

The following is the text of a report set out on pages I-[1] to I-[40] received from the Company’s Reporting Accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.

Deloitte.

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ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ZHONGLIAN LOGISTICS (CHINA) HOLDINGS LIMITED AND CLC INTERNATIONAL LIMITED

Introduction

We report on the historical financial information of the Logistics Business (as defined in note 1 to the Historical Financial Information below) of the Group (defined below) set out on pages [I-4] to [I-40], which comprises the consolidated statements of financial position of the Group as at 31 December 2015 and 2016, the statement of financial position of Zhonglian Logistics (China) Holdings Limited (the “Company”) as at 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the two years ended 31 December 2016 (the “Track Record Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-40 forms an integral part of this report, which has been prepared for inclusion in the [REDACTED] of the Company dated [Date] (the “[REDACTED]”) in connection with the initial [REDACTED] on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

During the Track Record Period, the Group’s Logistics Business was carried out by (i) 廣州中聯環宇現代物流有限公司 (formerly known as 廣州中聯環宇現代物流股份有限公司 and 中聯環宇貨業儲運有限公司) Guangzhou World-Link (China) Co., Ltd. (“Guangzhou World-Link”, a subsidiary of the Company); and (ii) the predecessor, Guangzhou City Haizhu District Dafenghang 廣州市海珠區大豐行 (“Dafenghang”, a related entity not forming part of the Group).

Historically, Dafenghang was solely engaged in the logistics services, which formed part of the Group’s Logistics Business. On 1 July 2015, Dafenghang transferred its sole business to the Guangzhou World-Link and ceased to carry out any logistics services or related services thereafter. Since the business carried out by Dafenghang prior to such transfer formed an integral part of the Group’s Logistics Business and was under common control of the Group’s controlling shareholder (see note 1 to the Historical Financial Information below for details), the logistics services carried out by Dafenghang for the period from 1 January 2015 to 30 June 2015 (that is, all of its assets and liabilities, income and expense are attributable to the Logistics Business for the period from 1 January 2015 to 30 June 2015), the date immediately before the legal transfer, was included in the Historical Financial Information presented herein despite the actual date of the legal transfer.

The Company, Guangzhou World-Link, other subsidiaries and the logistics services carried out by Dafenghang are hereinafter collectively referred to as the “Group”.

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Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting Accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

[In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2015 and 2016, the Company's financial position as at 31 December 2016 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information.]

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Report on matters under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparation of the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 10 to the Historical Financial Information which states that no dividend has been paid or declared by the companies comprising the Group during the Track Record Period or by the Company since its incorporation.

[Deloitte Touche Tohmatsu]

Certified Public Accountants

Hong Kong

[Date]

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HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by HKICPA (the “Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December	
		2015	2016
	<i>NOTES</i>	<i>RMB’000</i>	<i>RMB’000</i>
Revenue	5	150,277	153,975
Other income, gain and losses		95	644
Employee benefits expenses		(54,488)	(56,826)
Sub-contracting expenses		(37,892)	(35,788)
Operating lease rentals		(17,795)	(18,524)
Depreciation of property, plant and equipment		(3,993)	(4,193)
Interest expense on bank borrowings		(1,761)	(719)
[REDACTED] expenses		—	[REDACTED]
Other expenses		<u>(15,924)</u>	<u>(15,935)</u>
Profit before taxation		18,519	19,885
Income tax expenses	7	<u>(5,224)</u>	<u>(5,778)</u>
Profit and total comprehensive income for the year	8	<u><u>13,295</u></u>	<u><u>14,107</u></u>
Profit and total comprehensive income for the year attributable to:			
— owners of the Company		5,886	5,697
— non-controlling interests		<u>7,409</u>	<u>8,410</u>
		<u><u>13,295</u></u>	<u><u>14,107</u></u>
[Earnings per share, basic — RMB cents]	11	<u><u>[3.91]</u></u>	<u><u>[0.95]</u></u>

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STATEMENTS OF FINANCIAL POSITION

	<i>NOTES</i>	The Group		The Company
		As at 31 December		As at
		2015	2016	31 December
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
NON-CURRENT ASSETS				
Investment in a subsidiary	27(a)	—	—	1
Property, plant and equipment	12	13,556	9,620	—
Rental deposits	13	3,236	3,081	—
		<u>16,792</u>	<u>12,701</u>	<u>1</u>
CURRENT ASSETS				
Trade and other receivables	14	40,535	44,998	883
Amount due from a related party	15(a)	31	—	—
Bank balances and cash	16	8,620	26,800	—
		<u>49,186</u>	<u>71,798</u>	<u>883</u>
CURRENT LIABILITIES				
Trade and other payables and accrued expenses	17	17,897	20,706	3,176
Amount due to related parties	15(b)	154	20,000	—
Amount due to a subsidiary	15(c)	—	—	545
Bank and other borrowings	18	22,500	16,000	—
Tax payable		3,014	4,745	—
Obligation under a finance lease	19	913	—	—
		<u>44,478</u>	<u>61,451</u>	<u>3,721</u>
NET CURRENT ASSETS (LIABILITIES)		<u>4,708</u>	<u>10,347</u>	<u>(2,838)</u>
NET ASSETS (LIABILITIES)		<u>21,500</u>	<u>23,048</u>	<u>(2,837)</u>
CAPITAL AND RESERVES				
Share capital/paid-in capital	20	10,110	—	—
Reserves		<u>4,508</u>	<u>23,048</u>	<u>(2,837)</u>
Equity attributable to owners of the Company		14,618	23,048	(2,837)
Non-controlling interest		<u>6,882</u>	<u>—</u>	<u>—</u>
TOTAL EQUITY (DEFICIT)		<u>21,500</u>	<u>23,048</u>	<u>(2,837)</u>

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the owners of the Company						Total RMB’000
	Share capital/ paid-in capital RMB’000 (note 20)	Statutory reserve RMB’000 (Note ii)	Other reserve RMB’000	Retained profits RMB’000	Sub-total RMB’000	Non- controlling interest RMB’000	
At 1 January 2015	2,527	—	2,000	298	4,825	(527)	4,298
Profit and total comprehensive income for the year	—	—	—	5,886	5,886	7,409	13,295
Transfers	—	892	—	(892)	—	—	—
Capital injection into Guangzhou World-Link	7,583	—	—	—	7,583	—	7,583
Arising from the Business Transfer (Note i)	—	—	(2,000)	(1,676)	(3,676)	—	(3,676)
At 31 December 2015	10,110	892	—	3,616	14,618	6,882	21,500
Profit and total comprehensive income for the year	—	—	—	5,697	5,697	8,410	14,107
Transfers	—	1,701	—	(1,701)	—	—	—
Capital injection into Guangzhou World-Link	—	—	—	—	—	7,441	7,441
Conversion into a joint stock company with limited liability for Guangzhou World-Link (Note iii)	—	—	6,999	(3,550)	3,449	(3,449)	—
Arising from Reorganisation (as defined in note 1) (Note iv)	(10,110)	—	—	9,394	(716)	(19,284)	(20,000)
At 31 December 2016	—	2,593	6,999	13,456	23,048	—	23,048

