CHINA LEON INSPECTION HOLDING LIMITED
中国力鸿检验控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1586)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- Revenue for 2016 amounted to approximately RMB186.5 million, representing an increase of 19.7% from approximately RMB155.8 million recorded in 2015.
- Gross profit for 2016 amounted to approximately RMB96.4 million, representing an increase of 19.8% from approximately RMB80.4 million recorded in 2015.
- Profit attributable to owners of the parent for 2016 amounted to approximately RMB33.6 million, representing an increase of 21.8% from approximately RMB27.6 million recorded in 2015.
- Net cash flows from operating activities for 2016 amounted to approximately RMB50.3 million, representing an increase of 27.6% from approximately RMB39.4 million recorded in 2015.

In this announcement, "we", "us" and "our" refer to the Company (as defined below) and where the context otherwise requires, the Group (as defined below).

The board (the "**Board**") of directors (the "**Directors**") of China Leon Inspection Holding Limited (the "**Company**") is pleased to announce that the consolidated annual results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2016 with the comparative figures for the year ended 31 December 2015 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
31 December 2016

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the parent								
	Share capital *RMB'000*	Contributed surplus *(i)* *RMB'000*	*Capital reserve *RMB'000*	*Statutory reserves *RMB'000*	*Exchange fluctuation reserve *RMB'000*	*Retained profits *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
As at 1 January 2015	–	15,000	27	7,947	–	87,092	110,066	193	110,259
Profit for the year	–	–	–	–	–	27,607	27,607	(32)	27,575
Other comprehensive income for the year:									
Exchange differences related to foreign operations	–	–	–	–	753	–	753	–	753
Total comprehensive income for the year	–	–	–	–	753	27,607	28,360	(32)	28,328
Contributed surplus transfer to capital reserve	–	(15,000)	15,000	–	–	–	–	–	–
Capital contribution	65	–	51,224	–	–	–	51,289	–	51,289
Deem distribution (ii)	–	–	(47,877)	–	–	–	(47,877)	–	(47,877)
Profit distribution (iii)	–	–	–	–	–	(81,000)	(81,000)	–	(81,000)
Transfer from retained profits	–	–	–	543	–	(543)	–	–	–
As at 31 December 2015 and 1 January 2016	**65**	**–**	**18,374**	**8,490**	**753**	**33,156**	**60,838**	**161**	**60,999**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**33,628**	**33,628**	**–**	**33,628**
Other comprehensive income for the year:									
Exchange differences related to foreign operations	**–**	**–**	**–**	**–**	**2,473**	**–**	**2,473**	**–**	**2,473**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**2,473**	**33,628**	**36,101**	**–**	**36,101**
Issue of shares *(note 28)*	**66**	**–**	**84,290**	**–**	**–**	**–**	**84,356**	**–**	**84,356**
Share issue expenses	**–**	**–**	**(9,645)**	**–**	**–**	**–**	**(9,645)**	**–**	**(9,645)**
Disposal of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(161)**	**(161)**
Transfer from retained profits	**–**	**–**	**–**	**2,936**	**–**	**(2,936)**	**–**	**–**	**–**
As at 31 December 2016	**131**	**–**	**93,019**	**11,426**	**3,226**	**63,848**	**171,650**	**–**	**171,650**

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

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

(ii) Pursuant to the reorganisation arrangements prior to the Company's listing on The Stock Exchange of Hong Kong Limited, each of LI Xiangli, ZHANG Aiying, LIU Yi, LI Dexin, ZHANG Jiaqi and Beijing Lihong Cornerstone Investment Co., Ltd. transferred their total equity interests in Beijing Huaxia Lihong to Huaxia Leon Inspection Limited, the subsidiary held by the Company. The consideration was RMB47,877,000 and settled in January 2016.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2016

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

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2016

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

(i) Pursuant to the reorganisation arrangements prior to the Company's listing on The Stock Exchange of Hong Kong Limited, each of LI Xiangli, ZHANG Aiying, LIU Yi, LI Dexin, ZHANG Jiaqi and Beijing Lihong Cornerstone Investment Co., Ltd. transferred their total equity interests in Beijing Huaxia Lihong to Huaxia Leon Inspection Limited, the subsidiary held by the Company. The consideration was RMB47,877,000 and settled in January 2016.

