over the shorter of their estimated useful lives and the relevant licence periods.

Research and development costs

All research costs are charged to the statement of 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.

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 the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of 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 of 25 years to 50 years.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gains or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gain or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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 reorganization 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.

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 (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount 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 other expenses in the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

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

If an available-for-sale 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 the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of 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.

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.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and interest-bearing bank loan, other borrowings and payable interest.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing bank loan, other borrowings and payable interest are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. 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.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which 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 the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair values 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 periods 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 the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

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) from the rendering of coal testing and inspection other services, when the agreed services are provided;
- (b) 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;

- (c) rental income, on a time proportion basis over the lease terms; and
- (d) 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.

Employee benefits

Social pension plans

The Group has the social pension plans for its employees arranged by local government labour and security authorities. The Group makes contributions on a monthly basis to the social pension plans. The contributions are charged to profit or loss as they become payable in accordance with the rules of the social pension plans. Under the plans, the Group has no further obligations beyond the contributions made.

Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

Apart from those described above, the Group does not have any other legal or constructive obligations over employee benefits.

Borrowing costs

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

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3. SIGNIFICANT ACCOUNTANT JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which the tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Impairment of trade receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers will deteriorate such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the allowance and its future results would be affected.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives and residual values of items of property, plant and equipment and investment properties

In determining the useful lives and residual values of items of property, plant and equipment and investment properties, the Group periodically reviews the changes in market conditions, the expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on historical experience of the Group with similar assets that are used in a similar way. Depreciation amounts will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment and investment properties are different from previous estimation. Useful lives and residual values are reviewed at the end of each reporting period based on changes in circumstances.

4. OPERATING SEGMENT INFORMATION

The Group's revenue and contribution to consolidated results are mainly derived from coal testing and related technical services, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management (e.g. the president and vice president) for purposes of resource arrangement and performance assessment. Accordingly, no segment information by profit, asset and liability is presented.

Geographical information

All of the Group's revenue is derived from customers based in Mainland China, and all of the non-current assets of the Group are located in Mainland China. Accordingly, no segment information by geographical segment is presented.

Information about a major customer

For the years ended 31 December 2013, 2014 and 2015, revenue generated from one of the Group's customers accounting for 10% or more of the Group's total revenue was RMB53,943,000, RMB65,493,000 and RMB82,032,000, respectively.

5. REVENUE, OTHER INCOME AND GAINS

Revenue comprises the value of services rendered and the net invoiced value of materials sold.

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

	<u>Year ended 31 December</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<u>Revenue</u>			
Testing services	92,588	107,777	126,114
Surveying services	17,700	22,534	21,814
Witnessing and ancillary services	6,326	9,064	7,739
Others	482	105	122
	<u>117,096</u>	<u>139,480</u>	<u>155,789</u>
<u>Other income</u>			
Bank interest income	58	52	63
Government grants	618	57	149
	<u>676</u>	<u>109</u>	<u>212</u>
<u>Gains</u>			
Gain on disposal of available-for-sale investments	397	661	901
Others	24	23	96
	<u>421</u>	<u>684</u>	<u>997</u>
	<u>1,097</u>	<u>793</u>	<u>1,209</u>

6. PROFIT BEFORE TAX

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

	Notes	Year ended 31 December		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
Cost of services provided		47,826	61,165	75,178
Depreciation of property, plant and equipment	12	6,018	7,471	7,159
Depreciation of investment properties	13	—	—	808
Amortisation of prepaid land lease payments	14	63	98	295
Amortisation of intangible assets	16	7	7	7
Research and development costs: Current year expenditure		6,935	7,632	7,079
Minimum lease payments under operating leases:				
Land and buildings		3,459	4,563	5,524
Auditors' remuneration		11	67	2,500
Employee benefit expenses (including directors' and the chief executive's remuneration):				
Wages and salaries		28,043	36,899	39,714
Pension scheme contributions		2,987	4,210	5,269
Welfare and other expenses		5,153	6,628	8,447
		<u>36,183</u>	<u>47,737</u>	<u>53,430</u>
Impairment of trade receivables	20	40	1,100	228
Reversal of impairment of trade receivables	20	—	—	(235)
Impairment of other receivables	21	12	—	—
Reversal of impairment of other receivables	21	(10)	(61)	—
		<u>42</u>	<u>1,039</u>	<u>(7)</u>
Bank interest income		(58)	(52)	(63)
Loss on disposal of items of property, plant and equipment, net		151	24	27
Gain on disposal of available-for-sale investments		(397)	(661)	(901)

7. FINANCE COSTS

An analysis of financial costs is as follows:

	Year ended 31 December			
	2013	2014	2015	
	RMB'000	RMB'000	RMB'000	
Interest on a bank loan and other borrowings wholly repayable within five years		88	—	1,111

8. DIRECTORS' REMUNERATION

As the Company was incorporated on 29 July 2015 and has not commenced any business or operation apart from the Reorganization, it did not appoint any director, chief executive officer or independent non-executive director during the Relevant Periods.

Subsequent to the end of the Relevant Periods, LI Xiangli, ZHANG Aiyong and LIU Yi were appointed as executive directors of the Company, WANG Gang was appointed as a non-executive director of the Company, and YANG Rongbing, WANG Zichen and ZHAO Hong were appointed as independent non-executive directors of the Company in January 2016.

Certain of the Directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries. The remuneration of each of the Directors as recorded in the financial statements of these subsidiaries is set out below:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Fees	—	—	—
Other emoluments:			
Salaries, allowances and benefits in kind	1,713	2,327	1,845
Performance related bonuses	650	700	700
Pension scheme contributions	108	120	141
	<u>2,471</u>	<u>3,147</u>	<u>2,686</u>

(a) Independent non-executive directors

No independent non-executive director was appointed and there were no fees and other emoluments payable to the independent non-executive director during the Relevant Periods.

(b) Executive directors

	Fees	Salaries, allowance, and benefits in kind	Performance related bonuses	Pension schemes contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2013					
Executive directors:					
LI Xiangli	—	643	300	36	979
LIU Yi	—	643	200	36	879
ZHANG Aiyong	—	427	150	36	613
	<u>—</u>	<u>1,713</u>	<u>650</u>	<u>108</u>	<u>2,471</u>

	Fees	Salaries, allowance, and benefits in kind	Performance related bonuses	Pension schemes contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2014					
Executive directors:					
LI Xiangli	—	1,148	400	40	1,588
LIU Yi	—	649	200	40	889
ZHANG Aiyong	—	530	100	40	670
	<u>—</u>	<u>2,327</u>	<u>700</u>	<u>120</u>	<u>3,147</u>

	Fees	Salaries, allowance, and benefits in kind	Performance related bonuses	Pension schemes contributions	Total remuneration
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2015					
Executive directors:					
LI Xiangli	—	655	400	47	1,102
LIU Yi	—	655	200	47	902
ZHANG Aiying	—	535	100	47	682
	—	1,845	700	141	2,686

9. FIVE HIGHEST PAID EMPLOYEES

The remuneration of the five highest paid employees during the Relevant Periods, who are neither directors nor a chief executive of the Company, is as follows:

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances and benefits in kind	2,330	3,173	2,762
Performance related bonuses	854	900	930
Pension scheme contributions	180	200	235
	3,364	4,273	3,927

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December		
	2013	2014	2015
Nil to HK\$1,000,000	3	3	3
HK\$1,000,001 to HK\$1,500,000	2	2	2
	5	5	5

During the Relevant Periods, no highest paid individuals waived or agreed to waive any emoluments and no emoluments were paid by the Group to the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

The Company and its subsidiary incorporated in the Cayman Islands and British Virgin Islands are not subject to any income tax pursuant to the local rules and regulations.

The Company's subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profit. No provision for Hong Kong profit tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

The Company's subsidiaries in the PRC are subject to income tax at a statutory rate of 25% on their respective taxable income, except for Beijing Huaxia Lihong, which has been identified as a "high and new technology enterprise" and was entitled to a preferential income tax rate of 15% for the Relevant Periods.

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current			
— Mainland China	5,923	7,424	5,425
Deferred (<i>note 18</i>)	(434)	(859)	23
Tax charge for the year	<u>5,489</u>	<u>6,565</u>	<u>5,448</u>

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

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	40,652	44,568	33,023
Income tax charge at the statutory income tax rate of 25%	10,163	11,142	8,256
Effect of preferential income tax rate	(3,890)	(4,559)	(3,421)
Tax losses not recognised	24	459	1,175
Expenses not deductible for tax	103	139	123
Additional tax deduction for research and development expenditure	(765)	(651)	(696)
Others	(146)	35	11
Tax charge for the year at the effective rate	<u>5,489</u>	<u>6,565</u>	<u>5,448</u>

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization.

12. PROPERTY, PLANT AND EQUIPMENT

	<u>Land and buildings</u>	<u>Vehicles</u>	<u>Electronic equipment and others</u>	<u>Construction in progress</u>	<u>Leasehold improvements</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2013						
At 1 January 2013:						
Cost	2,472	11,820	10,841	210	2,900	28,243
Accumulated depreciation	(159)	(4,510)	(3,078)	—	(366)	(8,113)
Net carrying amount	<u>2,313</u>	<u>7,310</u>	<u>7,763</u>	<u>210</u>	<u>2,534</u>	<u>20,130</u>
At 1 January 2013, net of accumulated depreciation						
At 1 January 2013, net of accumulated depreciation	2,313	7,310	7,763	210	2,534	20,130
Additions	—	2,688	1,383	2,356	222	6,649
Disposals	—	—	(132)	—	—	(132)
Depreciation provided during the year (note 6)	(119)	(2,736)	(1,949)	—	(1,214)	(6,018)
At 31 December 2013, net of accumulated depreciation	<u>2,194</u>	<u>7,262</u>	<u>7,065</u>	<u>2,566</u>	<u>1,542</u>	<u>20,629</u>
At 31 December 2013:						
Cost	2,472	14,508	11,757	2,566	2,682	33,985
Accumulated depreciation	(278)	(7,246)	(4,692)	—	(1,140)	(13,356)
Net carrying amount	<u>2,194</u>	<u>7,262</u>	<u>7,065</u>	<u>2,566</u>	<u>1,542</u>	<u>20,629</u>
	<u>Land and buildings</u>	<u>Vehicles</u>	<u>Electronic equipment and others</u>	<u>Construction in progress</u>	<u>Leasehold improvements</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2014						
At 31 December 2013 and 1 January 2014:						
Cost	2,472	14,508	11,757	2,566	2,682	33,985
Accumulated depreciation	(278)	(7,246)	(4,692)	—	(1,140)	(13,356)
Net carrying amount	<u>2,194</u>	<u>7,262</u>	<u>7,065</u>	<u>2,566</u>	<u>1,542</u>	<u>20,629</u>
At 1 January 2014, net of accumulated depreciation						
At 1 January 2014, net of accumulated depreciation	2,194	7,262	7,065	2,566	1,542	20,629
Additions	25,513	2,041	3,600	5,490	723	37,367
Transfers	—	—	—	(1,015)	1,015	—
Disposals	—	(13)	(18)	—	—	(31)
Depreciation provided during the year (note 6)	(945)	(2,876)	(2,639)	—	(1,011)	(7,471)
At 31 December 2014, net of accumulated depreciation	<u>26,762</u>	<u>6,414</u>	<u>8,008</u>	<u>7,041</u>	<u>2,269</u>	<u>50,494</u>
At 31 December 2014:						
Cost	27,985	16,337	15,281	7,041	4,415	71,059
Accumulated depreciation	(1,223)	(9,923)	(7,273)	—	(2,146)	(20,565)
Net carrying amount	<u>26,762</u>	<u>6,414</u>	<u>8,008</u>	<u>7,041</u>	<u>2,269</u>	<u>50,494</u>