Notes:

- (i) After the Business Transfer (as defined in note 1), the logistics business and logistics-related operating assets of Dafenghang were transferred to Guangzhou World-Link. The remaining assets and liabilities with the net amount of approximately RMB3,676,000 were retained by Dafenghang and have been accounted for as deemed distribution to the then shareholders of Dafenghang.
- (ii) Amount represents statutory reserve of the subsidiary of the Company established in the People’s Republic of China (the “PRC”). According to the relevant laws in the PRC, the subsidiary in the PRC is required to transfer at least 10% of its net profit after taxation, as determined under the relevant accounting principles and financial regulations applicable to enterprises established in the PRC, to a non-distributable reserve fund until the reserve balance reaches 50% of its registered capital. The transfer to this reserve must be made before the distribution of a dividend to owners. Such reserve fund can be used to offset the previous years’ losses, if any, and is non-distributable other than upon liquidation.
- (iii) Amount represents the effect of the conversion of Guangzhou World-Link into a joint stock company with limited liability during the year ended 31 December 2016. According to the relevant rules in the PRC, the excess of the net assets of Guangzhou World-Link prepared in accordance with the relevant accounting principles and financial regulations applicable to the enterprises established in the PRC over the 20,000,000 shares of Guangzhou World-Link with a par value of RMB1 each issued upon the conversion is recognised in a non-distributable reserve.
- (iv) Amount represents the effects of the acquisition of the entire registered capital of Guangzhou World-Link by Zhonglian Logistics HK (a subsidiary of the Company, as defined in note 1) from the Li Family (as defined in note 1) as to 50.55% and the non-controlling shareholders as to 49.45% for an aggregate consideration of RMB20,000,000 as part of the Reorganisation (as defined in note 1). Upon completion of the above transactions, the accumulated balance of the retained profits of Guangzhou World-Link attributable to the non-controlling interest amounting to RMB12,843,000 was reclassified to retained profits attributable to the owners of the Company.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December	
	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>
OPERATING ACTIVITIES		
Profit before tax	18,519	19,885
Adjustments for:		
Depreciation of property, plant and equipment	3,993	4,193
Losses on disposal of property, plant and equipment	184	1
Interest income	(34)	(68)
Interest expense	<u>1,761</u>	<u>719</u>
Operating cash flows before movements in working capital	24,423	24,730
Decrease in rental deposits	214	155
Increase in trade and other receivables	(20,089)	(4,432)
(Decrease) increase in trade and other payables and accrued expenses	<u>(11,022)</u>	<u>2,809</u>
Cash (used in) generated from operations	(6,474)	23,262
Income tax paid	<u>(2,189)</u>	<u>(4,047)</u>
NET CASH (USED IN) FROM OPERATING ACTIVITIES	<u>(8,663)</u>	<u>19,215</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(6,166)	(260)
Advance to a shareholder	(530)	—
Proceeds from disposal of property, plant and equipment	45	2
Interest income received	34	68
Proceeds from disposal of an available for sale investment (<i>Note i</i>)	491	—
Proceeds from disposal of an associate (<i>Note ii</i>)	3,164	—
Acquisition of structured bank deposits	—	(131,000)
Redemption of structured bank deposits	<u>—</u>	<u>131,000</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(2,962)</u>	<u>(190)</u>

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	Year ended 31 December	
	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>
FINANCING ACTIVITIES		
New bank and other borrowings raised	31,300	21,000
Advance from a related party	9,929	5,110
Proceed from capital injection into a subsidiary	7,583	7,441
Interest paid	(1,761)	(719)
Repayment of obligation under finance leases	(2,130)	(913)
Repayment of advance from a shareholder	(3,383)	—
Repayment to a related party	(5,061)	(5,264)
Cash outflow arising from Business Transfer	(7,650)	—
Repayment of bank and other borrowings	<u>(24,450)</u>	<u>(27,500)</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>4,377</u>	<u>(845)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		
	(7,248)	18,180
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>15,868</u>	<u>8,620</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	<u><u>8,620</u></u>	<u><u>26,800</u></u>

Notes:

- (i) The available-for-sale investment is being equity investment of unlisted shares of an entity established in the PRC with no quoted market price. As [represented by the directors of the Company], the acquirer of the relevant interest is an independent third party of the Group.
- (ii) The disposal of the interest in the relevant associate was completed during year ended 31 December 2014 while the proceed on the disposal was received during the year ended 31 December 2015. As [represented by the directors of the Company], the acquirer of the relevant interest is an independent third party of the Group.

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NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 November 2016 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office and the principal place of business is disclosed in the section “Corporate Information” in the document.

The Historical Financial Information has been prepared based on the accounting policies set out in note 3 which conform with HKFRSs issued by the HKICPA and the principle of merger accounting under Accounting Guideline 5 “Merger Accounting for Common Control Combinations” (details are set out below).

Since its date of incorporation and up to 31 December 2016, the Company has not carried on any business other than the preparation for the proposed [REDACTED] of the Company [REDACTED]. Through a group reorganisation, the Company became the holding company of the subsidiaries, including 中聯物流(中國)投資有限公司 Zhonglian Logistics (China) Investment Limited (“Zhonglian Investment”), 中聯物流(中國)有限公司 Zhonglian Logistics (China) Limited (“Zhonglian Logistics HK”) and Guangzhou World-Link, which succeeded the in-plant logistics service from Dafenghang on 1 July 2015 and Dafenghang will not form part of the Group. The companies now comprising the Group underwent a series of reorganisation (“Reorganisation”).

Historically, the Group’s principal business, which are provision of logistics services to meet the needs of the customers’ supply chains, includes (i) transportation service, (ii) warehousing service, (iii) in-plant logistics service, which covers the management of the movements of (a) production materials and components and work-in-progress to the production lines within the manufacturing plants of the customers of the Group; and (b) finished goods out to the factory gates of the relevant customers and (iv) customisation service, which consists mainly labelling services and bundling services to the customers, in the PRC (collectively, the “Logistics Business”), was carried out by two entities, namely Guangzhou World-Link and Dafenghang.

During the Track Record Period and up to 30 October 2015, Guangzhou World-Link was owned as to 50.55% by Mr. Li Jianxin (“Mr. Li JX”), 49.45% by two individuals, which are independent third parties to the Group (the “Original Non-Controlling Shareholders”). Mr. Li JX and Mr. Li Jianming, elder brother of Mr. Li JX, have been acting in concert (collectively be referred to as the “Li Family”) throughout the Track Record Period for the control over the Group. On 13 October 2015, 廣州健升投資合夥企業(有限合夥) (“Guangzhou Jiansheng”), a limited partnership established in the PRC owned as to 80% by Mr. Li JX who acted as a general partner, and 20% by Mr. Li Jianming, who acted as a limited partner, was established. On 30 October 2015, the shares of Guangzhou World-Link owned by Mr. Li JX, representing 50.55% of the registered capital of Guangzhou World-Link, were transferred to Guangzhou Jiansheng at the consideration of RMB2,527,500, which was determined with reference to the then registered capital of Guangzhou World-Link.