1. CORPORATE AND GROUP INFORMATION

China Leon Inspection Holding Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 29 July 2015. The registered office of the Company is located at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The Company's shares have been listed on The Stock Exchange of Hong Kong Limited from 12 July 2016.

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

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

Information about subsidiaries
Particulars of the Company's subsidiaries are as follows:

Name*	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China Leon Inspection Holding (BVI) Limited	British Virgin Island	US$1.00	100	–	Investment holding
Huaxia Leon Inspection Limited	The PRC Hong Kong	HK$100	–	100	Investment holding
Beijing Huaxia Lihong (北京華夏力鴻商品檢驗有限公司)	The PRC Mainland China	RMB50,000,000	–	100	Coal inspection
Qinhuangdao Lihong Coal Testing Co., Ltd. (秦皇島力鴻煤炭檢測有限公司)	The PRC Mainland China	RMB1,000,000	–	100	Coal and coke testing, inspection and relevant service
Tangshan Huaxia Lihong Commodity Inspection Co., Ltd. (唐山華夏力鴻商品檢驗有限公司)	The PRC Mainland China	RMB1,000,000	–	100	Inspection, testing, appraisal and inspection technology development
Tianjin Huaxia Lihong Coal Testing Co., Ltd. (天津華夏力鴻煤炭檢測有限公司)	The PRC Mainland China	RMB1,000,000	–	100	Coal and coke inspection
Nanjing Lihong Coal Testing Co., Ltd. (南京力鴻煤炭檢測有限公司)	The PRC Mainland China	RMB3,000,000	–	100	Coal, coke and minerals inspection
Guangzhou Lihong Coal Testing Co., Ltd. (廣州力鴻煤炭檢測有限公司)	The PRC Mainland China	RMB1,440,000	–	100	Professional technique service

Name*	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hebei Lihong Minerals Inspection Co., Ltd. (河北力鴻礦產品檢驗有限公司)	The PRC Mainland China	RMB3,000,000	–	100	Coal inspection technique advisory service
Hunan Lihong Coal Testing Co., Ltd. (湖南力鴻煤炭檢測有限公司)	The PRC Mainland China	RMB3,000,000	–	100	Coal, coke and minerals testing and inspection
Zhuhai Lidaohongtu Coal Testing Technology Services Co., Ltd. (珠海力道鴻圖煤炭檢測技術服務有限公司)	The PRC Mainland China	RMB1,000,000	–	100	Coal and minerals testing, inspection and advisory service
Beijing Huaxia Lihong Software Development Co.,Ltd. (北京華夏力鴻軟件開發有限公司)	The PRC Mainland China	RMB1,000,000	–	100	Software development, technique service and sale of computers and equipment
Tianjin Shengde Tiangong Sampling Technology Co., Ltd. (天津聖德天工採樣技術有限公司)	The PRC Mainland China	RMB10,000,000	–	100	Scientific research, technique service and business service

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

All these companies were incorporated with limited liability.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and interpretations) issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments, which has been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

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

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2016, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

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

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in a joint venture

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

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

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

Fair value measurement

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

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

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; *(If the Group is itself such a plan)* and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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

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

Land and buildings	4.75%
Vehicles	23.75%
Electronic equipment and others	19% to 31.67%
Leasehold improvements	20% to 33.33%

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

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

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method over the estimated useful lives years. Owner-occupied property is transferred to investment property when there is a change in use evidenced by the end of owner occupation.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year in which the items is derecognised.

Intangible assets (other than goodwill)

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

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over the shorter of their estimated useful lives and the relevant licence periods.

Research and development costs

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

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

Leases

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gains or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gain or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognized in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Available-for-sale financial investments

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

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

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, interest-bearing bank and other borrowings.

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Inventories

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

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

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

(a) from the rendering of coal and coke testing and inspection services, when the agreed services are provided;

(b) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(c) rental income, on a time proportion basis over the lease terms; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

Social pension plans

The Group has the social pension plans for its employees arranged by local government labour and security authorities. The Group makes contributions on a monthly basis to the social pension plans. The contributions are charged to profit or loss as they become payable in accordance with the rules of the social pension plans. Under the plans, the Group has no further obligations beyond the contributions made.

Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

Apart from those described above, the Group does not have any other legal or constructive obligations over employee benefits.

