CHINA LEON INSPECTION HOLDING LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1586

Annual Report 2016

Contents

Definitions

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings.

"AGM"	annual general meeting of the Company
"Articles"	the articles of association of the Company adopted on 18 June 2016
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors of the Company
"CEO"	chief executive officer of our Company
"China" or "PRC"	the People's Republic of China, which for the purpose of this report and for geographical reference only, excludes Hong Kong, Macau and Taiwan
"CG Code"	The "Corporate Governance Code" set out in Appendix 14 to the Listing Rules
"Company", "our Company", "Group", "our Group", "China Leon", "we" or "us"	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 the Cayman Islands with limited liability on 29 July 2015 and except where the context indicated otherwise its subsidiaries
"Controlling Shareholders"	Mr. LI Xiangli, Ms. ZHANG Aiying, Mr. LIU Yi (劉翊), Leon Cornerstone Investment Holding Limited, Swan Stone Investment Holding Limited and Hawk Flying Investment Holding Limited
"Director(s)"	the director(s) of our Company
"Four Northern Ports"	the four major coal-trade ports in north China, which include Qinhuangdao port, Tangshan port, Huanghua port and Tianjin port
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"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 19 January 2009 and an indirect wholly-owned subsidiary of our Company
"IPO"	the Company's initial public offering of its Shares
"Listing Date"	12 July 2016, on which the Shares were listed and from which dealings therein were permitted to take place on the Stock Exchange

Definitions

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Model Code”	the “Model Code for Securities Transactions by Directors of Listed Issuers” set out in Appendix 10 to the Listing Rules
“Nomination Committee”	the nomination committee of the Company
“year”	from 1 January 2016 to 31 December 2016
“Period”	from the Listing Date to 31 December 2016
“PRC”	the People’s Republic of China, which for purpose of this annual report and for geographical reference only, excludes Hong Kong, Macau and Taiwan
“Prospectus”	the prospectus of the Company dated 29 June 2016
“Remuneration Committee”	the remuneration committee of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of par value US$0.00005 each in the issued share capital of our Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

Corporate Profile

We are a leading coal testing and inspection services provider in China. Through our nine service centers strategically positioned primarily at major coal-trade ports in China, 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. 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.

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.

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.

Financial Highlights

- Revenue for 2016 amounted to approximately RMB186.5 million, representing an increase of 19.7% from approximately RMB155.8 million recorded in 2015.

- Gross profit for 2016 amounted to approximately RMB96.4 million, representing an increase of 19.8% from approximately RMB80.4 million recorded in 2015.

- Profit attributable to owners of the parent for 2016 amounted to approximately RMB33.6 million, representing an increase of 21.8% from approximately RMB27.6 million recorded in 2015.

- Net cash flows from operating activities for 2016 amounted to approximately RMB50.3 million, representing an increase of 27.6% from approximately RMB39.4 million recorded in 2015.

Financial Summary

	For the year ended 31 December			
	2013	2014	2015	**2016**
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	117,096	139,480	155,789	**186,466**
Gross profit	68,789	78,210	80,449	**96,359**
Profit before income tax	40,652	44,568	33,023	**38,058**
Income tax expense	(5,489)	(6,565)	(5,448)	**(4,430)**
Profit for the year	35,163	38,003	27,575	**33,628**
Profit attributable to:				
Owners of the parent	35,303	38,044	27,607	**33,628**
Non-controlling interests	(140)	(41)	(32)	**–**

	As at 31 December			
	2013	2014	2015	**2016**
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***
Total assets	95,641	137,382	195,516	**216,758**
Total liabilities	23,133	27,123	134,517	**45,108**
Equity attributable to the owners of the parent	71,995	110,066	60,838	**171,650**

Chairman's Statement

On behalf of the Board of China Leon, I am pleased to present the annual report of the Company and its subsidiaries for the year ended 31 December 2016.

In 2016, the Chinese government promoted supply-side reform and the policy of cutting down excess capacity in the coal industry, under which the coal market has been recovered, the price of coal has recorded a substantial increase and has gradually stabilized, the domestic demand for electricity increased slightly, and the trading of coal kept active. As the business volume of the Group primarily depended on the trading volume of coal, the implementation of such policies was favorable for the Group's business.

Under such circumstances, the Group has been operating well in the year and recorded a stable and sound growth in its performance. Among others, the revenue increased by 19.7%, the net profit increased by 22.0% and the net cash flow from operation increased by 27.6%. The Board has passed the resolution for the proposed payment of the final dividend of RMB0.025 per share for this year.

The Group completed the first phase of upgrading for Huanghua port (the port with the largest business volume among the Four Northern Ports) service center, and built the ninth domestic service center in Jiangyin. At the same time, the Group enhanced its market development. Attributable to such efforts, the Group made remarkable achievements.

The Group strengthened its research and development and made expected achievements. The research and development of the robot sample preparation base station we built in cooperation with a robot manufacturer has been completed, and the station is expected to be put into operation in the first half of 2017. The information-based business management system under the independent research and development of the Company has been upgraded and applied in our operation. In addition, during the year, we applied for 14 new intellectual property rights (including those for invention and utility model and software copyright) and issued two corporate standards. Such progress in the research and development will help the Company to solidify its leading position in the industry and improve its core competitiveness in the coal testing and inspection industry in the future.

Looking forward, the Company will continue to upgrade and expand its service center network, actively develop the imported and exported coal testing services, improve its research and development and technical strength, and further solidify our leading position in the coal testing and inspection industry. Meanwhile, the Company will adopt innovative business model to implement the strategy of diversification and take new opportunities for growth. The Company is on a mission to "uphold integrity and justice, be fair and equitable and contribute to a future of good quality", and is committed to developing itself into the most credible independent quality assurance service provider in the world. Through those efforts, the Company is aimed at creating sustainable value and returns for its shareholders.

Finally, On behalf of the Board, I would like to express my heartfelt gratitude to our shareholders for their trust and support and my sincere thanks to the management and all the staff members for their efforts and contributions in the year.

Mr. LI Xiangli
Chairman of the Board

14 March 2017

Corporate Information

Board of Directors

Executive Directors

Mr. LI Xiangli *(Chairman and CEO)*
Ms. ZHANG Aiying *(Vice President)*
Mr. LIU Yi (劉翊) *(Vice President)*

Non-executive Director

Mr. WANG Gang

Independent Non-executive Directors

Mr. YANG Rongbing
Mr. WANG Zichen
Mr. ZHAO Hong

Company Secretary

Ms. LI Oi Lai, *(ACIS, ACS, FCPA, FAIA)*

Authorised Representatives under the Listing Rules

Mr. LI Xiangli
Ms. LI Oi Lai, *(ACIS, ACS, FCPA, FAIA)*

Audit Committee

Mr. YANG Rongbing *(Chairman)*
Mr. WANG Zichen
Mr. ZHAO Hong

Remuneration Committee

Mr. ZHAO Hong *(Chairman)*
Ms. ZHANG Aiying
Mr. WANG Zichen

Nomination Committee

Mr. LI Xiangli *(Chairman)*
Mr. WANG Zichen
Mr. ZHAO Hong

Auditor

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

Registered Office

PO Box 1350
Clifton House, 75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Headquarters and Principal Place of Business in the PRC

11/F, Sanyuan Building
18 Xibahe East Lane
Chaoyang District
Beijing, China

Principal Place of Business in Hong Kong

18/F Tesbury Centre
28 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

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Hong Kong Legal Advisors

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

Compliance Advisor

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

Principal Share Registrar and Transfer Office

Estera Trust (Cayman) Limited
Clifton House, 75 Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

Stock Code

1586

Website

www.huaxialihong.com

Profile of Directors and Senior Management

Below are the brief profiles of the current Directors and senior management of the Group.

Directors

The Board currently consists of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth information regarding the Directors.

Name	Age	Position	Date of Appointment as Director
Executive Directors			
Mr. LI Xiangli	54	Chairman, CEO and executive Director	13 January 2016
Ms. ZHANG Aiying	54	Executive Director	13 January 2016
Mr. LIU Yi (劉翊)	52	Executive Director	13 January 2016
Non-executive Director			
Mr. WANG Gang	47	Non-executive Director	13 January 2016
Independent non-executive Directors			
Mr. YANG Rongbing	37	Independent non-executive Director	18 June 2016
Mr. WANG Zichen	50	Independent non-executive Director	18 June 2016
Mr. ZHAO Hong	55	Independent non-executive Director	18 June 2016

Executive Directors

Mr. LI Xiangli (李向利), aged 54, is the chairman, chief executive officer of our Company and an executive Director. He is the spouse of Ms. ZHANG Aiying. Mr. Li is primarily responsible for the strategic planning and overall management of our Group. He is also the chairman of the Nomination Committee. Mr. Li joined our Group in April 2009 and was appointed as our executive Director on 13 January 2016. He is also a director of certain subsidiaries of our Company.

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 China Certification & Inspection Group Co., Ltd. (中國檢驗認證(集團)有限公司), 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.

Profile of Directors and Senior Management

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).

Ms. ZHANG Aiying (張愛英), aged 54, 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. Ms. Zhang was appointed as our executive Director on 13 January 2016. She is also a director of certain subsidiaries of our Company.

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.

Mr. LIU Yi (劉翊), aged 52, is a vice president of our Company and an executive Director. He is primarily responsible for overall management of sales, quality control and research. Mr. Liu joined our Group in February 2010 as deputy general manager of Huaxia Lihong, and was appointed as our executive Director on 13 January 2016. He is also a director of a subsidiary of our Company.

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).

Profile of Directors and Senior Management

Non-executive Directors

Mr. WANG Gang (王綱), aged 47, is a non-executive Director. 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 13 January 2016.

Mr. Wang has over 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 China Inspection Company Limited (中國檢驗有限公司), 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.

Independent non-executive Directors

Mr. YANG Rongbing (楊榮兵), aged 37, is an independent non-executive Director. Mr. Yang is primarily responsible for providing independent opinion and judgment to our Board. He is also the chairman of the Audit Committee. Mr. Yang was appointed as our independent non-executive Director on 18 June 2016.

Mr. Yang has extensive experience in investment and finance. Mr. Yang is also an expert in adopting a wide range of innovative financial vehicles to support rapid growth and continuously improving capital structure. 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) ("SMI Holdings"), 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 whilst oversees a list of key operational departments, including finance, investment, human resources and legal. Before joining SMI Holdings in 2010, Mr. Yang had acquired deep experiences in financial management, capital planning, internal control, investment and financing and capital financial strategy from serving various financial and investment roles in state-owned enterprises and institutions such as Beijing Golden Tide Group Co., Ltd. (北京金泰集團有限公司), Foreign Economic Cooperation Office under Ministry of Environmental Protection (國家環境保護部對外合作中心) and Center for Development of Trade and Control of Investment in Europe (歐洲商業開發投資管理中心).

Profile of Directors and Senior Management

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 MBA 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 50, is an independent non-executive Director. 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. Mr. Wang was appointed as our independent non-executive Director on 18 June 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.

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. ZHAO Hong (趙虹), aged 56, is an independent non-executive Director. 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. Mr. Zhao was appointed as our independent non-executive Director on 18 June 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).

Profile of Directors and Senior Management

Senior Management

Mr. LI Xiangli (李向利), see "– Profile of Directors and Senior Management – Executive Directors" for details.

Ms. ZHANG Aiying (張愛英), see "– Profile of Directors and Senior Management – Executive Directors" for details.

Mr. LIU Yi (劉翊), see "– Profile of Directors and Senior Management – Executive Directors" for details.

Ms. KANG Aiyun (康愛雲), aged 45, 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 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 headquarters 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 40, 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 16 January 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 (特殊普通合夥)) and was responsible for audit service.

Profile of Directors and Senior Management

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 38, 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 CEO 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 16 January 2016. He is also the supervisor of a subsidiary of the Company.

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 China Certification & Inspection Group Co., Ltd. (中國檢驗認證(集團)有限公司), and was responsible for import and export commodity inspection 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.

