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 2017

FINANCIAL HIGHLIGHTS

- Revenue for 2017 amounted to approximately RMB200.9 million, representing an increase of 7.8% from approximately RMB186.5 million recorded in 2016.
- Gross profit for 2017 amounted to approximately RMB110.7 million, representing an increase of 14.9% from approximately RMB96.4 million recorded in 2016.
- Profit attributable to owners of the parent for 2017 amounted to approximately RMB35.6 million, representing an increase of 5.9% from approximately RMB33.6 million recorded in 2016.
- Net cash flow from operating activities for 2017 amounted to approximately RMB45.3 million, representing a decrease of 9.9% from approximately RMB50.3 million recorded in 2016.
- Final dividend of RMB0.025 per share recommended, results in a full-year dividend of RMB0.025 per share.

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 (collectively, the "**Group**") for the year ended 31 December 2017 with the comparative figures for the year ended 31 December 2016 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	**2017** *RMB'000*	2016 *RMB'000*
REVENUE	5	**200,921**	186,466
Cost of sales		**(90,237)**	(90,107)
Gross profit		**110,684**	96,359
Other income and gains	5	**1,634**	1,413
Selling and distribution expenses		**(2,749)**	(2,053)
Administrative expenses		**(63,704)**	(53,171)
Other expenses		**(2,217)**	(2,938)
Finance costs	7	**(690)**	(1,559)
Share of profits of:			
a joint venture	18	**171**	7
an associate	19	**8**	–
PROFIT BEFORE TAX	6	**43,137**	38,058
Income tax expense	10	**(8,434)**	(4,430)
PROFIT FOR THE YEAR		**34,703**	33,628
Attributable to:			
Owners of the parent		**35,595**	33,628
Non-controlling interests		**(892)**	–
		34,703	33,628
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations		**(1,915)**	2,473
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(1,915)**	2,473
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**32,788**	36,101
Attributable to:			
Owners of the parent		**33,680**	36,101
Non-controlling interests		**(892)**	–
		32,788	36,101
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	12	**RMB8.90 cents**	RMB9.69 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**106,488**	59,638
Investment properties	*14*	**21,992**	22,282
Prepaid land lease payments	*15*	**6,198**	10,370
Goodwill	*16*	**572**	572
Intangible assets	*17*	**732**	820
Investment in a joint venture	*18*	**1,678**	1,507
Investment in an associate	*19*	**3,108**	–
Deferred tax assets	*20*	**1,041**	1,828
Prepayments, deposits and other receivables	*22*	**929**	15,112
Total non-current assets		**142,738**	112,129
CURRENT ASSETS			
Trade and bills receivables	*21*	**22,563**	22,059
Prepayments, deposits and other receivables	*22*	**18,581**	9,308
Available-for-sale investments	*23*	**21,300**	9,000
Pledged deposits	*24*	**397**	812
Cash and cash equivalents	*24*	**48,791**	63,450
Total current assets		**111,632**	104,629
CURRENT LIABILITIES			
Trade payables	*25*	**3,718**	4,615
Advance from customers, other payables and accruals	*26*	**31,671**	28,557
Interest-bearing bank loans and an other borrowing	*27*	**6,061**	–
Tax payable		**1,801**	226
Total current liabilities		**43,251**	33,398
NET CURRENT ASSETS		**68,381**	71,231
TOTAL ASSETS LESS CURRENT LIABILITIES		**211,119**	183,360

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

31 December 2017

	Notes	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	*27*	**11,681**	10,000
Interest payable		**–**	1,210
Deferred tax liabilities	*20*	**1,111**	500
Other payables		**29**	–
Total non-current liabilities		**12,821**	11,710
Net assets		**198,298**	171,650
EQUITY			
Equity attributable to owners of the parent			
Share capital	*28*	**131**	131
Reserves	*30*	**195,075**	171,519
		195,206	171,650
Non-controlling interests		**3,092**	–
Total equity		**198,298**	171,650

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the parent							
	Share capital	*Capital reserve	*Statutory reserves	*Exchange fluctuation reserve	*Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 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 on translation of 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 and 1 January 2017	131	93,019	11,426	3,226	63,848	171,650	–	171,650
Profit for the year	–	–	–	–	35,595	35,595	(892)	34,703
Other comprehensive loss for the year:								
Exchange differences on translation of foreign operations	–	–	–	(1,915)	–	(1,915)	–	(1,915)
Total comprehensive income for the year	–	–	–	(1,915)	35,595	33,680	(892)	32,788
Final 2016 dividend declared *(note 11)*	–	–	–	–	(10,000)	(10,000)	–	(10,000)
Capital contributions from non-controlling shareholders	–	–	–	–	–	–	2,863	2,863
Equity-settled share option arrangements *(note 29)*	–	627	–	–	–	627	–	627
Acquisition of a subsidiary *(note 31)*	–	–	–	–	–	–	370	370
Equity transactions with non-controlling shareholders	–	(751)	–	–	–	(751)	751	–
Transfer from retained profits	–	–	4,329	–	(4,329)	–	–	–
As at 31 December 2017	131	92,895	15,755	1,311	85,114	195,206	3,092	198,298

* As at 31 December 2017, these reserve accounts comprise the consolidated reserves of RMB195,075,000 (31 December 2016: RMB171,519,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**43,137**	38,058
Adjustments for:			
Share of profit of a joint venture	18	**(171)**	(7)
Share of profit of an associate	19	**(8)**	–
Finance costs	7	**690**	1,559
Depreciation of property, plant and equipment	6	**9,261**	6,282
Depreciation of investment properties	6	**1,223**	1,211
Amortisation of prepaid land lease payments	6	**244**	286
Amortisation of intangible assets	6	**88**	24
Loss on disposal of items of property, plant and equipment, net	6	**33**	53
Gain on disposal of available-for-sale investments	6	**(242)**	(221)
Initial public offering related fee		**–**	9,567
(Reversal of impairment)/impairment of trade receivables	6	**(213)**	508
Impairment of construction in progress	6	**–**	1,028
Equity-settled share option expense	29	**627**	–
		54,669	58,348
(Increase)/decrease in trade and bills receivables		**(18)**	6,922
Increase in prepayments, deposits and other receivables		**(2,096)**	(1,967)
(Decrease)/increase in trade payables		**(897)**	519
Decrease in advance from customers, other payables and accruals		**(1,159)**	(5,495)
Cash generated from operations		**50,499**	58,327
Income tax paid		**(5,205)**	(8,068)
Net cash flows from operating activities		**45,294**	50,259

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(42,099)**	(35,406)
Payment for intangible assets		**–**	(794)
Proceeds from disposal of items of property, plant and equipment		**263**	38
Purchase of available-for-sale investments		**(100,800)**	(63,500)
Disposal of available-for-sale investments		**88,500**	80,500
Gain on disposal of available-for-sale investments		**242**	221
Purchase of interests in a joint venture		**–**	(1,500)
Purchase of interests in an associate		**(3,100)**	–
Acquisition of a subsidiary, net of cash acquired	*31*	**(498)**	–
Disposal of a subsidiary		**–**	(161)
Decrease/(increase) in pledged deposits		**415**	(779)
Net cash flows used in investing activities		**(57,077)**	(21,381)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	84,356
Capital contributions from non-controlling shareholders		**2,863**	–
New bank loans and other borrowing	*32*	**50,370**	–
Repayment of bank loans and other borrowing	*32*	**(42,684)**	(40,000)
Interest paid		**(1,900)**	(609)
Dividend paid		**(10,000)**	–
Payment for initial public offering related fee		**–**	(21,918)
Repayment of deemed distribution *(i)*		**–**	(47,877)
Net cash flows used in financing activities		**(1,351)**	(26,048)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(13,134)**	2,830
Effect of foreign exchange rate changes, net		**(1,525)**	2,473
Cash and cash equivalents at beginning of year		**63,450**	58,147
CASH AND CASH EQUIVALENTS AT END OF YEAR		**48,791**	63,450