Borrowing costs

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

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which the tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Impairment of trade receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers will deteriorate such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the allowance and its future results would be affected.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives and residual values of items of property, plant and equipment and investment properties

In determining the useful lives and residual values of items of property, plant and equipment and investment properties, the Group periodically reviews the changes in market conditions, the expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on historical experience of the Group with similar assets that are used in a similar way. Depreciation amounts will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment and investment properties are different from previous estimation. Useful lives and residual values are reviewed at the end of each reporting period based on changes in circumstances.

4. OPERATING SEGMENT INFORMATION

The Group's revenue and contribution to consolidated results are mainly derived from coal testing and related technical services, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for purposes of resource arrangement and performance assessment. Accordingly, no segment information by profit, asset and liability is presented.

Geographical information

All of the Group's revenue is derived from customers based in Mainland China, and all of the non-current assets of the Group are located in Mainland China. Accordingly, no segment information by geographical segment is presented.

Information about a major customer

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

5. REVENUE, OTHER INCOME AND GAINS

Revenue comprises the value of services rendered and the net invoiced value of materials sold.

An analysis of the Group's revenue, other income and gains is as follows:

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

6. PROFIT BEFORE TAX

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

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

7. FINANCE COSTS

An analysis of financial costs is as follows:

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

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

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

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

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

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

(a) Independent non-executive directors

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

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

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

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

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

2016

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

2015

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
Executive directors					
LI Xiangli	–	655	400	47	1,102
LIU Yi	–	655	200	47	902
ZHANG Aiying	–	535	100	47	682
	–	1,845	700	141	2,686

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

9. FIVE HIGHEST PAID EMPLOYEES

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

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

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

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

During the year, no highest paid individuals waived or agreed to waive any emoluments and no emoluments were paid by the Group to the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2015: Nil).

10. INCOME TAX

The Company and its subsidiary incorporated in the Cayman Islands and British Virgin Islands are not subject to any income tax pursuant to the local rules and regulations.

The Company's subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profit. No provision for Hong Kong profit tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 December 2016 and 2015.

The Company's subsidiaries incorporated in the PRC are subject to income tax at a statutory rate of 25% on their respective taxable income, except for Beijing Huaxia Lihong, which has been identified as a "high and new technology enterprise" and was entitled to a preferential income tax rate of 15% for the years ended 31 December 2016 and 2015.

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

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

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

11. DISTRIBUTIONS AND DIVIDENDS

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

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

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

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

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

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

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

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

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

13. PROPERTY, PLANT AND EQUIPMENT

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

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings *RMB'000*	Vehicles *RMB'000*	Electronic equipment and others *RMB'000*	Construction in progress *RMB'000*	Leasehold improvements *RMB'000*	Total *RMB'000*
31 December 2015						
At 1 January 2015:						
Costs	27,985	16,337	15,281	7,041	4,415	71,059
Accumulated depreciation	(1,223)	(9,923)	(7,273)	–	(2,146)	(20,565)
Net carrying amount	26,762	6,414	8,008	7,041	2,269	50,494
At 1 January 2015, net of accumulated depreciation	26,762	6,414	8,008	7,041	2,269	50,494
Additions	–	2,466	2,776	10,874	350	16,466
Disposals	–	(7)	(38)	–	–	(45)
Transfers to the investment properties *(note 14)*	(24,301)	–	–	–	–	(24,301)
Depreciation provided during the year *(note 6)*	(521)	(3,006)	(2,564)	–	(1,068)	(7,159)
At 31 December 2015, net of accumulated depreciation	1,940	5,867	8,182	17,915	1,551	35,455
At 31 December 2015:						
Costs	2,472	18,682	17,865	17,915	2,517	59,451
Accumulated depreciation	(532)	(12,815)	(9,683)	–	(966)	(23,996)
Net carrying amount	1,940	5,867	8,182	17,915	1,551	35,455

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

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

14. INVESTMENT PROPERTIES

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

The Group's investment properties were valued on 31 December 2016 based on valuations performed by Cushman & Wakefield, an independent professionally qualified valuers, at RMB26,530,000 (31 December 2015: RMB27,280,000), on an open market, existing use basis.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 31(a) to the financial statements.

