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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

FINANCIAL HIGHLIGHTS

- The Group's revenue for the Period amounted to approximately RMB101.9 million, representing a decrease of 3.8% from approximately RMB105.9 million for the six months ended 30 June 2017.
- The Group's gross profit for the Period amounted to approximately RMB54.2 million, representing a decrease of 5.2% from approximately RMB57.1 million for the six months ended 30 June 2017.
- The Group's net profit for the Period attributable to owners of the parent amounted to approximately RMB11.4 million, representing a decrease of 50% from approximately RMB23.1 million for the six months ended 30 June 2017.

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**” or “**China Leon**” and, together with its subsidiaries, collectively the “**Group**”) is pleased to announce the unaudited consolidated financial results of the Group for the six months ended 30 June 2018 (the “**Period**”), together with the comparative figures for the corresponding period in 2017 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	<i>Notes</i>	RMB'000	RMB'000
REVENUE	3	101,895	105,909
Cost of sales		(47,696)	(48,767)
Gross profit		54,199	57,142
Other income and gains	4	1,352	661
Selling and distribution expenses		(1,946)	(1,046)
Administrative expenses		(39,227)	(26,351)
Other expenses		(1,440)	(1,716)
Finance costs	6	(590)	(185)
Share of profit or loss of a joint venture and an associate		(209)	(40)
PROFIT BEFORE TAX	5	12,139	28,465
Income tax expense	7	(4,787)	(5,306)
PROFIT FOR THE PERIOD		7,352	23,159
Attributable to:			
Owners of the parent		11,435	23,068
Non-controlling interests		(4,083)	91
		7,352	23,159
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations		457	(609)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		457	(609)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		7,809	22,550
Attributable to:			
Owners of the parent		11,892	22,459
Non-controlling interests		(4,083)	91
		7,809	22,550
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	9	RMB2.86 cents	RMB5.77 cents
Diluted	9	RMB2.85 cents	RMB5.77 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2018

		30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	10	108,753	106,488
Investment properties	11	21,355	21,992
Prepaid land lease payments	12	6,076	6,198
Goodwill		572	572
Intangible assets		1,067	732
Investment in a joint venture		–	1,678
Investment in an associate		2,899	3,108
Deferred tax assets		853	1,041
Prepayments, deposits and other receivables	14	771	929
Total non-current assets		142,346	142,738
CURRENT ASSETS			
Trade and bills receivables	13	34,444	22,563
Prepayments, deposits and other receivables	14	19,268	18,581
Available-for-sale investments	15	–	21,300
Other current financial assets	15	16,300	–
Pledged deposits	16	398	397
Cash and cash equivalents	16	56,428	48,791
Total current assets		126,838	111,632
CURRENT LIABILITIES			
Trade payables	17	7,779	3,718
Contract liabilities		1,989	1,569
Other payables and accruals	18	28,738	30,102
Interest-bearing bank loans and an other borrowing	19	6,265	6,061
Tax payable		3,368	1,801
Dividend payable		10,000	–
Interest payables		73	–
Total current liabilities		58,212	43,251
NET CURRENT ASSETS		68,626	68,381
TOTAL ASSETS LESS CURRENT LIABILITIES		210,972	211,119

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

30 June 2018

		30 June 2018	31 December
		(Unaudited)	(Audited)
	<i>Note</i>	RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	19	11,496	11,681
Deferred tax liabilities		1,111	1,111
Other payables		25	29
Total non-current liabilities		12,632	12,821
Net assets		198,340	198,298
EQUITY			
Equity attributable to owners of the parent			
Share capital		131	131
Reserves		198,065	195,075
		198,196	195,206
Non-controlling interests		144	3,092
Total equity		198,340	198,298

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2018

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	*Capital reserve	*Statutory reserves	*Exchange fluctuation reserve	*Retained profits	Total		
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
As at 1 January 2018	131	92,895	15,755	1,311	85,114	195,206	3,092	198,298
Profit/(loss) for the period	-	-	-	-	11,435	11,435	(4,083)	7,352
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	-	-	-	457	-	457	-	457
Total comprehensive income/(loss) for the period	-	-	-	457	11,435	11,892	(4,083)	7,809
Final 2017 dividend declared (note 8)	-	-	-	-	(10,000)	(10,000)	-	(10,000)
Equity-settled share option arrangements (note 20)	-	521	-	-	-	521	-	521
Equity transactions with non-controlling shareholders	-	577	-	-	-	577	(577)	-
Acquisition of a subsidiary (note 21)	-	-	-	-	-	-	1,712	1,712
As at 30 June 2018	<u>131</u>	<u>93,993</u>	<u>15,755</u>	<u>1,768</u>	<u>86,549</u>	<u>198,196</u>	<u>144</u>	<u>198,340</u>
As at 1 January 2017	131	93,019	11,426	3,226	63,848	171,650	-	171,650
Profit for the period	-	-	-	-	23,068	23,068	91	23,159
Other comprehensive loss for the period:								
Exchange differences on translation of foreign operations	-	-	-	(609)	-	(609)	-	(609)
Total comprehensive income/(loss) for the period	-	-	-	(609)	23,068	22,459	91	22,550
Final 2016 dividend declared	-	-	-	-	(10,000)	(10,000)	-	(10,000)
Capital contributions from non-controlling shareholders	-	-	-	-	-	-	2,413	2,413
Acquisition of a subsidiary	-	-	-	-	-	-	370	370
As at 30 June 2017	<u>131</u>	<u>93,019</u>	<u>11,426</u>	<u>2,617</u>	<u>76,916</u>	<u>184,109</u>	<u>2,874</u>	<u>186,983</u>

* As at 30 June 2018, these reserve accounts comprise the consolidated reserves of RMB198,065,000 (unaudited) (31 December 2017: RMB195,075,000) in the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