(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 Commodity Inspection Co., Ltd. ("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 subsidiaries (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 was 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	
Asia Leon Inspection Holding Limited	British Virgin Islands	US$50,000	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
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
China Leon Inspection Holding (BVI) Limited	British Virgin Islands	US$1.00	100	–	Investment holding
Guangzhou Lihong Coal Testing Co.,Ltd. (廣州力鴻煤炭檢測有限公司)	The PRC Mainland China	RMB1,440,000	–	100	Professional technique service
Hebei Lihong Minerals Inspection Co., Ltd. (河北力鴻礦產品檢驗有限公司)	The PRC Mainland China	RMB3,000,000	–	100	Coal inspection technique advisory service
Huaxia Leon Inspection Limited	The PRC Hong Kong	HK$100	–	100	Investment holding
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
Huoerguosi Huaxialihong Quality Technical Service Co., Ltd. (霍爾果斯華夏力鴻質量技術服務有限公司)	The PRC Mainland China	RMB1,000,000	–	100	Product quality control, inspection, evaluation supervision, testing and relevant 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	
Leon Inspection & Testing India Private Limited (formerly known as Nutech Surveyors & Analysts Private Limited)	India	INR500,000	–	80	Inspection and testing of commodities
Leon Inspection Testing Services Sdn. Bhd	Malaysia	MYR1,000,000	–	100	Inspection and testing of commodities
Leon Overseas Pte. Ltd	Singapore	SGD1,000,000	–	51	Inspection and testing of commodities
Leon Sanitary Inspection Technical Service (Tianjin) Co., Ltd. (力鴻衛檢科技服務(天津)有限公司)	The PRC Mainland China	RMB1,000,000	–	100	Vector biological control technology, technological development and consulting and chemical products wholesale and retail
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
Pt. Leon Testing and Consultancy	Indonesia	IDR3,001,500,000	–	51	Inspection and testing of commodities
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
Shanxi Huaxia Lihong Commodity Inspection Co., Ltd. (陝西華夏力鴻商品檢驗有限公司)	The PRC Mainland China	RMB50,000,000	–	55	Quality Inspection Service
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
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 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
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

* 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 2017. 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 revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 32 to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[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*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC-22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC-23	*Uncertainty over Income Tax Treatments*[2]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 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 described below.

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 an 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. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will 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 will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and 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 bank financial products currently held at fair value. Gains and losses of those bank financial products will be recognised in the statement of profit or loss.

(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 will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

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 December 2015 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 adoption now.

IFRS 15, issued in May 2014, 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. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. 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 plans to adopt the transitional provisions in IFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of IFRS 15 will not be material. The Group also assessed that the expected changes in accounting policies, as further explained below, will not have a material impact on the Group's financial statements from 2018 onwards. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15.

The Group derived a majority of its revenue from testing services during 2017. The Group performs analytical tests for coal quality and usually issues testing certificates or reports within 24 to 48 hours after completion of the on-site preparation. Upon the adoption of IFRS 15, revenue from the testing services will be recognised at a point in time when test result is delivered to the customer, which is the same as the current practice. The Group has determined that when IFRS 15 is adopted, the Group's revenue for 2017 will not be changed significantly. The expected impacts arising from the adoption of IFRS 15 on the Group is the presentation and disclosure of financial statements.

The presentation and disclosure requirements in IFRS 15 are more detailed than those under the current IAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

IFRS 16, issued in January 2016, replaces IAS 17 *Leases*, IFRIC-4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-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, or relates to a class of property, plant and equipment to which the revaluation model is applied. 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. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 34(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB20,649,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to IAS 40, issued in December 2016, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC-22, issued in December 2016, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

IFRIC-23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

The Group's investments in an associate and a joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. 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 associate and 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 associate or 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 associate or joint venture are eliminated to the extent of the Group's investment in the associate or joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the associate or joint venture is included as part of the Group's investment in the associate or 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 financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to 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; 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 item is derecognised.

Intangible assets (other than goodwill)

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

Patents and licences

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

Research and development costs

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

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

Leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms of 25 years to 40 years.

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

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

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

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

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

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

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial 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 and interest-bearing bank loans 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.

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 and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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.

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

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

(c) 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; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 29 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Employee benefits

Social pension plans

The Group has 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. Proposed final dividends are disclosed in the notes to the financial statements.

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, which is the Company's functional currency. 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. The amount of unrecognised tax losses at 31 December 2017 was RMB6,305,000 (2016: RMB1,599,000). Further details are contained in note 20 to the financial statements.

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.

Share option scheme

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield and making assumptions about them. Continuous estimation is required for the calculation of cumulative share-based payment cost at each reporting date until vesting, including estimate of the number that will vest. Details of share-based payments are contained in note 29 to the financial statements.

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

(a) Revenue from external customers

	2017	2016
	RMB'000	*RMB'000*
Mainland China	**194,873**	186,466
Other countries/regions	**6,048**	–
	200,921	186,466

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*
Mainland China	**139,715**	110,301
Other countries/regions	**1,982**	–
	141,697	110,301

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about a major customer

During the year ended 31 December 2017, revenue generated from one of the Group's customers accounting for 10% or more of the Group's total revenue was RMB73,834,000 (year ended 31 December 2016: RMB99,520,000).

5. REVENUE, OTHER INCOME AND GAINS

Revenue comprises the value of services rendered.

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

	Note	**2017** *RMB'000*	2016 *RMB'000*
Revenue			
Testing services		**164,213**	151,308
Surveying services		**28,500**	25,832
Witnessing and ancillary services		**8,208**	9,326
		200,921	186,466
Other income			
Bank interest income		**54**	29
Government grants		**108**	528
Rental income		**581**	591
		743	1,148
Gains			
Gain on disposal of available-for-sale investments		**242**	221
Gain on acquisition of a subsidiary	*31*	**85**	–
Others		**564**	44
		891	265
		1,634	1,413

6. PROFIT BEFORE TAX

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

	Notes	**2017** **RMB'000**	2016 *RMB'000*
Cost of services provided		**90,237**	90,107
Depreciation of property, plant and equipment	*13*	**9,261**	6,282
Depreciation of investment properties	*14*	**1,223**	1,211
Amortisation of prepaid land lease payments	*15*	**244**	286
Amortisation of intangible assets	*17*	**88**	24
Research and development costs:			
Current year expenditure		**14,051**	4,318
Minimum lease payments under operating leases:			
Land and buildings		**6,835**	6,333
Auditor's remuneration		**1,132**	1,916
Employee benefit expenses (including directors' and the chief executive's remuneration):			
Wages and salaries		**53,172**	47,629
Pension scheme contributions		**4,948**	4,759
Welfare and other expenses		**11,560**	8,981
Equity-settled share option expense	*29*	**627**	–
		70,307	61,369
Impairment of trade receivables	*21*	**172**	650
Reversal of impairment of trade receivables	*21*	**(385)**	(142)
		(213)	508
Impairment of construction in progress	*13*	**–**	1,028
Bank interest income		**(54)**	(29)
Loss on disposal of items of property, plant and equipment, net		**33**	53
Gain on disposal of available-for-sale investments		**(242)**	(221)

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 **RMB'000**	2016 *RMB'000*
Interest on bank loans and other borrowings	**690**	1,559

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:

	2017	2016
	RMB'000	*RMB'000*
Fees	**252**	267
Other emoluments:		
Salaries, allowances and benefits in kind	**2,217**	2,301
Performance related bonuses	**720**	–
Pension scheme contributions	**153**	141
	3,090	2,442
	3,342	2,709

During the year, no directors were granted share options (2016: Nil).