At 31 December 2015, the Group's investment properties with a carrying value of RMB23,493,000 were pledged to secure an interest-bearing bank loan amounting to RMB30,000,000 (note 26). The pledge has been relieved along with the repayment of the bank loan during the year ended 31 December 2016.

Fair value hierarchy

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

31 December 2016

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

31 December 2015

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

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

15. PREPAID LAND LEASE PAYMENTS

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

16. GOODWILL

	As at 31 December 2016	As at 31 December 2015
	RMB'000	*RMB'000*
At beginning/end of the year:		
Cost and net carrying amount	**572**	572

Impairment testing of goodwill

Goodwill acquired through a business combination in 2012 is allocated to a regional service-rendering cash-generating unit for impairment testing.

The recoverable amount of the regional service-rendering cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15%. The growth rate used to extrapolate the cash flows of the regional service-rendering unit beyond the five-year period is 2%.

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

Budgeted gross margin – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved during the year, increased for expected efficiency improvements and expected market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions and discount rate is consistent with external information sources.

17. INTANGIBLE ASSETS

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

18. INVESTMENT IN A JOINT VENTURE

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

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

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

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

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

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

19. DEFERRED TAX

Deferred tax assets

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

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax Liabilities

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

20. TRADE AND BILLS RECEIVABLES

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

The Group's trading terms with its customers are mainly on credit. The credit period is generally three months. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

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

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

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

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

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

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

The individually impaired trade and bills receivables relate to customers that were in default in payments and only a portion of the receivables is expected to be recovered.

An aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

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

Receivables that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default.

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

22. AVAILABLE-FOR-SALE INVESTMENTS

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

The available-for-sale investments stated at fair value represented financial products issued by banks. The fair values of available-for-sale investments have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 December 2016 *RMB'000*	As at 31 December 2015 *RMB'000*
Cash and bank balances	**63,450**	58,147
Time deposits	**812**	33
	64,262	58,180
Less: Time deposits pledged for construction in the process	**(812)**	(33)
Cash and cash equivalents	**63,450**	58,147

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

24. TRADE PAYABLES

An aged analysis of the trade payables based on the invoice date is as follows:

	As at 31 December 2016 *RMB'000*	As at 31 December 2015 *RMB'000*
Within 3 months	**4,487**	4,027
3 to 6 months	**59**	–
6 months to 1 year	**–**	1
1 to 2 years	**7**	61
2 to 3 years	**59**	3
Over 3 years	**3**	4
	4,615	4,096

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

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

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

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

25. ADVANCE FROM CUSTOMERS, OTHER PAYABLES AND ACCRUALS

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

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

26. INTEREST-BEARING BANK LOAN AND OTHER BORROWING

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

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

All of the Group's bank loan and other borrowing are denominated in RMB.

The maturity profile of the other borrowing is as follows:

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

The Group's bank loan amounting to RMB30,000,000 as at 31 December 2015 was guaranteed by an independent third party. The Group in turn provided a counter-guarantee by mortgage over the Group's investment properties with a carrying value of RMB23,493,000 as at 31 December 2015. LI Xiangli and ZHANG Aiying also provided a counter-guarantee to this independent third party. The guarantee has been relieved along with the repayment of the bank loan during the year ended 31 December 2016.

27. INTEREST PAYABLE

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

28. SHARE CAPITAL

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

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

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

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

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

29. RESERVES

The amounts of the Group's reserves and the movements therein are presented in the consolidated statements of changes in equity for the current and prior years on page 4 and 5 of these financial statements.

30. PLEDGE OF ASSETS

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

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

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

(b) As lessee

The Group leases certain of its office premise, plant and warehouses under operating lease arrangements. Leases of the properties are negotiated for terms ranging from one year to ten years.

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

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

32. COMMITMENTS

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

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

33. RELATED PARTY TRANSACTIONS

(a) Transaction with related parties during the year:

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

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

(b) Outstanding balances with related parties:

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

(c) Guarantee with related parties:

The Group's bank loan amounting to RMB30,000,000 as at 31 December 2015 was guaranteed by an independent third party, LI Xiangli and ZHANG Aiying. The Group in turn provided a counter-guarantee by mortgage over the Group's investment properties with a carrying value of RMB23,493,000 as at 31 December 2015 to the independent third party, LI Xiangli and ZHANG Aiying also provided a counter-guarantee to this independent third party. The guarantee has been relieved along with the repayment of the bank loan during the year ended 31 December 2016.