		For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
Notes			
CASH FLOWS FROM OPERATING ACTIVITIES			
		12,139	28,465
Profit before tax			
Adjustments for:			
Share of profit of a joint venture		–	(5)
Share of loss of an associate		209	45
Finance costs	6	590	185
Depreciation of property, plant and equipment	5	5,291	4,241
Depreciation of investment properties	5	637	606
Amortisation of prepaid land lease payments	5	122	122
Amortisation of intangible assets	5	44	44
(Gain)/loss on disposal of items of property, plant and equipment, net	5	(119)	18
Gain on disposal of bank financial products	5	(307)	(65)
Impairment of trade and other receivables	5	193	358
Equity-settled share option expense	5	521	–
		19,320	34,014
Increase in trade and bills receivables		(12,064)	(16,475)
Decrease/(increase) in prepayments, deposits and other receivables		845	(2,025)
Increase in trade payables		4,061	1,495
Decrease in contract liabilities, other payables and accruals		(1,553)	(1,594)
		10,609	15,415
Cash generated from operations		(2,985)	(1,128)
Income tax paid			
		7,624	14,287
Net cash flows from operating activities			

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(CONTINUED)

For the six months ended 30 June 2018

		For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	<i>Notes</i>	RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(7,831)	(27,813)
Payment for intangible assets		(200)	–
Proceeds from disposal of items of property, plant and equipment		340	262
Purchase of bank financial products		(40,000)	(41,500)
Disposal of bank financial products		45,000	38,500
Gain on disposal of bank financial products	5	307	65
Purchase of an interest in an associate		–	(1,550)
Acquisition of a subsidiary, net of cash acquired	21	2,369	(498)
(Increase)/decrease in pledged deposits		(1)	415
Net cash flows used in investing activities		(16)	(32,119)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling shareholders		–	2,413
New bank loans and other borrowing		18,000	24,690
Repayment of bank loans and other borrowing		(17,981)	(10,244)
Interest paid		(516)	(1,514)
Dividend paid		–	(10,000)
Net cash flows (used in)/from financing activities		(497)	5,345
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		7,111	(12,487)
Effect of foreign exchange rate changes, net		526	(177)
Cash and cash equivalents at beginning of the period		48,791	63,450
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD			
		56,428	50,786

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

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 address of the Company is 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 period, 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 Mr. LI Xiangli (李向利) and Ms. ZHANG Aiying (張愛英). Mr. LI Xiangli and Ms. ZHANG Aiying are spouses.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with International Accounting Standard (“IASs”) 34 *Interim Financial Reporting* and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2017.

The interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* but did not restate previous financial statements and recognise transition adjustments against the opening balance of equity at 1 January 2018. The nature and the effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 from 1 January 2018 using the modified retrospective method of adoption and applied the method only to the contracts that are not completed at the date of initial application. The adoption of IFRS 15 has no material impact on the Group's financial statements.

The Group's contracts with customers for the provision of coal and coke testing and inspection services generally include one performance obligation. The Group has concluded that revenue from provision of testing services should be recognised at the point in time when the test result is delivered to the customer.

As required for the condensed interim financial statements, the Group disaggregated 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. Refer to note 3 to this condensed interim financial statements for the disclosure on disaggregated revenue.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. The Group did not restate the comparative information for the period beginning 1 January 2017. Therefore, the comparative information for each of the primary financial statements would follow the classification and measurement requirements of IAS 39.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is as follows:

	Measurement category		Carrying amount		
	IAS 39	IFRS 9	IAS 39 (Unaudited) RMB'000	IFRS 9 (Unaudited) RMB'000	Difference (Unaudited) RMB'000
Financial assets					
Other current financial assets					
Bank financial products	Available-for-sale financial assets	Financial assets at FVPL	21,300	21,300	–
Trade and bills receivables	Loans and receivables	Financial assets at amortised cost	22,563	22,563	–
Financial assets included in prepayments, deposits and other receivables	Loans and receivables	Financial assets at amortised cost	9,257	9,257	–
Pledged deposits	Loans and receivables	Financial assets at amortised cost	397	397	–
Cash and bank equivalents	Loans and receivables	Financial assets at amortised cost	48,791	48,791	–

(a) Classification and measurement

Except for certain trade and other receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's financial assets are as follows:

- Financial assets at FVPL comprise bank financial products whose cash flow characteristics fail to meet the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under IAS 39, the Group's bank financial products were classified as available-for-sale financial assets.
- The Group's other financial assets continue to be measured at amortised cost upon the initial application of IFRS 9.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss and other comprehensive income.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model.

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by IAS 39.

(b) *Impairment*

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The statement of financial position as at 31 December 2017 does not have to be restated because the change of the policy causes little impact on the balances.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

Amendments to IAS 40 Transfers of Investment Property

The amendments 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. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 *Share-based Payment* 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 tax obligations; 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. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures — Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards — Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Type of service		
Testing services	84,306	87,838
Surveying services	13,289	14,417
Witnessing and ancillary services	4,300	3,654
Total revenue from contracts with customers	101,895	105,909
Geographical markets		
Mainland China	92,266	105,251
Overseas	9,629	658
Total revenue from contracts with customers	101,895	105,909
Timing of revenue recognition		
Services transferred at a point in time	101,895	105,909
Total revenue from contracts with customers	101,895	105,909

The Group recognised impairment losses on receivables arising from contracts with customers, included under other expenses the statement of profit or loss and other comprehensive income, amounting to RMB193,000 and RMB198,000 for the six months ended 30 June 2018 and 2017, respectively.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

4. OTHER INCOME AND GAINS

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

		For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
Note		RMB'000	RMB'000
Other income			
		27	15
Bank interest income		400	86
Tax refund		307	282
Rental income			
		<u>734</u>	<u>383</u>
Gains			
		307	65
Gain on disposal of bank financial products		34	85
Gain on acquisition of subsidiaries	21	162	15
Gain on disposal of items of property, plant and equipment		115	113
Others			
		<u>618</u>	<u>278</u>
		<u>1,352</u>	<u>661</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

5. PROFIT BEFORE TAX

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

		For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
Notes			
	Cost of services provided	47,696	48,767
	Depreciation of property, plant and equipment	5,291	4,241
10	Depreciation of investment properties	637	606
11	Amortisation of prepaid land lease payments	122	122
12	Amortisation of intangible assets	44	44
	Research and development costs:		
	Current period expenditure	2,965	1,856
	Minimum lease payments under operating leases:		
	Land and buildings	3,283	3,838
	Employee benefit expenses (including directors' and the chief executive's remuneration):		
	Wages and salaries	40,462	28,096
	Pension scheme contributions	2,806	2,629
	Welfare and other expenses	4,995	5,726
	Equity-settled share option expense	521	–
20		48,784	36,451
	Impairment of trade receivables	193	198
	Impairment of other receivables	–	160
	(Gain)/loss on disposals of items of property, plant and equipment, net	(119)	18
	Bank interest income	(27)	(15)
	Gain on disposal of bank financial products	(307)	(65)

6. FINANCE COSTS

An analysis of finance costs is as follows:

		For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
	Interest on bank loans and other borrowings	590	185

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

7. 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 profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong for the six months ended 30 June 2018 and 2017.