(a) Independent non-executive directors

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

	2017	2016
	RMB'000	*RMB'000*
YANG Rongbing	**84**	89
ZHAO Hong	**84**	89
WANG Zichen	**84**	89
	252	267

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

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

2017

	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)	**–**	**865**	**200**	**51**	**1,116**
LIU Yi	**–**	**748**	**220**	**51**	**1,019**
ZHANG Aiying	**–**	**604**	**300**	**51**	**955**
	–	**2,217**	**720**	**153**	**3,090**
Non-executive director					
WANG Gang	**–**	**–**	**–**	**–**	**–**
	–	**2,217**	**720**	**153**	**3,090**

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

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 (2016: three), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2016: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017	2016
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**1,800**	1,019
Performance related bonuses	**585**	–
Equity-settled share option expense	**68**	–
Pension scheme contributions	**102**	94
	2,555	1,113

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

	2017	2016
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$2,500,000	**1**	–
	2	2

During the year, share options were granted to two non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

Pursuant to the local rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

The Company's subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profits. 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 2017 and 2016.

The Company's subsidiaries in Mainland China 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 2017 and 2016.

Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2017	2016
	RMB'000	*RMB'000*
Current income tax		
– Mainland China	**6,946**	3,264
– Elsewhere	**90**	–
Deferred *(note 20)*	**1,398**	1,166
Tax charge for the year	**8,434**	4,430

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:

	2017	2016
	RMB'000	*RMB'000*
Profit before tax	**43,137**	38,058
Income tax charge at the statutory income tax rate of 25%	**10,784**	9,515
Effect of the preferential income tax rate	**(4,188)**	(2,493)
Tax losses not recognised	**1,576**	400
Tax losses utilised from previous periods	**(266)**	(2,440)
Expenses not deductible for tax	**353**	286
Additional tax deduction for research and development expenditure	**(1,459)**	(540)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**1,111**	500
Others	**523**	(798)
Tax charge for the year at the effective rate	**8,434**	4,430

11. DIVIDENDS

	2017	2016
	RMB'000	*RMB'000*
Proposed final – RMB0.025 (2016: RMB0.025) per ordinary share	**10,000**	10,000

On 23 March 2018, the board of directors proposed a final dividend of RMB0.025 per share totalling RMB10,000,000 for the year ended 31 December 2017. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The proposed final cash dividend of RMB0.025 per share totalling RMB10,000,000 for the year ended 31 December 2016 was approved by the Company's shareholders on 5 May 2017.

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 400,000,000 (2016: 347,123,287) in issue during the year, as adjusted to reflect the rights issue during the year.

The diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2017 in respect of a dilution because the impact of the share options and shares under share award scheme outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

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

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

	2017	2016
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**35,595**	33,628

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**400,000,000**	347,123,287

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 2017						
At 31 December 2016 and 1 January 2017:						
Cost	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
At 1 January 2017, net of accumulated depreciation and impairment	21,765	6,144	10,973	17,950	2,806	59,638
Additions	–	1,674	5,393	51,056	–	58,123
Disposals	–	(49)	(246)	(2,350)	–	(2,645)
Acquisition of a subsidiary *(note 31)*	–	118	528	–	–	646
Depreciation provided during the year *(note 6)*	(2,034)	(2,344)	(3,900)	–	(983)	(9,261)
Transfers to investment properties *(note 14)*	(933)	–	–	–	–	(933)
Transfers	48,547	–	105	(48,778)	126	–
Impairment written off	–	–	–	1,028	–	1,028
Exchange realignment	–	(20)	(88)	–	–	(108)
At 31 December 2017, net of accumulated depreciation	67,345	5,523	12,765	18,906	1,949	106,488
At 31 December 2017:						
Cost	69,780	22,162	29,246	18,906	3,505	143,599
Accumulated depreciation	(2,435)	(16,639)	(16,481)	–	(1,556)	(37,111)
Net carrying amount	67,345	5,523	12,765	18,906	1,949	106,488

During the year ended 31 December 2017, the Group purchased two buildings from an independent third party with a cash consideration of RMB37,657,000. These buildings were pledged by this third party for certain purpose before the transaction of purchase. The pledge has not been released and the buildings' property ownership certificates have not been obtained as of the date of these financial statements.

	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:						
Cost	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:						
Cost	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

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. As at 31 December 2017, the impairment has been written off as of the disposal of the related construction in progress.

14. INVESTMENT PROPERTIES

	2017	2016
	RMB'000	*RMB'000*
Cost:		
At beginning of the year	**25,513**	25,513
Transfer from owner-occupied properties *(note 13)*	**1,320**	–
At end of the year	**26,833**	25,513
Accumulated depreciation:		
At beginning of the year	**3,231**	2,020
Transfer from owner-occupied properties *(note 13)*	**387**	–
Depreciation charge for the year *(note 6)*	**1,223**	1,211
At end of the year	**4,841**	3,231
Net carrying amount:		
At beginning of the year	**22,282**	23,493
At end of the year	**21,992**	22,282

The Group's investment properties were valued on 31 December 2017 based on valuations performed by Beijing JianHeXin Assets Appraisal Co., Ltd., an independent professionally qualified valuer, at RMB29,375,000 (31 December 2016: RMB26,530,000), on an open market, existing use basis.

Certain of the Group's investment properties with a carrying value of RMB21,071,000 were pledged to obtain a banking facility from a bank amounting to RMB15,000,000 as at 31 December 2017, which has not been utilised as at 31 December 2017.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 34(a) to the financial statements.

Fair value hierarchy

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

31 December 2017

	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	**–**	**–**	**29,375**	**29,375**

31 December 2016

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

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 (2016: Nil).

15. PREPAID LAND LEASE PAYMENTS

	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*
Carrying amount at beginning of the year	**10,608**	10,894
Disposal	**(3,928)**	–
Amortisation for the year *(note 6)*	**(244)**	(286)
Carrying amount at end of the year	**6,436**	10,608
Current portion included in prepayments, deposits and other receivables *(note 22)*	**(238)**	(238)
Non-current portion	**6,198**	10,370

16. GOODWILL

	As at 31 December 2017	As at 31 December 2016
	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 the discount rate are consistent with external information sources.

17. INTANGIBLE ASSETS

	Patents	**Software**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
31 December 2017			
Cost at 1 January 2017, net of accumulated amortisation	**8**	**812**	**820**
Amortisation provided during the year *(note 6)*	**(1)**	**(87)**	**(88)**
At 31 December 2017, net of accumulated amortisation	**7**	**725**	**732**
At 31 December 2017:			
Cost	**13**	**859**	**872**
Accumulated amortisation	**(6)**	**(134)**	**(140)**
Net carrying amount	**7**	**725**	**732**

	Patents	Software	Total
	RMB'000	*RMB'000*	*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

18. INVESTMENT IN A JOINT VENTURE

	As at 31 December 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Share of net assets	**1,678**	1,507

The Group's trade and bills receivable balances due from the joint venture and trade payable balances due to the joint venture are disclosed in notes 21 and 25 to the financial statements, respectively.

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

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

The following table illustrates the financial information of the Group's joint venture that is not individually material:

	2017 *RMB'000*	2016 *RMB'000*
Share of the joint venture's profit for the year	**171**	7
Share of the joint venture's total comprehensive income	**171**	7

19. INVESTMENT IN AN ASSOCIATE

	As at 31 December 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Share of net assets	**3,108**	–

The Group's prepayments and other receivable balances due to the associate are disclosed in note 22 to the financial statements.

Particulars of the Group's associate are as follows:

Name	Issued share capital	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Leon Intelligence & Information (Beijing) Technology Co., Ltd.	RMB10,000,000	The PRC Mainland China	31	31	31	Technology, Intelligent management and system development

Zhuhai Runheyuan Technology Partnership, owned by the Group's employees, has 29% interests in this associate.