On 17 December 2015, the 49.45% of the registered capital of Guangzhou World-Link held by Original Non-Controlling Shareholders were disposed to two entities, both are independent to the Group and the Original Non-Controlling Shareholders. After these transactions, the registered capital of Guangzhou World-Link were held as to 50.55% by Guangzhou Jiansheng, 15% by Joyful Huge Limited (“Joyful Huge”), which is wholly owned by Lee Seo Thin Patrick (“Mr. Lee”), and 34.45% by Max Fame Corporation Limited (“Max Fame”), which is wholly owned by Mr. Zhu Zhijian (“Mr. Zhu”), prior to the Reorganisation.

From 1 January 2015 up to 30 June 2015, Dafenghang was owned as to 25% by Mr. Li JX and 50% by Ms. Chen Ruihua, the spouse of Mr. Li JX, who held the interest of Dafenghang on behalf of Mr. Li JX. The remaining 25% interest of Dafenghang was owned by Mr. Li Jianming. Dafenghang is therefore wholly owned by the Li Family. During the period from 1 January 2015 up to 30 June 2015 before the completion of the Business Transfer (as detailed below), Dafenghang carried out part of the Logistics Business, mainly including the in-plant logistics services, and thus all of its assets and liabilities, as well as income and expense are attributable to the Logistics Business.

As part of the Reorganisation, Dafenghang entered into several business transfer agreements with Guangzhou World-Link (the “Business Transfer”), pursuant to which Dafenghang (a) novated the then existing logistics service contracts undertaken by it to Guangzhou World-Link and (b) transferred its logistics-related operating assets, including mainly delivery vehicles (included in property, plant and equipment), to Guangzhou World-Link. After the Business Transfer, Dafenghang ceased to carry out any logistics services or related businesses and all the rights and obligations, assets and liabilities related to the relevant business was transferred formally to the Group on 1 July 2015. Guangzhou World-Link has also entered into new employment contracts with the

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existing employees of Dafenghang who determined to continue their services under Guangzhou World-Link. Other assets and liabilities not related to the Logistics Business with a net amount of RMB3,676,000 was retained by Dafenghang and accounted for as deemed distribution to the then shareholders of Dafenghang.

Major steps of the Reorganisation are as follows:

- (i) On 17 November 2016, Goal Rise Profits Limited ("Goal Rise") was incorporated in the British Virgin Islands and wholly owned by the Li Family. On 21 November 2016, Junliet Profits Limited ("Junliet Profits") was incorporated in the British Virgin Islands and wholly owned by Mr. Lee. On the same date, Portree Wealth Limited ("Portree Wealth") was incorporated in the British Virgin Islands and wholly owned by Mr. Zhu.
- (ii) On 22 November 2016, the Company issued 5,055, 1,500 and 3,445 shares to Goal Rise, Junliet Profits and Portree Wealth, respectively, for cash at par value of HK\$0.01 each.
- (iii) On 28 November 2016, Zhonglian Investment was incorporated. 100 shares at US\$1 each were issued to the Company, and became a directly wholly-owned subsidiary of the Company.
- (iv) On 2 December 2016, Zhonglian Logistics HK was incorporated. One share at HK\$1 was issued to Zhonglian Investment, and became a wholly-owned subsidiary of Zhonglian Investment.
- (v) On 29 December 2016, Zhonglian Logistics HK completed the acquisition of 50.55%, 15% and 34.45% of the registered capital of Guangzhou World-Link at cash considerations of RMB10,110,000, RMB3,000,000 and RMB6,890,000 from Guangzhou Jiensheng, Joyful Huge and Max Fame, respectively. The consideration payable by Zhonglian Logistics HK to Guangzhou Jiensheng, Joyful Huge and Max Fame for the amounts of RMB10,110,000, RMB3,000,000 and RMB6,890,000, respectively, are accounted for as amounts due to related parties as at 31 December 2016, as set out in note 15.
- (vi) On 11 January 2017, Hemann Capital Management Limited ("Hemann Capital", which is an independent third party to the Group) entered into a sale and purchase agreement with Junliet Profits, pursuant to which Hemann Capital agreed to purchase 600 shares of the Company from Junliet Profits at the cash consideration of HK\$7,000,000. Following the completion of this transaction, the Company is owned as to 50.55%, 9%, 34.45% and 6% by Goal Rise, Junliet Profits, Portree Wealth and Hemann Capital, respectively.

Goal Rise is considered to be the immediate and ultimate holding company of the Company.

Pursuant to the Reorganisation as detailed above, the Company became the holding company of the companies now comprising the Group on 29 December 2016. As the Logistics Business have been under the common control of the Li Family throughout the Track Record Period, the Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the Historical Financial Information has been prepared using the principle of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA on the basis as if the Company had always been the holding company of the Group. The net assets of Guangzhou World-Link and Dafenghang (for the period from 1 January 2015 up to 30 June 2015 before the completion of the Business Transfer) and other subsidiaries are consolidated using the then existing book values from the perspective of the Li Family. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination. Capital contribution by the Li Family and other non-controlling shareholders are accounted for as contribution from the owners of the Company and non-controlling interest, respectively. The distribution of the assets and liabilities of Dafenghang as set out above in this note to the Li Family is accounted for as deemed distribution to the shareholders of the Company.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period include the results, changes in equity and cash flows of the companies now comprising the Group for the Track Record Period, as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the Track Record Period.

The consolidated statement of financial position at 31 December 2015 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at that date.

The Historical Financial Information is presented in Renminbi ("RMB"), which is same as the functional currency of the Company.

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2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently adopted the HKFRSs, Hong Kong Accounting Standards (“HKASs”), amendments and interpretations issued by the HKICPA which are effective for the accounting periods beginning on 1 January 2016 throughout the Track Record Period.

At the date of this report, HKICPA has issued the following new and amendments to HKFRSs that are not yet effective.

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and its related Amendments ¹
HKFRS 16	Leases ³
Amendments to HKAS 7	Disclosure Initiative ²
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle ⁵

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

² Effective for annual periods beginning on or after 1 January 2017.

³ Effective for annual periods beginning on or after 1 January 2019.

⁴ Effective for annual periods beginning on or after a date to be determined.

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

HKFRS 9 “Financial Instruments”

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (“FVTOCI”). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 “Financial Instruments: Recognition and Measurement”. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have an impact on amounts reported in respect of the Group’s financial assets in relation to the impairment assessment on receivables, with the potential early recognition of credit losses based on the expected loss model in relation to the Group’s financial assets measured at amortised costs. However, it is not practicable to provide a reasonable estimate of the effect until the directors

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of the Company have performed a detailed review. Except for abovementioned, the directors of the Company anticipate that the adoption of HKFRS 9 in the future will not have other significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities based on an analysis of the Group’s financial instruments as at 31 December 2016.

HKFRS 15 “Revenue from Contracts with Customers” and its related amendments

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarification to HKFRS 15 in relation to the identification of performance obligation, principal versus agent considerations, as well as licensing application guidance.