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 Commodity Inspection Co., Ltd. ("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 six months ended 30 June 2018 and 2017.

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.

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current income tax		
— Mainland China	4,599	5,593
— Elsewhere	—	38
Deferred	188	(325)
Tax charge for the period	4,787	5,306

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:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit before tax	12,139	28,465
Income tax charge at the statutory income tax rate of 25%	3,035	7,116
Effect of different income tax rate for overseas entities	(85)	(44)
Effect of preferential income tax rate	(2,467)	(2,927)
Tax losses not recognised	3,674	1,481
Tax losses utilised from previous periods	(34)	(316)
Expenses not deductible for tax	312	208
Additional tax deduction for research and development expenditure	(260)	(219)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	585	500
Others	27	(493)
Tax charge for the period at the effective rate	4,787	5,306

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

8. DIVIDENDS

The proposed final cash dividend of RMB0.025 per share totalling RMB10,000,000 for the year ended 31 December 2017 was approved by the Company's shareholders on 11 May 2018.

The board of directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

9. 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 period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 400,000,000 (six months ended 30 June 2017: 400,000,000) in issue during the period, as adjusted to reflect the rights issue during the period.

The diluted earnings per share is calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the period, 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.

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent,		
used in the basic and diluted earnings per share calculations	<u>11,435</u>	<u>23,068</u>
	Number of shares	
	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during		
the period used in the basic earnings per share calculations	400,000,000	400,000,000
Effect of dilution-weighted average number of ordinary shares:		
share option	<u>561,256</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of		
the diluted earnings per share calculations	<u>400,561,256</u>	<u>400,000,000</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings (Unaudited) RMB'000	Vehicles (Unaudited) RMB'000	Electronic equipment and others (Unaudited) RMB'000	Construction in progress (Unaudited) RMB'000	Leasehold improvements (Unaudited) RMB'000	Total (Unaudited) RMB'000
30 June 2018						
At 1 January 2018:						
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	<u>67,345</u>	<u>5,523</u>	<u>12,765</u>	<u>18,906</u>	<u>1,949</u>	<u>106,488</u>
At 1 January 2018, net of accumulated depreciation	67,345	5,523	12,765	18,906	1,949	106,488
Additions	–	780	2,594	3,468	23	6,865
Transfers	–	–	2,234	(7,662)	5,428	–
Acquisition of a subsidiary (note 21)	–	4	755	–	200	959
Disposals	–	(150)	(71)	–	–	(221)
Depreciation provided during the period (note 5)	(1,657)	(1,075)	(2,036)	–	(523)	(5,291)
Exchange realignment	–	(5)	(42)	–	–	(47)
At 30 June 2018, net of accumulated depreciation	<u>65,688</u>	<u>5,077</u>	<u>16,199</u>	<u>14,712</u>	<u>7,077</u>	<u>108,753</u>
At 30 June 2018:						
Cost	69,780	19,369	32,873	14,712	9,112	145,846
Accumulated depreciation	(4,092)	(14,292)	(16,674)	–	(2,035)	(37,093)
Net carrying amount	<u>65,688</u>	<u>5,077</u>	<u>16,199</u>	<u>14,712</u>	<u>7,077</u>	<u>108,753</u>

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 interim condensed financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

	Land and buildings (Unaudited) RMB'000	Vehicles (Unaudited) RMB'000	Electronic equipment and others (Unaudited) RMB'000	Construction in progress (Unaudited) RMB'000	Leasehold improvements (Unaudited) RMB'000	Total (Unaudited) RMB'000
30 June 2017						
At 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	<u>21,765</u>	<u>6,144</u>	<u>10,973</u>	<u>17,950</u>	<u>2,806</u>	<u>59,638</u>
At 1 January 2017, net of accumulated depreciation and impairment	21,765	6,144	10,973	17,950	2,806	59,638
Additions	–	788	5,470	25,868	–	32,126
Transfers	12,683	–	105	(12,905)	117	–
Acquisition of a subsidiary	–	118	528	–	–	646
Disposals	–	(34)	(245)	–	–	(279)
Depreciation provided during the period (note 5)	(636)	(1,229)	(1,872)	–	(504)	(4,241)
Exchange realignment	–	(9)	(38)	–	–	(47)
At 30 June 2017, net of accumulated depreciation and impairment	<u>33,812</u>	<u>5,778</u>	<u>14,921</u>	<u>30,913</u>	<u>2,419</u>	<u>87,843</u>
At 30 June 2017:						
Cost	35,236	21,609	29,453	31,941	3,837	122,076
Accumulated depreciation	(1,424)	(15,831)	(14,532)	–	(1,418)	(33,205)
Impairment	–	–	–	(1,028)	–	(1,028)
Net carrying amount	<u>33,812</u>	<u>5,778</u>	<u>14,921</u>	<u>30,913</u>	<u>2,419</u>	<u>87,843</u>

The carrying amount of a construction in progress exceeded its recoverable amount of RMB1,028,000 as at 30 June 2017. An impairment loss of RMB1,028,000 was recognised during the six months ended 30 June 2016.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

11. INVESTMENT PROPERTIES

	As at 30 June 2018 (Unaudited) RMB'000	As at 30 June 2017 (Unaudited) RMB'000
Cost:		
At beginning and end of the period	<u>26,833</u>	<u>25,513</u>
Accumulated depreciation:		
At beginning of the period	(4,841)	(3,231)
Depreciation charge for the period (note 5)	<u>(637)</u>	<u>(606)</u>
At end of the period	<u>(5,478)</u>	<u>(3,837)</u>
Net carrying amount:		
At beginning of the period	<u>21,992</u>	<u>22,282</u>
At end of the period	<u>21,355</u>	<u>21,676</u>

Certain of the Group's investment properties with a total carrying value of RMB20,464,000 were pledged to obtain a banking facility from a bank amounting to RMB15,000,000 which has been terminated as at 30 June 2018. The pledge of these investment properties has not been released as of the date of these interim condensed financial statements.