Management Discussion and Analysis

Business and Market Review

Facing the situation of coal overproduction, the Chinese government has started implementing policies to reform the production side and reduce coal usage in 2016, which has proved to be substantially effective. The coal market began to recover and the coal price posted a dramatic growth followed by a phase of gradual steadiness. According to the National Statistics Bureau, the domestic production volume of raw coal in 2016 was 3.36 billion tons, representing a decrease of 9.4% as compared to 2015, while the domestic power generation over the same period increased by 4.5% as compared to 2015, 2.6% of which was contributed by coal-fired power generation. Since the coal market has been oversupplied as a whole and the coal trading volume is determined primarily by the demand for power generation, the decrease in coal production volume in 2016 has no direct and adverse impact on its trading volume. We believe that coal tested by independent third parties still only accounts for a relatively small portion of the existing domestic coal trading volume and that there is still substantial growth potential in the coal testing and inspection industry in the future due to the benefits coal testing industry shall enjoy from the Chinese government's tightened regulations over coal quality and pollution remediation.

In 2016, we recorded a revenue of RMB186.5 million and a net profit of RMB33.6 million, representing an increase of 19.7% and 22.0%, respectively, as compared to 2015. Our service income derived from the Four Northern Ports and other ports (areas) increased by 11.9% and 42.9%, respectively, as compared to 2015. We believe our growth was primarily attributed to the following factors: (1) an increase in the concentration of our major customers as a result of the recovery of coal industry, active trading market and reform of the production side; (2) more efforts put on our marketing and sales and more orders obtained from our participation in tendering activities; (3) the competitive edge in our service network through upgrading and increasing our service centers; and (4) a substantial improvement in our technology level and service efficiency as a result of the smooth progress of our research and development work, especially for the research and development of intelligent equipment and informatized upgrading of our business, which has further enhanced our competitiveness and brand value.

In 2016, we have strengthened the leading position of our core business (i.e. coal testing and inspection) in the industry through the following measures: (1) our commencement of upgrading of the service centers located in the Four Northern Ports in accordance with the use of proceeds from our IPO to improve our production capacity and accommodate increased business volume. In 2016, we completed the upgrading of the service center located in Huanghua port (phase I), which had the largest business volume among the Four Northern Ports, and the new service center in Tangshan port (Jingtang port) is under construction and will complete construction in the second quarter of 2017. Meanwhile, in July 2016, our ninth service center located in Jiangyin, Jiangsu was put into operation, which has improved our domestic service network; and (2) further efforts put on our research and development work. The information based business management system developed by ourselves has completed and applied in our business. The work base station for robot sampling which we worked with a robot manufacturer has been developed and will be put into operation in April 2017. In addition, in 2016, we applied for 14 new patents (including an invention, utility model and software copyright) and published two corporate standards.

Management Discussion and Analysis

Business Strategies and Future Outlook

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. 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.

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.

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 Four Northern Ports, we plan to expand our testing services to inland coal trade, a market largely untapped by independent assurance providers. 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 interact 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. To this end, we intend to secure land use rights 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. 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.

Management Discussion and Analysis

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 which 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.

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. Interacting 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.

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.

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. During 2016, we have contributed our share of registered capital to Guangzhou Lihong Energy Testing Technology Co., Ltd. (廣州力鴻能源檢測技術有限公司), our joint venture. We believe our investment will further expand our service scope in the future.

Management Discussion and Analysis

Financial Review

Overview

	2016	2015	Change
	RMB'000	*RMB'000*	
Revenue	**186,466**	155,789	19.7%
Gross Profit	**96,359**	80,449	19.8%
Profit before tax	**38,058**	33,023	15.2%
Profit for the year	**33,628**	27,575	22.0%

Revenue

The Group's revenue increased by 19.7% from approximately RMB155.8 million in 2015 to approximately RMB186.5 million in 2016. The increase is mainly contributed by an increase in business volume through open tender and private negotiation. The table below sets forth the revenue breakdown for each of our service offerings.

	2016	2015
	RMB'000	*RMB'000*
Testing services	**151,308**	126,114
Surveying services	**25,832**	21,814
Witnessing and ancillary services	**9,326**	7,739
Others	**–**	122
	186,466	155,789

Cost of Sales

The Group's cost of sales increased by 19.6% from approximately RMB75.3 million in 2015 to approximately RMB90.1 million in 2016, representing 48.4% and 48.3% of the Group's revenue in 2015 and 2016, respectively. The increase in the Group's cost of sales was primarily attributable to higher labor costs, port charges and vehicle expenses, generally consistent with the growth of the Group's business.

Management Discussion and Analysis

Gross Profit and Gross Profit Margin

The Group's gross profit increased by 19.8% from approximately RMB80.4 million in 2015 to approximately RMB96.4 million in 2016. The gross profit margin increased from 51.6% in 2015 to 51.7% in 2016, which generally remained stable.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by 49.4% from approximately RMB1.4 million in 2015 to approximately RMB2.1 million in 2016. The increase in the Group's selling and distribution expenses was primarily attributable to the increased open tender expenses and increased labor costs from increased headcount and compensation base for sales staff.

Administrative Expenses

The Group's administrative expenses increased by 16.7% from approximately RMB45.5 million in 2015 to approximately RMB53.2 million in 2016. The increase in the Group's administrative expenses was primarily attributable to the increased labor costs from increased headcount for administration staff, rental expenses, communication costs and the fees paid for services provided by professional advisers following the IPO which was charged to our consolidated statement of profit or loss and other comprehensive income.

Other Expenses

The Group recorded other expenses of approximately RMB0.6 million and RMB2.9 million in 2015 and 2016, respectively. The increase in the Group's other expenses was primarily attributable to (1) the impairment of the value of certain construction in progress and (2) the increased impairment for bad debt.

Finance Costs

The Group recorded a finance cost of approximately RMB1.6 million in 2016 as a result of interest payments for a bank loan and other borrowings.

Income Tax Expense

For the year ended 31 December 2016, income tax expense amounted to approximately RMB4.4 million, decreased by approximately RMB1.0 million as compared with last year as we took advantage of the preferential tax regulations in the PRC.

Net Profit

The Group's net profit increased by 22.0% from approximately RMB27.6 million in 2015 to approximately RMB33.6 million in 2016, generally consistent with the growth of the Group's business.

Management Discussion and Analysis

Property, Plant and Equipment

Property, plant and equipment consist primarily of buildings, vehicles, equipment and construction in progress. The Group had property, plant and equipment of RMB35.5 million and RMB59.6 million as at 31 December 2015 and 2016, respectively. The increase as at 31 December 2016 was primarily due to (1) the purchase of certain vehicles and equipment in line with the Group's business expansion and (2) the further development of the Group's construction in progress.

Investment Properties

Investment properties consist of a commercial property in Beijing, which was originally purchased at RMB25.5 million in April 2014. The investment properties of the Group had a carrying amount of RMB23.5 million and RMB22.3 million as at 31 December 2015 and 2016, respectively.

Trade and Bills Receivables

The Group's trade and bills receivables primarily represented amounts and bills receivables from its customers for its services provided in the ordinary course of business. As at 31 December 2015 and 2016, the Group had trade and bills receivables of approximately RMB29.0 million and RMB22.1 million, respectively. The decrease as at 31 December 2016 was primarily due to our enhanced efforts to collect our trade receivables during 2016.

Prepayments, Deposits and Other Receivables

The Group's prepayments, deposits and other receivables primarily represent rental payments, value-added tax, prepayment for construction in process, deferred listing expenses and will be capitalized and deducted from the share premium upon the completion of the IPO, and deposits paid to enter open tender process and land auction process. The current portion of the Group's prepayments, deposits and other receivables were approximately RMB9.3 million and approximately RMB9.3 million as at 31 December 2015 and 2016, respectively. The non-current portion of the Group's prepayments, deposits and other receivables increased by approximately RMB14.8 million from approximately RMB0.3 million as at 31 December 2015 to approximately RMB15.1 million as at 31 December 2016, primarily due to (1) the increased prepayment for construction in progress, (2) the increased prepayment for the purchase of certain equipment and (3) the deposits paid to enter land auction process.

Available-for-sale Investments

The Group's available-for-sale investments primarily represent low-risk financial products purchased from commercial banks using its cash on hand. As at 31 December 2015 and 2016, the fair value of our available-for-sale investments reached RMB26.0 million and RMB9.0 million, respectively. The decrease in the Group's available-for-sale investments as at 31 December 2016 was because the Group redeemed certain financial products to meet its funding requirements.

Management Discussion and Analysis

Cash and Cash Equivalents

The Group's cash and cash equivalents consist primarily of cash and bank balances denominated in RMB. As at 31 December 2015 and 2016, the Group's cash and cash equivalents were RMB58.1 million and RMB63.5 million, respectively. The increase in the Group's cash and cash equivalents as at 31 December 2016 was primarily attributable to (1) proceeds from IPO of RMB84.4 million, (2) net cash in-flows from operating activities operations of RMB50.3 million, and (3) the disposal of available-for-sale investments of RMB80.5 million, partially offset by (1) the payment to shareholders of approximately RMB47.9 million in connection with the reorganization the Group undergone for the IPO, (2) the repayment of a bank loan in the amount of RMB30.0 million and other borrowing in the amount of RMB10.0 million, (3) the purchase of available-for-sale investments of RMB63.5 million, and (4) purchases of items of property, plant and equipment of RMB35.4 million.

Trade Payables

The Group's trade payables primarily represent amounts payable for port charges. As at 31 December 2015 and 2016, the Group's trade payables was RMB4.1 million and RMB4.6 million, which generally remained stable.

Advance from Customers, Other Payables and Accruals

The Group's advance from customers, other payables and accruals primarily represent advance from customers, accrued salaries, wages and benefits, other taxes payable and other payables. As at 31 December 2015 and 2016, the Group had advance from customers, other payables and accruals of RMB75.6 million and RMB28.6 million. The decrease in the Group's advance from customers, other payables and accruals in 2016 was mainly due to the payment to shareholders of approximately RMB47.9 million in connection with the reorganization the Group undergone for the IPO.

Interest-bearing Bank Loans

The Group had interest-bearing bank loans of RMB30.0 million and nil as at 31 December 2015 and 2016, respectively. The decrease in the Group's interest-bearing bank loans was due to the repayment of a guaranteed short-term loan from a commercial bank in the amount of RMB30.0 million in 2016.

Interest-bearing Other Borrowing

As at 31 December 2016, the Group had interest-bearing other borrowing of RMB10.0 million which reflected the outstanding balance of an unsecured loan from an individual who is an independent third party in the amount of RMB20.0 million. The outstanding balance of such third-party loan falls due in September 2018, and bears an annual interest of 4.75%.

Liquidity and Capital Resources

The Group had cash and cash equivalents of RMB63.5 million as at 31 December 2016. As at 31 December 2016, the Group had no outstanding bank borrowing balances. The Board is of the opinion that the Group is in a strong and healthy financial position and has sufficient resources to support its operations and meet its foreseeable capital expenditures.

Management Discussion and Analysis

Treasury Management and Funding Policy

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.

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.

Cash Flows from Operating Activities

The Group had net cash flows from operating activities of approximately RMB39.4 million and RMB50.3 million in 2015 and 2016, respectively. The increase in the Group's cash flows from operating activities was primarily due to our increased business volume and our enhanced efforts to collect our trade receivables during 2016.

Cash Flows from Financing Activities

The Group had net cash inflows and outflows from financing activities of approximately RMB11.6 million and RMB26.0 million in 2015 and 2016, respectively. The increase in the Group's cash outflows from financing activities was primarily due to (1) cash paid to shareholder approximately RMB47.9 million in connection with the reorganization the Group undergone for the IPO and (2) the repayment of a bank loan in the amount of RMB30.0 million and other borrowing in the amount of RMB10.0 million, partially offset by the proceeds from the IPO.

Commitments

As at 31 December 2016, the Group had a total capital commitment of approximately RMB18.8 million for contracted but not performed acquisition of property, plant and equipment and land use rights.