Based on the current business model, the directors of the Company do not expect the adoption of HKFRS 15 would result in significant impact on the amounts reported on the Group’s consolidated financial statements in the future. However, there will be additional qualitative and quantitative disclosures upon the adoption of HKFRS 15.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are currently presented as operating cash flows; whereas upon the application of HKFRS 16, the lease payments will be split into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

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As at 31 December 2016, the Group as lessee has non-cancellable operating lease commitments of RMB39,156,000. HKAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 21. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Amendments to HKAS 7 “Disclosure Initiative”

The amendments 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. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group’s financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The directors of the Company do not expect the adoption of amendments to HKAS 7 would be result in significant impact on the disclosures on the Group’s consolidated financial statements.

Except as described above, the directors of the Company anticipate that the application of other amendments to HKFRSs will have no material impact on the Group’s consolidated financial statements in the future.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared on the historical cost basis as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for services rendered.

The Historical Financial Information has been prepared in accordance with accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and by the Hong Kong Companies Ordinance.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristic of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

In addition, for financial reporting purpose, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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The principal accounting policies adopted are as follows:

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassess 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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Merger accounting for business combination involving businesses under common control

The Historical Financial Information incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Investment in a subsidiary

Investment in a subsidiary is included in the Company's statement of financial position at cost less any identified impairment loss.

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Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received or receivable for services provided in the normal course of business, net of discounts.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from service income is recognised when the services are delivered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realised or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

Government subsidies

Government subsidies are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government subsidies are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the subsidies are intended to compensate. Specifically, government subsidies whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss over the useful lives of the related assets.

Government subsidies that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to the defined contribution retirement benefit plans, including government-managed retirement benefit scheme, are charged as an expense when employees have rendered service entitling them to the contributions.

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Property, plant and equipment

Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Effective interest method

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

Interest income/expense is recognised on an effective interest basis.

Financial assets

Financial assets of the Group are classified into 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a related party and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment of loans and receivables could include:

- significant financial difficulty of the issuer or counterparty; or

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- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For loans and receivables, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the loans and receivables at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities

Financial liabilities (including trade and other payables, amounts due to related parties/a subsidiary and bank and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognised a financial asset only when the contractual rights to the cash flows from the assets expire or, when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the consideration received and receivable is recognised in profit or loss.

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

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Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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 following twelve months.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimated future cash flows. The amount of the impairment loss 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 been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015 and 2016, the carrying amount of trade receivables is RMB38,528,000 and RMB42,398,000, respectively. No impairment loss on trade receivables has been recognised during the Track Record Period.

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5. REVENUE

	Year ended 31 December	
	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>
Transportation service income	51,338	55,358
Warehousing service income	37,194	37,251
In-plant logistics service income	58,524	59,271
Customisation service income	<u>3,221</u>	<u>2,095</u>
	<u>150,277</u>	<u>153,975</u>

6. SEGMENT INFORMATION

The Group’s operating segments are determined based on information reported to the chief operating decision maker (the “CODM”) of the Group, being the executive directors of the Company, who are also the directors of the operating subsidiary, for the purpose of resource allocation and performance assessment.

The CODM regularly reviews revenue and results analysis by (i) transportation service, (ii) warehousing service, (iii) in-plant logistics service; and (iv) customisation service.

The details of the Group’s operating segments are as follow:

Transportation service	—	Provision of logistic services
Warehousing service	—	Provision of inventory storage and management services
In-plant logistics service	—	Provision of wide-range of in-house service at customers’ manufacturing plants to integrate the production processes, which covers the management of the movements of (a) production materials and components and work-in-progress to the production lines within the manufacturing plants of the customers of the Group; and (b) finished goods out to the factory gates of the relevant customers
Customisation service	—	Provision of labelling services and bundling services

Segment revenue and results

The following is an analysis of the Group’s revenue and results by operating and reportable segments.

For the year ended 31 December 2015

	Transportation service	Warehousing service	In-plant logistics service	Customisation service	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Revenue					
External sales	<u>51,338</u>	<u>37,194</u>	<u>58,524</u>	<u>3,221</u>	<u>150,277</u>
Results					
Segment results	<u>10,165</u>	<u>6,546</u>	<u>11,905</u>	<u>614</u>	29,230
Unallocated corporate income					279
Unallocated corporate expenses					<u>(10,990)</u>
Profit before taxation					<u>18,519</u>

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For the year ended 31 December 2016

	Transportation service <i>RMB'000</i>	Warehousing service <i>RMB'000</i>	In-plant logistics service <i>RMB'000</i>	Customisation service <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue					
External sales	55,358	37,251	59,271	2,095	153,975
Results					
Segment results	<u>10,976</u>	<u>7,723</u>	<u>14,509</u>	<u>938</u>	34,146
[REDACTED] expenses					[REDACTED]
Unallocated corporate income					644
Unallocated corporate expenses					<u>(12,156)</u>
Profit before taxation					<u>19,885</u>

The accounting policies of the operating segments are the same as the Group’s accounting policies described in note 3. Segment results represent profit earned from each segment without allocation of certain corporate income and expenses. This is the measure reported to the CODM of the Group for the purpose of resource allocation and performance assessment.

Segment assets and liabilities

No analysis of segment assets or liabilities is presented as they are not regularly provided to the CODM.

Other segment information

For the year ended 31 December 2015

	Transportation service <i>RMB'000</i>	Warehousing service <i>RMB'000</i>	In-plant logistics service <i>RMB'000</i>	Customisation service <i>RMB'000</i>	Segment Total <i>RMB'000</i>	Corporate <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Amounts included in the measure of segment results:							
Depreciation of property, plant and equipment included in the measure of segment results	374	2,844	3	—	3,078	772	3,993
Loss on disposal of property, plant and equipment	<u>184</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>184</u>	<u>—</u>	<u>184</u>

For the year ended 31 December 2016

	Transportation service <i>RMB'000</i>	Warehousing service <i>RMB'000</i>	In-plant logistics service <i>RMB'000</i>	Customisation service <i>RMB'000</i>	Segment Total <i>RMB'000</i>	Corporate <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Amounts included in the measure of segment results:							
Depreciation of property, plant and equipment included in the measure of segment results	676	2,733	11	—	3,420	773	4,193
Loss on disposal of property, plant and equipment	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>1</u>

Geographical information

The Group’s revenue is all derived from operations in PRC and the Group’s non-current assets are located in the PRC by location of assets.

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Information about major customers

Revenue from customers of corresponding years contributing over 10% of the Group’s revenue are as follows:

	Year ended 31 December	
	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>
Customer A	54,784	60,505
Customer B	<u>51,393</u>	<u>48,770</u>
	<u>106,177</u>	<u>109,275</u>

Revenue from Customer A and B are generated from transportation service, warehousing service, in-plant logistics service and customisation service segments.