12. PREPAID LAND LEASE PAYMENTS

	As at 30 June 2018 (Unaudited) RMB'000	As at 30 June 2017 (Unaudited) RMB'000
Carrying amount at beginning of the period	6,436	10,608
Amortisation for the period (note 5)	<u>(122)</u>	<u>(122)</u>
Carrying amount at end of the period	<u>6,314</u>	<u>10,486</u>
Current portion included in prepayments, deposits and other receivables (note 14)	<u>(238)</u>	<u>(238)</u>
Non-current portion	<u>6,076</u>	<u>10,248</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

13. TRADE AND BILLS RECEIVABLES

	As at 30 June 2018 (Unaudited) RMB'000	As at 31 December 2017 (Audited) RMB'000
Trade and bills receivables	34,958	22,894
Impairment	(514)	(331)
	<u>34,444</u>	<u>22,563</u>

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 30 June 2018 (Unaudited) RMB'000	As at 31 December 2017 (Audited) RMB'000
Within 3 months	28,076	18,597
3 to 6 months	4,551	2,411
6 months to 1 year	1,596	1,543
Over 1 year	221	12
	<u>34,444</u>	<u>22,563</u>

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

	As at 30 June 2018 (Unaudited) RMB'000	As at 31 December 2017 (Audited) RMB'000
Joint venture	—	488

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2018 (Unaudited) <i>RMB'000</i>	As at 31 December 2017 (Audited) <i>RMB'000</i>
Prepaid land lease payments (<i>note 12</i>)	238	238
Prepayments	9,821	10,015
Deposits and other receivables	9,980	9,257
	<u>20,039</u>	<u>19,510</u>
Portion classified as non-current assets	(771)	(929)
	<u><u>19,268</u></u>	<u><u>18,581</u></u>

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

	As at 30 June 2018 (Unaudited) <i>RMB'000</i>	As at 31 December 2017 (Audited) <i>RMB'000</i>
Associate	–	871

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

15. AVAILABLE-FOR-SALE INVESTMENTS AND OTHER CURRENT FINANCIAL ASSETS

	As at 30 June 2018 (Unaudited) <i>RMB'000</i>	As at 31 December 2017 (Audited) <i>RMB'000</i>
Financial assets at fair value through profit or loss		
Bank financial products	<u>16,300</u>	<u>–</u>
Available-for-sale financial assets		
Bank financial products	<u>–</u>	<u>21,300</u>

The financial products issued by banks have been classified as financial assets at fair value through profit or loss upon the application of IFRS 9 as these instruments did not meet the SPPI criterion. The fair values of the bank financial products have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2018 (Unaudited) RMB'000	As at 31 December 2017 (Audited) RMB'000
Cash and bank balances	56,428	48,791
Time deposits	398	397
	<u>56,826</u>	<u>49,188</u>
Less: Time deposits pledged for construction in the process	(398)	(397)
	<u>56,428</u>	<u>48,791</u>

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.

17. TRADE PAYABLES

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

	As at 30 June 2018 (Unaudited) RMB'000	As at 31 December 2017 (Audited) RMB'000
Within 3 months	6,537	3,650
3 to 6 months	1,138	1
6 months to 1 year	43	8
1 to 2 years	2	—
2 to 3 years	—	—
Over 3 years	59	59
	<u>7,779</u>	<u>3,718</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

18. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2018 (Unaudited) <i>RMB'000</i>	As at 31 December 2017 (Audited) <i>RMB'000</i>
Accrued salaries, wages and benefits	11,161	9,025
Other taxes payable	1,094	755
Payable to vendors of plant, property and equipment	13,975	14,930
Others	2,508	5,392
	<u>28,738</u>	<u>30,102</u>

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

The amount due to the Group's associate included in the other payables and accruals is as follows:

	As at 30 June 2018 (Unaudited) <i>RMB'000</i>	As at 31 December 2017 (Audited) <i>RMB'000</i>
Associate	<u>2,518</u>	<u>–</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

19. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	As at 30 June 2018 (Unaudited)			As at 31 December 2017 (Audited)		
	<i>Effective interest rate (%)</i>	<i>Maturity (year)</i>	<i>RMB'000</i>	<i>Effective interest rate (%)</i>	<i>Maturity (year)</i>	<i>RMB'000</i>
Current						
Current portion of long-term bank loans						
— Unsecured	6.65	2019	6,249	6.65	2018	6,045
Current portion of an other borrowing						
— Unsecured	9.75	2019	16	9.75	2018	16
			<u>6,265</u>			<u>6,061</u>
Non-current						
Long-term bank loans						
— Unsecured	6.65	2020	6,936	6.65	2020	10,112
Other borrowings						
— Unsecured	9.75	2020	10	9.75	2020	19
— Unsecured	4.75	2022	1,550	4.75	2022	1,550
— Unsecured	4.75	2023	3,000	—	—	—
			<u>11,496</u>			<u>11,681</u>
			<u>17,761</u>			<u>17,742</u>
Interest-bearing bank loans and other borrowings are denominated in:						
— RMB			17,735			17,707
— INR			26			35
			<u>17,761</u>			<u>17,742</u>

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

	As at 30 June 2018 (Unaudited) RMB'000	As at 31 December 2017 (Audited) RMB'000
Analysed into:		
Bank loans and other borrowings repayable		
Within one year	6,265	6,061
In the second year	6,389	6,477
In the third to fifth years, inclusive	5,107	5,204
	<u>17,761</u>	<u>17,742</u>

Certain of the Group's other borrowings amounting to RMB4,550,000 as at 30 June 2018 and 31 December 2017 were loans from LEI Xihu, the non-controlling shareholder of a subsidiary.

The Group's bank loans amounting to RMB13,185,000 as at 30 June 2018 (31 December 2017: RMB16,157,000) were guaranteed by LI Xiangli and ZHANG Aiying.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

20. 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. During the period, 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 (being date of first grant under the Scheme) and, unless otherwise cancelled or amended, will remain in force for certain years from that date.