Contingent Liabilities

As at 31 December 2016, the Group did not have any significant contingent liabilities or guarantees to third parties.

Management Discussion and Analysis

Gearing Ratio

The Group monitors capital on the basis of the gearing ratio. The calculation of gearing ratio is based on total debt divided by total equity and multiplied by 100.0%. Total debt is calculated as "interest-bearing bank loans" plus "interest-bearing other borrowing" as shown in the consolidated statement of financial position. Total capital is calculated as "total equity" as shown in the consolidated statement of financial position.

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Total debt	**10,000**	50,000
Total equity	**171,650**	60,999
Gearing ratio	**5.8%**	82.0%

Credit Risk

Credit risk is the risk of loss arising from a customer's or counterparty's inability to meet its obligations. The Group enters into transactions only with recognised and creditworthy parties. It is the Group's policy that all customers who wish to have credit transactions with the Group are subject to credit verification procedures taking into account the customers' financial position and the Group's past experience with the customers.

In addition, the Group monitors receivable balances on an ongoing basis, and its exposure to bad debts is not significant. The management of the Group evaluates the creditworthiness of its 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.

The Group's 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.

Foreign Exchange Risk

The exposure of our Group to foreign exchange risk was minimal during the year ended 31 December 2016 and hence the Group did not hedge against any fluctuation in foreign currency during the Period.

Significant Investments

The Group did not have any significant investments during the year ended 31 December 2016.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During the year ended 31 December 2016, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

Charges on Assets

During the year ended 31 December 2016, none of the Group's assets were charged.

Corporate Governance Report

The Board has committed to maintaining good corporate governance standards. The Board believes that good corporate governance standards are essential in providing framework for the Company to safeguard the interests of Shareholders and to enhance corporate value and accountability.

The Company was listed on the Stock Exchange on 12 July 2016. Therefore, the code provisions as set out in the CG Code were not applicable to the Company during the period from 1 January 2016 to 11 July 2016. In the opinion of the directors, throughout the Period, the Company has complied with all code provisions as set out in the CG Code save for the deviations from code provisions A.2.1 and C.3.3(e)(i) which deviations are explained in the relevant paragraphs below in this corporate governance report.

The Board will from time to time, review and enhance its corporate governance practices to ensure that the Company continue to meet the requirements of the CG Code.

A. The Board

A1. Responsibilities and Delegation

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.

A2. Board Composition

As at the date of this annual report, the Board comprises seven members, which consist of three executive Directors, one non-executive Director, and three independent non-executive Directors.

The Board of the Company comprises the following directors:

Executive Directors

Mr. LI Xiangli
Ms. ZHANG Aiying
Mr. LIU Yi (劉翊)

Non-executive Director

Mr. WANG Gang

Independent Non-executive Directors

Mr. YANG Rongbing
Mr. WANG Zichen
Mr. ZHAO Hong

A3. Chairman and Chief Executive

Currently, Mr. LI Xiangli takes up the roles of both CEO and chairman of the Board, which is a deviation from code provision A.2.1 of the CG Code. In the opinion of the Directors, through supervision by the Board and the independent non-executive Directors, with effective control of the Company's internal check and balance mechanism, the same individual performing the roles of chairman and CEO can achieve the goal of improving the Company's efficiency in decision-making and execution and effectively capturing business opportunities. Many leading international corporations also have similar arrangements.

A4. Appointment and Re-election of Directors

All Directors are appointed for a specific term, subject to renewal upon expiry of the existing term. Mr. LI Xiangli is appointed for a term of three years commencing from 13 January 2016 pursuant to his appointment letter. The non-executive Directors (including the independent non-executive Directors) are appointed for a term of three years from their respective appointment dates pursuant to their letters of appointment.

According to the Articles, one third of the Directors for the time being (if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each AGM. 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. The retiring Directors should be eligible for re-election at the relevant AGM. In addition, any new Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, whereas any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election. The Director appointed by the Board as aforesaid shall be eligible for re-election at the relevant general meeting.

A5. Training and Continuing Development for Directors

Each newly appointed Director will receive formal induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

The existing Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Trainings and professional development for Directors are arranged whenever necessary. In addition, reading material on new or changes to salient laws and regulations applicable to the Company are provided to Directors from time to time for their studying and reference.

Corporate Governance Report

The Directors are required to submit to the Company details of the training they received in each financial year for the Company's maintenance of proper training records of the Directors. According to the training records currently maintained by the Company, during the Period, the Directors have complied with the code provision A.6.5 of the CG Code on participation in continuous professional training as follows:

Type of training/education	Attending training on regulatory development, directors' duties or other relevant topics	Reading regulatory updates or corporate governance related materials or materials relevant to directors' duties
Mr. LI Xiangli	√	√
Ms. ZHANG Aiying	√	√
Mr. LIU Yi (劉翊)	√	√
Mr. WANG Gang	√	√
Mr. YANG Rongbing	√	√
Mr. WANG Zichen	√	√
Mr. ZHAO Hong	√	√

A6. Directors' Attendance Records at Meetings

The attendance records of each Director at the Board and Board committee meetings and the general meeting of the Company held during the year ended 31 December 2016 are set out below:

Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors:				
Mr. LI Xiangli	4/4	N/A	N/A	1/1
Ms. ZHANG Aiying	4/4	N/A	1/1	N/A
Mr. LIU Yi (劉翊)	4/4	N/A	N/A	N/A
Non-executive Director:				
Mr. WANG Gang	4/4	N/A	N/A	N/A
Independent non-executive Directors:				
Mr. YANG Rongbing(1)	2/2	1/1	N/A	N/A
Mr. WANG Zichen(1)	2/2	1/1	1/1	1/1
Mr. ZHAO Hong(1)	2/2	1/1	1/1	1/1

(1) Appointed with effect from 18 June 2016

A7. Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding dealings in the securities of the Company by the Directors and the Company's senior management who, because of their office or employment, are likely to possess inside information of the Company and/or securities. Specific enquiry has been made of all the Directors and they have confirmed their compliance with the Model Code during the Period. In addition, no incident of non-compliance of the Model Code by the senior management of the Company was noted during the Period.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors and senior management in advance.

A8. Corporate Governance Functions

The Board is responsible for performing the corporate governance functions set out in the code provision D.3.1 of the CG Code.

B. Board Committees

The Company has three Board committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference which are available on the Stock Exchange's website (www.hkexnews.hk) and on the Company's website. All the Board committees should report to the Board on their decisions or recommendations made.

B1. Remuneration Committee

The Remuneration Committee comprises a total of three members, being two independent non-executive Directors, namely Mr. ZHAO Hong (chairman of the committee) and Mr. WANG Zichen, and one executive Director, namely Ms. ZHANG Aiying. Throughout the Period, the Company has met the Listing Rule requirements of having the majority of the Remuneration Committee members being independent non-executive directors as well as having the committee chaired by an independent non-executive director.

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. During the Period, the Remuneration Committee met once to review the remuneration of the Directors and senior management of the Company as well as the total amount of remuneration paid by the Company in year 2016.

The attendance records of each committee member in the Remuneration Committee meeting held during the Period are set out in section A6 above.

Corporate Governance Report

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the Period is set out below:

Remuneration band (HK$)	Number of individuals
Nil to 1,000,000	5
1,000,001 to 1,500,000	1

Details of the remuneration of each Director for the year are set out in Note 8 to the financial statements contained in this annual report.

B2. Nomination Committee

The Nomination Committee comprises a total of three members, being one executive Director, namely Mr. LI Xiangli (chairman of the committee), and two independent non-executive Directors, namely Mr. WANG Zichen and Mr. ZHAO Hong. Throughout the Period, the Company has met the code provision A.5.1 of having a majority of the committee members being independent non-executive directors and having the committee chaired by the chairman of the Board.

The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board; identifying individual suitably qualified to become members of the Board and select or making recommendations to the Board on the selection of individuals nominated for directorship; making recommendations to the Board on the appointment, reappointment and succession planning of Directors; and assessing the independence of independent non-executive Directors, as well as reviewing the board diversity policy.

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board in terms of skills, professional experience, educational background, knowledge, culture, independence, age and gender. In accordance with the board diversity policy, a truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other qualities of directors. These differences will be taken into account in determining the optimum composition of the Board. All Board appointments will be based on merit while taking into account diversity (including gender diversity).

During the Period, the Nomination Committee met once mainly to review the structure, size and composition of the Board in consideration to the board diversity policy, and to review the nomination criteria and procedures, the performance of Directors and the independence of independent non-executive Directors as well as to review annually its terms of reference and their effectiveness in the discharge of its duties.

The independence of the independent non-executive Directors has been assessed in accordance with the applicable Listing Rules. The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive directors, and the Company is of the view that all independent non-executive Directors meet the guidelines for assessing independent set out in Rule 3.13 of the Listing Rules and are independent.

The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective for implementing diversity on the Board. The Nomination Committee also considered that the Directors are rich in knowledge, experience and background and their outstanding skills in their respective expertise can meet the development needs of the Company.

The attendance records of each committee member in the Nomination Committee meetings are set out in section A6 above.

B3. Audit Committee

The Company has met the Listing Rule requirements regarding the composition of the Audit Committee throughout the Period. The Audit Committee comprises a total of three members, being three independent non-executive Directors, namely Mr. YANG Rongbing (chairman of the committee), Mr. WANG Zichen and Mr. ZHAO Hong.

The main duties of the Audit Committee include monitoring the integrity of the Company's financial statements, annual report and interim report, and reviewing significant financial reporting judgements contained therein; reviewing the Company's financial controls, and overseeing the risk management and internal control systems; making recommendations to the Board on the appointment, reappointment and removal of external auditor, and approving the remuneration and terms of engagement of external auditor, as well as reviewing arrangements which can be used by the employees of the Company, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

The Audit Committee is also responsible for performing the functions set out in the code provision D.3.1 of the CG Code. Its main duties include developing and reviewing the Group's policies and practices on corporate governance and making recommendations to the Board; reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements; reviewing and monitoring the training and continuous professional development of directors and senior management of the Group; and reviewing the Group's compliance with the CG code and the Model Code and the disclosure in the corporate governance report to be contained in the Company's annual reports.

During the Period, the Audit Committee held one meeting to review interim financial results and reports in respect of the six months ended 30 June 2016. The Audit Committee also reviewed financial control and risk management systems as well as the scope of work of external auditors. The Audit Committee also reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

According to code provision C.3.3(e)(i) of the CG Code, the Audit Committee should meet, at least twice a year, with the Company's auditors. During the Period, as the CG Code was not applicable to the Company prior to the Listing Date, the Audit Committee met the external auditor only once, for reviewing the Company's interim results for the first half of 2016.

The attendance records of each committee member in the Audit Committee meetings are set out in section A6 above.

C. Directors' Responsibilities for Financial Reporting in Respect of the Financial Statements

The Directors have acknowledged their responsibilities for preparing the financial statements of the Group for the Period.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports and other financial disclosures required under the Listing Rules and other regulatory requirements.

D. Risk Management and Internal Control

The Board acknowledges its responsibility to maintain effective risk management and internal control systems of the Company in order to manage rather than eliminate risks of failure to achieve business objectives, and to provide reasonable but not absolute assurance against material misstatement or loss.

The Company implemented various policies and procedures to ensure effective risk management at each aspect of its 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.

The internal audit department monitors compliance with policies and procedures and the effectiveness of risk management and internal control structures across the Group and its principal divisions. The internal audit department reports directly to the Audit Committee and ensure the internal controls are in place and functioning properly as intended.

For 2016, the Board through the Audit Committee had conducted an annual review on the systems of internal control and risk management of the Company. The review covered material controls, including financial, operational and compliance controls and risk management functions of the Group. Areas of improvement have been identified and appropriate measures have been put in place to manage the risks. The improvement of the systems of risk management and internal control is an ongoing process and the Board maintains a continuing commitment to strengthen the Company's control environment and processes.