The following table illustrates the financial information of the Group's associate that is not individually material:

	2017	2016
	RMB'000	*RMB'000*
Share of the associate's profit for the year	**8**	–
Share of the associate's total comprehensive income	**8**	–

20. DEFERRED TAX

Deferred tax assets

	Provision for impairment of trade receivables	Provision for impairment of construction in progress	Accrued employee benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 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 and 1 January 2017	143	148	1,537	1,828
Deferred tax credited to profit or loss *(note 10)*	**(93)**	**(148)**	**(546)**	**(787)**
At 31 December 2017	**50**	**–**	**991**	**1,041**

The Group has tax losses arising in Mainland China of RMB1,857,000 (2016: RMB787,000) that will expire in one to five years for offsetting against future taxable profits.

The Group also has tax losses arising in Hong Kong and other countries/regions of RMB4,448,000 (2016: RMB812,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

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

	2017 **Withholding tax** ***RMB'000***	2016 Withholding tax *RMB'000*
At beginning of the year	**500**	–
Deferred tax credited to profit or loss *(note 10)*	**1,111**	500
Transferred to current income tax *(note 10)*	**(500)**	–
At end of the year	**1,111**	500

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

At 31 December 2017, deferred tax liabilities of RMB1,111,000 has been recognised for withholding taxes that would be payable on the unremitted earnings of RMB11,111,000 that are subject to withholding taxes of the Group's subsidiaries. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB80,530,000 at 31 December 2017 (2016: RMB55,163,000). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

21. TRADE AND BILLS RECEIVABLES

	As at **31 December** **2017** ***RMB'000***	As at 31 December 2016 *RMB'000*
Trade and bills receivables	**22,894**	22,876
Impairment	**(331)**	(817)
	22,563	22,059

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. 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 ageing analysis of trade and bills receivables, based on the invoice date and net of provisions, is as follows:

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Within 3 months	**18,597**	20,390
3 to 6 months	**2,411**	990
6 months to 1 year	**1,543**	539
Over 1 year	**12**	140
	22,563	22,059

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

	2017 RMB'000	2016 RMB'000
At beginning of the year	**817**	759
Impairment losses recognised *(note 6)*	**172**	650
Reversal of impairment *(note 6)*	**(385)**	(142)
Amount written off as uncollectible	**(273)**	(450)
At end of the year	**331**	817

As at 31 December 2017 and 2016, no provisions for individually impaired trade receivables were included in the above provision for impairment of trade receivables.

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

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Neither past due nor impaired	**15,903**	14,061
Less than 3 months past due	**1,856**	990
3 to 9 months past due	**1,417**	526
	19,176	15,577

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.

The amount due from the Group's joint venture included in the trade and bills receivables is as follows:

	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*
Joint venture	**488**	–

The above amount is unsecured and non-interest-bearing.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*
Prepaid land lease payments *(note 15)*	**238**	238
Prepayments	**10,015**	20,638
Deposits and other receivables	**9,257**	3,544
	19,510	24,420
Portion classified as non-current assets	**(929)**	(15,112)
	18,581	9,308

The amount due from the Group's associate included in prepayments and other receivables is as follows:

	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*
Associate	**871**	–

The above amount is unsecured and non-interest-bearing.

23. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Bank financial products, at fair value	**21,300**	9,000

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.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 December 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Cash and bank balances	**48,791**	63,450
Time deposits	**397**	812
	49,188	64,262
Less: Time deposits pledged for construction in the process	**(397)**	(812)
Cash and cash equivalents	**48,791**	63,450

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.

25. TRADE PAYABLES

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

	As at 31 December 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Within 3 months	**3,650**	4,487
3 to 6 months	**1**	59
6 months to 1 year	**8**	–
1 to 2 years	**–**	7
2 to 3 years	**–**	59
Over 3 years	**59**	3
	3,718	4,615

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 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Joint venture	**–**	326

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

26. ADVANCE FROM CUSTOMERS, OTHER PAYABLES AND ACCRUALS

	As at 31 December 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Advance from customers	**1,569**	526
Accrued salaries, wages and benefits	**9,025**	12,185
Other taxes payable	**755**	491
Payable to vendors of plant, property and equipment	**14,930**	13,089
Others	**5,392**	2,266
	31,671	28,557

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

27. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	As at 31 December 2017			As at 31 December 2016		
	Effective interest rate (%)	**Maturity (year)**	***RMB'000***	Effective interest rate (%)	Maturity (year)	*RMB'000*
Current						
Current portion of long-term bank loans						
– Unsecured	**6.65**	**2018**	**6,045**	–	–	–
Current portion of other borrowing						
– Unsecured	**9.75**	**2018**	**16**	–	–	–
			6,061			–
Non-current						
Long-term bank loans						
– Unsecured	**6.65**	**2020**	**10,112**	–	–	–
Other borrowings						
– Unsecured	**9.75**	**2020**	**19**	–	–	–
– Unsecured	**4.75**	**2022**	**1,550**	4.75	2018	10,000
			11,681			10,000
			17,742			10,000

Interest-bearing bank loans and other borrowings are denominated in:

	2017	2016
– RMB	**17,707**	10,000
– INR	**35**	–
	17,742	10,000

The maturity profile of the bank loans and other borrowings is as follows:

	As at 31 December 2017 ***RMB'000***	As at 31 December 2016 *RMB'000*
Analysed into:		
Bank loans and other borrowings repayable		
Within one year	**6,061**	–
In the second year	**6,477**	10,000
In the third to fifth years, inclusive	**5,204**	–
	17,742	10,000

The Group's other borrowing amounting to RMB1,550,000 as at 31 December 2017 was a loan from LEI Xihu, the non-controlling shareholder of a subsidiary.

The Group's other borrowing amounting to RMB10,000,000 as at 31 December 2016 was a loan from an independent third party and was repaid in 2017.

The Group's bank loans amounting to RMB16,157,000 as at 31 December 2017 were guaranteed by LI Xiangli and ZHANG Aiying.

28. SHARE CAPITAL

Shares

	2017		2016	
	Number of shares	**Value**	Number of shares	Value
	'000	***RMB'000***	*'000*	*RMB'000*
Issued and fully paid ordinary shares	**400,000**	**131**	400,000	131

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

	2017		2016	
	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	**400,000**	**131**	10	65
Share subdivision *(i)*	**–**	**–**	199,990	–
Capitalisation issue of shares	**–**	**–**	100,000	33
Issue of shares *(ii)*	**–**	**–**	100,000	33
At end of the year	**400,000**	**131**	400,000	131

(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. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme are only the Group's employees. None of the grantees of the share options is a director, chief executive or substantial shareholder of the Company, nor an associate of any of them. The Scheme became effective on 4 July 2017 and, unless otherwise cancelled or amended, will remain in force for certain years from that date.

For each grant, there are three unlocking dates, being the expiry dates of the first anniversary, second anniversary and third anniversary of the grant date, subject to the vesting conditions and upon expiry of which, 30%, 30% and 40% of the shares granted to each Scheme participant shall be unlocked. The lock-up period is from the grant date to each of the aforesaid unlocking dates, during which the disposal of the trust benefit units is prohibited.

The offer of a grant of share options may be accepted within 20 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to three years and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	2017		2016	
	Weighted average exercise price *HK$*	**Number of options** *'000*	Weighted average exercise price *HK$*	Number of options *'000*
At 1 January	**–**	**–**	–	–
Granted during the year	**1.28**	**8,000**	–	–
Forfeited during the year	**1.28**	**(250)**	–	–
At 31 December	**1.28**	**7,750**	–	–

No share options were exercised during the year (2016: Nil).