(d) Compensation of key management personnel of the Group

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

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

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

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

34. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

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

Financial liabilities

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

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying Amounts As at 31 December		**Fair Values As at 31 December**	
	2016	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial assets				
Available-for-sale investments	**9,000**	26,000	**9,000**	26,000
Financial liabilities				
Interest-bearing bank loan and other borrowing	**10,000**	50,000	**10,000**	50,000
Interest payable	**1,210**	260	**1,210**	260
	11,210	50,260	**11,210**	50,260

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade payables and financial liabilities included in advance from customers, other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At end of the reporting periods, the finance department analysed the movements in the values of financial instruments and determined the major inputs applied in the valuation.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were estimated the fair value:

The fair values of interest-bearing bank loan and other borrowing and interest payable have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loan and other borrowing and interest payable at 31 December 2016 was assessed to be insignificant.

The available-for-sale investments stated at fair value at the end of the reporting periods represented financial products issued by banks. The fair values of the available-for-sale investments have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

Fair value hierarchy

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

Assets measured at fair value:

31 December 2016

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

31 December 2015

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

Liabilities for which fair value are disclosed

31 December 2016

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

31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Interest-bearing bank loan and other borrowing	–	50,000	–	50,000
Interest payable	–	260	–	260
	–	50,260	–	50,260

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loan and other borrowing, pledged deposits and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

The Group mitigates the risk by monitoring closely the movements in interest rates and reviewing its banking facilities regularly. The Group has not used any interest rate swap to hedge its exposure to interest rate risk.

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

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

2016

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

2015

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

Foreign currency risk

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

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

2016

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

Credit risk

The Group trades only with recognised and creditworthy parties. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The credit quality of customers is assessed after taking into account the customers' financial position and past experience with the customers.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and available-for-sale investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, and by geographical region. As at 31 December 2016 and 2015, the Group had concentration of credit risk as 46% and 54% of its total trade and bills receivables were due from its largest customer and 65% and 74% of its total trade and bills receivables were due from its top five customers, respectively.

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

Liquidity risk

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations. The maturity profile of the Group's financial liabilities as at the end of each of the reporting period, based on the contractual undiscounted payments, is as follows:

31 December 2016

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

31 December 2015

	Within one year *RMB'000*	In third year *RMB'000*	Total *RMB'000*
Trade payables	4,096	–	4,096
Financial liabilities included in advance from customers, other payables and accruals	56,589	–	56,589
Interest-bearing bank loan and other borrowing	30,000	20,000	50,000
Interest payments on bank and other borrowing	618	2,850	3,468
	91,303	22,850	114,153

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. The Group's policy is to maintain the gearing ratio below 70%. Net debt includes interest-bearing bank loan and other borrowing, interest payable, trade payables and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The gearing ratios at the end of reporting periods are as follows:

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

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	As at 31 December 2016 *RMB'000*	As at 31 December 2015 *RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**13**	–
Investment in a subsidiary	**55,570**	51,238
Total non-current assets	**55,583**	51,238
CURRENT ASSETS		
Deposits and other receivables	**51,082**	51
Cash and cash equivalents	**32,458**	–
Total current assets	**83,540**	51
CURRENT LIABILITIES		
Other payables	**6,530**	–
Total current liabilities	**6,530**	–
NET CURRENT ASSETS	**77,010**	51
TOTAL ASSETS LESS CURRENT LIABILITIES	**132,593**	51,287
Net assets	**132,593**	51,289
EQUITY		
Share capital	**131**	65
Reserves	**132,462**	51,224
Total equity	**132,593**	51,289

Note:

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

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

38. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Market Review

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

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

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

Business Strategies and Future Outlook

The development of China's coal testing and inspection industry mainly depends on the overall development of the coal industry and the further penetration of the coal testing and inspection industry. Given coal's long-term dominant position in China's energy structure, the coal testing and inspection industry also has steady growth potentials. Only a moderate portion of coal is currently subject to independent testing and inspection. In the long run, benefiting from the further liberalization of coal trade, the coal subject to testing and inspection may potentially account for close to the entirety of the coal for consumption. Moreover, in terms of future industrial concentration, the companies with high credibility, leading techniques and strong professionalism will compete more effectively, leading to a concentration of elite companies.