The Company formulated the inside information policy. The Company regularly reminds the directors and employees about due compliance with all policies regarding the inside information (as defined under the SFO). Also, the Company keeps directors, senior management and employees appraised of the latest regulatory updates. The Company shall prepare or update appropriate guidelines or policies to ensure the compliance with regulatory requirements.

E. Company Secretary

Ms. LI Oi Lai ("Ms. LI") acts as the company secretary of the Company. She is a manager of SW Corporate Services Group Limited, a corporate service provider. The primary contact person at the Company with Ms. LI is Mr. LIU Yi (劉藝), the secretary to the Board and assistant to the CEO of the Company.

Ms. LI is responsible for providing advice to the Board on corporate governance matters. Ms. LI has confirmed that she has taken no less than 15 hours of relevant professional training during the Period.

F. External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company, Ernst & Young, about their reporting responsibilities on the Company's financial statements for the Period is set out in the section headed "Independent Auditor's Report" in this annual report.

The fees paid/payable to Ernst & Young in respect of audit services for the year ended 31 December 2016 are RMB1.9 million. Ernst & Young did not provide non-audit services to the Company during the year ended 31 December 2016.

G. Communications with Shareholders and Investors

The Company considers that effective communication with shareholders (both individual and institutional, and in appropriate circumstances, the investment community at large) is essential for enhancing investor relations and ensuring ready, equal and timely access to balanced and understandable information about the Company (including financial performance, strategic goals and plans, material developments and governance) by investors.

The Company maintains a website at www.huaxialihong.com as a communication platform with Shareholder and investors, where information and updates on the Company's business developments and operations and other information are available for inspection for public access.

The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. Board members, in particular, the chairmen of Board committees or their delegates, appropriate management executives and external auditors will use all reasonable efforts to attend annual general meetings and to answer shareholders' questions.

H. Shareholders' Rights

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at Shareholders' meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company (www.huaxialihong.com) and the Stock Exchange after each Shareholders' meeting. The Articles allow a Shareholder entitled to attend and vote at a general meeting to appoint a proxy, who need not be a Shareholder, to attend the meeting and vote thereat on his/her/its behalf.

Pursuant to the Articles, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

There is no provision allowing Shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

With respect to the Shareholders' right in proposing persons for election as Directors, please refer to the procedures available on the website of the Company.

During the Period, the Company has not made any changes to the Articles. An up-to-date version of the Articles is available on the websites of the Company and the Stock Exchange.

Shareholders may refer to the Articles for further details of the rights of Shareholders.

Directors' Report

The Board is pleased to present the Directors' Report of the year 2016 together with the audited consolidated financial statements of the Group for the year.

Principal Business Activities

The Company was incorporated in the Cayman Islands on 29 July 2015 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company is an investment holding company.

An analysis of the Company's revenue and operating profit for the period by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and Note 5 to the consolidated financial statements.

Business Review

A review of the Group's business during the year, which includes a discussion of the principal risks and uncertainties facing the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, principal risks and uncertainties of the Group's business, and an indication of likely future developments in the Group's business, could be found in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" in this annual report. In addition, a discussion on relationships with its key stakeholders is included in the sections headed "Management Discussion and Analysis" and "Corporate Governance Report" in this annual report. The review forms part of this directors' report.

Financial Summary

A summary of the published results and assets, liabilities and non-controlling interests of the Group, for the last four financial years is set out on page 6 of this annual report.

Results and Dividends

The results of the Company for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss on page 49 of this annual report.

The Board recommends the payment of a final dividend of RMB0.025 per share in respect of the year ended 31 December 2016 to shareholders whose names appear on the register of members of the Company on Monday, 15 May 2017. The proposed final dividend will be paid on or about Wednesday, 21 June 2017, subject to approval at the AGM. The proposed final dividend shall be declared in RMB and paid in Hong Kong dollars. The final dividend payable in Hong Kong dollars will be converted from RMB at the average middle rate of RMB to Hong Kong dollars as announced by the People's Bank of China for the period from Thursday, 27 April 2017 to Friday, 5 May 2017.

Closure of the Register of Members

The register of members of the Company will be closed during the following periods:

(i) from Thursday, 27 April 2017 to Friday, 5 May 2017, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Wednesday, 26 April 2017; and

(ii) from Thursday, 11 May 2017 to Monday, 15 May 2017, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Wednesday, 10 May 2017.

Directors' Report

Share Capital

Details of the movements in the share capital of the Company are set out in Note 28 to the financial statements.

Equity-linked Agreements

During the year, the Company did not enter into any equity-linked agreement.

Environmental Policies and Performance

The Group is highly aware of the importance of environmental protection and has not noted any material in compliance with any relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. During the production process, the Group has implemented environmental protection measures, including procedures related to energy use control, waste water and waste air discharge management. The Group has also encouraged staff to be environment friendly at work by consuming the electricity and paper according to actual needs, so as to reduce energy consumption and minimize unnecessary waste.

Purchase, Sale or Redemption of Shares of the Company

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any shares of the Company for 2016.

Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 52 of this annual report and Note 29 to the financial statements, respectively.

As at 31 December 2016, the Company's distributable reserves were RMB63.8 million.

Donations

The Group did not make any charitable donations during the year (2015: nil).

Borrowings

Details of the borrowings are set out in the section headed "Management Discussion and Analysis" in this annual report and Note 26 to the consolidated financial statements.

Directors

During the Period and up to the date of this annual report, directors of the Company were as follows:

Executive Directors

Mr. LI Xiangli
Ms. ZHANG Aiying
Mr. LIU Yi (劉翊)

Non-Executive Director

Mr. WANG Gang

Independent Non-Executive Directors

Mr. YANG Rongbing
Mr. WANG Zichen
Mr. ZHAO Hong

Biographical Details of the Directors and the Senior Management

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out on pages 9 to 14 in the section headed "Profile of Directors and Senior Management" to this annual report.

Directors' Service Contracts

As at 31 December 2016, 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). The directors' remuneration is determined with references to directors' duties and responsibilities, individual performance and the results of the Group.

Executive Directors

Each of our executive Directors has entered into a service contract with our Company pursuant to which he/she agreed to act as an executive Director for an initial term of three years with effect from 13 January 2016.

Non-executive Directors and Independent non-executive Directors

Our non-executive Director has entered into a letter of appointment with our Company pursuant to which he has been appointed for an initial term of three years commencing from 13 January 2016.

Each of our Independent non-executive Directors has entered into a letter of appointment with our Company pursuant to which he has been appointed for an initial term of three years commencing from 18 June 2016.

Our non-executive Director is not entitled to any director's fee. Each of our Independent non-executive Directors is entitled to a director's fee of HK$100,000 per annum.

Confirmation of Independence of Independent Non-Executive Directors

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive directors and the Company considers that each of the independent non-executive directors, namely Mr. ZHAO Hong, Mr. YANG Rongbing and Mr. WANG Zichen, is independent.

Directors' Report

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 remuneration (including fees, salaries and other benefits, performance-related bonuses and pension scheme contributions) paid to the Directors in aggregate for the year ended 31 December 2016 was approximately RMB2.7 million.

The remuneration (including salaries and other benefits, performance-related bonuses and pension scheme contributions) paid to our Group's five highest paid individuals in aggregate for the year ended 31 December 2016 was approximately RMB3.6 million.

For the year ended 31 December 2016, no emoluments were paid by our Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining our Group or as compensation for loss of office. None of the Directors has waived any emoluments for the year ended 31 December 2015.

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in Notes 8 and 9 to the consolidated financial statements.

Except as disclosed above, no other payments have been made or are payable, for the year ended 31 December 2016, by our Group to or on behalf of any of the Directors.

Permitted Indemnity Provision

In accordance with the definition of section 469 of the Companies Ordinance, the permitted indemnity provision in relation to the director's and officer's liability insurance was effective in 2016 and remained valid until the date of this annual report.

Directors' Interests in Transactions, Arrangements and Contracts

No transactions, arrangements or contract of significance to the business of the Group which the Company or any of its subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report

Competing Business

During the year, none of the Directors or the controlling shareholders of the Company or their respective associates are considered to be interested in businesses which compete or are likely to compete, either directly or indirectly, with our core businesses.

Deed of Non-Competition

Reference is made to the non-competition undertakings given by the Controlling Shareholders in favour of the Company disclosed in the Prospectus. The Controlling Shareholders have confirmed to the Company that they have complied with the non-competition undertakings during the Period. The independent non-executive Directors have conducted such review for the Period, and also reviewed the relevant undertakings and are satisfied that such undertakings have been complied with.

Pension Scheme

Details of the pension scheme of the Company are set out in the paragraph headed "Social pension plans" in Note 2.4 to the financial statements.

Option Scheme

As at 31 December 2016, the Company had not adopted any share option scheme under Chapter 17 of the Listing Rules.

Management Contracts

No contracts concerning the management or administration of the whole or any substantial part of the business of the Group were entered into or subsisted during the year.

Arrangements for the Directors to Purchase Shares or Debentures

At no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouses or children under 18 years of age, nor were there any such rights exercised by them. Also, there was no arrangement to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries is a party that would enable the directors to acquire such rights in any other body corporate.

Directors' and Chief Executives' Interests and/or Short Positions in the Shares, Underlying Shares and Debentures of the Company or Any of Its Associated Corporations

As at 31 December 2016, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of issued share capital of the Company
Mr. LI Xiangli *(Notes 2, 3, 4)*	Interests held jointly with another person Interests of a controlled corporation Interests of spouse	210,930,000 (L)	52.73%
Ms. ZHANG Aiying *(Notes 2, 4, 5)*	Interests held jointly with another person Interests of a controlled corporation Interests of spouse	210,930,000 (L)	52.73%
Mr. LIU Yi (劉翊) *(Notes 2, 6)*	Interests held jointly with another person Interests of a controlled corporation	210,930,000 (L)	52.73%

Notes:

(1) The letter "L" denotes the person's long position in our Shares.

(2) On 31 January 2016, Mr. LI Xiangli, Ms. ZHANG Aiying and Mr. LIU Yi 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 three years ended 31 December 2013, 2014 and 2015 and continue after the date of the deed. Pursuant to the deed, Ms. ZHANG Aiying and Mr. LIU Yi 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 in the section headed "Relationship with Controlling Shareholders – Our Controlling Shareholders Acting in Concert" in the Prospectus. By virtue of the SFO, Mr. LI Xiangli, Ms. ZHANG Aiying and Mr. LIU Yi are deemed to be interested in our Shares which are interested by each other.

(3) Leon Cornerstone Investment Holding Limited ("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.

(4) Ms. ZHANG Aiying is the spouse of Mr. LI Xiangli. 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.

(5) Swan Stone Investment Holding Limited ("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 Investment Holdings Limited ("Hawk Flying") is beneficially and wholly-owned by Mr. LIU Yi. By virtue of the SFO, Mr. LIU Yi is deemed to be interested in our Shares held by Hawk Flying.

Save as disclosed above, as at 31 December 2016, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests in the Shares

As at 31 December 2016, the following persons (other than the Directors or the chief executive of the Company) have interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Nature of Interest	Number of Shares	Approximate percentage of issued share capital of the Company
Ms. WEI Yajuan *(Note 2)*	Interests of spouse	210,930,000 (L)	52.73%
Leon Investment *(Note 3)*	Beneficial owner	126,090,000 (L)	31.52%
Swan Stone *(Note 4)*	Beneficial owner	49,290,000 (L)	12.32%
Hawk Flying *(Note 5)*	Beneficial owner	35,550,000 (L)	8.89%
China Certification & Inspection Group Co., Ltd. (中國檢驗認證（集團）有限公司) ("CCIC") *(Note 6)*	Interests of a controlled corporation	46,500,000 (L)	11.63%
China Inspection Company Limited (中國檢驗有限公司) ("CIC") *(Note 6)*	Interests of a controlled corporation	46,500,000 (L)	11.63%
China Dragon Inspection & Certification (H.K.) Limited ("China Dragon") *(Note 6)*	Beneficial owner	46,500,000 (L)	11.63%
Mr. LI Dexin *(Note 7)*	Interests of a controlled corporation	23,700,000 (L)	5.93%
New Virtue Investment Holding Limited ("New Virtue") *(Note 7)*	Beneficial owner	23,700,000 (L)	5.93%
Ms. ZHENG Guangping *(Note 8)*	Interests of spouse	23,700,000 (L)	5.93%
中國重型汽車集團有限公司 *(Note 9)*	Interests of a controlled corporation	20,408,000 (L)	5.10%
Sinotruk (BVI) Limited *(Note 9)*	Interests of a controlled corporation	20,408,000 (L)	5.10%
中國重汽（香港）有限公司 *(Note 9)*	Interests of a controlled corporation	20,408,000 (L)	5.10%
中國重汽（香港）國際資本有限公司 *(Note 9)*	Interests of a controlled corporation	20,408,000 (L)	5.10%
中國重汽（香港）投資控股有限公司 *(Note 9)*	Beneficial owner	20,408,000 (L)	5.10%

Notes:

(1) The letter "L" denotes the person's long position in our Shares.