	Land and buildings	Vehicles	Electronic equipment and others	Construction in progress	Leasehold improvements	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2015						
At 31 December 2014 and 1 January 2015:						
Cost	27,985	16,337	15,281	7,041	4,415	71,059
Accumulated depreciation	<u>(1,223)</u>	<u>(9,923)</u>	<u>(7,273)</u>	<u>—</u>	<u>(2,146)</u>	<u>(20,565)</u>
Net carrying amount	<u>26,762</u>	<u>6,414</u>	<u>8,008</u>	<u>7,041</u>	<u>2,269</u>	<u>50,494</u>
At 1 January 2015, net of accumulated depreciation						
	26,762	6,414	8,008	7,041	2,269	50,494
Additions	—	2,466	2,776	10,874	350	16,466
Disposals	—	(7)	(38)	—	—	(45)
Depreciation provided during the period (<i>note 6</i>)	(521)	(3,006)	(2,564)	—	(1,068)	(7,159)
Transfer to investment properties (<i>note 13</i>)	<u>(24,301)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(24,301)</u>
At 31 December 2015, net of accumulated depreciation	<u>1,940</u>	<u>5,867</u>	<u>8,182</u>	<u>17,915</u>	<u>1,551</u>	<u>35,455</u>
At 31 December 2015:						
Cost	2,472	18,682	17,865	17,915	2,517	59,451
Accumulated depreciation	<u>(532)</u>	<u>(12,815)</u>	<u>(9,683)</u>	<u>—</u>	<u>(966)</u>	<u>(23,996)</u>
Net carrying amount	<u>1,940</u>	<u>5,867</u>	<u>8,182</u>	<u>17,915</u>	<u>1,551</u>	<u>35,455</u>

The Group had no items of property, plant and equipment which were pledged during the Relevant Periods.

13. INVESTMENT PROPERTIES

	Year ended 31 December 2015
	<i>RMB'000</i>
Cost:	
At beginning of the year	—
Transfer from owner-occupied property (<i>note 12</i>)	<u>25,513</u>
At end of the year	<u>25,513</u>
Accumulated depreciation:	
At beginning of the year	—
Transfer from owner-occupied property (<i>note 12</i>)	(1,212)
Depreciation charge for the year (<i>note 6</i>)	<u>(808)</u>
At end of the year	<u>(2,020)</u>
Net carrying amount:	
At beginning of the year	<u>—</u>
At end of the year	<u>23,493</u>

The Group's investment properties were valued on 31 December 2015 based on valuations performed by Vigers Appraisal & Consulting Limited, an independent professionally qualified valuers, at RMB27,280,000, on an open market, existing use basis.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 31(a) to the Financial Information.

At 31 December 2015, the Group's investment properties with a carrying value of RMB23,493,000 were pledged to secure an interest-bearing bank loan amounting to RMB30,000,000 (note 26).

At 31 December 2015, the following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement using			Total
	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs	
	(Level 1)	(Level 2)	(Level 3)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investment properties	—	—	27,280	27,280

14. PREPAID LAND LEASE PAYMENTS

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount at beginning of the year	4,039	4,138	7,992
Additions	162	3,952	3,197
Amortisation for the year (<i>note 6</i>)	(63)	(98)	(295)
Carrying amount at end of the year	4,138	7,992	10,894

	As at 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepaid Land lease payment:			
Current portion included in prepayments, deposits and other receivables (<i>note 21</i>)	84	248	322
Non-current portion	4,054	7,744	10,572
	4,138	7,992	10,894

15. GOODWILL

	As at 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning/end of the year:			
Cost and net carrying amount	572	572	572

Impairment testing of goodwill

Goodwill acquired through a business combination in 2012 is allocated to a regional service-rendering cash-generating unit for impairment testing.

The recoverable amount of the regional service-rendering cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15% during the Relevant Periods. The growth rate used to extrapolate the cash flows of the regional service-rendering unit beyond the five-year period is 2% during the Relevant Periods.

Assumptions were used in the value in use calculation of the cash-generating unit for the Relevant Periods. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margin — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved during the Relevant Periods, increased for expected efficiency improvements and expected market development.

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions and discount rate is consistent with external information sources.

16. INTANGIBLE ASSETS

	<u>Patents</u>	<u>Software</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2013			
Cost at 1 January 2013, net of accumulated amortisation	13	48	61
Amortisation provided during the year (<i>note 6</i>)	<u>(1)</u>	<u>(6)</u>	<u>(7)</u>
At 31 December 2013, net of accumulated amortisation	<u>12</u>	<u>42</u>	<u>54</u>
At 31 December 2013:			
Cost	13	54	67
Accumulated amortisation	<u>(1)</u>	<u>(12)</u>	<u>(13)</u>
Net carrying amount	<u><u>12</u></u>	<u><u>42</u></u>	<u><u>54</u></u>
31 December 2014			
Cost at 1 January 2014, net of accumulated amortisation	12	42	54
Additions	–	10	10
Amortisation provided during the year (<i>note 6</i>)	<u>(1)</u>	<u>(6)</u>	<u>(7)</u>
At 31 December 2014, net of accumulated amortisation	<u>11</u>	<u>46</u>	<u>57</u>
At 31 December 2014:			
Cost	13	64	77
Accumulated amortisation	<u>(2)</u>	<u>(18)</u>	<u>(20)</u>
Net carrying amount	<u><u>11</u></u>	<u><u>46</u></u>	<u><u>57</u></u>
31 December 2015			
Cost at 1 January 2015, net of accumulated amortisation	11	46	57
Amortisation provided during the year (<i>note 6</i>)	<u>(2)</u>	<u>(5)</u>	<u>(7)</u>
At 31 December 2015, net of accumulated amortisation	<u>9</u>	<u>41</u>	<u>50</u>
At 31 December 2015:			
Cost	13	64	77
Accumulated amortisation	<u>(4)</u>	<u>(23)</u>	<u>(27)</u>
Net carrying amount	<u><u>9</u></u>	<u><u>41</u></u>	<u><u>50</u></u>

17. INVESTMENT IN A SUBSIDIARY

As at 31 December 2015, the Company had 100% interests in Leon BVI. Particulars of the directly and indirectly-held subsidiaries of the Company as at 31 December 2015 are set out in note 1 of Section II above.

18. DEFERRED TAX

Deferred tax assets

	Provision for impairment of assets	Accrued employee benefits	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2013	10	1,214	—	1,224
Deferred tax credited to profit or loss (note 10)	<u>12</u>	<u>422</u>	<u>—</u>	<u>434</u>
At 31 December 2013 and 1 January 2014	22	1,636	—	1,658
Deferred tax credited to profit or loss (note 10)	<u>145</u>	<u>703</u>	<u>11</u>	<u>859</u>
At 31 December 2014 and 1 January 2015	167	2,339	11	2,517
Deferred tax charged to profit or loss (note 10)	<u>(53)</u>	<u>41</u>	<u>(11)</u>	<u>(23)</u>
At 31 December 2015	<u><u>114</u></u>	<u><u>2,380</u></u>	<u><u>—</u></u>	<u><u>2,494</u></u>

At 31 December 2015, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

Deferred tax assets have not been recognised in respect of losses of RMB96,000, RMB1,836,000 and RMB4,700,000 as at 31 December 2013, 2014 and 2015 as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

19. INVENTORIES

	As at 31 December		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	85	65	—
Work in progress	95	18	—
Finished goods	<u>221</u>	<u>222</u>	<u>—</u>
	<u><u>401</u></u>	<u><u>305</u></u>	<u><u>—</u></u>

20. TRADE RECEIVABLES

	As at 31 December		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	25,102	18,283	29,798
Impairment	<u>(49)</u>	<u>(1,103)</u>	<u>(759)</u>
	<u><u>25,053</u></u>	<u><u>17,180</u></u>	<u><u>29,039</u></u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally three months. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of trade receivables, based on the invoice date and net of provisions is as follows:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Within 3 months	19,305	14,985	22,916
3 to 6 months	4,987	1,461	3,435
6 months to 1 year	761	711	2,688
1 to 2 years	—	23	—
	<u>25,053</u>	<u>17,180</u>	<u>29,039</u>

The movements in provision for impairment of trade receivables are as follows:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
At beginning of the year	9	49	1,103
Impairment losses recognised (<i>note 6</i>)	40	1,100	228
Reversal of impairment (<i>note 6</i>)	—	—	(235)
Amount written off as uncollectible	—	(46)	(337)
At end of the year	<u>49</u>	<u>1,103</u>	<u>759</u>

Included in the above provision for impairment of trade receivables were provisions for individually impaired trade receivables of RMB752,000 and RMB319,000 with aggregate carrying amounts before provision of RMB2,430,000 and RMB557,000 as at 31 December 2014 and 2015, respectively. There was no provision for individually impaired trade receivables in 2013.

The individually impaired trade receivables relate to customers that were in default in payments and only a portion of the receivables is expected to be recovered.

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	19,305	14,087	21,623
Less than 3 months past due	4,987	1,100	2,466
3 to 9 months past due	754	171	1,295
	<u>25,046</u>	<u>15,358</u>	<u>25,384</u>

Receivables that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default.

Receivables that were 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 are of the opinion 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.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Prepaid land lease payments (note 14)	84	248	322
Prepayments	1,479	3,765	6,772
Deposits and other receivables	1,627	2,001	2,567
Provision for impairment	(61)	—	—
	3,129	6,014	9,661
Portion classified as non-current assets	(417)	(1,923)	(322)
	<u>2,712</u>	<u>4,091</u>	<u>9,339</u>

The movements in provision for impairment of other receivables are as follows:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
At beginning of the year	59	61	—
Impairment losses recognised (note 6)	12	—	—
Reversal of impairment (note 6)	(10)	(61)	—
At end of the year	<u>61</u>	<u>—</u>	<u>—</u>

Company

	As at 31 December
	2015
	RMB'000
Other receivables	<u>51</u>

22. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Bank financial products, at fair value	<u>11,000</u>	<u>31,500</u>	<u>26,000</u>

The available-for-sale investments stated at fair value represented financial products issued by banks. The fair values of available-for-sale investment have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Cash and bank balances	29,091	20,066	58,147
Time deposits	—	933	33
	29,091	20,999	58,180
Less: Time deposits pledged for construction in process	—	(933)	(33)
Cash and cash equivalents	29,091	20,066	58,147

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

24. TRADE PAYABLES

An aged analysis of the trade payables based on the invoice date is as follows:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Within 3 months	1,897	2,170	4,027
3 to 6 months	16	—	—
6 months to 1 year	—	1	1
1 to 2 years	92	13	61
2 to 3 years	—	21	3
Over 3 years	—	—	4
	2,005	2,205	4,096

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

25. ADVANCE FROM CUSTOMERS, OTHER PAYABLES AND ACCRUALS

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Advance from customers	453	389	616
Accrued salaries, wages and benefits	14,296	16,954	17,771
Other taxes payable	683	574	582
Payable to vendors of plant, property and equipment	2,511	4,687	1,805
Payable to shareholders	—	—	47,877
Others	1,487	784	6,907
	19,430	23,388	75,558

Other payables are non-interest-bearing and have no fixed terms of settlement.