Particulars and movements of the shares under the Scheme during the period

Date of grant	Fair value per share (HK\$)	As at 1 January 2018	Granted during the period	Lapsed during the period	Vested during the period	As at 30 June 2018
4 July 2017	0.34	<u>7,750,000</u>	–	<u>500,000</u>	–	<u>7,250,000</u>

The fair value of options granted during the six months ended 30 June 2018 was estimated on the date of grant using the following assumptions:

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 weighted average fair value of the options granted during the six months ended 30 June 2018 was HK\$0.34 (year ended 31 December 2017: HK\$0.34).

For the six months ended 30 June 2018, the Group has recognised HK\$622,000 (equivalent to RMB521,000) of share-based payment expense in the statement of profit or loss and other comprehensive income (30 June 2017: Nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

21. BUSINESS COMBINATION

Beijing Huaxia Lihong directly owns half of the equity interests in Guangzhou Lihong Energy Testing Technology Co., Ltd., (“Guangzhou Lihong Energy”) and the voting power attached to the equity interests does not allow Beijing Huaxia Lihong to have the power to govern the financial and operating activities of Guangzhou Lihong Energy according to the articles of association of it. On 9 January 2018, Beijing Huaxia Lihong signed shareholders’ voting agreement with the other equity owner of Guangzhou Lihong Energy, agreed that Beijing Huaxia Lihong has the right to make the final decision when the two parties hold different opinions. The PRC lawyer of Beijing Huaxia Lihong confirmed that the shareholders’ voting agreement are valid under the relevant PRC laws. On top of the shareholders’ voting agreement, the directors are of the opinion that the Group has rights to variable returns from its involvement with Guangzhou Lihong Energy and that it has the ability to direct the relevant activities of Guangzhou Lihong Energy since 9 January 2018. Therefore, the financial statements of Guangzhou Lihong Energy are consolidated by the Company since 9 January 2018.

The fair values of the identifiable assets and liabilities of Guangzhou Lihong Energy Testing Technology Co., Ltd. as at the date of acquisition were as follows:

		9 January 2018 (Unaudited) RMB’000
	<i>Notes</i>	
Property, plant and equipment	10	959
Trade receivables		994
Prepayments, deposits and other receivables		301
Cash and cash equivalents		2,369
Trade payables		(503)
Contract liabilities		(2)
Other payables and accruals		(513)
Tax payable		(181)
Total identifiable net assets at fair value		3,424
Non-controlling interests		(1,712)
		1,712
Gain on acquisition of a subsidiary	4	(34)
Total consideration		1,678
Satisfied by cash		–

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

	For the six months ended 30 June 2018 (Unaudited) RMB’000
Cash and cash equivalents acquired	2,369
Cash consideration	–
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	2,369

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

Since the acquisition, the acquired companies contributed approximately RMB4,643,000 to the Group's revenue and approximately RMB1,506,000 to the Group's profit for the six months ended 30 June 2018.

Had the acquisition taken place at the beginning of the period, the revenue of the Group and the profit after tax of the Group for the six months ended 30 June 2018 would have been RMB101,895,000 and RMB7,352,000, respectively.

22. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 11 to these interim condensed consolidated financial statements) under operating lease arrangements, with leases negotiated for terms of one to four years.

As at 30 June 2018 and 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 30 June 2018 (Unaudited) RMB'000	As at 31 December 2017 (Audited) RMB'000
Within one year	531	365
In the second to fifth years, inclusive	453	132
	<u>984</u>	<u>497</u>

(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 ten years.

As at 30 June 2018 and 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 June 2018 (Unaudited) RMB'000	As at 31 December 2017 (Audited) RMB'000
Within one year	5,852	5,537
In the second to fifth years, inclusive	11,112	11,985
After five years	2,685	3,127
	<u>19,649</u>	<u>20,649</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

23. COMMITMENTS

In addition to the operating lease commitments detailed in note 22(b) above, the Group had the following capital commitments as at 30 June 2018 and 31 December 2017:

	As at 30 June 2018 (Unaudited) RMB'000	As at 31 December 2017 (Audited) RMB'000
Contracted, but not provided for:		
Property, plant and equipment	<u>2,496</u>	<u>2,490</u>

24. RELATED PARTY TRANSACTIONS

(a) Transaction with related parties during the period:

	For the six months ended 30 June 2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Provision of testing service by a joint venture	–	350
Provision of testing service to a joint venture	–	620
Provision of technical services by an associate	283	517
Purchase of property, plant and equipment from an associate	3,130	–
Purchase of intangible asset from an associate	377	–

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.

(b) Outstanding balances with related parties:

Details of the outstanding balances with related parties are set out in notes 13, 14 and 18 to these interim condensed consolidated financial statements.

(c) Guarantee with related parties:

The Group's long-term bank loans amounting to RMB13,185,000 as at 30 June 2018 were guaranteed by LI Xiangli and ZHANG Aiying.

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

	For the six months ended 30 June 2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Short-term employee benefits	2,974	3,734
Pension scheme contributions	139	132
Equity-settled share option expense	74	–
	<u>3,187</u>	<u>3,866</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

25. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 30 June 2018 and 31 December 2017 are as follows:

Financial assets

	As at 30 June 2018 (Unaudited) <i>RMB'000</i>	As at 31 December 2017 (Audited) <i>RMB'000</i>
Debt instruments at amortised cost:		
Trade and bills receivables	34,444	22,563
Financial assets included in prepayments, deposits and other receivables	9,980	9,257
Pledged deposits	398	397
Cash and cash equivalents	56,428	48,791
Financial assets at fair value through profit and loss:		
Other current financial assets	16,300	21,300
	<u>117,550</u>	<u>102,308</u>

Financial liabilities

	As at 30 June 2018 (Unaudited) <i>RMB'000</i>	As at 31 December 2017 (Audited) <i>RMB'000</i>
Financial liabilities at amortised cost:		
Trade payables	7,779	3,718
Financial liabilities included in other payables and accruals	16,483	20,322
Interest-bearing bank loans and other borrowings	17,761	17,742
Interest payable	73	–
	<u>42,096</u>	<u>41,782</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

26. 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 30 June 2018 (Unaudited) RMB'000	As at 31 December 2017 (Audited) RMB'000	As at 30 June 2018 (Unaudited) RMB'000	As at 31 December 2017 (Audited) RMB'000
Financial assets at fair value through profit or loss				
Other current financial assets	<u>16,300</u>	<u>21,300</u>	<u>16,300</u>	<u>21,300</u>
Financial liabilities at amortised cost				
Interest-bearing bank loans and other borrowings	<u>17,761</u>	<u>17,742</u>	<u>17,761</u>	<u>17,742</u>
Interest payables	<u>73</u>	<u>–</u>	<u>73</u>	<u>–</u>
	<u>17,834</u>	<u>17,742</u>	<u>17,834</u>	<u>17,742</u>

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 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 value:

The fair values of interest-bearing bank loans and other borrowings and interest payable have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans, other borrowings and interest payables at 30 June 2018 was assessed to be insignificant.