The exercise price and exercise periods of the options outstanding as at the end of the reporting period are as follows:

2017

Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise period**
2,325	**1.28**	**4 July 2018 to 3 July 2023**
2,325	**1.28**	**4 July 2019 to 3 July 2024**
3,100	**1.28**	**4 July 2020 to 3 July 2025**
7,750		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was HK$2,720,000 (HK$0.34 each) (2016: Nil), of which the Group recognised a share option expense of HK$724,000 (equivalent to RMB627,000) (2016: Nil) during the year ended 31 December 2017.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	1.86
Expected volatility (%)	36.33
Historical volatility (%)	36.33
Risk-free interest rate (%)	1.79
Expected life of options (year)	5.00
Weighted average share price (HK$ per share)	0.34

The expected life of the options is based on the historical data over the past five years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 7,750,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 7,750,000 additional ordinary shares of the Company and additional share capital of HK$9,920,000 (equivalent to RMB8,292,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 7,750,000 share options outstanding under the Scheme, which represented approximately 1.9% of the Company's shares in issue as at that date.

30. 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 pages 4 and 5 of these financial statements.

31. BUSINESS COMBINATION

On 4 April 2017, Leon Overseas PTE. LTD., an indirectly non-wholly-owned subsidiary of the Company, acquired a total of a 80% equity interest in Nutech Surveyors & Analysts Private Limited from K. S. Parthasarathi and S. Kalyani, two independent third parties, at an aggregate consideration of US$203,000 (equivalent to approximately RMB1,394,000). Nutech Surveyors & Analysts Private Limited changed its name to Leon Inspection & Testing India Private Limited on 8 December 2017.

The fair values of the identifiable assets and liabilities of Leon Inspection & Testing India Private Limited (formerly known as Nutech Surveyors & Analysts Private Limited) as at the date of acquisition were as follows:

	Notes	**Fair Value recognised on acquisition** *RMB'000*
Property, plant and equipment	*13*	646
Trade receivables		405
Prepayments, deposits and other receivables		309
Cash and cash equivalents		896
Trade payables		(18)
Other payables, advance from customer and accruals		(149)
Other borrowing	*32*	(56)
Tax payable		(181)
Deferred tax liabilities		(3)
Total identifiable net assets at fair value		1,849
Non-controlling interests		(370)
		1,479
Gain on acquisition of a subsidiary	*5*	(85)
Total consideration		1,394
Satisfied by cash		1,394

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

	For the year ended 31 December 2017 *RMB'000*
Cash and cash equivalents acquired	**896**
Cash consideration	**(1,394)**
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	**(498)**

Since the acquisition, the acquired company contributed approximately RMB1,911,000 to the Group's revenue and approximately RMB96,000 to the Group's profit for the year ended 31 December 2017.

Had the acquisition taken place at the beginning of the year, the revenue of the Group and the profit after tax of the Group for the year would have been RMB201,444,000 and RMB34,740,000, respectively.

32. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank loans and other borrowings *RMB'000*	Interest payable *RMB'000*
At 1 January 2017	**10,000**	1,210
Changes from financing cash flows	**7,686**	(1,900)
Increase arising from acquisition of a subsidiary *(note 31)*	**56**	–
Interest expense *(note 7)*	**–**	690
At 31 December 2017	**17,742**	–

33. PLEDGE OF ASSETS

Details the Group's pledged assets are included in notes 13 and 14 to the financial statements.

34. 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 terms of one to four years.

As at 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 December 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Within one year	**365**	519
In the second to fifth years, inclusive	**132**	470
	497	989

(b) As lessee

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

As at 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Within one year	**5,537**	5,795
In the second to fifth years, inclusive	**11,985**	15,187
After five years	**3,127**	2,733
	20,649	23,715

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34(b) above, the Group had the following capital commitments as at 31 December 2017 and 2016:

	As at 31 December 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Contracted, but not provided for:		
Property, plant and equipment	**2,490**	18,845

36. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties during the year:

	2017 *RMB'000*	2016 *RMB'000*
Provision of testing service by a joint venture	**350**	308
Provision of technical services by an associate	**3,184**	–
Provision of testing service to a joint venture	**2,255**	–
Loans to a fellow subsidiary*	**–**	5,000

(b) Outstanding balances with related parties:

Details of the outstanding balances with related parties are set out in notes 21, 22 and 25 to these financial statements.

(c) Guarantees with related parties*:

The Group's bank loans amounting to RMB16,157,000 as at 31 December 2017 were guaranteed by LI Xiangli and ZHANG Aiying.

(d) Compensation of key management personnel of the Group:

	2017 *RMB'000*	2016 *RMB'000*
Short-term employee benefits	**5,871**	3,678
Pension scheme contributions	**287**	282
Equity-settled share option expense	**77**	–
	6,235	3,960

In the opinion of the directors, the transactions between the Group and the related parties were based on prices mutually agreed between the parties and conducted in the ordinary course of business.

* These related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

37. 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 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Loans and receivables:		
Trade and bills receivables	**22,563**	22,059
Financial assets included in prepayments, deposits and other receivables	**9,257**	3,544
Pledged deposits	**397**	812
Cash and cash equivalents	**48,791**	63,450
Available-for-sale financial assets:		
Available-for-sale investments	**21,300**	9,000
	102,308	98,865

Financial liabilities

	As at 31 December 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Financial liabilities at amortised cost:		
Trade payables	**3,718**	4,615
Financial liabilities included in advance from customers, other payables and accruals	**20,322**	15,355
Interest-bearing bank loans and other borrowings	**17,742**	10,000
Interest payable	**–**	1,210
	41,782	31,180

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	As at 31 December		As at 31 December	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial assets				
Available-for-sale investments	**21,300**	9,000	**21,300**	9,000
Financial liabilities				
Interest-bearing bank loans and other borrowings	**17,742**	10,000	**17,742**	10,000
Interest payable	**–**	1,210	**–**	1,210
	17,742	11,210	**17,742**	11,210

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 each reporting date, the finance department analyses the movements in the values of financial instruments and determines 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 used to estimate the fair values:

The fair values of interest-bearing bank loans and other borrowings 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 loans and other borrowings at 31 December 2017 was assessed to be insignificant.

The available-for-sale investments stated at fair value at the end of the reporting period 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 2017

	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*
Available-for-sale investments	**–**	**21,300**	**–**	**21,300**

31 December 2016

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

Liabilities for which fair values are disclosed

31 December 2017

	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 loans and other borrowings	**–**	**17,742**	**–**	**17,742**

31 December 2016

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans and other borrowings, 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, foreign currency 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 2017, approximately 91% of the Group's interest-bearing borrowings bore interest at floating rates.

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

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.

2017

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** *RMB'000*	**Increase/ (decrease) in equity** *RMB'000*
RMB	**1%**	**(103)**	**(87)**
RMB	**(1%)**	**103**	**87**

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

Foreign currency risk

The Group's businesses are principally located in Mainland China and substantially all transactions are conducted in RMB. As at 31 December 2017, cash and bank balances of approximately RMB6,241,000 (31 December 2016: RMB57,916,000) were denominated in Hong Kong dollars. The fluctuations of the exchange rate of RMB against the 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 by 5%, 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):

2017

	Increase/ (decrease) in foreign exchange rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity**
	%	***RMB'000***	
If RMB weakens against the Hong Kong dollar	**5%**	**215**	**279**
If RMB strengthens against the Hong Kong dollar	**(5%)**	**(215)**	**(279)**

2016

	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
If RMB weakens against the Hong Kong dollar	5%	1,255	2,708
If RMB strengthens against the Hong Kong dollar	(5%)	(1,255)	(2,708)

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 2017 and 2016, the Group had concentration of credit risk as 19% and 46% of its total trade and bills receivables were due from its largest customer and 41% and 65% 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 21 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 the reporting period, based on the contractual undiscounted payments, is as follows:

31 December 2017

	Within one year *RMB'000*	**In the second year** *RMB'000*	**In the third to fifth years, inclusive** *RMB'000*	**Total** *RMB'000*
Trade payables	**3,718**	**–**	**–**	**3,718**
Financial liabilities included in advance from customers, other payables and accruals	**20,322**	**–**	**–**	**20,322**
Interest-bearing bank loans and other borrowings	**6,061**	**6,477**	**5,204**	**17,742**
Interest payment on bank loans and other borrowings	**895**	**480**	**447**	**1,822**
	30,996	**6,957**	**5,651**	**43,604**

31 December 2016

	Within one year *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *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

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 2017 and 2016.