26. INTEREST-BEARING BANK LOAN AND OTHER BORROWING

	<u>As at 31 December 2015</u>		
	<u>Effective interest rate</u>	<u>Maturity</u>	<i>RMB'000</i>
Current			
Bank loan:			
— Secured	5.7%	June 2016	30,000
Non-current			
Other borrowing:			
— Unsecured	4.75%	September 2018	<u>20,000</u>
			<u><u>50,000</u></u>

The other borrowing was a loan from an independent third party.

The maturity profile of the interest-bearing bank loan and other borrowing is as follows:

	<u>As at 31 December 2015</u>
	<i>RMB'000</i>
Analysed into:	
Bank loan and other borrowing repayable	
Within one year	30,000
In the third year	<u>20,000</u>
	<u><u>50,000</u></u>

All of the Group's bank loan and other borrowing are denominated in RMB.

The Group's bank loan amounting to RMB30,000,000 as at 31 December 2015 was guaranteed by an independent third party, LI Xiangli and ZHANG Aiying. The Group in turn provided a counter-guarantee by mortgage over the Group's investment properties with a carrying value of RMB23,493,000 as at 31 December 2015 to the independent third party, LI Xiangli and ZHANG Aiying also provided a counter-guarantee to this independent third party.

27. INTEREST PAYABLE

Interest on other borrowing will be settled in 2018 along with the repayment of other borrowing.

28. SHARE CAPITAL

On 29 July 2015, the Company was incorporated in the Cayman Islands with authorised share capital of US\$10,000 divided into 10,000 shares of a par value of US\$1.00 each.

	<u>As at 31 December 2015</u>
	<i>RMB'000</i>
Issued and fully paid (10,000 ordinary shares)	<u><u>65</u></u>

29. RESERVES

- (a) The amounts of the Group's reserves and the movements are presented in the consolidated statements of changes in equity for the Relevant Periods in Section I (C) above.
- (b) Company

	<u>Capital reserve</u>
	<i>RMB'000</i>
At 1 January 2015	–
Capital contribution	<u>51,224</u>
At 31 December 2015	<u><u>51,224</u></u>

Statutory reserves

In accordance with the Company Law of the PRC, the Group's subsidiaries in the PRC are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital.

30. PLEDGE OF ASSETS

Details the Group's pledged assets are included in notes 13 and 26 to the Financial Information.

31. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties (note 13 to the Financial Information) under operating lease arrangements, with leases negotiated for a term of three or four years.

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

	<u>As at 31 December</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	—	—	550
In the second to fifth years, inclusive	<u>—</u>	<u>—</u>	<u>1,048</u>
	<u>—</u>	<u>—</u>	<u>1,598</u>

(b) As lessee

The Group leases certain of its office premise, plant and warehouses under operating lease arrangements. Leases of the properties are negotiated for terms ranging from one year to ten years.

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

	<u>As at 31 December</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	3,231	4,949	2,886
In the second to fifth years, inclusive	6,298	5,136	3,145
Beyond five years	<u>2,225</u>	<u>1,625</u>	<u>1,050</u>
	<u>11,754</u>	<u>11,710</u>	<u>7,081</u>

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitments at the end of each of the Relevant Periods:

	<u>As at 31 December</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for:			
Property, plant and equipment and land use rights	<u>1,575</u>	<u>2,272</u>	<u>9,982</u>

33. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the Relevant Periods:

	<u>As at 31 December</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loan interest expense paid or payable to ZHANG Aiying, a shareholder	<u>88</u>	<u>—</u>	<u>—</u>

The Group's borrowing from ZHANG Aiying amounting to RMB1,988,000 as at 1 January 2013 was unsecured, born interest at 5.4% to 5.8% per annum and had fixed terms of repayment. The Group fully repaid the borrowing in 2013.

(b) Guarantee with related parties:

The Group's bank loan amounting to RMB30,000,000 as at 31 December 2015 was guaranteed by an independent third party, LI Xiangli and ZHANG Aiying. The Group in turn provided a counter-guarantee by mortgage over the Group's investment properties with a carrying value of RMB23,493,000 as at 31 December 2015 to the independent third party, LI Xiangli and ZHANG Aiying also provided a counter-guarantee to this independent third party.

(c) Outstanding balances with related parties:

	<u>Year ended 31 December</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due to shareholders:			
LI Xiangli and ZHANG Aiying	—	—	35,429
LIU Yi	—	—	7,181
LI Dexin	—	—	4,788
ZHANG Jiaqi	—	—	479
	<u>—</u>	<u>—</u>	<u>47,877</u>

(d) Commitments with related parties:

The Group had no commitment with related parties at the end of each of the Relevant Periods.

(e) Compensation of key management personnel of the Group:

	Year ended 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits	2,694	3,440	3,427
Pension scheme contributions	144	167	233
	<u>2,838</u>	<u>3,607</u>	<u>3,660</u>

As the Company was incorporated on 29 July 2015 and has not commenced any business or operation apart from the Reorganization, it did not appoint any director, chief executive officer or independent non-executive director during the Relevant Periods.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Financial assets

	As at 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loans and receivables:			
Trade receivables	25,053	17,180	29,039
Financial assets included in prepayments, deposits and other receivables	1,566	2,001	2,567
Pledged deposits	—	933	33
Cash and cash equivalents	29,091	20,066	58,147
Available-for-sale financial assets:			
Available-for-sale investments	11,000	31,500	26,000
	<u>66,710</u>	<u>71,680</u>	<u>115,786</u>

Financial liabilities

	As at 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial liabilities at amortised cost:			
Trade payables	2,005	2,205	4,096
Financial liabilities included in advance from customers, other payables and accruals	3,998	5,471	56,589
Interest-bearing bank loan and other borrowing	—	—	50,000
Interest payable	—	—	260
	<u>6,003</u>	<u>7,676</u>	<u>110,945</u>

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts			Fair Values		
	As at 31 December			As at 31 December		
	2013	2014	2015	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets						
Available-for-sale investments	11,000	31,500	26,000	11,000	31,500	26,000
Financial liabilities						
Interest-bearing bank loan and other borrowing	—	—	50,000	—	—	50,000
Interest payable	—	—	260	—	—	260
	—	—	50,260	—	—	50,260

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in advance from customers, other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At end of each of the Relevant Periods, the finance department analysed the movements in the values of financial instruments and determined the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of interest-bearing bank loan and other borrowing and interest payable have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loan and other borrowing and interest payable at 31 December 2015 was assessed to be insignificant.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The available-for-sale investments stated at fair value at the end of each of the Relevant Periods represented financial products issued by banks. The fair values of the available-for-sale investments have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2013

	Fair value measurement using			Total
	Quoted prices in active market	Significant observable inputs	Significant unobservable inputs	
	(Level 1)	(Level 2)	(Level 3)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Available-for-sale investments	—	11,000	—	11,000

As at 31 December 2014

	Fair value measurement using			Total
	Quoted prices in active market	Significant observable inputs	Significant unobservable inputs	
	(Level 1)	(Level 2)	(Level 3)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Available-for-sale investments	—	31,500	—	31,500

As at 31 December 2015

	Fair value measurement using			Total
	Quoted prices in active market	Significant observable inputs	Significant unobservable inputs	
	(Level 1)	(Level 2)	(Level 3)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Available-for-sale investments	—	26,000	—	26,000

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets.

Liabilities for which fair value are disclosed

As at 31 December 2015

	Fair value measurement using			Total
	Quoted prices in active market	Significant observable inputs	Significant unobservable inputs	
	(Level 1)	(Level 2)	(Level 3)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank loan and other borrowing	—	50,000	—	50,000
Interest payable	—	260	—	260
	—	50,260	—	50,260

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loan and other borrowing, pledged deposits and cash and cash equivalents. 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 receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

The Group mitigates the risk by monitoring closely the movements in interest rates regularly. The Group has not used any interest rate swap to hedge its exposure to interest rate risk.

As at 31 December 2015, approximately 60% of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in RMB interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

2015	<u>Increase/(decrease) in basis points</u> <i>RMB'000</i>	<u>Increase/(decrease) in profit before tax</u> <i>RMB'000</i>	<u>Increase/(decrease) in equity</u> <i>RMB'000</i>
RMB	1%	(55)	(47)
RMB	(1%)	55	47

Credit risk

The Group trades only with recognised and creditworthy parties. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The credit quality of customers is assessed after taking into account the customers' financial position and past experience with the customers.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and available-for-sale investments, arises from 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. Concentrations of credit risk are managed by customer/counterparty, and by geographical region. At the end of each of the Relevant Periods, the Group had concentration of credit risk as 24%, 27% and 54% of its total trade receivables were due from its largest customer and 61%, 69% and 74% of its total trade receivables were due from its top five customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the Financial Information.

Liquidity risk

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations.

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

As at 31 December 2013

	<u>Within one year</u>
	<i>RMB'000</i>
Trade payables	2,005
Financial liabilities included in advance from customers, other payables and accruals	<u>3,998</u>
	<u><u>6,003</u></u>

As at 31 December 2014

	<u>Within one year</u>
	<i>RMB'000</i>
Trade payables	2,205
Financial liabilities included in advance from customers, other payables and accruals	<u>5,471</u>
	<u><u>7,676</u></u>

As at 31 December 2015

	<u>Within one year</u>	<u>In third year</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	4,096	—	4,096
Financial liabilities included in advance from customers, other payables and accruals	56,589	—	56,589
Interest-bearing bank loan and other borrowing	30,000	20,000	50,000
Interest payable on bank and other borrowing	<u>618</u>	<u>2,850</u>	<u>3,468</u>
	<u><u>91,303</u></u>	<u><u>22,850</u></u>	<u><u>114,153</u></u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy 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 and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. The Group's policy is to maintain the gearing ratio below 70%. Net debt includes interest-bearing bank and other borrowing, interest payable, trade payables and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The gearing ratios at the end of each of Relevant Periods are as follows:

	As at 31 December		
	2013	2014	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	2,005	2,205	4,096
Other payables and accruals (<i>note 25</i>)	18,977	22,999	74,942
Interest-bearing bank loan and other borrowing	—	—	50,000
Interest payable	—	—	260
Less: Cash and cash equivalents	<u>(29,091)</u>	<u>(20,066)</u>	<u>(58,147)</u>
Net debt	(8,109)	5,138	71,151
Equity attributable to owners of the parent	<u>71,995</u>	<u>110,066</u>	<u>60,838</u>
Capital and net debt	<u>63,886</u>	<u>115,204</u>	<u>131,989</u>
Gearing ratio	<u>(12.69%)</u>	<u>4.46%</u>	<u>53.91%</u>

37. EVENTS AFTER THE REPORTING PERIOD

As at the date of this report, there was no any significant subsequent event since 31 December 2015.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 December 2015.

Yours faithfully,

Ernst & Young
 Certified Public Accountants
 Hong Kong

APPENDIX II	UNAUDITED PRO FORMA FINANCIAL INFORMATION
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The information set out in this Appendix does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set out in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is prepared to show the effect on the consolidated net tangible assets of our Group as of December 31, 2015 as if the Global Offering had occurred on December 31, 2015 and is based on the consolidated net tangible assets of our Group as of December 31, 2015 attributable to the owners of our Company derived from the Accountants' Report as set out in Appendix I to this prospectus and adjusted as described below.

Our unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position had the Capitalization Issue and the Global Offering been completed as of December 31, 2015 or at any future date.