The other current financial assets stated at fair value at 30 June 2018 and 31 December 2017 represented financial products issued by banks. The fair values of the other current financial assets have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

Fair value hierarchy

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

Assets measured at fair value:

As at 30 June 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) (Unaudited) RMB'000	Significant observable inputs (Level 2) (Unaudited) RMB'000	Significant unobservable inputs (Level 3) (Unaudited) RMB'000	Total (Unaudited) RMB'000
Other current financial assets	–	16,300	–	16,300

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) (Audited) RMB'000	Significant observable inputs (Level 2) (Audited) RMB'000	Significant unobservable inputs (Level 3) (Audited) RMB'000	Total (Audited) RMB'000
Available-for-sale investments	–	21,300	–	21,300

Liabilities for which fair value are disclosed

As at 30 June 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) (Unaudited) RMB'000	Significant observable inputs (Level 2) (Unaudited) RMB'000	Significant unobservable inputs (Level 3) (Unaudited) RMB'000	Total (Unaudited) RMB'000
Interest-bearing bank loans and other borrowings	–	17,761	–	17,761
Interest payables	–	73	–	73
	–	17,834	–	17,834

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2018

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) (Audited) <i>RMB'000</i>	Significant observable inputs (Level 2) (Audited) <i>RMB'000</i>	Significant unobservable inputs (Level 3) (Audited) <i>RMB'000</i>	Total (Audited) <i>RMB'000</i>
Interest-bearing bank loans and other borrowings	–	17,742	–	17,742

27. EVENT AFTER THE REPORTING PERIOD

On 23 July 2018, the Company granted share options to Mr. YANG Rongbing, a director of the Company, under the share option scheme adopted by the Company on 5 May 2017, to subscribe for a total of 3,000,000 ordinary shares of US\$0.00005 each in the share capital of the Company, representing 0.75% of the issued share capital of the Company.

28. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 24 August 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Market Review

According to the Chinese government, in the first half of 2018, accumulated production volume of raw coal in China was 1.697 billion tons, representing a year-on-year increase of 3.9%. During the year, China continues to phase out its outdated and invalid production capacity, speed up the release of quality and advanced production capacity and the elimination of invalid and low-quality production capacity and increase the proportion of advanced coal production capacity.

In the first half of 2018, supply-side reform proceeded in an orderly manner, boosting continuous growth of market price and volume of coal. During the Period, our revenue and gross profit were RMB101.9 million and RMB54.2 million, respectively, representing decreases of 3.8% and 5.2%, respectively, as compared with the corresponding period of last year. The overall gross profit margin during the Period was 53.2%, slightly lower than 54.0% for the same period of last year.

During the Period, we stepped up our efforts in market development as per the established corporate strategy, upgrading the 13 service centers in Mainland China on an ongoing basis while setting up five new service centres abroad, in order to further complete our service network. Currently, the overseas service centres are under construction. Meanwhile, we increased our investment in R&D and made steady progress. We believe the Company's strategic planning will reinforce our market leading position and help us cope with challenges both at home and abroad.

In the first half of 2018, Beijing Huaxia Lihong Commodity Inspection Co., Ltd. (**“Beijing Huaxia Lihong”**), an indirect wholly-owned subsidiary of China Leon, successfully won the bid for the commercial coal third-party coal inspection services project in Northern Shannxi Mining Area for 陝西省煤炭運銷(集團)有限責任公司 (Shaanxi Coal Selling and Transportation (Group) Corporation*) (**“Shaan Coal”**). This project generates an income of approximately RMB30,000,000 per year with a contractual term of five years and is expected to contribute over RMB140,000,000 to the Group's revenue. Shaan Coal agreed to engage Beijing Huaxia Lihong to provide Shaan Coal with commercial coal third-party coal inspection services in Northern Shannxi Mining Area.

Further, as a result of the gradual exhaustion of coal resources in central and eastern China, Xinjiang became a key energy succession area and coal resources strategic storage area, accounting for 40% of proven reserves in China. The “Outline of the Thirteenth Five-Year Plan for the National Economic and Social Development of the Xinjiang Uyghur Autonomous Region” issued in 2017 mentions “promoting clean and efficient use of coals as its main direction, focusing on industrial restructuring and development transformation and establishing the 14th major coal base in China based on four major coal fields in Dzungar (準噶爾), Tuha (吐哈), Ili (伊犁) and Kubai (庫拜), respectively”. Also, “Coal transfer from Xinjiang to other areas (疆煤外送)” and “Electricity Transmission from Xinjiang to other areas (疆電外送)” will become the key projects. Thus, in the first half of 2018, China Leon established a subsidiary in Xinjiang and set up a mobile laboratory as well as further developed coal testing and inspection business, so as to solidify its leading position in coal testing and inspection industry.

Business Strategies and Future Outlook

Given the coal's long-term dominant position in China's energy structure, the coal testing and inspection industry also has steady growth potentials. Only a moderate portion of coal is currently subject to independent testing and inspection. In the long run, benefiting from the further liberalization of coal trade, the coal subject to testing and inspection may potentially account for close to the entirety of the coal for consumption. In international markets, coal is also an important energy. So far, the Company has established overseas service centres in Singapore, Indonesia, Malaysia, India and Australia (all five overseas service centres are under construction) through new construction as well as acquisition. We believe the establishment of overseas service centres will enhance our brand recognition internationally, increase our overseas revenue, and set us off on our march to the international market.

Further solidify our leadership in coal testing and inspection industry

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

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

Upgrade and expand our network of service centers

To improve our service capabilities and to accommodate increased business volume domestically, we intend to upgrade some of our laboratorial facilities at our existing service centers located in northern China. Our expansion plans will further strengthen our local market shares by allowing us to enhance our service capabilities through site tours and provide improved customer experience.