(2) Ms. WEI Yajuan is the spouse of Mr. LIU Yi. By virtue of the SFO, Ms. WEI Yajuan is deemed to be interested in our Shares which are interested by Mr. LIU Yi.

(3) 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.

(4) 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.

(5) Hawk Flying is beneficially and wholly-owned by Mr. LIU Yi. By virtue of the SFO, Mr. LIU Yi is deemed to be interested in our Shares held by Hawk Flying.

(6) 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.

(7) 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.

(8) 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.

(9) 中國重汽（香港）投資控股有限公司 directly holds 20,408,000 Shares. 中國重汽（香港）投資控股有限公司 is a wholly-owned subsidiary of 中國重汽（香港）國際資本有限公司. 中國重汽（香港）國際資本有限公司 is a wholly-owned subsidiary of 中國重汽（香港）有限公司, which in turn 51% of its interest is beneficially owned by Sinotruk (BVI) Limited. Sinotruk (BVI) Limited is a wholly-owned subsidiary of 中國重型汽車集團有限公司.

Save as disclosed above, as at 31 December 2016, our Directors or chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has an interest or short position in the Shares or the underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

Directors' Report

Public Float

Based on the information publicly available to the Company and as far as the Directors are aware as at the date of this directors' report, at least 25% of the total issued share capital of the Company is held by the public pursuant to the Listing Rules.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association, or the laws of Hong Kong, which would oblige the Company to offer new shares on a prorate basis to existing shareholders.

Major Customers and Suppliers

The customer base of the Company mainly consists of state-owned and privately-run coal mining companies, coal distribution companies, and power generation companies. Customers of the Company also include other general customers who engage us for specific services on a service-order basis. Our suppliers include port companies, sampling equipment companies, third-party labor dispatch providers and landlords.

In the year under review, the Group's largest customer accounted for approximately 53.4% of the Group's total revenue. The Group's five largest customers accounted for approximately 63.8% of the Group's total revenue.

In the year under review, the Group's largest supplier accounted for approximately 52.6% of the Group's total purchase. The Group's five largest suppliers accounted for approximately 73.4% of the Group's total purchase.

As far as the Directors are aware, none of the Directors, their associates or shareholders holding more than 5% shares of the Company had any interest in the five largest customers or five largest suppliers of the Group.

Relationship with Customers and Suppliers

Our business relationship with our customers has proven to be lasting. 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. In the meantime, we have an experienced sales and marketing team in each of our service centers to better understand and serve the needs of our customers.

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. 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.

Directors' Report

Employees

As of 31 December 2016, the Group had 836 employees in total. The Group's 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.

For the year, the Company did not experience any strikes or significant labor disputes which materially affected the operation of the Company. The Company maintained good relationship with its employees.

Connected Transactions

During the year, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules.

Save as disclosed under the section headed "Related Party Transactions" stated in Note 33 to the consolidated financial statements, no contract of significance in relation to the Group's business to which the Group was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during the year ended 31 December 2016.

Related Party Transactions

During the year, certain related parties entered into transactions with us which are disclosed in Note 33 "Related Party Transactions" to the consolidated financial statements of the Group. The Board confirmed that none of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

Use of Proceeds from the Global Offering

The Company was listed on the Stock Exchange on 12 July 2016. We received net proceeds (after deduction of underwriting commission and related costs and expenses) from the global offering of approximately RMB54.6 million. As at the date of this directors' report, we has partially utilised such proceeds in accordance with the use of proceeds as disclosed in the Prospectus.

	Net proceeds from the Company's global offering ***(in RMB millions)***	
Use of proceeds	**Available**	**Utilised**
To construct new service facilities at Huanghua port	16.4	2.5
To construct new service facilities at Tangshan port	13.7	5.8
To construct new service facilities at Tianjin port	10.9	–
To construct new service facilities at Qinhuangdao port	8.2	–
To fund general corporate purposes	5.4	–

The unutilized net proceeds have been placed with licensed banks as interest bearing deposits.

Directors' Report

Compliance with Laws and Regulations

For the year, the Company is in compliance with the relevant laws and regulations that have a significant impact on the Company in all material respects.

Events after the Period

The Group had no significant events after the reporting period up to the date of this annual report.

Audit Committee

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules. It comprises three members, including Mr. YANG Rongbing (chairman), Mr. WANG Zichen and Mr. ZHAO Hong, all of whom are independent non-executive Directors (including one independent non-executive director who owns appropriate professional qualifications or expertise in accounting or relevant finance management).

The Audit Committee has discussed with the management and reviewed this annual report and the financial results of the Group for the year. It also discussed with the management and reviewed the financial controls, risk management and internal control system of the Company.

The consolidated financial statements of the Company which are prepared in accordance with International Financial Reporting Standards for the year have been audited by Ernst & Young, the auditor of the Company.

Auditor

The Company appointed Ernst & Young as the auditor of the Company in 2016. The proposal of re-appointing Ernst & Young as the auditor of the Company will be put forward at the AGM for consideration and approval.

The Publication of the Annual Report

This annual report, in both English and Chinese versions, is available on the Company's website at www.huaxialihong.com and the website of the Stock Exchange at www.hkexnews.hk.

Shareholders who have chosen or have been deemed consent to receive the corporate communications of the Company via the Company's website, and who for any reason have difficulty in receiving or gaining access to the corporate communications posted on the Company's website will promptly upon request be sent the annual report in printed form free of charge. Shareholders may at any time change their choice of the means of receipt and language(s) of corporate communications.

Shareholders may request for printed copy of the annual report or change their choice of means of receipt and language of the corporate communications by sending at least a 7-day notice in writing to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or by sending an email to hkinfo@computershare.com.hk.

On behalf of the Board
Mr. LI Xiangli
Executive Director

Hong Kong, 14 March 2017

Independent Auditor's Report

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To the shareholders of China Leon Inspection Holding Limited
(Incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of China Leon Inspection Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 49 to 114, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of trade and bills receivables	
As at 31 December 2016, the Group had trade and bills receivables of RMB22,876,000 before a provision for impairment of RMB817,000. The determination as to whether a trade or bill receivable is collectable and whether a provision for impairment is required, involves management judgement. Management considers specific factors including the age of the balance, location of customers, recent historical payment patterns and other available information concerning the creditworthiness of the customers. The accounting policies and disclosures for impairment of trade and bills receivables are included in notes 3 and 20 to the financial statements.	In order to evaluate management's judgements, we assessed whether balances were overdue by testing the aged analysis prepared by management. For the overdue balances, we then considered relevant information impacting on their recovery, including the customer's historical payment patterns, evidence of any disputes and whether any post year-end payments had been received up to the date of completing our audit procedures. For the trade and bills receivable balances where a provision for impairment was recognised, we gained an understanding of the rationale behind management's judgement and evaluated the provision made.
Impairment of property, plant and equipment	
As at 31 December 2016, the Group had property, plant and equipment of RMB60,666,000 before provisions for impairment of RMB1,028,000, and these property, plant and equipment were considered significant to the financial statements. Management's assessment for impairment is complex and highly judgemental and is based on assumptions, including the forecasted cash flows and the discount rate, which are affected by expected future market or economic conditions. The accounting policies and disclosures for impairment of property, plant and equipment are included in notes 3 and 13 to the financial statements.	Our audit procedures included evaluating the assumptions and methodologies and the discount rate used by the Group. We assessed the forecast revenue growth and profit margins used in the impairment assessment and the adequacy of the Group's disclosures about the impairments of property, plant and equipment.

Other information included in the Annual Report

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Tong Ka Yan Augustine.

Ernst & Young
Certified Public Accountants
Hong Kong
14 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**186,466**	155,789
Cost of sales		**(90,107)**	(75,340)
Gross profit		**96,359**	80,449
Other income and gains	5	**1,413**	1,209
Selling and distribution expenses		**(2,053)**	(1,374)
Administrative expenses		**(53,171)**	(45,548)
Other expenses		**(2,938)**	(602)
Finance costs	7	**(1,559)**	(1,111)
Share of profit of a joint venture		**7**	–
PROFIT BEFORE TAX	6	**38,058**	33,023
Income tax expense	10	**(4,430)**	(5,448)
PROFIT FOR THE YEAR		**33,628**	27,575
Attributable to:			
Owners of the parent		**33,628**	27,607
Non-controlling interests		**–**	(32)
		33,628	27,575
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**2,473**	753
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**2,473**	753
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**36,101**	28,328
Attributable to:			
Owners of the parent		**36,101**	28,360
Non-controlling interests		**–**	(32)
		36,101	28,328
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	12	**RMB9.69 cent**	RMB9.20 cent

Consolidated Statement of Financial Position

31 December 2016

	Notes	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**59,638**	35,455
Investment properties	14	**22,282**	23,493
Prepaid land lease payments	15	**10,370**	10,572
Goodwill	16	**572**	572
Intangible assets	17	**820**	50
Investment in a joint venture	18	**1,507**	–
Deferred tax assets	19	**1,828**	2,494
Prepayments, deposits and other receivables	21	**15,112**	322
Total non-current assets		**112,129**	72,958
CURRENT ASSETS			
Trade and bills receivables	20	**22,059**	29,039
Prepayments, deposits and other receivables	21	**9,308**	9,339
Available-for-sale investments	22	**9,000**	26,000
Pledged deposits	23	**812**	33
Cash and cash equivalents	23	**63,450**	58,147
Total current assets		**104,629**	122,558
CURRENT LIABILITIES			
Trade payables	24	**4,615**	4,096
Advance from customers, other payables and accruals	25	**28,557**	75,558
Interest-bearing bank loan	26	**–**	30,000
Tax payable		**226**	4,603
Total current liabilities		**33,398**	114,257
NET CURRENT ASSETS		**71,231**	8,301
TOTAL ASSETS LESS CURRENT LIABILITIES		**183,360**	81,259

	Notes	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing other borrowing	26	10,000	20,000
Interest payable	27	1,210	260
Deferred tax liabilities	19	500	–
Total non-current liabilities		11,710	20,260
Net assets		171,650	60,999
EQUITY			
Equity attributable to owners of the parent			
Share capital	28	131	65
Reserves	29	171,519	60,773
		171,650	60,838
Non-controlling interests		–	161
Total equity		171,650	60,999

LI Xiangli
Director

LIU Yi
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the parent								
	Share capital RMB'000	Contributed surplus *(i)* RMB'000	*Capital reserve RMB'000	*Statutory reserves RMB'000	*Exchange fluctuation reserve RMB'000	*Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 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 related to 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
Deem distribution *(ii)*	–	–	(47,877)	–	–	–	(47,877)	–	(47,877)
Profit distribution *(iii)*	–	–	–	–	–	(81,000)	(81,000)	–	(81,000)
Transfer from retained profits	–	–	–	543	–	(543)	–	–	–
As at 31 December 2015 and 1 January 2016	**65**	**–**	**18,374**	**8,490**	**753**	**33,156**	**60,838**	**161**	**60,999**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**33,628**	**33,628**	**–**	**33,628**
Other comprehensive income for the year:									
Exchange differences related to foreign operations	**–**	**–**	**–**	**–**	**2,473**	**–**	**2,473**	**–**	**2,473**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**2,473**	**33,628**	**36,101**	**–**	**36,101**
Issue of shares *(note 28)*	**66**	**–**	**84,290**	**–**	**–**	**–**	**84,356**	**–**	**84,356**
Share issue expenses	**–**	**–**	**(9,645)**	**–**	**–**	**–**	**(9,645)**	**–**	**(9,645)**
Disposal of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(161)**	**(161)**
Transfer from retained profits	**–**	**–**	**–**	**2,936**	**–**	**(2,936)**	**–**	**–**	**–**
As at 31 December 2016	**131**	**–**	**93,019**	**11,426**	**3,226**	**63,848**	**171,650**	**–**	**171,650**

* As at 31 December 2016, these reserve accounts comprise the consolidated reserves of RMB171,519,000 (31 December 2015: RMB60,773,000) in the consolidated statement of financial position.