	Consolidated Net Tangible Assets of the Group Attributable to Equity Holders of the Company as of December 31, 2015 ⁽¹⁾	Estimated Net Proceeds from the Global Offering ⁽²⁾	Unaudited Pro Forma Adjusted Net Tangible Assets Attributable to Equity Holders of the Company as of December 31, 2015 ⁽⁴⁾	Unaudited Pro Forma Adjusted Net Tangible Assets per Ordinary Share ⁽³⁾⁽⁵⁾	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price of HK\$0.73 per share	60,216	48,153	108,369	0.27	0.32
Based on an Offer Price of HK\$1.24 per share	60,216	90,260	150,476	0.38	0.45

- (1) The consolidated net tangible assets attributable to our Shareholders as of December 31, 2015 is based on our audited consolidated net assets attributable to our Shareholders as of December 31, 2015 of approximately RMB60.8 million after the deduction of goodwill of RMB0.6 million and intangible assets of RMB0.05 million as of December 31, 2015, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK\$0.73 and HK\$1.24 per share, being the lower end to higher end of the stated offer price range, after deduction of the underwriting fees and listing related expenses and takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate. The estimated net proceeds from Global Offering are converted from Hong Kong dollars into Renminbi at the PBOC rate of HK\$1.00 to RMB0.8468 prevailing on June 20, 2016.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived after adjustments referred to in the preceding paragraphs and on the basis of 400,000,000 Shares are in issue assuming that the Capitalization Issue and the Global Offering had been completed on December 31, 2015, but takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate.
- (4) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to December 31, 2015.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of HK\$1.00 to RMB0.8468. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information.

**INDEPENDENT REPORTING ACCOUNTANTS’ ASSURANCE REPORT ON
THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION**



22/F, CITIC Tower,
1 Tim Mei Avenue,
Central,
Hong Kong

29 June 2016

To the Directors of China Leon Inspection Holding Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Leon Inspection Holding Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 31 December 2015, and related notes as set out on pages II-1 of the prospectus dated 29 June 2016 (the “Prospectus”) issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Section A of Appendix II.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group’s financial position as at 31 December 2015 as if the transaction had taken place at 31 December 2015. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the year ended 31 December 2015, on which an accountants’ report has been published.

Directors’ responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline (“AG”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of letter, summary of valuation and valuation certificates, prepared for the purpose of incorporation in this prospectus, received from Vigers Appraisal & Consulting Limited, an independent property valuer, in connection with their valuation as at 30 April 2016 of the property interests held by the Group in the People's Republic of China.

**Vigers Appraisal & Consulting Limited
International Asset Appraisal Consultants**

10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

29 June 2016

The Directors
China Leon Inspection Holding Limited
18th Floor, Tesbury Centre
No. 28 Queen's Road East
Wai Chai
Hong Kong

Dear Sirs,

Re: Valuation of various properties located in the PRC (the "Properties")

In accordance with the instruction from you to value the Property held by China Leon Inspection Holding Limited (中國力鴻檢驗控股有限公司) (hereafter referred to as the "Company") and its subsidiaries (together referred to as the "Group") in the PRC, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Properties as at the 30 April 2016 ("valuation date") for the purpose of incorporation into the prospectus issued by the Company on the date hereof.

Our valuation is our opinion of the market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

In valuing the Properties, we have adopted a direct comparison approach. Direct Comparison Approach is adopted with reference to comparables in the open market.

Our valuation has been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation.

The land portion of the Properties is freely transferable together with the residual term of its land use rights to any third party (both overseas and domestic) in the open market at no extra land use rights grant premium and other onerous charges payable to the government authorities and with the benefit of vacant possession.

We have not caused title searches to be made for the property interests at the relevant government bureaus in the PRC for the Properties located in the PRC. We have been provided with certain extracts of title documents relating to the property interests in the PRC. However, we have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the property interests in the PRC, we have relied on the legal opinion (“the PRC legal opinion”) provided by the Company’s legal adviser as to PRC laws, Commerce & Finance Law Offices (the “PRC Legal Adviser”) regarding the validity of the property interests.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us by the Group on such matters as planning approvals or statutory notices, easements, tenure, occupancy, lettings, site and floor areas and in the identification of the Properties and other relevant matter. We have no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to the valuations. We have also been advised by the Group that no material facts had been concealed or omitted in the information provided to us and have no reason to suspect that any material information has been withheld. All documents have been used for reference only. We consider that we have been provided with sufficient information to reach an informed view.

We have inspected the exterior and, where possible, the interior of the Properties, in the course of our inspection, we did not note any serious defects. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the Property are free from defect though in the course of our inspections we did not note any serious defects. No tests were carried out on any of the services.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the Properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct nor have we conducted any investigation on site to determine the suitability of ground conditions and services etc. for any future development, nor have we undertaken any ecological or environmental surveys. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period. Based on our experience of valuation of similar properties in the PRC, we consider the assumptions so made to be reasonable. No on-site measurements have been taken.

No allowance has been made in our valuation neither for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the property interest, we have complied with all the requirements set out in accordance with the HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors (“HKIS”), the RICS Valuation – Professional Standards January 2014 published by the Royal Institution of Chartered Surveyors (the “RICS”) and the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all money amounts stated are in Renminbi (RMB). The exchange rate adopted in valuing the property interests in the PRC as at 30 April 2016 were HK\$1: RMB0.83. There has been no significant fluctuation in the exchange rate for this currency against Hong Kong dollars between that date and the date of this letter.

We enclose herewith a summary of valuation and valuation certificates.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor (GP)
MRICS MHKIS MSc(e-com)
China Real Estate Appraiser
Managing Director

Note: Mr. Raymond Ho Kai Kwong, Chartered Surveyor, MRICS MHKIS MSc(e-com), has over twenty six years' experience in undertaking valuations of properties in Hong Kong and has over twenty three years' experience in valuations of properties in the PRC, Taiwan, Macau and the Asia-Pacific region. Raymond joined Vigers in 1989.

SUMMARY OF VALUATION

Property held for owner occupation

Property	Market value in existing state as at 30 April 2016
1. Four residential units 202, 302, 501 and 502 located at various levels of Block 9, Wanxingyuan, Yingang Community, Bohai New Area, Cangzhou, Hebei Province, the PRC	RMB1,780,000 (equivalent to approximately HK\$2,145,000)
2. A parcel of land located at Sannongchang, Tanghai County, Hebei Province, the PRC	RMB4,670,000 (equivalent to approximately HK\$5,627,000)
3. A parcel of land located at south of Gang Min Road, north of Wen Hua Ave, east of Hai Gang Road, Tangshan City, Hebei Province, the PRC	RMB3,200,000 (equivalent to approximately HK\$3,855,000)
4. A development located at north of No. 3 Road, east of land of Cangzhou Jinxia Real Estate, Bohai New District, Cangzhou City, Hebei Province, the PRC	RMB10,030,000 (equivalent to approximately HK\$12,084,000)
Sub-Total	RMB19,680,000 (equivalent to approximately HK\$23,711,000)

Property held for investment

Property	Market value in existing state as at 30 April 2016
5. Shop unit S1b located at Levels 1 and 2, Block 13, No. 6 Guang Ze Road, Chaoyang District, Beijing, the PRC	RMB27,280,000 (equivalent to approximately HK\$32,867,000)
Sub-Total	RMB27,280,000 (equivalent to approximately HK\$32,867,000)
Total	RMB46,960,000 (equivalent to approximately HK\$56,578,000)

VALUATION CERTIFICATE

Property held for owner occupation

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2016
1. Four residential units 202, 302, 501 and 502 located at various levels of Block 9, Wanxingyuan, Yingang Community, Bohai New Area, Cangzhou, Hebei Province, the PRC	The property comprises 4 residential units located at various levels of a 5-storey building completed in about 2007. The property has a total gross floor area of approximately 581.32 sq.m..	The property is occupied by the Group for residential use.	RMB1,780,000 (equivalent to approximately HK\$2,145,000)

Notes:

1. Pursuant to 4 building ownership certificates (Document Nos. Huang Gang Fang Quan Zheng M Zi Di Nos. 012598 and 012600 to 012602), the ownership of the property with a total gross floor area of approximately 581.32 sq.m. is vested in Beijing Huaxia Lihong Commodity Inspection Co., Ltd. (北京華夏力鴻商品檢驗有限公司 (referred hereinafter as the "Huaxia Lihong").
2. We have been provided with a legal opinion on the property prepared by the PRC legal Adviser, which contains, inter alia, the following information:
 - (a) Huaxia Lihong legally owns the property.
 - (b) Huaxia Lihong is legally entitled to occupy, use, lease or to adopt other legal means to handle the property.
3. The property was inspected by Ms. Carol Liu, Senior Valuer in August 2015.

VALUATION CERTIFICATE

Property held for owner occupation

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2016
2. A parcel of land located at Sannongchang, Tanghai County, Hebei Province, the PRC	The property comprises a parcel of land having a site area of approximately 33,333 sq.m. The land use rights of the property were granted for a term of expiring on 23 May 2062 for industrial use.	The property is vacant.	RMB4,670,000 (equivalent to approximately HK\$5,627,000)

Notes:

1. Pursuant to a land use rights grant contract dated 24 May 2012 signed between 唐海縣國土資源局 (Party A) and Beijing Huaxia Lihong Commodity Inspection Co., Ltd. (北京華夏力鴻商品檢驗有限公司) (referred hereinafter as the “Huaxia Lihong”) (Party B), Party B agreed to purchase the land with a site area of approximately 33,333 sq.m. at a consideration of RMB4,000,000.
2. Pursuant to a state-owned land use rights certificate (document number: Tang Cao Guo Yong (2013) Di No. 0310090545), the land use rights of the property with a site area of approximately 33,333 sq.m. were granted to Huaxia Lihong for a term expiring on 23 May 2062 for industrial use.
3. Pursuant to a letter of land agreement dated 8 September 2015 signed between 唐山市曹妃甸區國土資源局 (Party A) and Huaxia Lihong (Party B), Party A had agreed to develop the property to a state of basic facilities are available and the land is levelled. However, partial of facilities had been completed only. The existing state of the property is an idle land. Huaxia Lihong had applied for exchange the property with another land. Party A based on the law of handling idle land, retrieve the property with compensation. The compensation will not be paid in cash but it will be used as a cost of exchange with another land.
4. We have been provided with a legal opinion on the property prepared by the PRC legal Adviser, which contains, inter alia, the following information:
 - (a) According to the law of handling idle land, the property is an idle land. The letter of land agreement is legal and valid, legally binding between both parties, Huaxia Lihong could obtain compensation as stipulated in the letter of land agreement.
5. The property was inspected by Ms. Carol Liu, Senior Valuer in August 2015.

VALUATION CERTIFICATE

Property held for owner occupation

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2016
3. A parcel of land located at south of Gang Min Road, north of Wen Hua Ave, east of Hai Gang Road, Tangshan City, Hebei Province, the PRC	The property comprises a parcel of land having a site area of approximately 5,928.27 sq.m. The land use rights of the property were granted for a term expiring on 12 July 2055 for wholesale and retail uses.	The property is vacant.	RMB3,200,000 (equivalent to approximately HK\$3,855,000)

Notes:

1. Pursuant to a land use rights grant contract dated 12 June 2015 signed between 唐山市國土資源局海港經濟開發區分局 (Party A) and 唐山華夏力鴻商品檢驗有限公司 (referred hereinafter as the “唐山力鴻”) (Party B), Party B agreed to purchase the land with a site area of approximately 6,666.67 sq.m. at a consideration of RMB3,440,002.
2. Pursuant to a supplementary land use rights grant contract dated 18 August 2015 signed between 唐山市國土資源局海港經濟開發區分局 (Party A) and 唐山力鴻 (Party B), Party B agreed to surrender part of the land with site area of approximately 738.4 sq.m.
3. Pursuant to a state-owned land use rights certificate (Document number: 冀唐港 Guo Yong (2015) Di No. 1603), the land use rights of the property with a site area of approximately 5,928.27 sq.m. were granted to 唐山力鴻 for a term expiring on 12 July 2055 for wholesale and retail uses.
4. As confirmed by 唐山力鴻, construction will be proceed on the property and the construction has not yet been commenced. 唐山力鴻 has obtained the construction land use planning permit.
5. We have been provided with a legal opinion on the property prepared by the PRC legal Adviser, which contains, inter alia, the following information:
 - (a) 唐山力鴻 legally obtained the land use rights of the property.
 - (b) During the land use term as recorded in the state-owned land use right certificate, 唐山力鴻 is legally entitled to occupy, use, transfer, lease, mortgage or adopt other legal means to handle the land use rights of the property subject to the conditions in the land use rights grant contract signed by 唐山市國土資源局海港經濟開發區分局 and 唐山力鴻 on 12 June 2015.
6. The property was inspected by Ms. Carol Liu, Senior Valuer in August 2015.