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

Outside China, we are selectively opening service facilities to provide coal testing services in countries with abundant coal export and import volume which represent large potential markets for us. Currently, the Company is vigorously constructing five overseas service centres. In the future, we intend to establish our presence in those countries and obtain more shares of business of clients from those countries in China by leveraging our integrated service capabilities. We will also upgrade our internal information infrastructure to interconnect with our overseas service facilities and allow seamless exchange of information and expertise, creating an integrated network to serve the domestic and cross-border flows of coal.

Further strengthen our research and development efforts

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

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

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

We will also consider targets in other testing markets, including fuel, mineral and chemical products, if their growth prospects and profitability are sufficiently attractive. Benefiting from our stringent quality control and standardized operational measures, we believe that acquisition of or investment in testing businesses on other products will create synergy. We believe our investment will further expand our service scope in the future.

Financial Review

Overview

	For the six months ended 30 June		
	2018	2017	
	(Unaudited)	(Unaudited)	Change
	RMB'000	RMB'000	
Revenue	101,895	105,909	(3.8%)
Gross profit	54,199	57,142	(5.2%)
Profit before tax	12,139	28,465	(57.4%)
Profit for the Period	7,352	23,159	(68.3%)

Revenue

The Group's revenue decreased by 3.8% from approximately RMB105.9 million for the six months ended 30 June 2017 to approximately RMB101.9 million for the Period. The decrease is mainly contributed by a decline in business volume of the Group's testing services at Huanghua Port, despite an increase in business volume at Tangshan Port and at overseas subsidiaries. The table below sets forth the revenue breakdown of each of our service offerings.

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Testing services	84,306	87,838
Surveying services	13,289	14,417
Witnessing and ancillary services	4,300	3,654
	101,895	105,909

Cost of Sales

The Group's cost of sales decreased by 2.2% from approximately RMB48.8 million for the six months ended 30 June 2017 to approximately RMB47.7 million for the Period, representing 46.0% and 46.8% of the Group's revenue for the respective periods. The decrease in the Group's cost of sales was primarily attributable to lower port charges at Huanghua Port as a result of reduction in business volume there.

Gross Profit and Gross Profit Margin

The Group's gross profit decreased by 5.2% from approximately RMB57.1 million for the six months ended 30 June 2017 to approximately RMB54.2 million for the Period. The gross profit margin slightly decreased from 54.0% for the six months ended 30 June 2017 to 53.2% for the Period, which was due to lower gross margin from business brought by the Group's overseas subsidiaries.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased from approximately RMB1.0 million for the six months ended 30 June 2017 to approximately RMB1.9 million for the Period, which was mainly due to an increase in entertainment and advertising expenses incurred by overseas subsidiaries.

Administrative Expenses

The Group's administrative expenses increased from approximately RMB26.4 million for the six months ended 30 June 2017 to approximately RMB39.2 million for the Period, which was chiefly due to (1) an increase in employees' total remuneration packages; (2) rise in manpower-related and administrative costs at overseas subsidiaries as part of the Group's overseas expansion plans; (3) an increase in research and development expenditure; and (4) depreciation of properties, plant and equipment which only commenced in the second half of last year especially for overseas subsidiaries.

Other Expenses

During the Period, the Group recorded other expenses amounting to RMB1.4 million, compared to RMB1.7 million during the same period of last year. This is mainly due to a smaller foreign exchange loss, fewer corporate donations and fewer impairment loss for the Period as compared to the same period of last year.

Finance Costs

The Group recorded a finance cost of approximately RMB0.2 million and RMB0.6 million for the six months ended 30 June 2017 and the Period, respectively, representing an increase of 218.9%, as a result of finance costs incurred by interest-bearing bank loans for the Period, whereas in the same period of last year, lower finance costs were incurred due to settlement of bank loans in March 2017.

Income Tax Expense

During the Period, income tax expense amounted to approximately RMB4.8 million, decreasing by approximately RMB0.5 million as compared to approximately RMB5.3 million for the corresponding period of last year, because of the combined influence of a decrease in profit before tax and an increase of tax losses not recognised.

Profit for the Period

The Group's profit for the Period decreased by 68.3% from approximately RMB23.2 million for the six months ended 30 June 2017 to approximately RMB7.4 million in the Period, which was mainly attributable to a significant rise in manpower-related costs and administrative expenses stemming from overseas expansion of the Group's testing and inspection 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 RMB106.5 million and RMB108.8 million as at 31 December 2017 and 30 June 2018, respectively. The increase as at 30 June 2018 was primarily due to addition of plant and equipment by overseas subsidiaries and addition of leasehold improvements to an office building, partially offset by decreasing book value of certain vehicles of the Group.

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 RMB22.0 million and RMB21.4 million as at 31 December 2017 and 30 June 2018, 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 2017 and 30 June 2018, the Group had trade and bills receivables of approximately RMB22.6 million and RMB34.4 million, respectively. Such increase in receivables as at 30 June 2018 was mainly attributable to a slower collection from certain customers as the contracts were being renewed.

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 RMB0.7 million from approximately RMB18.6 million as at 31 December 2017 to approximately RMB19.3 million as at 30 June 2018, primarily due to increased tender process deposits and increased debit balance of value-added tax payables, partially offset by the decrease of estimated input tax. The non-current portion of the Group's prepayments, deposits and other receivables stood at approximately RMB0.9 million and RMB0.8 million as at 31 December 2017 and 30 June 2018 respectively, which can be seen as quite steady for both periods.

Available-for-Sale Investments and Other Current Financial Assets

The Group's available-for-sale investments and other current financial assets primarily represent low-risk financial products purchased from commercial banks using its cash on hand. Available-for-sale investments are classified to other current financial assets under IFRS 9 which is adopted as at 1 January 2018 by the Group. As at 31 December 2017 and 30 June 2018, the fair value of our available-for-sale investments and other current financial assets reached RMB21.3 million and RMB16.3 million, respectively. The decrease as at 30 June 2018 was due to the redemption by the Group of some of the bank financial products for working capital use.

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 2017 and 30 June 2018, the Group's cash and cash equivalents were RMB48.8 million and RMB56.4 million, respectively. The increase in the Group's cash and cash equivalents as at 30 June 2018 was primarily attributable to (1) net cash inflows generated from operating activities of RMB7.6 million; (2) disposal of financial products of RMB45.0 million; (3) new bank loans and other borrowing of RMB18.0 million; and (4) cash acquired from acquisition of a subsidiary of RMB2.4 million; partially offset by (1) purchase of financial products of RMB40.0 million; (2) repayment of bank loans and other borrowing of RMB18.0 million; and (3) purchase of properties, plant and equipment and intangible assets of RMB8.0 million.