(i) The Group's contributed surplus represents the issued capital of Beijing Huaxia Lihong Commodity Inspection Co., Ltd. ("Beijing Huaxia Lihong") as at 1 January 2015.

(ii) Pursuant to the reorganisation arrangements prior to the Company's listing on The Stock Exchange of Hong Kong Limited, each of LI Xiangli, ZHANG Aiying, 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.

(iii) Prior to the incorporation of the Company, the main operating activities were carried out by Beijing Huaxia Lihong and its subsidiaries. During the year ended 31 December 2015, Beijing Huaxia Lihong distributed retained profits of RMB81,000,000 to the then shareholders.

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**38,058**	33,023
Adjustments for:			
Share of profit of a joint venture		**(7)**	–
Finance costs	7	**1,559**	1,111
Depreciation of property, plant and equipment	6	**6,282**	7,159
Depreciation of investment properties	6	**1,211**	808
Amortisation of prepaid land lease payments	6	**286**	295
Amortisation of intangible assets	6	**24**	7
Loss on disposal of items of property, plant and equipment, net	6	**53**	27
Gain on disposal of available-for-sale investments	6	**(221)**	(901)
Initial public offering related fee		**9,567**	9,962
Impairment/(reversal of impairment) of trade receivables	6	**508**	(7)
Impairment of construction in progress	6	**1,028**	–
		58,348	51,484
Decrease in inventories		**–**	305
Decrease/(increase) in trade and bills receivables		**6,922**	(11,515)
Increase in prepayments, deposits and other receivables		**(1,967)**	(1,724)
Increase in trade payables		**519**	1,891
Increase/(decrease) in advance from customers, other payables and accruals		**(5,495)**	1,308
Cash generated from operations		**58,327**	41,749
Income tax paid		**(8,068)**	(2,352)
Net cash flows from operating activities		**50,259**	39,397

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2016

	Notes	**2016** **RMB'000**	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(35,406)**	(17,750)
Payment for prepaid land lease payments		**–**	(3,197)
Payment for intangible assets		**(794)**	–
Proceeds from disposal of items of property, plant and equipment		**38**	18
Purchase of available-for-sale investments		**(63,500)**	(136,210)
Disposal of available-for-sale investments		**80,500**	141,710
Gain on disposal of available-for-sale investments	6	**221**	901
Purchase of interests in a joint venture		**(1,500)**	–
Disposal of a subsidiary		**(161)**	–
Decrease/(increase) in pledged deposits		**(779)**	900
Net cash flows used in investing activities		**(21,381)**	(13,628)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**84,356**	51,238
New bank loan and other borrowing		**–**	50,000
Repayment of bank loan and other borrowing		**(40,000)**	–
Interest paid		**(609)**	(823)
Distribution		**–**	(81,000)
Payment for initial public offering related fee		**(21,918)**	(7,856)
Repayment of deemed distribution *(i)*		**(47,877)**	–
Net cash flows (used in)/from financing activities		**(26,048)**	11,559
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,830**	37,328
Effect of foreign exchange rate changes, net		**2,473**	753
Cash and cash equivalents at beginning of year		**58,147**	20,066
CASH AND CASH EQUIVALENTS AT END OF YEAR		**63,450**	58,147

(i) Pursuant to the reorganisation arrangements prior to the Company's listing on The Stock Exchange of Hong Kong Limited, each of LI Xiangli, ZHANG Aiying, 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.

1. Corporate and Group Information

China Leon Inspection Holding Limited (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's shares have been listed on The Stock Exchange of Hong Kong Limited from 12 July 2016.

The Company is an investment holding company. During the year, the Company and its subsidiary (collectively referred to as the "Group") are principally engaged in the testing and inspection of coal and coke in the People's Republic of China (the "PRC").

In the opinion of the directors, the Company were under the control of LI Xiangli (李向利) and ZHANG Aiying (張愛英). LI Xiangli and ZHANG Aiying are spouses.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name*	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China Leon Inspection Holding (BVI) Limited	British Virgin Island	US$1.00	100	–	Investment holding
Huaxia Leon Inspection Limited	The PRC Hong Kong	HK$100	–	100	Investment holding
Beijing Huaxia Lihong (北京華夏力鴻商品檢驗有限公司)	The PRC Mainland China	RMB50,000,000	–	100	Coal inspection
Qinhuangdao Lihong Coal Testing Co., Ltd. (秦皇島力鴻煤炭檢測有限公司)	The PRC Mainland China	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)	The PRC Mainland China	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)	The PRC Mainland China	RMB1,000,000	–	100	Coal and coke inspection

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Name*	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Nanjing Lihong Coal Testing Co., Ltd. (南京力鴻煤炭檢測有限公司)	The PRC Mainland China	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)	The PRC Mainland China	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)	The PRC Mainland China	RMB3,000,000	–	100	Coal inspection technique advisory service
Hunan Lihong Coal Testing Co., Ltd. (湖南力鴻煤炭檢測有限公司)	The PRC Mainland China	RMB3,000,000	–	100	Coal, coke and minerals testing and inspection
Zhuhai Lidaohongtu Coal Testing Technology Services Co., Ltd. (珠海力道鴻圖煤炭檢測技術服務有限公司)	The PRC Mainland China	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)	The PRC Mainland China	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)	The PRC Mainland China	RMB10,000,000	–	100	Scientific research, technique service and business service

* The English names of the companies registered in the PRC represent the best efforts of the management of the Company in directly translating the Chinese names of the companies as no English names have been registered.

All these companies were incorporated with limited liability.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and interpretations) issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments, which has been measured at fair value. These financial statements are 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 (collectively referred to as the "Group") for the year ended 31 December 2016. 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 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.

2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs

Except for the amendments to IFRS 10, IFRS 12 and IAS 28, amendments to IFRS 11, IFRS 14, amendments to IAS 16 and IAS 38, amendments to IAS 16 and IAS 41, amendments to IAS 27 (2011), and *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

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 amendments have had no significant impact on the Group's financial statements.

2.3 Issued but not Yet Effective International Financial Reporting Standards

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IAS 40	*Transfers of Investment Property*[2]
Annual Improvements 2014-2016 Cycle	Amendments to a number of IFRSs[2]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 Issued but not Yet Effective International Financial Reporting Standards (continued)

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 2016, 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 all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(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.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

2.3 Issued but not Yet Effective International Financial Reporting Standards (continued)

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 April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

IFRS 16 replaces IAS 17 *Leases*, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease,* SIC-Int 15 *Operating Leases – Incentives* and SIC-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2.4 Summary of Significant Accounting Policies

Investment in a joint venture

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

The Group's investment in a joint venture is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of the joint venture is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's investment in the joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the joint venture is included as part of the Group's investment in the joint venture.

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.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

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.

2.4 Summary of Significant Accounting Policies (continued)

Fair value measurement

The Group measures its available-for-sale investments at fair value at the end of each reporting period. 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.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, 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

2.4 Summary of Significant Accounting Policies (continued)

Related parties (continued)

(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; *(If the Group is itself such a plan)* and the sponsoring employers of the post-employment benefit plan;
(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. 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.

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

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%

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

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 represents a building 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.

2.4 Summary of Significant Accounting Policies (continued)

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 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.

2.4 Summary of Significant Accounting Policies (continued)

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.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets

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

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.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

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 the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of 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 and other payables, interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities (continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings 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.

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 that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of 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.

2.4 Summary of Significant Accounting Policies (continued)

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.

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

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 value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the 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 and coke testing and inspection 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 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.

2.4 Summary of Significant Accounting Policies (continued)

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 are recognised as a liability when they are approved by the shareholders in a general meeting.

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.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. Significant Accounting 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.

3. Significant Accounting Judgements and Estimates (continued)

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.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

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 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

During the year ended 31 December 2016, revenue generated from one of the Group's customers accounting for 10% or more of the Group's total revenue was RMB99,520,000 (Year ended 31 December 2015: RMB82,032,000).

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:

	2016	2015
	RMB'000	*RMB'000*
Revenue		
Testing services	**151,308**	126,114
Surveying services	**25,832**	21,814
Witnessing and ancillary services	**9,326**	7,739
Others	**–**	122
	186,466	155,789
Other income		
Bank interest income	**29**	63
Government grants	**528**	149
Rental income	**591**	–
	1,148	212
Gains		
Gain on disposal of available-for-sale investments	**221**	901
Others	**44**	96
	265	997
	1,413	1,209

6. Profit before Tax

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

	Notes	2016 RMB'000	2015 RMB'000
Cost of services provided		**90,107**	75,178
Depreciation of property, plant and equipment	13	**6,282**	7,159
Depreciation of investment properties	14	**1,211**	808
Amortisation of prepaid land lease payments	15	**286**	295
Amortisation of intangible assets	17	**24**	7
Research and development costs:			
Current year expenditure		**4,318**	7,079
Minimum lease payments under operating leases:			
Land and buildings		**6,333**	5,524
Auditor's remuneration		**1,916**	2,500
Employee benefit expenses (including directors' and the chief executive's remuneration):			
Wages and salaries		**47,629**	39,714
Pension scheme contributions		**4,759**	5,269
Welfare and other expenses		**8,981**	8,447
		61,369	53,430
Impairment of trade receivables	20	**650**	228
Reversal of impairment of trade receivables	20	**(142)**	(235)
		508	(7)
Impairment of construction in progress	13	**1,028**	–
Bank interest income		**(29)**	(63)
Loss on disposal of items of property, plant and equipment, net		**53**	27
Gain on disposal of available-for-sale investments		**(221)**	(901)

7. Finance Costs

An analysis of financial costs is as follows:

	2016 RMB'000	2015 RMB'000
Interest on a bank loan and an other borrowing wholly repayable within five years	**1,559**	1,111

8. Directors' and Chief Executive's Remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of information about Benefits of Directors) Regulation, is as follows:

As the Company was incorporated on 29 July 2015 and did not commence any business or operation apart from the reorganisation, it did not appoint any director, chief executive officer or independent non-executive director during 2015.

In January 2016, LI Xiangli, ZHANG Aiying and LIU Yi were appointed as executive directors of the Company, WANG Gang was appointed as a non-executive director of the Company. In June 2016, YANG Rongbing, WANG Zichen and ZHAO Hong were appointed as independent non-executive directors of the Company.