VALUATION CERTIFICATE

Property held for owner occupation

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2016
4. A development located at north of No. 3 Road, east of land of Cangzhou Jinxia Real Estate, Bohai New District, Cangzhou City, Hebei Province, the PRC	<p>The property comprises a parcel of land having a site area of approximately 3,651.9 sq.m..</p> <p>The property is planned to be developed into 2 composite buildings consisting a total gross floor area of approximately 8,216.775 sq.m..</p> <p>The land use rights of the property were granted for a term of expiring on 11 January 2039 for commercial and service uses.</p>	<p>Block 1 has been constructed up to roof level, the external walls and interior of the building are under renovation and is planned to be completed in January 2016.</p> <p>Block 2 has not been commenced construction. It is planned the construction will be commenced in July 2016 and completed in July 2018.</p>	<p>RMB10,030,000</p> <p>(equivalent to approximately HK\$12,084,000)</p>

Notes:

- Pursuant to a land use rights transfer agreement dated 23 September 2014 signed between 解墨嶺 (Party A) and Beijing Huaxia Lihong Commodity Inspection Co., Ltd. Cangzhou Bohai New District Branch (北京華夏力鴻商品檢驗有限公司滄州渤海新區分公司) (referred hereinafter as the "Huaxia Lihong Cangzhou Branch (華夏力鴻滄州分公司)") (Party B), Party B agreed to purchase the land with a site area of approximately 3,651.9 sq.m. at a consideration of RMB3,800,000.
- Pursuant to a state-owned land use rights certificate (document number: Cang Bo Guo Yong (2014) Di No. G-544), the land use rights of the property with a site area of approximately 3,651.9 sq.m. were granted to Huaxia Lihong Cangzhou Branch (北京華夏力鴻商品檢驗有限公司滄州渤海新區分公司) for a term expiring on 11 January 2039 for commercial and service uses.
- According to the development proposal and information given by the Company, the estimated total construction costs (excluding land costs) for developing Block 1 of the property as at the valuation date was in the sum of RMB19,862,900 (equivalent to approximately HK\$23,931,000) and the construction costs incurred at the valuation date was approximately RMB18,852,375 (equivalent to approximately HK\$22,714,000).
- The estimated capital value after completion of Block 1 of the property was approximately RMB14,070,000 (equivalent to approximately HK\$16,952,000).
- Pursuant to a confirmation letter issued by 滄州渤海新區行政審批局 (referred hereinafter as the "審批局") on 22 December 2015, it is the authority for exam, approve and registration of development. The land use rights and construction in progress of the property (referred hereinafter as the "development"). 解墨嶺 had gone through the formalities prior exam and approve of completion of the development (including but not limit to development proposal approval, energy conservation, environment protection, construction land planning, construction work planning, occupational disease and safety, etc.). Therefore, Huaxia Lihong Cangzhou Branch (華夏力鴻滄州分公司) does not need to go through the formalities that are mentioned above once again, it can continue to use the documents of original formalities which are legally effective. The formalities for exam and approve of completion of the development could be done under Huaxia Lihong Cangzhou Branch (華夏力鴻滄州分公司).
- According to the PRC legal adviser visited the 審批局 on 22 December 2015 and confirmed by an officer of planning and construction department (規劃建設科科長) of the 審批局, although the land has not gone through the formalities of construction land planning permit, it will not affect exam and approve of completion of the development of Huaxia Lihong Cangzhou Branch (華夏力鴻滄州分公司).

7. We have been provided with a legal opinion on the property prepared by the PRC legal adviser, which contains, inter alia, the following information:
 - (a) Huaxia Lihong Cangzhou Branch (華夏力鴻滄州分公司) legally obtained the land use rights of the property.
 - (b) During the land use term as recorded in the state-owned land use right certificate, Huaxia Lihong Cangzhou Branch (華夏力鴻滄州分公司) is legally entitled to occupy, use, transfer, lease, mortgage or adopt other legal means to handle the land use rights of the property.
 - (c) 滄州渤海新區行政審批局 has the rights to issue the confirmation letter. Huaxia Lihong Cangzhou Branch (華夏力鴻滄州分公司) has the rights to develop a composite building having a gross floor area of 4,020.7 sq.m. on the land (document number: Cang Bo Guo Yong (2014) Di No. G-544) according to approval mentioned above.
8. The property was inspected by Ms. Carol Liu, Senior Valuer in August 2015.

VALUATION CERTIFICATE

Property held for investment

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2016
5. Shop unit S1b located at Levels 1 and 2, Block 13, No. 6 Guang Ze Road, Chaoyang District, Beijing, the PRC	<p>The property comprises a shop located at levels 1 and 2 of a 3-storey building with 2-storey basement completed in about 2004.</p> <p>The property has a gross floor area of approximately 473.33 sq.m..</p>	<p>The property with a total gross floor area of approximately 430.59 sq.m. has been leased out to two third parties for retail uses. (Refer to Notes 2 and 3)</p> <p>As confirmed by the Group, the whole property with a gross floor area of approximately 473.33 sq.m. has been leased out. The discrepancy of gross floor area between the tenancy agreements and building ownership certificate is due to an error on apportion of gross floor area made by an officer of the Group.</p>	<p>RMB27,280,000</p> <p>(equivalent to approximately HK\$32,867,000)</p>

Notes:

1. Pursuant to a building ownership certificate (Document No. X Jing Fang Quan Zheng Chao Zi Di No. 1362749), the ownership of the property with a gross floor area of approximately 473.33 sq.m. is vested in Beijing Huaxia Lihong Commodity Inspection Co., Ltd. (北京華夏力鴻商品檢驗有限公司) (referred hereinafter as the "Huaxia Lihong").
2. Tenancy agreement has been entered into in respect of part (210 sq.m.) of the property for a term of 3 years from 15 April 2015 to 14 April 2018 at a total rent for 3 years of RMB804,825. The tenant shall be responsible for all outgoing expenses in relation to the property.
3. Tenancy agreement has been entered into in respect of part (220.59 sq.m.) of the property for a term of 4 years from 1 July 2015 to 30 June 2019 at a total rent for 4 years of RMB1,127,214.9. The tenant shall be responsible for all outgoing expenses in relation to the property.
4. As confirmed by the Group, the whole property with a gross floor area of approximately 473.33 sq.m. has been leased out. The discrepancy of gross floor area between the tenancy agreements and building ownership certificate is due to an error on apportion of gross floor area made by an officer of the Group.
5. According to a consent letter issued by the mortgagee dated 31 December 2015, the mortgagee has agreed to lease out the property.
6. We have been provided with a legal opinion on the property prepared by the PRC legal Adviser, which contains, inter alia, the following information:
 - (a) Huaxia Lihong legally owns the property.
 - (b) The property is subject to mortgage. Within the period subject to mortgage, the property cannot be leased out, transferred, or to be handled by other means without written consent of the mortgagee.
 - (c) Except for the circumstances mentioned above, Huaxia Lihong is legally entitled to occupy, use, lease or to adopt other legal means to handle the property.
 - (d) The tenancy agreements are duly registered with the appropriate government authorities, legal and valid, legally binding between both parties.
7. The property was inspected by Mr. Jim Wang, Senior Valuer in August 2015.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands Company Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on July 29, 2015 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "Memorandum") and the Amended and Restated Articles of Association (the "Articles").

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on June 18, 2016. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Share certificates*

Every person whose name is entered as a member in the register of members shall be entitled to receive a certificate for his shares. No shares shall be issued to bearer.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the

amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words “restricted voting” or “limited voting” or “non-voting” or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

(b) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iii) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors and their close associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(v) Disclosure of interest in contracts with the Company or with any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be

avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his close associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including (i) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors, his close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; or
- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(vi) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all traveling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to retirement by rotation provisions in the articles of association. The number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;
- (bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;

- (cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;
- (gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or
- (hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(viii) Borrowing powers

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The provisions summarized above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

(ix) Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(x) *Proceedings of the Board*

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) **Alterations to the constitutional documents**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

(d) **Variation of rights of existing shares or classes of shares**

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) **Alteration of capital**

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Cayman Companies Law and to confirmation by the court, a company limited by shares may, if so authorized by its Articles of Association, by special resolution, reduce its share capital in any way.

(f) Special resolution — majority required

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An “ordinary resolution,” by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 14 clear days’ notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(g) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share, on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by:

- (i) at least two members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or
- (ii) any member or members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

- (iii) a member or members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorized as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized in accordance with this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(h) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorized by the Stock Exchange at such time and place as may be determined by the Board.

(i) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorized by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than 21 days before the general meeting to those shareholders that have consented and elected to receive the summarized financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(j) Notices of meetings and business to be conducted thereat

An annual general meeting of the Company must be called by at least 21 days' notice in writing, and a general meeting of the Company, other than an annual general meeting, shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorized by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% of the total voting rights at the meeting of all the members of the Company.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of Directors in place of those retiring;
- (dd) the appointment of auditors;
- (ee) the fixing of the remuneration of the Directors and of the auditors;
- (ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and
- (gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

(k) Transfer of shares

Subject to the Cayman Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules (as defined in the Articles), be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

(l) Power of the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

(m) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(n) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a

payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(o) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorized. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favor of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(p) Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If

the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(q) Inspection of corporate records

Members of the Company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

(r) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(s) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(t) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(u) Untraceable members

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

- (i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;
- (ii) upon the expiry of the 12 years and 3 months period (being the 3 months' notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and
- (iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(v) Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 29 July 2015 subject to the Cayman Companies Law. Certain provisions of Cayman Islands Company Law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

In accordance with the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account.” At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Cayman Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Cayman Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Cayman Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company’s or a subsidiary’s shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorized by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Under Section 37A(1) the Cayman Companies Law, shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorized in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of sections 34 and 37A(7) of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of

dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details). Section 37A(7)(c) of the Cayman Companies Law provides that for so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

- (i) an act which is ultra vires the company or illegal;
- (ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and
- (iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions in the Cayman Companies Law on the power of directors to dispose of assets of a company, however the directors have certain duties of care, diligence and skill and also fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

Section 59 of the Cayman Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Cayman Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If the Company keeps its books of account at any place other than at its registered office or at any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
 - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of twenty years from 11 August 2015.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

The Cayman Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of the company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. The Cayman Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

(o) Winding up

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the Company so resolves by special resolution that it be wound up voluntarily, or, where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become

insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(p) Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Cayman Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(q) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(r) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarizes certain aspects of the Cayman Islands Company Law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands Company Law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

We were incorporated in the Cayman Islands as an exempted company with limited liability under Cayman Islands Law on July 29, 2015.

