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 2019

FINANCIAL HIGHLIGHTS

- Revenue for 2019 amounted to approximately RMB396.5 million, representing an increase of 69.6% from approximately RMB233.8 million recorded in 2018.
- Gross profit for 2019 amounted to approximately RMB186.2 million, representing an increase of 51.5% from approximately RMB122.9 million recorded in 2018.
- Profit for the year 2019 amounted to approximately RMB28.8 million, representing a increase of 486.8% from approximately RMB4.9 million recorded in 2018.
- Final dividend of RMB0.0375 per share recommended, results in a full-year dividend of RMB0.0375 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 2019 with the comparative figures for the year ended 31 December 2018 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

		2019	2018
	NOTES	***RMB'000***	*RMB'000*
Revenue	*3*	**396,456**	233,750
Cost of sales		**(210,249)**	(110,842)
Gross profit		**186,207**	122,908
Other income and other gains and losses		**7,230**	3,162
Selling and distribution expenses		**(15,131)**	(4,169)
Administrative expenses		**(110,916)**	(89,658)
Impairment losses under expected credit model, net		**(786)**	(1,072)
Other expenses		**(11,779)**	(14,708)
Finance costs		**(6,864)**	(2,632)
Share of (loss) profits of an associate		**(1,061)**	381
Profit before tax		**46,900**	14,212
Income tax expense	*5*	**(18,143)**	(9,311)
Profit for the year	*6*	**28,757**	4,901
Attributable to:			
Owners of the Company		**24,171**	14,021
Non-controlling interests		**4,586**	(9,120)
		28,757	4,901

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

For the year ended 31 December 2019

	NOTES	**2019**	2018
		RMB'000	*RMB'000*
Other comprehensive (expense) income:			
Item that will not be reclassified to profit or loss:			
Fair value loss on investment in equity instrument at fair value through other comprehensive income		**(2,188)**	–
Item that may be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations		**401**	527
Other comprehensive (expense) income for the year, net of tax		**(1,787)**	527
Total comprehensive income for the year		**26,970**	5,428
Attributable to:			
Owners of the Company		**22,187**	14,548
Non-controlling interests		**4,783**	(9,120)
		26,970	5,428
Earnings per share attributable to ordinary equity holders of the Company			
Basic	*8*	**RMB6.04 cents**	RMB3.50 cents
Diluted		**RMB6.04 cents**	RMB3.50 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	**2019** **RMB'000**	2018 RMB'000
Non-current assets			
Property, plant and equipment		**140,444**	118,676
Investment properties		**19,443**	20,717
Right-of-use assets		**37,140**	–
Prepaid land lease payments		–	5,954
Goodwill		**18,445**	3,129
Intangible assets		**3,807**	4,425
Investment in an associate		–	3,489
Equity investment at fair value through other comprehensive income		**812**	3,000
Deferred tax assets		**296**	815
Prepayments and other receivables		**5,803**	6,614
		226,190	166,819
Current assets			
Trade receivables	*9*	**94,703**	42,263
Prepayments, other receivables and other assets		**16,761**	15,524
Financial assets at fair value through profit or loss		–	27,000
Pledged deposits		**823**	400
Cash and cash equivalents		**76,008**	76,848
		188,295	162,035
Current liabilities			
Trade payables	*10*	**45,456**	12,293
Contract liabilities		**3,384**	2,379
Other payables and accruals		**41,814**	35,383
Borrowings		**55,134**	62,881
Tax payable		**1,492**	3,253
Lease liabilities		**13,682**	–
Interest payables		**1,006**	1,472
Total current liabilities		**161,968**	117,661
Net current assets		**26,327**	44,374
Total assets less current liabilities		**252,517**	211,193

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
Non-current liabilities		
Borrowings	**8,139**	13,204
Deferred tax liabilities	**5,160**	741
Lease liabilities	**17,948**	–
Interest payables	**–**	257
	31,247	14,202
Net assets	**221,270**	196,991
Capital and reserves		
Share capital	**131**	131
Reserves	**222,822**	201,753
Equity attributable to owners of the Company	**222,953**	201,884
Non-controlling interests	**(1,683)**	(4,893)
Total equity	**221,270**	196,991

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL

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. 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.