Further solidify our leadership in coal testing and inspection industry

We believe that coal testing and inspection are our core competency. We intend to continue to solidify our leadership in this industry by (1) upgrading and expanding our network of service centers, (2) strengthening our research and development capabilities to improve our testing procedures and laboratorial capabilities, and (3) consolidating China's coal testing and inspection market through select acquisitions.

We intend to enlarge our core competency by identifying and capturing new growth opportunities in the coal testing and inspection market. As our services are being offered primarily to seaborne coal trade through the Four Northern Ports, we plan to expand our testing services to inland coal trade, a market largely untapped by independent assurance providers. Through our long-term stable business relationship with large coal miners and power generators, we are able to capture and compile comprehensive data relating to quality testing results in our in-house information system. We will also adapt our in-house information system to interact with our customers' systems and facilitate our provision of comprehensive quality management services spanning the entire coal distribution chain. As we will build our management services upon our strong testing capabilities, we believe we are well positioned to leverage our established brand recognition and quality control measures to launch these new services.

Upgrade and expand our network of service centers

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

Our current service centers cover primarily major seaports for coal trade in China. As our operation continues to grow, we also plan to expand our service network to other regions that are strategically important to China's seaborne coal trade, including certain key seaports located in Shandong province (north) and Fujian province (south). As we further penetrate the coal testing and inspection market for coal transported via rail or truck, we expect to set up new service centers at strategically-located rail interchanges that are critical for inland coal trade. Our geographic expansion plans reflect our commitment to providing convenient access to our services by locating the nearest full-service testing facilities. An expanded network coverage of key seaports and rail interchanges will allow us to develop and provide comprehensive quality management services spanning the entire coal distribution chain. Outside China, we intend to selectively open service facilities to provide coal testing services in countries with abundant coal export and import volume which represent large potential markets for us. Leveraging our integrated service capabilities, we intend to establish our presence in those countries through establishing subsidiaries, forming joint ventures with local business partners and/or acquiring existing service facilities. We will also upgrade our in-house information infrastructure to interconnect our overseas service facilities and allow seamless exchange of information and expertise, creating an integrated network to serve the domestic and cross-border flows of coal.

Further strengthen our research and development efforts

We believe that technical improvements are critical to our service offerings and our ability to compete effectively in a concentrated market, and are therefore dedicated to deploying adequate resources to advance our research and development efforts. Automation is a principal focus of our research and development efforts. We plan to strengthen our internal research as well as collaboration with third-party institutions to develop automated service process, which will allow us to significantly reduce labor costs, minimize human error and improve efficiency for our services. We also plan to develop and upgrade our in-house technology infrastructure to support our new business offerings, including comprehensive quality management services. Interacting with our customers' systems, the upgraded technology infrastructure will capture and compile the test results from our complete service sessions, and enable us to manage holistically the coal quality over a stipulated period of time.

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

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

We will also consider targets in other testing markets, including fuel, mineral and chemical products, if their growth prospects and profitability are sufficiently attractive. Benefiting from our stringent quality control and standardized operational measures, we believe that acquisition of or investment in complementary testing businesses will create synergy. During 2016, we have contributed our share of registered capital to Guangzhou Lihong Energy Testing Technology Co., Ltd. (廣州力鴻能源檢測技術有限公司), our joint venture. We believe our investment will further expand our service scope in the future.

FINANCIAL REVIEW

Overview

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

Revenue

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

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

Cost of Sales

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

Gross Profit and Gross Profit Margin

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Other Expenses

The Group recorded other expenses of approximately RMB1.0 million and RMB2.9 million in 2015 and 2016, respectively. The increase in the Group's other expenses was primarily attributable to (1) the impairment of the value of certain construction in progress and (2) the increased impairment for bad debt.

Finance Costs

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

Income Tax Expense

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

Net Profit

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

Property, Plant and Equipment

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

Investment Properties

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

Trade and Bills Receivables

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

Prepayments, Deposits and Other Receivables

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

Available-for-sale Investments

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

Cash and Cash Equivalents

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

Trade Payables

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

Advance from Customers, Other Payables and Accruals

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

Interest-bearing Bank Loans

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

Interest-bearing Other Borrowing

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

Liquidity and Capital Resources

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

Treasury Management and Funding Policy

The primary objectives of our capital management are to safeguard our ability to continue as a going concern and to maintain healthy capital ratios in order to support our business and maximize our shareholders' value. We manage and adjust our capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust our capital structure, we may adjust dividend payments to shareholders, return capital to shareholders or raise funds through issuing new equity.