We have established a principal place of business in Hong Kong at 18/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong and have registered with the Registrar of Companies as a non-Hong Kong company under Part 16 of the Hong Kong Companies Ordinance. Ms. LI Oi Lai (李愛麗) has been appointed as our agent for the acceptance of service of process and notices on behalf of us in Hong Kong at our principal place of business in Hong Kong. As we are incorporated in the Cayman Islands, our corporate structure, as well as our Memorandum of Association and Articles of Association, are subject to the relevant laws of the Cayman Islands. A summary of relevant parts of Memorandum of Association and Articles of Association and certain relevant aspects of Cayman Islands Company Law is set out in "Appendix IV — Summary of the Constitution of the Company and Cayman Islands Company Law" to this prospectus.

No equity or debt securities of our Company are listed on any other stock exchange, nor is listing or permission to deal for such securities being sought.

2. Changes in the share capital of our Company

As of the date of our incorporation, our authorized share capital was US\$10,000, divided into 10,000 ordinary shares of par value of US\$1.00 each.

On July 29, 2015, one share of our Company was issued and allotted to the initial subscriber and then transferred to Hotek Asia by the initial subscriber at par value.

On November 19, 2015, 4,203 shares, 1,634 shares, 1,185 shares, 790 shares and 79 shares of our Company were issued and allotted to Leon Investment, Swan Stone, Hawk Flying, New Virtue and Fine Longbow, respectively, at par value.

On November 27, 2015, 1,550 shares and 549 shares of our Company were issued and allotted to China Dragon and Hotek Asia at a consideration of RMB31.2 million and RMB20.0 million, respectively.

On June 18, 2016, each of the issued and unissued share of our Company with a par value of US\$1.00 was subdivided into 20,000 Shares with a par value of US\$0.00005 each, and the authorized share capital of our Company became US\$10,000 divided into 200,000,000 Shares with a par value of US\$0.00005 each.

On June 18, 2016, the authorized share capital of our Company was increased from US\$10,000 divided into 200,000,000 Shares with a par value of US\$0.00005 to US\$50,000 divided into 1,000,000,000 Shares with a par value of US\$0.00005 each.

On June 18, 2016, conditional upon the share premium account of our Company being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global Offering, our Directors were authorized to allot and issue a total of 100,000,000 Shares, credited as fully paid at par, to the Shareholder(s) whose name(s) appear(s) on the register of members of our Company as at the date of close of business on one Business Day prior to the Listing Date (the “Record Date”) (or to such other person(s) as each of them may direct) by way of capitalization of US\$5,000 standing to the credit of the share premium account of our Company as a result of the Global Offering, such Shares to be allotted and issued, as nearly as can be without involving fractions, in proportion to the holdings of Shares in our Company of such Shareholder(s) as at the Record Date, so that the such Shares to be allotted and issued shall rank *pari passu* in all respects with the existing issued Shares.

Immediately following completion of the Capitalization Issue and the Global Offering and assuming that the Over-allotment Option is not exercised, the authorized share capital of our Company will be US\$50,000 divided into 1,000,000,000 Shares, of which 400,000,000 Shares will be issued fully paid or credited as fully paid, and 600,000,000 Shares will remain unissued.

Save as disclosed in this prospectus, there has been no alteration in our share capital within two years immediately preceding the date of this prospectus.

3. Changes in the share capital or registered capital of our Company’s subsidiaries

The following sets forth the changes in share capital of the subsidiaries of our Company which have taken place within the two years preceding the date of this prospectus:

Hunan Lihong

On July 17, 2014, Hunan Lihong was established in the PRC as a limited liability company with an initial registered capital of RMB3.0 million.

Shengde Tiangong

On November 27, 2014, Shengde Tiangong was established in the PRC as a limited liability company with an initial registered capital of RMB10.0 million.

Leon BVI

On July 31, 2015, one share of Leon BVI with a par value of US\$1.00 was issued and allotted to our Company at par value.

Leon HK

On August 10, 2015, one share of Leon HK with a par value of HK\$100 was issued and allotted to Leon BVI at par value.

Huaxia Lihong

On November 11, 2015, the registered share capital of Huaxia Lihong was increased from RMB15 million to 15.79 million.

Save as disclosed above, there have been no alteration in the share capital or registered capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

4. Particulars of principal subsidiaries

For a summary of the corporate information of our principal subsidiaries, see note 1 of the Accountants' Report in Appendix I to this prospectus.

5. Resolutions of the Shareholders of our Company passed on June 18, 2016

Pursuant to the written resolutions dated June 18, 2016 passed by the Shareholders of our Company, among other matters:

- (a) the amended and restated memorandum of association of our Company were approved and adopted and took immediate effect whilst the Articles of Association were approved and adopted and will take effect upon the Listing subject to the completion of the Global Offering;
- (b) the appointment of independent non-executive Directors were approved;
- (c) the authorized share capital of our Company was increased from US\$10,000 divided into 10,000 shares of par value of US\$1.00 each to US\$50,000 divided into 50,000 shares of par value of US\$1.00 each;
- (d) the shares of our Company of par value US\$1.00 each was subdivided into 200,000,000 Shares of par value US\$0.00005 each;
- (e) conditional upon the share premium account of our Company being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global Offering, our Directors were authorized to allot and issue a total of 100,000,000 Shares, credited as fully paid at par, to the Shareholder(s) whose name(s) appear(s) on the register of members of our Company as at the date of close of business on one Business Day prior to the Listing Date (the "Record Date") (or to such other person(s) as each of them may direct) by way of capitalization of US\$5,000 standing to the credit of the share premium account of our Company as a result of the Global Offering, such Shares to be allotted and issued, as nearly as can be without involving fractions, in proportion to the holdings of Shares in our Company of such Shareholder(s) as at the Record Date, so that the such Shares to be allotted and issued shall rank *pari passu* in all respects with the existing issued Shares and our Directors were authorized to issue Shares relating to, and to give effect to, the Capitalization Issue;
- (f) conditional on (aa) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue, and the Offer Shares as mentioned in this prospectus (including any Shares that may be issued pursuant to the exercise of the Over-allotment Option); (bb) the entering into, execution and delivery of the Hong Kong Underwriting Agreement on or before the date of the final prospectus and the International Placing Agreement and the Price Determination Agreement on or around the Price Determination

Date; and (cc) the obligations of the Underwriters under each of the Underwriting Agreements having become unconditional and not having been terminated in accordance with the terms of the respective Underwriting Agreements or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

- (i) the Global Offering, the Listing and the Over-allotment Option were approved;
 - (ii) our Directors were authorised to approve the allotment and issue of the Offer Shares and the granting of the Over-allotment Option, on and subject to the terms and conditions as set out in this prospectus, the relevant Application Forms, the Underwriting Agreements and the Listing Rules;
- (g) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers, agreements, or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which would or might require Shares to be allotted, issued or dealt with, otherwise than pursuant to (i) the Global Offering; (ii) a rights issue; (iii) the exercise of any subscription rights attached to any warrants or any option scheme or similar arrangements pursuant to a specific authority granted by the Shareholders in general meeting; or (iv) the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of our Company, with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the Shares in issue immediately following the completion of the Global Offering, such mandate shall remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the articles of association of our Company or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the Shareholders in a general meeting, whichever occurs first;
- (h) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering, such mandate shall remain in effect until (i) the conclusion of the next annual general meeting of our Company; (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held by the articles of association of our Company or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the Shareholders in a general meeting, whichever occurs first; and
- (i) the general unconditional mandate as mentioned in (g) above be extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to paragraph (h) above.

6. Repurchase by our Company of its own Shares

This section sets out information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) *Shareholders' approval*

All proposed repurchase of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the Listing Rules and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchases by our Company may be made out of our Company's funds, which would otherwise be available for dividend or distribution, or out of the proceeds of a new issue of Shares made for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of the funds, which would otherwise be available for dividend or distribution, or from sums standing to the credit of our Company's share premium account.

On the basis of the current financial position of us as disclosed in this prospectus and taking into account the current working capital position of us, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of us as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in these circumstances, have a material adverse effect on our working capital requirements or the gearing levels, which in the opinion of our Directors, are from time to time appropriate for us.

The exercise in full of the Repurchase Mandate, on the basis of 400,000,000 Shares in issue immediately after the Listing (assuming the Over-allotment Option is not exercised), would result in up to 40,000,000 Shares being repurchased by us during the period in which the Repurchase Mandate remains in force.

(iii) *Trading restrictions*

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar

instruments requiring the company to issue securities, which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of repurchased Shares

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be canceled and destroyed.

(v) Suspension of repurchase

A listed company may not make any repurchase of securities after inside information has come to the knowledge of our Company until such time as the inside information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchase, where relevant, and the aggregate prices paid.

(vii) Connected persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a “connected person,” that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their associates and a connected person is prohibited from knowingly selling his securities to the company.

(viii) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder’s proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Codes on Takeovers and Mergers and Share Buy-backs (the “Takeovers Code”). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person of our Company has notified us that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

(b) Reasons for Repurchases

The Directors believe that it is in the best interest of our Company and the Shareholders for the Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and the Shareholders.

B. CORPORATE ORGANIZATION

See “History, Reorganization and Corporate Structure.”

C. FURTHER INFORMATION ABOUT OUR COMPANY'S BUSINESS**1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) a capital injection agreement dated September 5, 2015 entered into by and among Mr. LI Xiangli, Ms. ZHANG Aiying, Mr. LIU Yi (劉翊), Mr. LI Dexin, Mr. ZHANG Jiaqi, Lihong Investment and Leon HK, pursuant to which Leon HK agreed to contribute the capital in the amount of RMB2.7 million or in a foreign currency of equivalent value to Huaxia Lihong for the increase of the registered capital of Huaxia Lihong from RMB15 million to RMB15.79 million and as a consideration to obtain 5.0032% equity interest of Huaxia Lihong;
- (b) a joint venture agreement dated September 10, 2015 entered into by and among Mr. LI Xiangli, Ms. ZHANG Aiying, Mr. LIU Yi (劉翊), Mr. LI Dexin, Mr. ZHANG Jiaqi, Lihong Investment and Leon HK, which sets forth the cooperation principles in the management of Huaxia Lihong after Leon HK became a shareholder of Huaxia Lihong and the conversion of Huaxia Lihong into a sino-foreign joint venture company, details of which are set forth in “History, Reorganization and Corporate Structure – Our Corporate Developments – Huaxia Lihong” in this prospectus;
- (c) an equity transfer agreement dated November 19, 2015 entered into by and among Mr. LI Xiangli, Ms. ZHANG Aiying, Mr. LIU Yi (劉翊), Mr. LI Dexin, Mr. ZHANG Jiaqi, Lihong Investment and Leon HK, pursuant to which Leon HK agreed to acquire 9.4997%, 9.4997%, 14.2495%, 9.4997%, 0.95% and 51.2982% equity interest of Huaxia Lihong held by Mr. LI Xiangli, Ms. ZHANG Aiying, Mr. LIU Yi (劉翊), Mr. LI Dexin, Mr. ZHANG Jiaqi and Lihong Investment, respectively, at a consideration of RMB4.84 million, RMB4.84 million, RMB7.26 million, RMB4.84 million, RMB0.484 million and RMB26.136 million, respectively;
- (d) the Share Subscription Agreement dated November 27, 2015 entered into by and among our Company, Mr. LI Xiangli, Leon Investment, China Dragon and Hotek Asia, pursuant to which China Dragon and Hotek Asia subscribed 1,550 and 549 shares of our Company for an amount in US dollars equivalent to RMB31.2 million and RMB20.0 million, respectively;
- (e) the Shareholders Agreement dated November 27, 2015 entered into by and among our Company, Original Shareholders, China Dragon and Hotek Asia, pursuant to which China Dragon and Hotek Asia are entitled to certain special rights and subject to certain lock-up periods, details of which are set forth in “History, Reorganization and Corporate Structure — Pre-IPO Investments — Principal Terms of the Pre-IPO Investments” in this prospectus;
- (f) the Deed of Non-competition dated June 18, 2016 given by our Controlling Shareholders in favor of our Company, details of which are set out in “Relationship with Controlling Shareholders” in this prospectus;
- (g) a cornerstone investment agreement dated June 22, 2016 entered into by and among our Company, CMB International and Sinotruk (Hong Kong) Capital Holding Limited (中國重汽(香港)投資控股有限公司) (“Sinotruk HK”), pursuant to which Sinotruk HK has agreed to purchase at the Offer Price such number of Offer Shares as may be purchased with HK\$20 million (rounded down to the nearest whole board lot, excluding applicable brokerage fee, SFC transaction levy and Stock Exchange trading fee); and

(h) the Hong Kong Underwriting Agreement.