7. INCOME TAX EXPENSES

	Year ended 31 December	
	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>
Current tax		
PRC Enterprise Income Tax (“EIT”) — current year	4,271	5,778
Deferred tax	<u>953</u>	<u>—</u>
	<u>5,224</u>	<u>5,778</u>

PRC EIT is calculated at 25% of the estimated assessable profits during the Track Record Period.

Deferred tax expense of RMB953,000 recognised during the year ended 31 December 2015 was arising from the release of deferred tax asset in respect of the provision for impairment of an available-for-sale investment made before the Track Record Period upon the completion of the disposal of the relevant investment during the year then ended.

The income tax expenses for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>
Profit before taxation	<u>18,519</u>	<u>19,885</u>
Tax at PRC EIT rate of 25%	4,630	4,971
Tax effect of expenses not deductible for tax purposes	470	807
Others	<u>124</u>	<u>—</u>
Income tax expenses for the year	<u>5,224</u>	<u>5,778</u>

As at 31 December 2016, the aggregate amount of temporary differences associated with the undistributed earnings of Guangzhou World-Link for which deferred tax liabilities have not been recognised was approximately RMB16,333,000. No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

There is no other significant unrecognised deferred taxation for the years ended 31 December 2015 and 31 December 2016.

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8. PROFIT FOR THE YEAR

	Year ended 31 December	
	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>
Profit for the year has been arrived at after charging (crediting):		
Directors’ remuneration:		
— Fees	—	—
— Other emoluments, salaries and other benefits	863	1,388
— Retirement benefit scheme contributions	<u>8</u>	<u>8</u>
	871	1,396
Other staff salaries and allowances	46,571	48,549
Retirement benefit scheme contributions, excluding those of directors	<u>7,046</u>	<u>6,881</u>
	54,488	56,826
Total employee benefits expenses	<u>54,488</u>	<u>56,826</u>
Fleet operating expenses	5,762	5,530
Auditor’s remuneration		
— Audit services	—	—
— Non-audit services	221	—
Losses on disposal of property, plant and equipment	184	1
Bank interest income	(34)	(68)
Government subsidies (<i>Note</i>)	(245)	(500)
Exchange gain	<u>—</u>	<u>(77)</u>

Note: The government subsidies mainly represented the subsidies for early retirement of motor vehicles which do not comply with latest environmental regulatory requirement with no unfulfilled conditions attached before recognition.

9. DIRECTORS’, CHIEF EXECUTIVE’S AND EMPLOYEES’ EMOLUMENTS

(a) Directors’ and the chief executive’s remuneration

Details of the emoluments paid or payable to the directors and the chief executive of the Company by the group entities (including emoluments for the services as employees of the group entities and Dafenghang (during the period from 1 January 2015 to 30 June 2015) prior to becoming the directors of the Company) during the Track Record Period are as follows:

For the year ended 31 December 2015

Name of director	Fee	Salaries and other allowances	Retirement benefit scheme contributions	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<i>Executive directors</i>				
Mr. Li JX (<i>Note i</i>)	—	593	4	597
Mr. Li Jianming (<i>Note ii</i>)	<u>—</u>	<u>270</u>	<u>4</u>	<u>274</u>
	—	863	8	871
	<u>—</u>	<u>863</u>	<u>8</u>	<u>871</u>

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For the year ended 31 December 2016

Name of director	Fee <i>RMB’000</i>	Salaries and other allowances <i>RMB’000</i>	Retirement benefit scheme contributions <i>RMB’000</i>	Total <i>RMB’000</i>
<i>Executive directors</i>				
Mr. Li JX (<i>Note i</i>)	—	826	4	830
Mr. Li Jianming (<i>Note ii</i>)	—	562	4	566
	—	1,388	8	1,396

Notes:

- (i) Mr. Li JX was appointed as a director of the Company on 22 November 2016 and redesignated as an executive director on 31 March 2017.
- (ii) Mr. Li Jianming is appointed as an executive director of the Company on 31 March 2017. Mr. Li Jianming is also the chief executive of the Group and his emoluments disclosed above include those for services rendered by him as the chief executive.
- (iii) The executive directors’ emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.
- (iv) The emoluments of each of the directors of the Company were less than HK\$1,000,000 during each of the year ended 31 December 2015 and 2016.
- (v) The independent non-executive directors of the Company were appointed on [date].

(b) Employees’ emoluments

The five highest paid individuals of the Group for the years ended 31 December 2015 and 2016 include 2 and 2 individuals, respectively, who were appointed as directors of the Company. The emoluments of the remaining 3 and 3 individuals for the years ended 31 December 2015 and 2016, respectively, are as follows:

	Year ended 31 December	
	2015 <i>RMB’000</i>	2016 <i>RMB’000</i>
Salaries and other allowances	282	496
Retirement benefit scheme contributions	11	12
	293	508

The emoluments of each of the employee above were less than HK\$1,000,000 during each of the year ended 31 December 2015 and 2016.

During the Track Record Period, no emoluments were paid by the Group to any of the directors of the Company or the chief executive of the Group or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company or the chief executive of the Group waived any emoluments during the Track Record Period.

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10. DIVIDENDS

No dividend has been paid or declared by the companies comprising the Group during the Track Record Period or by the Company since its incorporation.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company for the Track Record Period is based on the following data:

	Year ended 31 December	
	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>
Earnings		
Profit for the year attributable to the owners of the Company for the purpose of basic earnings per share	<u>5,886</u>	<u>5,697</u>
Number of shares		
Number of shares for the purpose of basic earnings per share (<i>in thousand</i>)	<u>150,411</u>	<u>600,000</u>

The number of ordinary share for the purpose of basic earnings per share has taken into account the shares issued pursuant to the Reorganisation as set out in note 1 and the capitalisation issue set out in the section headed “Share Capital” in this document (“Capitalisation Issue”) as if both the Reorganisation and Capitalisation Issue had been effective on 1 January 2015.

No diluted earnings per share was presented as there was no potential ordinary share outstanding during the Track Record Period.

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12. PROPERTY, PLANT AND EQUIPMENT

The Group

	Plant and machinery <i>RMB’000</i>	Furniture and equipment <i>RMB’000</i>	Office equipment <i>RMB’000</i>	Leasehold improvement <i>RMB’000</i>	Motor vehicle <i>RMB’000</i>	Total <i>RMB’000</i>
COST						
At 1 January 2015	11,335	141	832	2,588	8,131	23,027
Additions	2,958	16	50	1,575	1,567	6,166
Disposals	—	(3)	(62)	—	(5,143)	(5,208)
Deemed distribution upon Business Transfer	—	—	(47)	—	(486)	(533)
At 31 December 2015	14,293	154	773	4,163	4,069	23,452
Additions	204	—	37	19	—	260
Disposals	—	(9)	(50)	—	—	(59)
At 31 December 2016	<u>14,497</u>	<u>145</u>	<u>760</u>	<u>4,182</u>	<u>4,069</u>	<u>23,653</u>
DEPRECIATION						
At 1 January 2015	3,182	78	650	1,235	6,191	11,336
Provided for the year	2,828	19	69	582	495	3,993
Disposals	—	(2)	(61)	—	(4,916)	(4,979)
Deemed distribution upon Business Transfer	—	—	(44)	—	(410)	(454)
At 31 December 2015	6,010	95	614	1,817	1,360	9,896
Provided for the year	2,754	21	47	714	657	4,193
Disposals	—	(9)	(47)	—	—	(56)
At 31 December 2016	<u>8,764</u>	<u>107</u>	<u>614</u>	<u>2,531</u>	<u>2,017</u>	<u>14,033</u>
CARRYING VALUES						
At 31 December 2015	<u>8,283</u>	<u>59</u>	<u>159</u>	<u>2,346</u>	<u>2,709</u>	<u>13,556</u>
At 31 December 2016	<u>5,733</u>	<u>38</u>	<u>146</u>	<u>1,651</u>	<u>2,052</u>	<u>9,620</u>