We have a prudent treasury operation to manage our investments in financial products. We only invest in low risk financial instruments from reputable commercial banks that can be redeemed on a same-day basis or otherwise within a short notice period, including primarily bank-sponsored wealth management products, such as bonds, money market funds and interbank deposits.

Cash Flows from Operating Activities

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

Cash Flows from Financing Activities

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

Commitments

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

Contingent Liabilities

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

Gearing Ratio

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

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

Credit Risk

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

In addition, the Group monitors receivable balances on an ongoing basis, and its exposure to bad debts is not significant. The management of the Group evaluates the creditworthiness of its existing and prospective customers and ensures that the customers have adequate financing for the projects as well as the source of the financing. No collateral is required.

The Group's other financial assets include other receivables, available-for-sale financial instruments and cash and cash equivalents. The credit risk of these financial assets arises from default of the counterparty. The maximum exposure to credit risk equals to the carrying amounts of these assets.

Foreign Exchange Risk

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

Significant Investments

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

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

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

Charges on Assets

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

HUMAN RESOURCES

As of 31 December 2016, the Group had 836 employees in total. The Group's employee compensation includes base salary, bonuses and cash subsidies. In general, we determine employee compensation based on each employee's performance, qualifications, position and seniority. We are subject to social insurance contribution plans organized by PRC local governments. In accordance with the relevant national and local social welfare and housing reserve fund laws and regulations, we are required to pay, on behalf of our employees, monthly social insurance premiums covering basic pension insurance, basic medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing reserve fund.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE CODE

The Board has committed to maintaining good corporate governance standards.

The Company was listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 July 2016 (the "**Listing Date**"). Therefore, the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") were not applicable to the Company during the period from 1 January 2016 to 11 July 2016.

Since the Listing Date and up to the date of this announcement, in the opinion of the directors, the Company has complied with the code provisions as set out in the CG Code except the deviation from code provisions A.2.1 and C.3.3(e)(i).

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

During the period from the Listing Date to 31 December 2016, the audit committee of the Board (the "**Audit Committee**") met the external auditor only once a year, as the CG Code was not applicable to the Company prior to the Listing Date, for reviewing the Company's interim results for the first half of 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "**Model Code**") of Appendix 10 to the Listing Rules as its own code of conduct regarding dealings in the securities of the Company by the Directors and the Company's senior management who, because of their office or employment, are likely to possess inside information of the Company and/or securities.

The Company was listed on the Stock Exchange on 12 July 2016. Therefore, the relevant terms of the Model Code were not applicable to the Company during the period from 1 January 2016 to 11 July 2016.

Having made specific enquiry by the Company with all Directors, all Directors have confirmed that they have complied with the required standards set out in the Model Code regarding directors' securities transactions throughout the period from the Listing Date to the date of this announcement.

REVIEW OF FINANCIAL STATEMENTS

The Company has established the Audit Committee in compliance with Rules 3.21 and 3.22 of the Listing Rules. It comprises three members, being three independent non-executive Directors, namely Mr. YANG Rongbing (chairman of the committee), Mr. WANG Zichen and Mr. ZHAO Hong.

The Audit Committee has discussed with the management and reviewed the annual consolidated financial statements of the Group for the year ended 31 December 2016 and this announcement.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

DIVIDEND AND CLOSURE OF REGISTER

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

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

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

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

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.huaxialihong.com, respectively. The annual report of the Company for the year ended 31 December 2016 containing all the information required under the Listing Rules will be despatched to the shareholders of the Company and published on the above-mentioned websites in due course.

By order of the Board
China Leon Inspection Holding Limited
Li Xiangli
Chairman

Beijing, PRC, 14 March 2017

As at the date of this announcement, the Board comprises Mr. Li Xiangli, Ms. Zhang Aiying, and Mr. Liu Yi as executive directors; Mr. Wang Gang as non-executive director; and Mr. Yang Rongbing, Mr. Wang Zichen and Mr. Zhao Hong as independent non-executive directors.