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 trade payables, other payables and accruals, interest-bearing bank loans and other borrowings and interest payable, 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 2017	As at 31 December 2016
	RMB'000	*RMB'000*
Trade payables	**3,718**	4,615
Other payables and accruals *(note 26)*	**30,102**	28,031
Interest-bearing bank loans and other borrowings	**17,742**	10,000
Interest payable	**–**	1,210
Less: Cash and cash equivalents	**(48,791)**	(63,450)
Net debt	**2,771**	(19,594)
Equity attributable to owners of the parent	**195,206**	171,650
Capital and net debt	**197,977**	152,056
Gearing ratio	**1.40%**	(12.89%)

40. 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 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**8**	13
Investment in a subsidiary	**52,343**	55,570
Total non-current assets	**52,351**	55,583
CURRENT ASSETS		
Deposits and other receivables	**77,611**	51,082
Cash and cash equivalents	**1,879**	32,458
Total current assets	**79,490**	83,540
CURRENT LIABILITIES		
Other payables	**8,581**	6,530
Total current liabilities	**8,581**	6,530
NET CURRENT ASSETS	**70,909**	77,010
TOTAL ASSETS LESS CURRENT LIABILITIES	**123,260**	132,593
Net assets	**123,260**	132,593
EQUITY		
Share capital	**131**	131
Reserves	**123,129**	132,462
Total equity	**123,260**	132,593

Note:

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

	Capital reserve	**Exchange fluctuation reserve**	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 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 and 1 January 2017	**125,869**	**7,390**	**(797)**	**132,462**
Loss for the year	**–**	**–**	**(2,561)**	**(2,561)**
Other comprehensive income for the year:				
Exchange differences related to foreign operations	**–**	**(7,399)**	**–**	**(7,399)**
Total comprehensive income for the year	**–**	**(7,399)**	**(2,561)**	**(9,960)**
Equity-settled share option arrangements	**627**	**–**	**–**	**627**
As at 31 December 2017	**126,496**	**(9)**	**(3,358)**	**123,129**

41. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 23 March 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Market Review

In 2017, the economy of the PRC grew steadily, the demand for energy increased slightly, coal price fluctuated at high level, while power generation and coal production volume both recovered and increased. In 2017, the domestic power production increased by 6.5% as compared to 2016, coal-fired power generation increased by 5.2% as compared to 2016, and the production volume of raw coal was 3.45 billion tons, representing an increase of 3.2% as compared to 2016. In 2017, the targets regarding capacity reduction of the coal industry in China were overachieved. The structural policies on capacity reduction implemented by the National Development and Reform Commission of the PRC concerning the development of advanced production facilities, replacement and elimination of outdated production facilities continued to push forward, the release of advanced production facilities in Shanxi, Shaanxi and Inner Mongolia accelerated, among which, the increase of production capacity in Shaanxi region was particularly prominent. We estimated that, the demand for power generation is expected to grow more rapidly in 2018, while coal consumption and trading volume may grow slightly. The structural optimization of coal production capacity and the anticipation of the mergence and restructuring of the coal-fired power industry in the future will increase the concentration of customers of the coal industry, that is the market share of coal enterprises with quality coal mine resources and advanced production facilities will increase. In general, the industry and market environment in 2018 will be favourable to the future business development of the Company.

The Company recorded a revenue of RMB200.9 million and a net profit of RMB34.7 million in 2017, representing an increase of 7.8% and 3.2%, respectively, as compared to 2016. The gross profit margin of the Group increased from 51.7% in 2016 to 55.1% in 2017.

In 2017, the Group increased its input of resources based on the established international, diversified, automation and information strategies, and achieved the following results:

(1) Improved the domestic service network, established three new domestic service centers in Jiangyin, Shaanxi and Hubei with its scope of inspection services extending to inland coal trade and the number of domestic service centers reaching 11.

(2) Accelerated the pace of internationalization, established four new overseas service centers in Singapore, India, Malaysia and Indonesia; the overseas service network has covered Southeast Asia and businesses have achieved breakthroughs in terms of diversity; business regarding the inspection of other minerals other than coal in overseas service centers was developed.

(3) Increased input in research and development, the R&D project "Robot Intelligent Coal Preparation System" obtained the technological accreditation by an industry association and has commenced operation; after appraisal, experts confirmed that such system is efficient and environmental friendly, which filled the gap in coal robotic automation in the PRC and reached international advanced level. Another R&D project "Robotic Automatic Testing System" is being developed.

(4) A new generation of information system "LEON LIMS 1.0" self-developed by us officially commenced operation in August 2017, under which information management and control over coal inspection is achieved throughout the entire business process from acceptance of appointment to issuance of certificates.

Business Strategies and Future Outlook

Coal is the cornerstone for safeguarding the safe and stable supply of energy in the PRC, the strategic approach on energy "diversified energy development based on coal resources" and the position of coal as the primary energy source will remain unchanged. Following the implementation of national strategy concerning high-quality development in the PRC, through innovative ways in technology such as bid data and automation, green development of coal resources, supply quality improvement and clean utilization will be the direction of green development in the future. We believe that, coal testing and inspection is still our core business at this stage, while scientific research innovation, international expansion and diversified development is our direction in the future. We intend to further strengthen our leading position in the coal testing and inspection industry through the following strategies and develop into an international, diversified and technologically advanced third party quality assurance service provider.

Upgrade and expand our network of service centers

To improve our service capabilities and to achieve advantages in technology in China, we intend to apply our scientific research achievements in automation to our existing service centers and plan to carry out automation upgrade in laboratories in the major service centers in China. Our plans will allow us to gain advantages in technology and cost, and further increase our market share by providing better customer experience and spreading our brand image as a leading enterprise in the industry.

In 2016 and before, our service centers covered primarily major seaports for coal trade in China, providing testing services for seaborne coal trade. In 2017, we established new service centers in Shaanxi and Hubei and began to penetrate the coal testing and inspection market for inland coal via rail or truck, we expect to expand our testing service to inland coal trade, which is a market mostly not yet developed by testing and inspection organizations. 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 and Fujian province.

Outside China, we are selectively establishing service centers to provide testing services for coal and other commodities in countries with abundant coal export volume which represent large potential markets for us. Currently, the Company has constructed four service centers in Southeast Asia. In future, we will continue to construct other overseas service centers, and obtain more shares of business of clients from these countries by leveraging our service capabilities of our international network and provide testing and inspection business for other commodities other than coal.

Further strengthen our capabilities in scientific research and innovation

We believe that technical improvements are critical to our level of service and our ability to achieve competitive advantages in the market, as such, we deploy adequate resources to advance our research and development efforts. We plan to continue to strengthen our internal research as well as collaboration with third-party institutions to develop automated preparation and testing system as well as information based business management system, which will allow us to significantly reduce labor costs, minimize human error and improve efficiency for our services.

In addition to technological innovation, we intend to develop a new testing and inspection business model with the support of an established service network, sufficient big data accumulation and information system, so as to provide customers with comprehensive quality management service covering the entire coal supply chain. We believe, comprehensive quality management service of the supply chain is a new business model which is consistent with the national strategy of "high-quality development" in China and has huge growth potential in the future.