The above items of property, plant and equipment are depreciated on a straight-line basis as follows:

Plant and machinery	20% per annum
Furniture and equipment	20% per annum
Office equipment	20% per annum
Leasehold improvement	Over the period of the relevant lease, or over 5 years, whichever is shorter
Motor vehicle	20% per annum

As at 31 December 2015, RMB1,327,000 of plant and machinery as shown above was held under a finance lease as set out in note 19.

13. RENTAL DEPOSITS

The balances represent rental deposits placed by the Group in connection with its rented premises. The management represents to us that, at the inception of the relevant leases, the Group is reasonably certain that it will exercise the option under the relevant terms of the leases to continue to lease the respective premises upon expiry of the lease terms. Therefore, the balances are classified as non-current.

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Included in the rental deposits of the Group are amounts of RMB135,000 and RMB135,000 as at 31 December 2015 and 31 December 2016, respectively, paid to the Mr. JX, Mr. Li Jianming and their three brothers as rental deposits for the office premises owned by them which is used by the Group.

14. TRADE AND OTHER RECEIVABLES

	The Group		The Company
	As at 31 December		As at
	2015	2016	31 December
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	38,528	42,398	—
Prepayments, deposits and other receivables	2,007	1,717	—
Deferred [REDACTED] expenses	—	[REDACTED]	[REDACTED]
	<u>40,535</u>	<u>44,998</u>	<u>883</u>

No allowance for doubtful debt was provided during the Track Record Period and no balance of provision for bad and doubtful debt had been recognised as at the end of each reporting period.

For long-term customers with good credit quality and payment history, the Group allows credit periods of no longer than 90 days. For other customers, the Group demands for full settlement upon issuance of invoice after the provision of services.

The following is an aging analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	The Group	
	As at 31 December	
	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	23,110	26,361
31–60 days	9,252	9,270
61–90 days	5,811	6,060
Over 90 days	<u>355</u>	<u>707</u>
	<u>38,528</u>	<u>42,398</u>

Before accepting any new customer, the Group assesses the potential customer’s credit quality and defines credit limits by customer. Credit limits attributed to customers and credit term granted to customers are reviewed regularly. The trade receivables that are neither past due nor impaired have no history of defaulting on repayments.

Included in the Group’s trade receivables balance are debtors with aggregate carrying amounts of RMB1,122,000 and RMB4,963,000 as at 31 December 2015 and 2016, respectively, which were past due at the end of the reporting period for which the Group has not provided for impairment loss as the Group considered such balances could be recovered based on historical experience. The Group does not hold any collateral over these balances.

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The following is an aged analysis of trade receivables which are past due but not impaired at the end of the reporting period:

	The Group	
	As at 31 December	
	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>
Overdue by:		
Within 30 days	547	3,388
31 to 60 days	414	1,180
61 to 90 days	33	348
Over 90 days	<u>128</u>	<u>47</u>
	<u>1,122</u>	<u>4,963</u>

Trade and other receivables that are denominated in foreign currency, currency other than the functional currency of relevant group entity:

	The Group	
	As at 31 December	
	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>
United States Dollars (“USD”)	<u>—</u>	<u>1,428</u>

15. AMOUNTS DUE FROM/TO RELATED PARTIES

(a) Amount due from a related party

Name of the related party	The Group				
	As at	As at		Maximum amount	
	1 January	31 December		outstanding during the year	
	2015	2015	2016	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Mr. Li JX	<u>—</u>	<u>31</u>	<u>—</u>	<u>530</u>	<u>31</u>

The amount due from a related party is denominated in RMB, unsecured, interest-free and repayable on demand.

Mr. Li JX has settled the amount in full during the year ended 31 December 2016.

(b) Amount due to related parties

	The Group	
	As at 31 December	
	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>
Dafenghang (<i>Note i</i>)	154	—
Guangzhou Jiansheng (<i>Note ii</i>)	—	10,110
Joyful Huge (<i>Note ii</i>)	—	3,000
Max Fame (<i>Note ii</i>)	<u>—</u>	<u>6,890</u>
	<u>154</u>	<u>20,000</u>

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Notes:

- (i) The amount as at 31 December 2015 is denominated in RMB, unsecured, interest-free and repayable on demand. The full amount has been settled during the year ended 31 December 2016.
- (ii) The amounts as at 31 December 2016 are denominated in RMB unsecured, interest-free and repayable on demand.

[As represented by the directors of the Company, the amounts will be capitalised as contributions from shareholders before the proposed [REDACTED] of the shares of the Company on the Stock Exchange.]

(c) Amount due to a subsidiary

	The Company As at 31 December 2016 <i>RMB'000</i>
Guangzhou World-Link	545

The amount is denominated in RMB, unsecured, interest-free and repayable on demand.

16. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

Bank balances carry interest at variable rates which range from 0.3% to 0.35% per annum as at 31 December 2015 and 2016.

17. TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES

	The Group As at 31 December 2015 2016 <i>RMB'000</i> <i>RMB'000</i>		The Company As at 31 December 2016 <i>RMB'000</i>
Trade payables	10,855	8,776	—
Accrued employee benefit	3,933	5,887	—
Other payables and accrued expenses	3,109	2,956	89
Accrued [REDACTED] expenses	—	[REDACTED]	[REDACTED]
	17,897	20,706	3,176

The credit period of trade payables is ranging from 30 to 90 days.

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The following is an aged analysis of trade payables based on the invoice date at the end of each reporting period.

	The Group	
	As at 31 December	
	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	6,193	6,471
31 to 60 days	2,555	2,137
61 to 90 days	1,866	37
Over 90 days	241	131
	<u>10,855</u>	<u>8,776</u>

Trade and other payables that are denominated in currency other than the functional currency of relevant group entity:

	The Group	
	As at 31 December	
	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>
USD	—	590

18. BANK AND OTHER BORROWINGS

	The Group	
	As at 31 December	
	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Bank and other borrowings-variable-rate:		
— bank borrowings, secured (<i>Note i</i>)	9,000	16,000
— other borrowings, unsecured (<i>Note ii</i>)	13,500	—
	<u>22,500</u>	<u>16,000</u>
Carrying amounts repayable within one year and shown under current liabilities and total bank and other borrowings	<u>22,500</u>	<u>16,000</u>

Variable-rate bank borrowings bear interest at a premium over prevailing lending rate quoted by the People’s Bank of China.