Certain of the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries in prior years. The remuneration of each of the directors as recorded in the financial statements of the Company or these subsidiaries is set out below:

	2016	2015
	RMB'000	*RMB'000*
Fees	**267**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**2,301**	1,845
Performance related bonuses	**–**	700
Pension scheme contributions	**141**	141
	2,442	2,686
	2,709	2,686

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2016	2015
	RMB'000	*RMB'000*
YANG Rongbing	**89**	–
ZHAO Hong	**89**	–
WANG Zichen	**89**	–
	267	–

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

8. Directors' and Chief Executive's Remuneration (continued)

(b) Executive directors, a non-executive director and the chief executive

2016

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
Executive directors					
LI Xiangli (Chief executive)	–	1,103	–	47	1,150
LIU Yi	–	659	–	47	706
ZHANG Aiying	–	539	–	47	586
	–	2,301	–	141	2,442
Non-executive director					
WANG Gang	–	–	–	–	–
	–	2,301	–	141	2,442

2015

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
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

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. Five Highest Paid Employees

The five highest paid employees during the year included three directors of the Company (2015: Nil), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2015: five) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Salaries, allowances and benefits in kind	**1,019**	2,762
Performance related bonuses	**–**	930
Pension scheme contributions	**94**	235
	1,113	3,927

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Nil to HK$1,000,000	**2**	3
HK$1,000,001 to HK$1,500,000	**–**	2
	2	5

During the year, 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 (2015: Nil).

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 years ended 31 December 2016 and 2015.

The Company's subsidiaries incorporated 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 years ended 31 December 2016 and 2015.

	2016	2015
	RMB'000	*RMB'000*
Current income tax		
– Mainland China	**3,264**	5,425
Deferred *(note 19)*	**1,166**	23
Tax charge for the year	**4,430**	5,448

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:

	2016	2015
	RMB'000	*RMB'000*
Profit before tax	**38,058**	33,023
Income tax charge at the statutory income tax rate of 25%	**9,515**	8,256
Effect of preferential income tax rate	**(2,493)**	(3,421)
Tax losses not recognised	**400**	1,175
Tax losses utilised from previous periods	**(2,440)**	–
Expenses not deductible for tax	**286**	123
Additional tax deduction for research and development expenditure	**(540)**	(696)
Others	**(298)**	11
Tax charge for the year at the effective rate	**4,430**	5,448

11. Distributions and Dividends

The distributions and dividends for the year are set out below:

	2016 *RMB'000*	2015 *RMB'000*
Distributions:		
Cash distributions prior to the reorganisation *(i)*	–	81,000
Dividends:		
Proposed final – RMB0.025 per ordinary share *(ii)*	**10,000**	–
	10,000	81,000

(i) Prior to the incorporation of the Company, the main operating activities were carried out by Beijing Huaxia Lihong and its subsidiaries. During the year ended 31 December 2015, Beijing Huaxia Lihong distributed retained profits of RMB81,000,000 to the then shareholders.

(ii) On 14 March 2017, the board of directors proposed a final dividend of RMB0.025 per share totalling RMB10,000,000 for the year ended 31 December 2016. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. Earnings per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 347,123,287 in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2016 and 2015.

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

	2016 *RMB'000*	2015 *RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**33,628**	27,607

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**347,123,287**	300,000,000

13. Property, Plant and Equipment

	Land and buildings *RMB'000*	Vehicles *RMB'000*	Electronic equipment and others *RMB'000*	Construction in progress *RMB'000*	Leasehold improvements *RMB'000*	Total *RMB'000*
31 December 2016						
At 31 December 2015 and 1 January 2016:						
Costs	2,472	18,682	17,865	17,915	2,517	59,451
Accumulated depreciation	(532)	(12,815)	(9,683)	–	(966)	(23,996)
Net carrying amount	1,940	5,867	8,182	17,915	1,551	35,455
At 1 January 2016, net of accumulated depreciation	1,940	5,867	8,182	17,915	1,551	35,455
Additions	–	2,690	5,825	21,777	1,595	31,887
Disposals	–	–	(91)	–	–	(91)
Transfers *(note 17)*	20,081	–	–	(20,714)	330	(303)
Depreciation provided during the year *(note 6)*	(256)	(2,413)	(2,943)	–	(670)	(6,282)
Impairment *(note 6)*	–	–	–	(1,028)	–	(1,028)
At 31 December 2016, net of accumulated depreciation and impairment	21,765	6,144	10,973	17,950	2,806	59,638
At 31 December 2016:						
Costs	22,553	21,372	23,016	18,978	4,370	90,289
Accumulated depreciation	(788)	(15,228)	(12,043)	–	(1,564)	(29,623)
Impairment	–	–	–	(1,028)	–	(1,028)
Net carrying amount	21,765	6,144	10,973	17,950	2,806	59,638

13. Property, Plant and Equipment (continued)

	Land and buildings *RMB'000*	Vehicles *RMB'000*	Electronic equipment and others *RMB'000*	Construction in progress *RMB'000*	Leasehold improvements *RMB'000*	Total *RMB'000*
31 December 2015						
At 1 January 2015:						
Costs	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	26,762	6,414	8,008	7,041	2,269	50,494
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)
Transfers to the investment properties *(note 14)*	(24,301)	–	–	–	–	(24,301)
Depreciation provided during the year *(note 6)*	(521)	(3,006)	(2,564)	–	(1,068)	(7,159)
At 31 December 2015, net of accumulated depreciation	1,940	5,867	8,182	17,915	1,551	35,455
At 31 December 2015:						
Costs	2,472	18,682	17,865	17,915	2,517	59,451
Accumulated depreciation	(532)	(12,815)	(9,683)	–	(966)	(23,996)
Net carrying amount	1,940	5,867	8,182	17,915	1,551	35,455

The carrying amount of a construction in progress exceeded its recoverable amount of RMB1,028,000 as at 31 December 2016. An impairment loss of RMB1,028,000 was recognised during the year ended 31 December 2016.

At 31 December 2016 and 2015, the Group had not pledged any items of property, plant and equipment.

14. Investment Properties

	2016	2015
	RMB'000	*RMB'000*
Cost:		
At beginning of the year	**25,513**	–
Transfer from owner-occupied property *(note 13)*	**–**	25,513
At end of the year	**25,513**	25,513
Accumulated depreciation:		
At beginning of the year	**2,020**	–
Transfer from owner-occupied property *(note 13)*	**–**	1,212
Depreciation charge for the year *(note 6)*	**1,211**	808
At end of the year	**3,231**	2,020
Net carrying amount:		
At beginning of the year	**23,493**	–
At end of the year	**22,282**	23,493

The Group's investment properties were valued on 31 December 2016 based on valuations performed by Cushman & Wakefield, an independent professionally qualified valuer, at RMB26,530,000 (31 December 2015: 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 statements.

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). The pledge has been relieved along with the repayment of the bank loan during the year ended 31 December 2016.

14. Investment Properties (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

31 December 2016

	Fair value measurement using			
	Quoted prices in active market (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Investment properties	**–**	**–**	**26,530**	**26,530**

31 December 2015

	Fair value measurement using			
	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Investment properties	–	–	27,280	27,280

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

15. Prepaid Land Lease Payments

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Carrying amount at beginning of the year	**10,894**	7,992
Additions	**–**	3,197
Amortisation for the year *(note 6)*	**(286)**	(295)
Carrying amount at end of the year	**10,608**	10,894
Current portion included in prepayments, deposits and other receivables *(note 21)*	**(238)**	(322)
Non-current portion	**10,370**	10,572

16. Goodwill

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
At beginning/end of the year:		
Cost and net carrying amount	**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%. The growth rate used to extrapolate the cash flows of the regional service-rendering unit beyond the five-year period is 2%.

Assumptions were used in the value in use calculation of the cash-generating unit. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

16. Goodwill (continued)

Impairment testing of goodwill (continued)

Budgeted gross margin – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved during the year, 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.

17. Intangible Assets

	Patents *RMB'000*	Software *RMB'000*	Total *RMB'000*
31 December 2016			
Cost at 1 January 2016, net of accumulated amortisation	**9**	**41**	**50**
Additions	**–**	**491**	**491**
Transfer from construction in progress *(note 13)*	**–**	**303**	**303**
Amortisation provided during the year *(note 6)*	**(1)**	**(23)**	**(24)**
At 31 December 2016, net of accumulated amortisation	**8**	**812**	**820**
At 31 December 2016:			
Cost	**13**	**859**	**872**
Accumulated amortisation	**(5)**	**(47)**	**(52)**
Net carrying amount	**8**	**812**	**820**
31 December 2015			
Cost at 1 January 2015, net of accumulated amortisation	11	46	57
Amortisation provided during the year *(note 6)*	(2)	(5)	(7)
At 31 December 2015, net of accumulated amortisation	9	41	50
At 31 December 2015:			
Cost	13	64	77
Accumulated amortisation	(4)	(23)	(27)
Net carrying amount	9	41	50

18. Investment in a Joint Venture

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Share of net assets	**1,507**	–

The Group's trade payable balances due to the joint venture are disclosed in note 24 to the financial statements.

Particulars of the Group's joint venture is as follows:

Name	Issued shares capital	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Guangzhou Lihong Energy Testing Technology Co., Ltd.	RMB3,000,000	Mainland China	50	50	50	Coal, coke and minerals inspection

The following table illustrates the financial statement of the Group's joint venture:

	2016 RMB'000	2015 RMB'000
Share of the joint venture's profit for the year	**7**	–
Share of the joint venture's total comprehensive income	**7**	–

19. Deferred Tax

Deferred tax assets

	Provision for impairment of assets *RMB'000*	Provision for impairment of construction in progress *RMB'000*	Accrued employee benefits *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2015	167	–	2,339	11	2,517
Deferred tax charged/(credited) to profit or loss *(note 10)*	(53)	–	41	(11)	(23)
At 31 December 2015 and 1 January 2016	114	–	2,380	–	2,494
Deferred tax charged/(credited) to profit or loss *(note 10)*	**29**	**148**	**(843)**	**–**	**(666)**
At 31 December 2016	**143**	**148**	**1,537**	**–**	**1,828**

Deferred tax assets have not been recognised in respect of these losses 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.

Deferred tax Liabilities

	2016 **Withholding tax** ***RMB'000***	2015 Withholding tax *RMB'000*
At beginning of the year	**–**	–
Deferred tax credited to profit or loss *(note 10)*	**500**	–
At end of the year	**500**	–

20. Trade and Bills Receivables

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Trade and bills receivables	**22,876**	29,798
Impairment	**(817)**	(759)
	22,059	29,039

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 and bills receivables are non-interest-bearing.

An aged analysis of trade and bills receivables, based on the invoice date and net of provisions, is as follows:

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Within 3 months	**20,390**	22,916
3 to 6 months	**990**	3,435
6 months to 1 year	**539**	2,688
Over 1 year	**140**	–
	22,059	29,039

The movements in provision for impairment of trade receivables are as follows:

	2016 RMB'000	2015 RMB'000
At beginning of the year	**759**	1,103
Impairment losses recognised *(note 6)*	**650**	228
Reversal of impairment *(note 6)*	**(142)**	(235)
Amount written off as uncollectible	**(450)**	(337)
At end of the year	**817**	759

20. Trade and Bills Receivables (continued)

As at 31 December 2016, no provision for individually impaired trade receivables was included in the above provision for impairment of trade receivables.

As at 31 December 2015, included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB319,000 with a carrying amount before provision of RMB557,000.

The individually impaired trade and bills 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 and bills receivables that are not considered to be impaired is as follows:

	As at 31 December 2016 *RMB'000*	As at 31 December 2015 *RMB'000*
Neither past due nor impaired	**14,061**	21,623
Less than 3 months past due	**990**	2,466
3 to 9 months past due	**526**	1,295
	15,577	25,384

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

	As at 31 December 2016	As at 31 December 2015
	RMB'000	*RMB'000*
Prepaid land lease payments *(note 15)*	**238**	322
Prepayments	**20,638**	6,772
Deposits and other receivables	**3,544**	2,567
	24,420	9,661
Portion classified as non-current assets	**(15,112)**	(322)
	9,308	9,339

22. Available-for-sale Investments

	As at 31 December 2016	As at 31 December 2015
	RMB'000	*RMB'000*
Bank financial products, at fair value	**9,000**	26,000

The available-for-sale investments stated at fair value represented financial products issued by banks. The fair values of 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.