Pursue strategic acquisition or joint venture cooperation to enhance our service capabilities and expand our service coverage

In 2016 and before, we expanded our business primarily through organic growth. From 2017, we rapidly entered into new regional markets, established overseas service network and entered into inspection service areas of other commodities by introducing outstanding personnel and teams or partners by way of investment holding. We believe that, there are still abundant acquisition and cooperation opportunities in the testing and inspection industry and we focus on opportunities that can enhance our service capabilities or coverage of services. The key criteria we apply in selecting acquisition or investment targets include their market size, customer base, technical capabilities and management team. If there are suitable targets and opportunities in the testing and inspection market of other commodities (for example minerals, petrochemicals) in the future, we would also consider. We are of the opinion that the abovementioned acquisitions and joint ventures can further expand our service capabilities and coverage, thereby helping the Company become an international, diversified and technologically advanced independent quality assurance service provider.

FINANCIAL REVIEW

Overview

	2017	2016	Change
	RMB'000	*RMB'000*	
Revenue	**200,921**	186,466	7.8%
Gross Profit	**110,684**	96,359	14.9%
Profit before tax	**43,137**	38,058	13.3%
Profit for the year	**34,703**	33,628	3.2%

Revenue

The Group's revenue increased by 7.8% from approximately RMB186.5 million in 2016 to approximately RMB200.9 million in 2017. 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.

	2017	2016
	RMB'000	*RMB'000*
Testing services	**164,213**	151,308
Surveying services	**28,500**	25,832
Witnessing and ancillary services	**8,208**	9,326
Others	**–**	–
	200,921	186,466

Cost of Sales

The Group's cost of sales was approximately RMB90.2 million in 2017, basically remained stable as compared to approximately RMB90.1 million in 2016, representing 44.9% and 48.3% of the Group's revenue for the same periods, respectively. The slight increase in the Group's cost of sales mainly reflected the increase in staff remuneration in 2017, partially offset by the decreased port charges as the Group offered more testing services at Tangshan Port where port charges were relatively low in 2017. Overall, the Group successfully controlled its cost of sales while maintaining its business expansion.

Gross Profit and Gross Profit Margin

The Group's gross profit increased by 14.9% from approximately RMB96.4 million in 2016 to approximately RMB110.7 million in 2017. The gross profit margin increased from 51.7% in 2016 to 55.1% in 2017, which was primarily because that the business volume of the Group's testing services at Huanghua Port where port charges were relatively high decreased, and in the mean time, the business volume of the Group's testing services at Tangshan Port where port charges were relatively low increased.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by 33.9% from approximately RMB2.1 million in 2016 to approximately RMB2.7 million in 2017. The increase in the Group's selling and distribution expenses was primarily attributable to (1) the increased open tender expenses; and (2) increased labor costs from increased headcount and compensation base for sales forces.

Administrative Expenses

The Group's administrative expenses increased by 19.8% from approximately RMB53.2 million in 2016 to approximately RMB63.7 million in 2017. The increase in the Group's administrative expenses was primarily attributable to (1) the increase in overall employees' remuneration packages, overseas' talent acquisitions to meet the requirement of the Group's expansion strategy; (2) the depreciation of newly-added housing and properties; and (3) the increase in research and development costs in 2017.

Other Expenses

The Group recorded other expenses of approximately RMB2.9 million and RMB2.2 million in 2016 and 2017, respectively. The decrease in the Group's other expenses was primarily attributable to (1) the reversal of provision for the impairment loss of construction in progress in 2016; and (2) the decreased impairment for bad debt, and partially offset by the increase in exchange loss.

Finance Costs

The Group recorded finance costs of approximately RMB1.6 million and RMB0.7 million in 2016 and 2017, respectively, representing a decrease of 55.7%, mainly because the Group fully repaid its previous borrowings in March 2017 and additional finance costs were incurred by the new interest-bearing bank loans only after June 2017.

Income Tax Expense

For the year ended 31 December 2017, income tax expense amounted to approximately RMB8.4 million, increased by approximately RMB4.0 million as compared with approximately RMB4.4 million for the corresponding period of last year.

Net Profit

The Group's net profit increased by 3.2% from approximately RMB33.6 million in 2016 to approximately RMB34.7 million in 2017, 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 RMB59.6 million and RMB106.5 million as at 31 December 2016 and 2017, respectively. The increase as at 31 December 2017 was primarily due to the addition of office properties during 2017.

Investment Properties

Investment properties consist of a commercial property in Beijing, which was originally purchased at RMB25.5 million in April 2014, and Room 202 and 302 of Wanxingyuan Yingang in Cangzhou, which were originally purchased at RMB1.3 million in August 2011. The investment properties of the Group had a carrying amount of RMB22.3 million and RMB22.0 million as at 31 December 2016 and 2017, 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 2016 and 2017, the Group had trade and bills receivables of approximately RMB22.1 million and RMB22.6 million, respectively, generally consistent with the growth of the Group's business.

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, and deposits paid to enter open tender process and land auction process. The current portion of the Group's prepayments, deposits and other receivables increased by approximately RMB9.3 million from approximately RMB9.3 million as at 31 December 2016 to approximately RMB18.6 million as at 31 December 2017, primarily due to the transfer of the land use rights in Caofeidian from intangible assets to other receivables. The non-current portion of the Group's prepayments, deposits and other receivables decreased from approximately RMB15.1 million as at 31 December 2016 to approximately RMB0.9 million as at 31 December 2017, the main cause of which was that prepayment arising from newly acquired property was offset by transfer from prepayment for purchasing property to fixed assets in 2017.

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 2016 and 2017, the fair value of our available-for-sale investments reached RMB9.0 million and RMB21.3 million, respectively. The increase in the Group's available-for-sale investments as at 31 December 2017 was because the Group utilized idle funds to purchase certain financial products.

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 2016 and 2017, the Group's cash and cash equivalents were RMB63.5 million and RMB48.8 million, respectively. The decrease in the Group's cash and cash equivalents as at 31 December 2017 was primarily attributable to (1) dividend distribution of RMB10.0 million; (2) repayment of borrowings and interest of RMB44.6 million; and (3) purchase of property, plant and equipment of RMB42.1 million, partially offset by (1) net cash inflows from operating activities of RMB45.3 million; and (2) new bank loans and other borrowing of RMB50.4 million.

Trade Payables

The Group's trade payables primarily represent amounts payable for port charges. As at 31 December 2016 and 2017, the Group had trade payables of approximately RMB4.6 million and RMB3.7 million, respectively. The decrease in the Group's trade payables as at 31 December 2017 was primarily attributable to the decreased amounts payable for port charges resulting from the decrease in the Group's business at Huanghua port.

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 2016 and 2017, the Group had advance from customers, other payables and accruals of RMB28.6 million and RMB31.7 million. As at 31 December 2017, the increase in the Group's advance from customers, other payables and accruals was attributable to the increase in the other payables resulted from continuous development of construction in progress.

Interest-bearing Bank Loans

The Group had interest-bearing bank loans of nil and RMB16.2 million as at 31 December 2016 and 2017, respectively. The increase in the Group's interest-bearing bank loans was due to the bank loan arising from purchase of properties in 2017.

Interest-bearing Other Borrowings

As at 31 December 2016 and 2017, the Group had other interest-bearing borrowings of RMB10.0 million and RMB1.6 million. Such decrease was primarily attributable to (1) the repayment of other interest-bearing borrowing of RMB10.0 million in 2017 and (2) other new interest-bearing borrowings of RMB1.6 million.

Liquidity and Capital Resources

The Group had cash and cash equivalents of RMB48.8 million as at 31 December 2017. 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 risks 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 RMB50.3 million and RMB45.3 million in 2016 and 2017, respectively. The decrease in the Group's cash flows from operating activities was primarily due to the increase in research and development costs during 2017.