The range of effective interest rates (which are also equal to contracted interest rates) on the Group’s borrowings as at 31 December 2015 and 2016 respectively, are as follows:

	The Group	
	As at 31 December	
	2015	2016
Effective interest rates (per annum):	From 5.00% to	
Variable-rate	<u>6.60%</u>	<u>5.44%</u>

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Notes:

- (i) The bank borrowings was secured by (i) pledge of properties and land use rights held by the directors of the Company and/or their family members; and (ii) the personal guarantee of Mr. Li JX and his spouse. [As represented by the directors of the Company, the securities will be released and the personal guarantees will be replaced by corporate guarantee of the Company upon [REDACTED] of the shares of the Company on the Stock Exchange].
- (ii) The other borrowings of RMB13,500,000 was granted by a bank to Dafenghang during the year ended 31 December 2015 for its logistics business. The directors of the Company [have represented to us that] they consider that the entire balance of the said loan was utilised for the Logistics Business of the Group. Accordingly, after the completion of the Business Transfer, such amount due to Dafenghang by the Group is presented as other borrowings as at 31 December 2015. The entire balance has been settled by the Group to Dafenghang during the year ended 31 December 2016.

19. OBLIGATION UNDER A FINANCE LEASE

The Group acquired certain items of property, plant and equipment under a finance lease. The lease term is two years. Interest rate underlying the finance lease is fixed at contract rate of 7.69% per annum. The Group has option to purchase the property, plant and equipment for a nominal amount at the end of the lease term.

	Minimum lease payments		Present value of	
	As at 31 December		minimum lease payments	
	2015	2016	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount payable under a finance lease:				
Within one year	930	—	913	—
Less: future finance charges	<u>(17)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Present value of lease obligation	<u><u>913</u></u>	<u><u>—</u></u>	913	—
Less: Amount due within one year			<u>(913)</u>	<u>—</u>
Amount due after one year			<u><u>—</u></u>	<u><u>—</u></u>

The Group’s obligation under finance lease is secured by the lessor’s title to the leased asset.

At 31 December 2015, the finance lease obligation was guaranteed by Mr. Li JX and his spouse. Such personal guarantees were released upon full settlement of relevant lease obligation in 2016.

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20. SHARE CAPITAL/PAID-IN CAPITAL

For the purposes of presentation of the consolidated statements of financial position, the balance of paid-in capital as at 1 January 2015 and 31 December 2015 represented the registered capital of Guangzhou World-Link attributable to the Li Family prior to the completion of the Reorganisation.

As set out in note 1, the Reorganisation has been completed during the year ended 31 December 2016 and the balance of share capital as at 31 December 2016 represents the share capital of the Company. Details of the movements of share capital of the Company are as follows:

	Number of shares	Share capital HK\$
Authorised:		
At 22 November 2016 (date of incorporation) and 31 December 2016 of HK\$0.01 each	<u>380,000,000</u>	<u>3,800,000</u>
Issued and fully paid:		
Issued on 22 November 2016 (date of incorporation) and at 31 December 2016 of HK\$0.01 each	<u>10,000</u>	<u>100</u>
		<i>RMB'000</i>
Presented in the Historical Financial Information at 31 December 2016		<u>—</u>

Other than the share allotments above, no other share issuance transaction has been undertaken by the Company from its date of incorporation to 31 December 2016.

21. OPERATING LEASES COMMITMENTS

The Group as lessee

Details of operating leases payments during the year in respect of rented premises and plant and machinery and office equipment are as follows:

	Year ended 31 December	
	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Rented premises	14,492	14,856
Plant and machinery and office equipment	<u>3,303</u>	<u>3,668</u>
	<u>17,795</u>	<u>18,524</u>

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At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises and plant and machinery and office equipment which fall due as follows:

	As at 31 December	
	2015	2016
	RMB’000	RMB’000
Rented premises		
Within one year	14,324	14,115
In the second to fifth year inclusive	32,069	22,213
Over fifth years	<u>256</u>	<u>—</u>
	<u>46,649</u>	<u>36,328</u>
Plant and machinery		
Within one year	2,764	2,235
In the second to fifth year inclusive	<u>1,925</u>	<u>593</u>
	<u>4,689</u>	<u>2,828</u>
	<u>51,338</u>	<u>39,156</u>

Leases are negotiated for the period of one to six years.

22. RETIREMENT BENEFIT SCHEMES

The obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions. During the Track Record Period, the total amount contributed by the Group to the schemes and cost charged to the profit or loss represents contributions paid/payable to the schemes by the Group at rates specified in the rules of the schemes. The retirement benefit scheme contributions made by the Group amounted to RMB7,054,000 and RMB6,889,000 for the year ended 31 December 2015 and 2016, respectively.

23. RELATED PARTY DISCLOSURES

(a) Related party balances

Details of the outstanding balance with related parties of the Group is set out in the consolidated statements of financial position and in notes 13 and 15.

(b) Related party transactions

	Year ended 31 December	
	2015	2016
	RMB’000	RMB’000
Rental expense for office premises paid to Mr. Li JX, Mr. Li Jianming, Mr. Li Jianrong, Mr. Li Jianhua and Mr. Li Jianwen	<u>575</u>	<u>609</u>

Mr. Li Jianrong, Mr. Li Jianhua and Mr. Li Jianwen are brothers of Mr. Li JX and Mr. Li Jianming. The rental expenses are paid for the office premises used by the Group in Guangzhou, the PRC. As at 31 December 2015 and 2016, the operating lease commitments for the relevant office premises have been included in note 21 and amounted to RMB367,000 and RMB367,000, respectively. As at 31 December 2015 and 2016, the rental deposits paid to them are set out in note 13.

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(c) Compensation of key management personnel of the Company

	Year ended 31 December	
	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>
Fee	—	—
Salaries and other allowances	1,145	1,884
Retirement benefit scheme and contributions	<u>19</u>	<u>20</u>
Total	<u>1,164</u>	<u>1,904</u>

The remuneration of directors of the Company and other key management personnel of the Company are determined having regard to the performance of the individuals.

(d) Security and guarantees provided by related parties

The Group’s bank borrowings and obligation under a finance lease are secured by securities and/or guarantees provided by related parties as set out in notes 18 and 19.

24. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group companies will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debt, which includes bank and other borrowings, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, various reserves and retained profits.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost and the risks associates with each class of the capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt and the redemption of existing debt.

25. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	The Group		The Company
	As at 31 December		As at
	2015	2016	31 December
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Financial assets			
Loans and receivables (including cash and cash equivalents)	<u>47,653</u>	<u>69,830</u>	<u>—</u>
Financial liabilities			
Amortised cost	<u>35,519</u>	<u>46,395</u>	<u>545</u>

(b) Financial risk management objectives and policies

The Group’s major financial instruments include trade and other receivables, amount due from a related party, bank and other balances and cash, trade and other payables, obligation under a finance lease, amount due to related parties and bank and other borrowings.