2. Intellectual property rights of our Group

Trademarks

As of the Latest Practicable Date, we have registered the following trademarks in the PRC which, in the opinion of our Directors, are material to our business:

Trademark	Registrant	Registration Number	Period of Validity	Class
	Huaxia Lihong	10669011	May 21, 2013 – May 20, 2023	42
	Huaxia Lihong	10668999	May 21, 2013 – May 20, 2023	42
	Huaxia Lihong	10668955	May 21, 2013 – May 20, 2023	42

As of the Latest Practicable Date, we have registered the following trademark in Hong Kong which, in the opinion of our Directors, is material to our business:

Trademark	Registrant	Registration Number	Period of Validity	Class
	Huaxia Lihong	303408886	May 14, 2015 – May 13, 2025	42

Patents

As of the Latest Practicable Date, we have registered the following patents in the PRC which, in the opinion of our directors, are material to our business:

Patent No.	Description	Types of Patents	Registered Owner	Effective Date	Expiry Date
ZL201210175250.x	Port water stand pipette and its using method (港水捍樣器及其使用方法)	Invention	Huaxia Lihong	October 8, 2014	October 7, 2034

Patent No.	Description	Types of Patents	Registered Owner	Effective Date	Expiry Date
ZL201210215329.0	A rapid movable coal sampling machine using forklift as the carrier and its using method (一種以叉車為載體的移動式快速煤炭採樣機及其使用方法)	Invention	Huaxia Lihong	March 25, 2015	March 24, 2035
ZL201210357289.3	A powder material transportation and monitoring system and method (一種粉體物料運輸監控系統和方法)	Invention	Huaxia Lihong	May 27, 2015	May 26, 2035
ZL201210119231.5	A vehicular coal quality inspection method and device (一種車載煤炭質量檢測方法及裝置)	Invention	Huaxia Lihong	May 27, 2015	May 26, 2035
ZL201210107251.0	A coal sampling head (一種煤炭採樣頭)	Invention	Huaxia Lihong	September 9, 2015	September 8, 2035
ZL201220172755.6	Vehicular coal quality inspection devices (車載煤炭質量檢測裝置)	Utility Model	Huaxia Lihong	December 26, 2012	December 25, 2022
ZL201220304283.5	A rapid movable coal sampling machine using loader as the carrier (一種以裝載機為載體的移動式快速煤炭採樣機)	Utility Model	Huaxia Lihong	January 9, 2013	January 8, 2023
ZL201220305897.5	A rapid movable coal sampling machine using forklift as the carrier (一種以叉車為載體的移動式快速煤炭採樣機)	Utility Model	Huaxia Lihong	March 20, 2013	March 19, 2023

Patent No.	Description	Types of Patents	Registered Owner	Effective Date	Expiry Date
ZL201220304430.9	A coal sampling units (一種煤炭採樣機組件)	Utility Model	Huaxia Lihong	January 9, 2013	January 8, 2023
ZL201520759087	A water suction checker device (一種吸水驗查器)	Utility Model	Huaxia Lihong	May 4, 2016	May 3, 2026
ZL201210505831.5	Image extraction method and its system, electronic certificate production method and its system (一種圖像提取方法及其系統、電子證書製作方法及其系統)	Invention	Huaxia Lihong	April 20, 2016	April 19, 2036
ZL201510657376.4	A rotary divider (一種旋轉縮分機)	Utility Model	Shengde Tiangong	February 10, 2016	February 9, 2026

As of the Latest Practicable Date, we have applied for the registration of the following patents in the PRC which, in the opinion of our directors, are material to our business:

Application No.	Description	Types of Patents	Applicant	Application Date
201210430961.7	A volume and density measurement method of powder material stack and its system (一種粉體物料堆的體積密度測量方法及其系統)	Invention	Huaxia Lihong	November 1, 2012
201510628384.6	A water suction checker device and its usage (一種吸水驗查器及其使用方法)	Invention	Huaxia Lihong	September 28, 2015

Software copyright

As of the Latest Practicable Date, we have registered the following software copyright in the PRC which, in the opinion of our directors, is material to our business:

Name of software	Registrant	Registration number	Registration Date
Huaxia Lihong coal inspection business information management system (also referred as Lihong coal inspection information system) V1.0 (華夏力鴻煤炭檢驗業務信息化管理系統 (簡稱:力鴻煤檢信息化系統) V1.0)	Huaxia Lihong	2013SR090463	August 27, 2013

Domain name

As of the Latest Practicable Date, we have registered the following domain name in the PRC which, in the opinion of our directors, is material to our business:

Domain Name	Registrant	Effective period
華夏力鴻.cn	Huaxia Lihong	March 4, 2014 – March 4, 2020
Caiqi-cqi.cn	Huaxia Lihong	April 28, 2012 – April 28, 2017
Caiqi-cqi.org	Huaxia Lihong	April 28, 2012 – April 28, 2017
huaxialihong.cn	Huaxia Lihong	March 4, 2014 – March 4, 2020
huaxialihong.com.cn	Huaxia Lihong	March 4, 2014 – March 4, 2020
hxlh.com.cn	Huaxia Lihong	April 27, 2012 – April 27, 2017
hxlh.org	Huaxia Lihong	May 22, 2012 – May 22, 2017
huaxialihong.com	Huaxia Lihong	March 4, 2014 – March 4, 2020
huaxialihong.net	Huaxia Lihong	March 4, 2014 – March 4, 2020

D. FURTHER INFORMATION ABOUT THE DIRECTORS AND SUBSTANTIAL SHAREHOLDERS**1. Directors' service contracts and appointment letters***Executive Directors*

Each of the executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for a term of three years with effect from January 13, 2016, renewable as determined by the Board or the Shareholders of our Company. The office of a Director is liable to be vacated in certain circumstances pursuant to the Articles. The appointment of each of the executive Directors may be terminated by either party by giving at least three months' written notice to the other.

Non-Executive Director

The non-executive Director has entered into a letter of appointment with our Company pursuant to which he agreed to act as a non-executive Director for a term of three years with effect from January 13, 2016, renewable as determined by the Board or the Shareholders of our Company. The office of a Director is liable to be vacated in certain circumstances pursuant to the Articles. The appointment of the non-executive Director may be terminated by either party by giving at least three months' written notice to the other.

Independent non-executive Directors

Each of the independent non-executive Directors has signed a letter of appointment with us for a term of three years commencing from June 18, 2016, renewable as determined by the Board or the Shareholders of our Company. The appointment of each of the independent non-executive Directors may be terminated by either party giving at least three months' written notice to the other. The appointments are subject to the provisions of the Articles of Association of our Company with regard to vacating the office of Directors, removal and retirement by rotation of Directors. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

2. Directors' emolument

The aggregate amount of emolument (including salaries, allowance, remuneration, pension, discretionary bonus and other welfares) paid to our Directors for the three years ended December 31, 2013, 2014 and 2015 were approximately RMB2.5 million, RMB3.1 million and RMB2.7 million, respectively.

Under the arrangements currently in force, we estimate the aggregate emolument payable to the Directors for the year ending December 31, 2016, will be approximately RMB2.8 million.

None of our Directors or any past Directors has been paid any sum of money for each of the three years ended December 31, 2013, 2014 and 2015 (i) as an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

During the Track Record Period, none of our Directors waived or agreed to waive any emoluments.

3. Disclosure of interests of substantial shareholders

So far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised), other than a Director or chief executive of our Company whose interests are disclosed under the sub-paragraph headed "Disclosure of interests of Directors and chief executive of our Company" below, the persons who will have an interest or short position in our Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and who will be expected, directly or indirectly, to be interested in 10% or more of the Shares will be as follows:

Name of Shareholder	Nature of Interest	Shares held immediately prior to the Capitalization Issue and the Global Offering		Shares held immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised)	
		Number	Percentage (approx.)	Number	Percentage (approx.)
Mr. LI Xiangli ⁽¹⁾⁽²⁾⁽³⁾	Interests held jointly with another person; interests of a controlled corporation; interests of spouse	7,031 (L) ⁽³⁾	70.31%	210,930,000 (L)	52.73%
Ms. ZHANG Aiyong ⁽¹⁾⁽³⁾⁽⁵⁾	Interests held jointly with another person; interests of a controlled corporation; interests of spouse	7,031 (L)	70.31%	210,930,000 (L)	52.73%

Name of Shareholder	Nature of Interest	Shares held immediately prior to the Capitalization Issue and the Global Offering		Shares held immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised)	
		Number	Percentage (approx.)	Number	Percentage (approx.)
Mr. LIU Yi (劉翊) ⁽¹⁾⁽⁶⁾	Interests held jointly with another person; interests of a controlled corporation	7,031 (L)	70.31%	210,930,000 (L)	52.73%
Ms. WEI Yajuan (魏雅娟) ⁽⁷⁾	Interests of spouse	7,031 (L)	70.31%	210,930,000 (L)	52.73%
Leon Investment ⁽²⁾	Beneficial owner	4,203 (L)	42.03%	126,090,000 (L)	31.52%
Swan Stone ⁽⁵⁾	Beneficial owner	1,643 (L)	16.43%	49,290,000 (L)	12.32%
CCIC ⁽⁸⁾	Interests of a controlled corporation	1,550 (L)	15.50%	46,500,000 (L)	11.63%
CIC ⁽⁸⁾	Interests of a controlled corporation	1,550 (L)	15.50%	46,500,000 (L)	11.63%
China Dragon ⁽⁸⁾	Beneficial owner	1,550 (L)	15.50%	46,500,000 (L)	11.63%
Hawk Flying ⁽⁶⁾	Beneficial owner	1,185 (L)	11.85%	35,550,000 (L)	8.89%
Mr. LI Dexin (李德新) ⁽⁹⁾	Interests of a controlled corporation	790 (L)	7.90%	23,700,000 (L)	5.93%
Ms. ZHENG Guangping (鄭光平) ⁽¹⁰⁾	Interests of spouse	790 (L)	7.90%	23,700,000 (L)	5.93%
New Virtue ⁽⁹⁾	Beneficial owner	790 (L)	7.90%	23,700,000 (L)	5.93%
Centre Testing International Group Co., Ltd. (華測檢測認證集團股份有限公司) ⁽¹¹⁾	Interests of a controlled corporation	550 (L)	5.50%	16,500,000 (L)	4.13%
CTI Investment Management (Shenzhen) Company Limited (深圳華測投資管理有限公司) ⁽¹¹⁾	Interests of a controlled corporation	550 (L)	5.50%	16,500,000 (L)	4.13%
Ti Capital Management Co. LTD (鈦和資本管理有限公司) ⁽¹¹⁾	Interests of a controlled corporation	550 (L)	5.50%	16,500,000 (L)	4.13%
Ms. PAN Jing (潘晶) ⁽¹¹⁾	Interests of a controlled corporation	550 (L)	5.50%	16,500,000 (L)	4.13%
Hua Tai LP ⁽¹¹⁾	Interests of a controlled corporation	550 (L)	5.50%	16,500,000 (L)	4.13%
Hotek Asia ⁽¹¹⁾	Beneficial owner	550 (L)	5.50%	16,500,000 (L)	4.13%