Trade Payables

The Group's trade payables primarily represent amounts payable for port charges. As at 31 December 2017 and 30 June 2018, the Group had trade payables of approximately RMB3.7 million and RMB7.8 million, respectively. The increase in the Group's trade payables as at 30 June 2018 was primarily attributable to (1) an increase in port charges payable at Tangshan port; and (2) increase in overseas amount payable to third-party inspection companies.

Contract Liabilities, Other Payables and Accruals

The Group's contract liabilities, other payables and accruals primarily represent advance from contracts with customers, accrued salaries, wages and benefits and other payables. As at 31 December 2017 and 30 June 2018, the Group had contract liabilities, other payables and accruals of RMB31.7 million and RMB30.7 million, respectively. Such decrease as at 30 June 2018 was mainly due to the release of payment of construction fees to vendors, partially offset by an increase in accrued salaries, wages and benefits.

Interest-bearing Bank Loans

The Group had interest-bearing bank loans of approximately RMB16.2 million and RMB13.2 million as at 31 December 2017 and 30 June 2018, respectively. The decrease in the Group's interest-bearing bank loans was due to progressive repayment of the principal loan amount.

Interest-bearing Other Borrowings

As at 30 June 2018, the Group had interest-bearing other borrowings amounting to approximately RMB4.6 million, compared to RMB1.6 million as at 31 December 2017. Such increase was due to a new borrowing of RMB3.0 million from the same lender.

Liquidity and Capital Resources

The Group had cash and cash equivalents of RMB56.4 million as at 30 June 2018. The Group is in a strong and healthy financial position and has enough 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 to support our business and maximize our shareholders' value. We manage and adjust our capital structure considering changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust our capital structure, we may adjust dividend payments to shareholders, return capital to shareholders or raise funds through issuing new equity.

We have a prudent treasury operation to manage our investments in financial products. We only invest in low risk financial instruments from reputable commercial banks that can be redeemed on a same-day basis or otherwise within a short notice period, including primarily bank-sponsored wealth management products, such as bonds, money market funds and interbank deposits. We purchase and redeem financial products multiple times over the course of a year as and when needed to meet our real-time funding requirements, as a result of which our cash flows related to the purchase and disposal of financial products were significantly higher than the period-end balance amounts.

Cash Flows from Operating Activities

The Group had net cash flows from operating activities of approximately RMB14.3 million and RMB7.6 million for the six months ended 30 June 2017 and the Period, respectively. The decrease in the Group's cash flows from operating activities was primarily due to our lower revenue generation and higher remuneration and administrative expenses for the Period.

Cash Flows from Financing Activities

The Group had net cash inflows and net cash outflows from financing activities of approximately RMB5.3 million and RMB0.5 million for the six months ended 30 June 2017 and the Period, respectively. The cash flows from financing activities of the Group changed to net outflows, which was primarily due to (1) attainment of bank loans partially offset by repayment of borrowings leading to no cash inflows from loans; and (2) interest paid on borrowings of RMB0.5 million.

Commitments

As at 30 June 2018, the Group had a total capital commitment of approximately RMB2.5 million for contracted but not performed acquisition of property, plant and equipment.

Contingent Liabilities

As at 30 June 2018, 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 "interest-bearing other 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.

	2018	2017
	30 June	31 December
	RMB'000	RMB'000
Total debt	17,761	17,742
Total equity	198,340	198,298
Gearing Ratio	9.0%	8.9%

Credit Risk

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

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

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

Exchange Risk

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

Significant Investments

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

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During the Period, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

Charges on Assets

During the year ended 31 December 2017, the Group purchased two properties from an independent third party with a cash consideration of RMB37,657,000. These properties were pledged by this third party for certain purpose before the purchase. The pledge has not been released and the property ownership certificates have not been obtained as of 30 June 2018.

In addition, certain of the Group's investment properties with a total carrying value of RMB20,464,000 were pledged to obtain a bank facility amounting to RMB15,000,000 which has been terminated as at 30 June 2018. The pledge of these investment properties has not been released as of 30 June 2018.

HUMAN RESOURCES

As at 30 June 2018, the Group had 841 employees in total. The Group's employee compensation includes base salary, bonuses and cash subsidies. In general, the Group determines 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.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the Period (For the six months ended 30 June 2017: Nil).

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of its shareholders as a whole. The Company has adopted the code provisions on Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) as its own code to govern its corporate governance practices. During the Period, save as disclosed below, the Company complied with all applicable code provisions as set out in the CG Code.

Apart from the deviation from code provision A.2.1 of the CG Code that the roles of chairman and chief executive officer of the Company were performed by the same individual, the Company has been in compliance with all the code provisions under 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 chief executive officer 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.

The Board will continue to review and monitor the practices of the Company with an aim of maintaining a high standard of corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its own code of conduct regarding dealings in the securities of the Company by the Directors and the Group's senior management who, because of their offices or employments, are likely to possess inside information in relation to the Company or its securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the Period.

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

Neither the Company nor any of its subsidiaries purchased, sold, or redeemed any of the Company's listed securities during the Period.

REVIEW OF FINANCIAL INFORMATION

The Company has established an audit committee (the “**Audit Committee**”) in compliance with Rule 3.21 of the Listing Rules.

Following the resignation of Mr. YANG Rongbing and the appointment of Mr. LIU Hoi Keung as the chairman and a member of the Audit Committee on 23 July 2018, the Audit Committee now comprises three members, namely Mr. LIU Hoi Keung (Chairman), Mr. WANG Zichen and Mr. ZHAO Hong, all being the independent non-executive Directors.

The Audit Committee and Ernst & Young, the external auditor, have reviewed the unaudited interim condensed consolidated statements of the Group for the Period.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and on the website of the Company at www.huaxialihong.com. The interim report of the Company for the Period containing all the information required by the Listing Rules will be despatched to shareholders and published on the above websites in due course.

On behalf of the Board
China Leon Inspection Holding Limited
Li Xiangli
Chairman

Beijing, PRC, 24 August 2018

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