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The Company’s financial instrument includes amount due to a subsidiary.

Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Currency risk*

A subsidiary of the Company have foreign currency sales and sub-contracting expenses, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group’s currency risk is mainly attributable to the exposure outstanding on bank balances, trade and other receivables and trade and other payables and accrued expenses denominated in RMB. The carrying amounts at the end of the reporting period are as follows:

	Assets		Liabilities	
	As at 31 December		As at 31 December	
	2015	2016	2015	2016
	RMB’000	RMB’000	RMB’000	RMB’000
USD	—	1,428	—	590

Sensitivity analysis

The following table details the Group’s sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% represents management’s assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A negative number below indicates a decrease in post-tax profit for the track record period where RMB strengthen 5% against the relevant foreign currency. For a 5% weakening of RMB against the relevant foreign currency, there would be an equal and opposite impact on the post-tax profit.

	Post-tax profit	
	Year ended 31 December	
	2015	2016
	RMB’000	RMB’000
USD	—	(31)

(ii) *Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to bank balances and variable-rate bank and other borrowings (see notes 16 and 18) due to the fluctuation of the prevailing market interest rate.

The Group is exposed to fair value interest rate risk in relation to obligation under finance lease (see note 19).

In order to mitigate the interest rate risk, the Group adopts a policy of maintaining an appropriate mix of fixed and floating rate borrowings which is achieved primarily through the contractual terms of borrowings. The position is regularly monitored and evaluated by reference of anticipated changes in market interest rate. The Group did not use any interest rate swap to hedge its interest rate risk during the Track Record Period.

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Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank balances and variable-rate and other bank borrowings. The analysis is prepared assuming that the amount of assets and liabilities outstanding at the end of the reporting period were outstanding for the whole year. 50 basis points increase or decrease represent the management’s assessment of the reasonable possible change in interest rates of bank deposits and bank and other borrowings.

If the interest rates had been 50 basis points higher/lower and all other variables were held constant, the potential effect on the Group’s post-tax profit for the year ended 31 December 2015 would decrease/increase by RMB53,000.

If the interest rates had been 50 basis points higher/lower and all other variables were held constant, the potential effect on the Group’s post-tax profit for the year ended 31 December 2016 would increase/decrease by RMB41,000.

Credit risk

The Group’s maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position of the Group.

The Group’s credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group’s credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are banks with good reputations.

As at 31 December 2015 and 2016, the Group has concentration of credit risk as 53% and 44% respectively of the total trade receivables was due from the Group’s largest customer. The Group’s concentration of credit risk on the top five largest customers accounted for 89% and 88% of the total trade receivables as at 31 December 2015 and 2016, respectively. The management of the Group considers the credit risk of amounts due from these customers is insignificant after considering historical settlement record, credit qualities and financial positions of the counterparties.

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains levels of cash and cash equivalents deemed adequate by the management to finance the Group’s operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group’s remaining contractual maturity for its non-derivative financial liabilities. The tables has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flow. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

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Liquidity tables

The Group

As at 31 December 2015

	Weighted average effective interest rate %	Repayable on demand or less than 1 month RMB'000	1-3 months RMB'000	4 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2015 RMB'000
Non-derivative financial liabilities						
Trade and other payables	—	12,865	—	—	12,865	12,865
Amounts due to a related party	—	154	—	—	154	154
Bank and other borrowings	5.79	13,526	75	9,269	22,870	22,500
Obligation under finance lease	7.69	155	310	465	930	913
		<u>26,700</u>	<u>385</u>	<u>9,734</u>	<u>36,819</u>	<u>36,432</u>

As at 31 December 2016

	Weighted average effective interest rate %	Repayable on demand or less than 1 month RMB'000	1-3 months RMB'000	4 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2016 RMB'000
Non-derivative financial liabilities						
Trade and other payables	—	3,925	6,470	—	10,395	10,395
Amounts due to related parties	—	20,000	—	—	20,000	20,000
Bank borrowings	5.44	50	143	16,501	16,694	16,000
		<u>23,975</u>	<u>6,613</u>	<u>16,501</u>	<u>47,089</u>	<u>46,395</u>

The Company

As at 31 December 2016

		Repayable on demand RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2016 RMB'000
Non-derivative financial liability				
Amount due to a subsidiary		<u>545</u>	<u>545</u>	<u>545</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

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(c) Fair value

The management considers that the carrying amounts of the financial assets and financial liabilities of the Group and the Company recorded at amortised cost in the Historical Financial Information at the end of each reporting period approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

26. MAJOR NON-CASH TRANSACTION

The Business Transfer has been completed during the year ended 31 December 2015 and certain assets and liabilities of Dafenghang retained therein are accounted for as deemed distribution to its then shareholders.

27. INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES

(a) Particulars of the subsidiaries

During the Track Record Period and as at the date of this report, the Company has the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Place of operation	Issued and fully paid share capital/registered capital	Equity interest attributable to the Group as at		Date of this report	Principal activities	Form of company
				31 December 2015	2016			
Zhonglian Investment (note i)	British Virgin Islands (“BVI”) 28 November 2016	BVI	US\$100	N/A	100%	100%	Investment holding	Limited liability
Zhonglian Logistics HK (note ii)	Hong Kong 2 December 2016	Hong Kong	HK\$1	N/A	100%	100%	Investment holding	Limited liability
Guangzhou World-Link (note iii)	PRC 27 November 1996	PRC	RMB20,000,000	50.55%	100%	100%	Provision of warehousing, transportation, in-plant logistics and customisation services	Limited liability

Notes:

- (i) Zhonglian Investment is directly held by the Company. As at 31 December 2016, the investment cost of the Company in Zhonglian Investment was RMB694. No audited financial statements have been prepared for Zhonglian Investment since its date of incorporation as it was incorporated in a jurisdiction where there is no statutory audit requirements.
- (ii) No statutory audited financial statements of Zhonglian Logistics HK have been prepared for the year ended 31 December 2016 as it is newly incorporated and the statutory financial statements have not yet been due to issue.
- (iii) No statutory audited financial statements of Guangzhou World Link have been prepared for each of the years ended 31 December 2015 and 31 December 2016 as it is not required to do so in the relevant region in the PRC. A set of audited financial statements of Guangzhou World-Link for each of the two years ended 31 December 2015 and the four months ended 30 April 2016 was prepared in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises and were audited by 大華會計師事務所(特殊普通合夥) Da Hua Certified Public Accountants (Special General Partnership), certified public accountants registered in the PRC, for management purposes.

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(b) Reserve of the Company

	Accumulated losses <i>RMB'000</i>
At 22 November 016 (date of incorporation)	—
Loss for the period	<u>(2,837)</u>
At 31 December 2016	<u><u>(2,837)</u></u>

(c) Financial statements for the Company

No audited financial statements have been prepared for the Company since its date of incorporation as it was incorporated in a jurisdiction where there is no statutory audit requirements.

28. SUBSEQUENT EVENTS

[No significant event taken place subsequent to 31 December 2016.]

29. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries or the Group in respect of any period subsequent to 31 December 2016.