23. Cash and Cash Equivalents and Pledged Deposits

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Cash and bank balances	**63,450**	58,147
Time deposits	**812**	33
	64,262	58,180
Less: Time deposits pledged for construction in the process	**(812)**	(33)
Cash and cash equivalents	**63,450**	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 2016 RMB'000	As at 31 December 2015 RMB'000
Within 3 months	**4,487**	4,027
3 to 6 months	**59**	–
6 months to 1 year	**–**	1
1 to 2 years	**7**	61
2 to 3 years	**59**	3
Over 3 years	**3**	4
	4,615	4,096

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

24. Trade Payables (continued)

The amount due to the Group's joint venture included in the trade payables is as follows:

	As at 31 December 2016 **RMB'000**	As at 31 December 2015 *RMB'000*
Joint venture	**326**	–

The above amount is unsecured, non-interest-bearing and has no fixed terms of settlement.

25. Advance from Customers, Other Payables and Accruals

	As at 31 December 2016 **RMB'000**	As at 31 December 2015 *RMB'000*
Advance from customers	**526**	616
Accrued salaries, wages and benefits	**12,185**	17,771
Other taxes payable	**491**	582
Payable to vendors of plant, property and equipment	**13,089**	1,805
Payable to shareholders	**–**	47,877
Others	**2,266**	6,907
	28,557	75,558

Other payables are non-interest-bearing and have no fixed terms of settlement.

26. Interest-bearing Bank Loan and Other Borrowing

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Current		
Bank loan		
– Secured	–	30,000
Non-current		
Other borrowing		
– Unsecured	10,000	20,000
	10,000	50,000

The other borrowing was a loan from an independent third party.

The maturity profile of the other borrowing is as follows:

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Analysed into:		
Bank loan and other borrowing repayable		
Within one year	–	30,000
In the second year	10,000	–
In the third year	–	20,000
	10,000	50,000

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. 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. LI Xiangli and ZHANG Aiying also provided a counter-guarantee to this independent third party. The guarantee has been relieved along with the repayment of the bank loan during the year ended 31 December 2016.

27. Interest Payable

Interest payable will be settled in 2018 along with the repayment of other borrowing.

28. Share Capital

	2016		2015	
	Number of shares '000	Value RMB'000	Number of shares '000	Value RMB'000
Shares				
Issued and fully paid ordinary shares	**400,000**	**131**	10	65

A summary of movements in the Company's share capital is as follows:

	2016		2015	
	Numbers of shares in issue '000	Share capital RMB'000	Numbers of shares in issue '000	Share capital RMB'000
At beginning of the year	**10**	**65**	–	–
Share subdivision *(i)*	**199,990**	**–**	–	–
Capitalisation issue of shares	**100,000**	**33**	–	–
Issue of shares *(ii)*	**100,000**	**33**	10	65
At end of the year	**400,000**	**131**	10	65

(i) As at 18 June 2016, the Company subdivided one share into 20,000 shares and reduced par value from US$1.00 each to US$0.00005 each accordingly. After the share subdivision, total number of issued and fully paid ordinary shares were increased to 200,000,000 shares of US$0.00005 each.

(ii) The Company's shares were listed on The Stock Exchange of Hong Kong Limited on 12 July 2016 and in connection with the Company's global offering, 100,000,000 ordinary shares of US$0.00005 each were issued at a price of HK$0.98 per share for a total cash consideration, before expenses, of HK$98,000,000 (equivalent to RMB84,356,000).

29. Reserves

The amounts of the Group's reserves and the movements therein are presented in the consolidated statements of changes in equity for the current and prior years on page 51 and 52 of these financial statements.

30. Pledge of Assets

Details the Group's pledged assets are included in notes 14 and 26 to the financial statements.

31. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for a term of three or four years.

As at 31 December 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 December 2016	As at 31 December 2015
	RMB'000	*RMB'000*
Within one year	**519**	550
In the second to fifth years, inclusive	**470**	1,048
	989	1,598

(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.

As at 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December 2016	As at 31 December 2015
	RMB'000	*RMB'000*
Within one year	**5,795**	2,886
In the second to fifth years, inclusive	**15,187**	3,145
After five years	**2,733**	1,050
	23,715	7,081

32. Commitments

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitments as at 31 December 2016 and 2015:

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Contracted, but not provided for		
Property, plant and equipment and land use rights	**18,845**	9,982

33. Related Party Transactions

(a) Transaction with related parties during the year:

	2016 RMB'000	2015 RMB'000
Provision of testing service by a joint venture	**308**	–
Loans to a fellow subsidiary *(i)*	**5,000**	–

(i) The loans to a fellow subsidiary were repaid in two months. As at 31 December 2016, there is no outstanding balance with this fellow subsidiary.

(b) Outstanding balances with related parties:

	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
Due to shareholders:		
LI Xiangli and ZHANG Aiying	**–**	35,429
LIU Yi	**–**	7,181
LI Dexin	**–**	4,788
ZHANG Jiaqi	**–**	479
	–	47,877

33. Related Party Transactions (continued)

(c) 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. The guarantee has been relieved along with the repayment of the bank loan during the year ended 31 December 2016.

(d) Compensation of key management personnel of the Group

	2016	2015
	RMB'000	*RMB'000*
Short-term employee benefits	**3,678**	3,427
Pension scheme contributions	**282**	233
	3,960	3,660

In the opinion of the directors, the transaction between the Group and the related party was based on prices mutually agreed between the parties.

In the opinion of the directors, the above related party transaction was conducted in the ordinary course of business.

The related party transactions in respect of items (a) and (c) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

34. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting periods are as follows:

Financial assets

	As at 31 December 2016	As at 31 December 2015
	RMB'000	*RMB'000*
Loans and receivables:		
Trade and bills receivables	**22,059**	29,039
Financial assets included in prepayments, deposits and other receivables	**3,544**	2,567
Pledged deposits	**812**	33
Cash and cash equivalents	**63,450**	58,147
Available-for-sale financial assets:		
Available-for-sale investments	**9,000**	26,000
	98,865	115,786

Financial liabilities

	As at 31 December 2016	As at 31 December 2015
	RMB'000	*RMB'000*
Financial liabilities at amortised cost:		
Trade payables	**4,615**	4,096
Financial liabilities included in advance from customers, other payables and accruals	**15,355**	56,589
Interest-bearing bank loan and other borrowing	**10,000**	50,000
Interest payable	**1,210**	260
	31,180	110,945

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	
	2016	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial assets				
Available-for-sale investments	**9,000**	26,000	**9,000**	26,000
Financial liabilities				
Interest-bearing bank loan and other borrowing	**10,000**	50,000	**10,000**	50,000
Interest payable	**1,210**	260	**1,210**	260
	11,210	50,260	**11,210**	50,260

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade payables and 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 the reporting periods, the finance department analysed the movements in the values of financial instruments and determined the major inputs applied in the valuation.

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 following methods and assumptions were estimated the fair value:

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 2016 was assessed to be insignificant.

The available-for-sale investments stated at fair value at the end of the reporting 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.

35. Fair Value and Fair Value Hierarchy of Financial Instruments (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Available-for-sale investments	**–**	**9,000**	**–**	**9,000**

31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments	–	26,000	–	26,000

35. Fair Value and Fair Value Hierarchy of Financial Instruments (continued)

Fair value hierarchy (continued)

Liabilities for which fair value are disclosed

31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Interest-bearing other borrowing	–	10,000	–	10,000
Interest payable	–	1,210	–	1,210
	–	11,210	–	11,210

31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
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 and bills 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 and reviewing its banking facilities regularly. The Group has not used any interest rate swap to hedge its exposure to interest rate risk.

As at 31 December 2016, the Group's interest-bearing borrowing bore interest at floating rates.

As at 31 December 2015, approximately 40% of the Group's interest-bearing borrowings bore interest at floating rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, 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.

2016

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** *RMB'000*	**Increase/ (decrease) in equity** *RMB'000*
RMB	**1%**	**(199)**	**(169)**
RMB	**(1%)**	**199**	**169**

2015

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax *RMB'000*	Increase/ (decrease) in equity *RMB'000*
RMB	1%	(55)	(47)
RMB	(1%)	55	47

36. Financial Risk Management Objectives and Policies (continued)

Foreign currency risk

The Group's businesses are principally located in Mainland China and substantially all transactions are conducted in RMB. During the year, substantially all of the Group's assets and liabilities were denominated in RMB except that as at 31 December 2016, cash and bank balances of approximately RMB57,916,000 (31 December 2015: Nil) were denominated in Hong Kong dollar. The fluctuations of the exchange rate of RMB against Hong Kong dollar could slightly affect the Group's results of operations.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate of Hong Kong dollar with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets liabilities):

2016

	Increase/ (decrease) in foreign exchange rate %	Increase/ (decrease) in profit before tax *RMB'000*
If RMB weakens against the Hong Kong dollar	**5%**	**1,255**
If RMB strengthens against the Hong Kong dollar	**(5%)**	**(1,255)**

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. As at 31 December 2016 and 2015, the Group had concentration of credit risk as 46% and 54% of its total trade and bills receivables were due from its largest customer and 65% and 74% of its total trade and bills receivables were due from its top five customers, respectively.

36. Financial Risk Management Objectives and Policies (continued)

Credit risk (continued)

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 20 to the financial statements.

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 reporting period, based on the contractual undiscounted payments, is as follows:

31 December 2016

	Within one year *RMB'000*	**In second year** *RMB'000*	**Total** *RMB'000*
Trade payables	**4,615**	**–**	**4,615**
Financial liabilities included in advance from customers, other payables and accruals	**15,355**	**–**	**15,355**
Other borrowing	**–**	**10,000**	**10,000**
Interest payment on other borrowing	**–**	**2,041**	**2,041**
	19,970	**12,041**	**32,011**

31 December 2015

	Within one year *RMB'000*	In third year *RMB'000*	Total *RMB'000*
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 payments on bank and other borrowing	618	2,850	3,468
	91,303	22,850	114,153

36. Financial Risk Management Objectives and Policies (continued)

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 years ended 31 December 2016 and 2015.

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 loan 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 reporting periods are as follows:

	As at 31 December 2016 *RMB'000*	As at 31 December 2015 *RMB'000*
Trade payables	**4,615**	4,096
Other payables and accruals *(note 25)*	**28,031**	74,942
Interest-bearing bank loan and other borrowing	**10,000**	50,000
Interest payable	**1,210**	260
Less: Cash and cash equivalents	**(63,450)**	(58,147)
Net debt	**(19,594)**	71,151
Equity attributable to owners of the parent	**171,650**	60,838
Capital and net debt	**152,056**	131,989
Gearing ratio	**(12.89%)**	53.91%

37. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	As at 31 December 2016 *RMB'000*	As at 31 December 2015 *RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**13**	–
Investment in a subsidiary	**55,570**	51,238
Total non-current assets	**55,583**	51,238
CURRENT ASSETS		
Deposits and other receivables	**51,082**	51
Cash and cash equivalents	**32,458**	–
Total current assets	**83,540**	51
CURRENT LIABILITIES		
Other payables	**6,530**	–
Total current liabilities	**6,530**	–
NET CURRENT ASSETS	**77,010**	51
TOTAL ASSETS LESS CURRENT LIABILITIES	**132,593**	51,289
Net assets	**132,593**	51,289
EQUITY		
Share capital	**131**	65
Reserves	**132,462**	51,224
Total equity	**132,593**	51,289

37. Statement of Financial Position of the Company (continued)

Note:

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

	Capital reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
As at 1 January 2015	–	–	–	–
Capital contribution	51,224	–	–	51,224
As at 31 December 2015 and 1 January 2016	**51,224**	**–**	**–**	**51,224**
Loss for the year	**–**	**–**	**(797)**	**(797)**
Other comprehensive income for the year:				
Exchange differences related to foreign operations	**–**	**7,390**	**–**	**7,390**
Total comprehensive income for the year	**–**	**7,390**	**(797)**	**6,593**
Issue of shares	**84,290**	**–**	**–**	**84,290**
Share issue expenses	**(9,645)**	**–**	**–**	**(9,645)**
As at 31 December 2016	**125,869**	**7,390**	**(797)**	**132,462**

38. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 14 March 2017.