- (1) On January 31, 2016, Mr. LI Xiangli, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) entered into an acting-in-concert deed to acknowledge and confirm that they are parties acting in concert in respect of each of the members of our Group during and since the Track Record Period and continue after the date of the deed. Pursuant to the deed, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) shall support Mr. LI Xiangli's decisions on material matters in relation to the operation and management of our Group by exercising their voting rights at the meetings of the shareholders and boards of the members of our Group in accordance with the decision of Mr. LI Xiangli. For details, see "Relationship with Controlling Shareholders — Our Controlling Shareholders Acting in Concert." By virtue of the SFO, Mr. LI Xiangli, Ms. ZHANG Aiying and Mr. LIU Yi (劉翊) are deemed to be interested in our Shares which are interested by each other.
- (2) Leon Investment is beneficially and wholly-owned by Mr. LI Xiangli. By virtue of the SFO, Mr. LI Xiangli is deemed to be interested in our Shares held by Leon Investment.
- (3) Mr. LI Xiangli and Ms. ZHANG Aiying are spouse. By virtue of the SFO, Mr. LI Xiangli and Ms. ZHANG Aiying are deemed to be interested in our Shares which are interested by each other.
- (4) The letter "L" denotes the person's long position in our Shares.
- (5) Swan Stone is beneficially and wholly-owned by Ms. ZHANG Aiying. By virtue of the SFO, Ms. ZHANG Aiying is deemed to be interested in our Shares held by Swan Stone.
- (6) Hawk Flying is beneficially and wholly-owned by Mr. LIU Yi (劉翊). By virtue of the SFO, Mr. LIU Yi (劉翊) is deemed to be interested in our Shares held by Hawk Flying.
- (7) Ms. WEI Yajuan is the spouse of Mr. LIU Yi (劉翊). By virtue of the SFO, Ms. WEI Yajuan is deemed to be interested in our Shares which are interested by Mr. LIU Yi (劉翊).
- (8) China Dragon is a subsidiary of CIC, which is a subsidiary of CCIC. By virtue of the SFO, CIC and CCIC are deemed to be interested in our Shares held by China Dragon.
- (9) New Virtue is beneficially and wholly-owned by Mr. LI Dexin. By Virtue of the SFO, Mr. LI Dexin is deemed to be interested in our Shares held by New Virtue.
- (10) Ms. ZHENG Guangping is the spouse of Mr. LI Dexin. By virtue of the SFO, Ms. ZHENG Guangping is deemed to be interested in our Shares which are interested by Mr. LI Dexin.
- (11) Hotek Asia is wholly-owned by Hua Tai LP. The general partners of Hua Tai LP are Ti Capital Management Co. LTD ("Ti Capital") and CTI Investment Management (Shenzhen) Company Limited (深圳華測投資管理有限公司) ("CTI Investment"). Ti Capital is owned as to approximately 74% by Ms. PAN Jing (潘晶). CTI Investment is wholly-owned by Centre Testing International Group Co., Ltd. (華測檢測認證集團股份有限公司) ("CTI Group"). By virtue of the SFO, Hua Tai LP, Ti Capital, Ms. PAN Jing, CTI Investment and CTI Group are deemed to be interested in the Shares held by Hotek Asia.

Save as disclosed herein, our Directors and our chief executive officer are not aware of any persons who will, immediately prior to and following the completion of the Global Offering (assuming the Over-allotment Option is not exercised) and the Capitalization Issue, have interests or short positions in Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be, directly or indirectly, interested in 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

4. Disclosure of interests of Directors and chief executive of our Company

Immediately following the completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised), the interests or short positions of the Directors or the chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he has taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, are listed as follows:

Name	Nature of Interest	Shares held immediately prior to the Capitalization Issue and the Global Offering		Shares held immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised)	
		Number	Percentage (approx.)	Number	Percentage (approx.)
Mr. LI Xiangli ⁽¹⁾⁽²⁾⁽³⁾	Interests held jointly with another person; interests of a controlled corporation; interests of spouse	7,031 (L) ⁽⁴⁾	70.31%	210,930,000 (L)	52.73%
Ms. ZHANG Aiyi ⁽¹⁾⁽³⁾⁽⁵⁾	Interests held jointly with another person; interests of a controlled corporation; interests of spouse	7,031 (L)	70.31%	210,930,000 (L)	52.73%
Mr. LIU Yi (劉翊) ⁽¹⁾⁽⁶⁾	Interests held jointly with another person; interests of a controlled corporation	7,031 (L)	70.31%	210,930,000 (L)	52.73%

(1) On January 31, 2016, Mr. LI Xiangli, Ms. ZHANG Aiyi and Mr. LIU Yi (劉翊) entered into an acting-in-concert deed to acknowledge and confirm that they are parties acting in concert in respect of each of the members of our Group during and since the Track Record Period and continue after the date of the deed. Pursuant to the deed, Ms. ZHANG Aiyi and Mr. LIU Yi (劉翊) shall support Mr. LI Xiangli's decisions on material matters in relation to the operation and management of our Group by exercising their voting rights at the meetings of the shareholders and boards of the members of our Group in accordance with the decision of Mr. LI Xiangli. For details, see "Relationship with Controlling Shareholders — Our Controlling Shareholders Acting in Concert." By virtue of the SFO, Mr. LI Xiangli, Ms. ZHANG Aiyi and Mr. LIU Yi (劉翊) are deemed to be interested in our Shares which are interested by each other.

(2) Leon Investment is beneficially and wholly-owned by Mr. LI Xiangli. By virtue of the SFO, Mr. LI Xiangli is deemed to be interested in our Shares held by Leon Investment.

(3) Mr. LI Xiangli and Ms. ZHANG Aiyi are spouse. By virtue of the SFO, Mr. LI Xiangli and Ms. ZHANG Aiyi are deemed to be interested in our Shares which are interested by each other.

(4) The letter "L" denotes the person's long position in our Shares.

- (5) Swan Stone is beneficially and wholly-owned by Ms. ZHANG Aiying. By virtue of the SFO, Ms. ZHANG Aiying is deemed to be interested in our Shares held by Swan Stone.
- (6) Hawk Flying is beneficially and wholly-owned by Mr. LIU Yi (劉翊). By virtue of the SFO, Mr. LIU Yi (劉翊) is deemed to be interested in our Shares held by Hawk Flying.

5. Disclaimers

Save as disclosed in this prospectus and as at the Latest Practicable Date:

- (a) none of our Directors nor any of the parties listed in “— E. Other Information — 11. Consents of experts” of this Appendix was interested, directly or indirectly, in the promotion of, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to us;
- (b) none of our Directors nor any of the parties listed in “— E. Other Information — 11. Consents of experts” of this Appendix was materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our Company’s business;
- (c) save in connection with Underwriting Agreements, none of the persons listed in the section headed “— E. Other Information — 10. Qualifications of experts” below has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (d) none of the Directors has entered or has proposed to enter into any service agreements with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and
- (e) none of the Directors are interested in any business part from our Group’s business which competes or is likely to compete, directly or indirectly, with the business of our Group.

E. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

Save as disclosed in this prospectus, as at the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of our Group, that would have a material adverse effect on its results of operations or financial condition.

3. Sole Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Capitalization Issue and the Shares to be issued as mentioned in this prospectus (including any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option).

The Sole Sponsor satisfy the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules.

The Sole Sponsor's fee is HK\$4 million and among which HK\$2 million has been paid by our Company.

4. Preliminary expenses

The preliminary expenses of US\$4,100 incurred by us in relation to our incorporation were paid by our Company.

5. Promoter

We do not have any promoter. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefits have been paid, allotted or given nor are any proposed cash, securities or other benefits to be paid, allotted or given to any promoters.

6. Taxation of holders of Shares**(a) Hong Kong**

The sale, purchase and transfer of Shares registered with our Hong Kong Share Registrar will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration of or, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after February 11, 2006.

(b) Cayman Islands

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasized that none of our Company, our

Directors or the other parties involved in the Global Offering will accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in the Shares or exercise of any rights attaching to them.

7. No material adverse change

The Directors confirm that there has been no material adverse change in our Group's financial or trading position or prospects since December 31, 2015 (being the date to which our Company's latest audited financial statements were made up).

8. Agency fees or commission received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies Ordinance insofar as applicable.

10. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice contained in this prospectus:

Name	Qualification
CMB International Capital Limited	Licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO, acting as the Sole Sponsor of the Global Offering
Commerce & Finance Law Offices	PRC legal advisers
Ernst & Young	Certified public accountants
Appleby	Legal advisers as to Cayman Islands law
Vigers Appraisal & Consulting Limited	Property valuer
Shenzhen Forward Investment Advisory Co., Ltd.	Industry consultant

11. Consents of experts

Each of experts named in paragraph 10 of this Appendix has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of its subsidiaries.

12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

13. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) neither our Company nor any of its subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
 - (iv) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group; and
 - (v) no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company.
- (b) Our Company has no outstanding convertible debt securities.
- (c) No member of our Group is presently listed on any stock exchange or traded in any trading system.
- (d) There is no arrangement under which future dividends are waived or agreed to be waived.

- (e) The principal register of members of our Company will be maintained in the Cayman Islands by Estera Trust (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company's share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

- (f) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.

APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) a copy of each of the material contracts referred to the section headed “Statutory and General Information — C. Further Information About Our Company’s Business — 1. Summary of material contracts” in Appendix V to this prospectus; and
- (c) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 11. Consents of experts” in Appendix V to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Wilson Sonsini Goodrich & Rosati at Suite 1509, 15/F, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) our Articles of Association;
- (b) the Accountants’ Report for the three years ended December 31, 2013, 2014 and 2015 issued by Ernst & Young, and the report on the unaudited pro forma financial information prepared by Ernst & Young, the texts of which are set out in Appendix I and Appendix II of this prospectus, respectively;
- (c) the audited consolidated financial statements of our Company for the three years ended December 31, 2013, 2014 and 2015;
- (d) the property valuation report of the Group prepared by Vigers Appraisal & Consulting Limited, the texts of which are set out in Appendix III to this prospectus;
- (e) the legal opinions issued by Commerce & Finance Law Offices, our PRC legal advisers, in respect of certain aspects of our Group and the property interests of our Group;
- (f) the letter of advice issued by Appleby, our legal advisers as to Cayman Islands law, in respect of certain aspects of the Cayman Companies Law referred to in Appendix IV to this prospectus;
- (g) the Cayman Companies Law;
- (h) the material contracts referred to the section headed “Statutory and General Information — C. Further Information About Our Company’s Business — 1. Summary of material contracts” in Appendix V to this prospectus;

APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

- (i) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 11. Consents of experts” in Appendix V to this prospectus; and

- (j) service contracts and letters of appointment entered into between our Company and each of the Directors.



CHINA LEON INSPECTION HOLDING LIMITED
中国力鸿检验控股有限公司