Cash Flows from Financing Activities

The Group had net cash outflows from financing activities of approximately RMB26.0 million and cash outflows of RMB1.4 million in 2016 and 2017, respectively. The decrease in the Group's net cash outflows from financing activities in 2017 was primarily due to (1) attainment of new bank loans and other borrowing of RMB50.4 million; (2) dividend payment of RMB10 million; (3) repayment of other interest-bearing borrowing and interest of RMB44.6 million; and (4) the payment of initial public offering related fee and repayment of deemed distribution in 2016.

Commitments

As at 31 December 2017, the Group had a total capital commitment of approximately RMB2.5 million for contracted but not performed acquisition of property, plant and equipment and land use rights.

Contingent Liabilities

As at 31 December 2017, 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 loan" plus "other interest-bearing borrowing" as shown in the interim condensed consolidated statement of financial position. Total capital is calculated as "total equity" as shown in the interim condensed consolidated statement of financial position.

	2017	2016
	RMB'000	*RMB'000*
Total debt	**17,742**	10,000
Total equity	**198,298**	171,650
Gearing Ratio	**8.9%**	5.8%

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 2017 and hence the Group did not hedge against any fluctuation in foreign currency during the year.

Significant Investments

The Group did not have any significant investments during the year.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During the year ended 31 December 2017, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

Charges on Assets

As at 31 December 2017, certain of the Group's investment properties with a carrying value of RMB21.1 million were pledged to obtain a banking facility from a bank amounting to RMB15 million, which had not been utilised as at 31 December 2017. In addition, the Group purchased two buildings from an independent third party at RMB37.7 million. The building was pledged by this third party before the purchase, and as of 31 December 2017, the pledge had not been released (as at 31 December 2016: no assets were charged).

CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING

As set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 29 June 2016 (the "**Prospectus**") and the updates in the announcement of the Company dated 16 June 2017, the Company intends to use the net proceeds from its global offering for the follow purpose:

– approximately 30.0% of the net proceeds will be used to construct new service facilities at Huanghua port;

– approximately 25.0% of the net proceeds will be used to construct new service facilities at Tangshan port;

– approximately 20.0% of the net proceeds will be used to construct new service facilities at Tianjin port;

– approximately 15.0% of the net proceeds will be used for strategic acquisition or investment; and

– approximately 10.0% of the net proceeds will be used to fund general corporate purposes.

Changes in Use of Proceeds

The Board resolved on 23 March 2018 to change the proposed use of the net proceeds due to the reasons set out below. Set out below are details of the original of the net proceeds, the revised allocation of actual net proceeds:

	Initial allocation of net proceeds and its percentage of total net proceeds *(Approximately RMB million)*		Amount utilized as at the date of this announcement *(Approximately RMB million)*	Revised allocation of net proceeds and its percentage of total net proceeds *(Approximately RMB million)*		The remaining balance of proceeds after the revised allocation as at the date of this announcement *(Approximately RMB million)*
To construct new service facilities at Huanghua port	16.4	30.0%	13.2	16.4	30.0%	3.2
To construct new service facilities at Tangshan port	13.7	25.0%	12.2	13.7	25.0%	1.5
To construct new service facilities at Tianjin port	10.9	20.0%	–	–	0.0%	0.0
Strategic acquisition or investment	8.2	15.0%	8.2	19.1	35.0%	10.9
To fund general corporate purposes	5.4	10.0%	5.4	5.4	10.0%	0.0
Total	**54.6**	**100.0%**	**39.0**	**54.6**	**100.0%**	**15.6**

Reasons for the Changes in Use of Proceeds

The Board resolved to adjust and reallocate the remaining balance of RMB10.9 million of proceeds initially allocated to the investment project of Tianjin port to the strategic acquisition or investment, for the reasons and purposes set out below. The Board is of the view that such adjustment and re-allocation will result in a more efficient use of net proceeds from the global offering.

In 2017, the environmental governance policies for the Beijing-Tianjin-Hebei region continued to tighten. According to the 2017 Air Pollution Prevention and Control Work Program for Beijing-Tianjin-Hebei Region and Surrounding Areas (《京津冀及週邊地區2017年大氣污染防治工作方案》) issued by the Ministry of Environmental Protection in February 2017, it was required that by the end of September, receiving coals transported to ports by diesel-powered trucks would be banned for ports in Tianjin, Hebei and Bohai rim areas. The National Energy Administration and the Ministry of Transport also required that by the end of October 2017, the means of coal transportation to Tianjin port should be limited to railway and automotive transportation of coal to the port should be banned thereafter. In 2016, the coal throughput of Tianjin port amounted to 110 million tonnes for the year, more than half of it transported by automobiles. As a result of the policy, in 2017 the coal throughput declined to 79.8 million tonnes, and the volume for other ports nearby gradually increased. Correspondingly, in view of the recent policy changes and the impact on the market, the Board believed that environmental factors would bring new uncertainties to the original plan of new service facilities construction at Tianjin port in 2018, and carrying out the original plan would not be the most favorable choice. Therefore, the Board resolved to not construct new service facilities at Tianjin port.

In order to seek better usage of net proceeds from the global offering and protect the best interest of the shareholders of the Company, the remaining balance of approximately RMB10.9 million of 20% of net proceeds which were originally planned to use to construct new service facilities at Tianjin port by the Company will be reallocated. As of the date of this announcement, the proceeds were not yet invested in this project.

According to our corporate strategy, we intend to enhance our service capabilities and expand our service coverage through investment in establishing subsidiaries, forming joint ventures with local business partners and/or acquiring existing service facilities. In 2017, through strategic acquisition or investment, we had set up four overseas service centers and thence completed establishing our Southeast Asian service network, bringing our business towards globalization and diversification. In the future we plan to increase our capital investment, continue to expand our overseas network, and develop inspection and testing business for other products. As at the date of this announcement, we have not yet entered into at any new acquisition agreement.

The Board confirms that there is no material change in the business nature of the Group as set out in the Prospectus and considers that the above proposed changes in use of net proceeds is in the best interests of the Company and its shareholders as a whole.

EMPLOYEES

As of 31 December 2017, the Group had 707 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association, or the laws of Cayman Islands (being the jurisdiction in which the Company was incorporated), which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

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 2017 to shareholders whose names appear on the register of members of the Company on Wednesday, 16 May 2018. The proposed final dividend will be paid on or about Thursday, 21 June 2018, subject to approval at the annual general meeting of the Company to be held on Friday, 11 May 2018 (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 Monday, 7 May 2018 to Friday, 11 May 2018.

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

(i) from Monday, 7 May 2018 to Friday, 11 May 2018, 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 Friday, 4 May 2018; and

(ii) from Thursday, 17 May 2018 to Monday, 21 May 2018, 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, 16 May 2018.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this announcement, the Company has maintained the public float as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Company has adopted the code provisions as set out in the Code of Corporate Governance Practices (the "**CG Code**") as contained in Appendix 14 to the Listing Rules.

For the year ended 31 December 2017, 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 provision A.2.1.

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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in 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 employees who, because of their office or employment, are likely to possess inside information of the Company and/or securities.

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 year ended 31 December 2017.

REVIEW OF FINANCIAL STATEMENTS

Audit Committee

The Company has established the audit committee of the Board 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.

Ernst & Young was appointed as the international auditor of the Company for the year ended 31 December 2017. The financial figures in this announcement in respect of the consolidated results for the year ended 31 December 2017 have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2017. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Federation of Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

The Audit Committee has discussed with the management and reviewed the annual consolidated financial statements of the Group for the year ended 31 December 2017 and this announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the The Stock Exchange of Hong Kong Limited 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 2017 containing all the information required under the Listing Rules will be despatched to the shareholders of the Company and published on the abovementioned websites in due course.

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

Beijing, PRC, 23 March 2018

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.