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 services of energy and commodities in the People's Republic of China (the "**PRC**") and multiple Asia-Pacific countries.

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**") for the first time in the current year:

IFRS 16	Leases
IFRIC – Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial position and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Leases* ("**IAS 17**"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

(i) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

(ii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

(iii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied by the relevant group entities is 5.25%.

	At 1 January 2019
	RMB'000
Operating lease commitments disclosed as at 31 December 2018	**21,167**
Adjustments	**(1,032)**
	20,135
Lease liabilities discounted at relevant incremental borrowing rates and relating to operating leases recognised upon application of IFRS 16 as at 1 January 2019	**17,388**
Add: Extension options reasonably certain to be exercised	**1,286**
	18,674
Analysed as:	
Current	**6,345**
Non-current	**12,329**
	18,674

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

		Right-of-use assets
	Note	*RMB'000*
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		18,674
Reclassified from prepaid lease payments	*(a)*	6,192
		24,866

(a) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB238,000 and RMB5,954,000 respectively were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

(a) Upon application of IFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

(b) Before application of IFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which IAS 17 applied under trade and other payables. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right-of-use assets and should be adjusted to reflect the discounting effect at transition. The change has had no material impact on the consolidated financial statement of the Group for the current year.

(c) Effective on 1 January 2019, the Group has applied IFRS 15 *Revenue from Contracts with Customers* ("**IFRS 15**") to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group for the current year.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under IFRS 16 at 1 January 2019
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Prepaid lease payments	5,954	(5,954)	–
Right-of-use assets	–	24,866	24,866
Current assets			
Prepayments, deposits and other receivables			
– Prepaid lease payments	238	(238)	–
Current liabilities			
Lease liabilities	–	6,345	6,345
Non-current liabilities			
Lease liabilities	–	12,329	12,329

3. REVENUE

(i) Disaggregation of revenue from contracts with customers

	2019	2018
	RMB'000	*RMB'000*
Segments		
Type of services		
Testing services	**254,282**	204,108
Surveying services	**127,426**	21,619
Witnessing and ancillary services	**14,748**	8,023
Total	**396,456**	233,750
Geographical markets		
Greater China	**287,500**	205,535
Singapore	**79,162**	9,782
Other countries/regions	**29,794**	18,433
Total	**396,456**	233,750
Timing of revenue recognition		
A point in time	**396,456**	233,750
Total	**396,456**	233,750
Revenue from contracts with customers		
External customers	**396,456**	233,750
Intersegment sales	**8,646**	14,599
	405,102	248,349
Intersegment adjustments and eliminations	**(8,646)**	(14,599)
Total	**396,456**	233,750

(ii) Performance obligations for contracts with customers

Rendering of services

The Group performs analytical tests for the quality of energy and commodities and issues testing certificates or reports within 24 to 48 hours after completion of the on-site preparation. The performance obligation is satisfied upon i) completion of testing services and ii) issuance of testing certificate.

The Group provides surveying services and witnessing and ancillary services on-site. Service reports are issued within 24 to 48 hours after services rendered. The performance obligation is satisfied upon completion of i) provision of services; and ii) issuance of service reports, if any.

All services provided by the Group are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

4. OPERATING SEGMENT

Information reported to the executive directors of the Company, being the chief operating decision maker (the "**CODM**"), for the purposes of resource allocation and assessment focuses on revenue analysis by geographic location of customers. No other discrete financial information is provided other than the Group's results and financial position as a whole. Accordingly, only entity-wide disclosures, major customers and geographical information are presented.

Geographical information

The Group's operations are located in the PRC and overseas.

Information about the Group's revenue from continuing operations from external customers is presented based on the location of the service provided. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers		**Non-current assets**	
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Greater China	**287,500**	205,535	**159,452**	137,328
Singapore	**79,162**	9,782	**41,330**	8,243
Other countries/regions	**29,794**	18,433	**18,497**	10,819
	396,456	233,750	**219,279**	156,390

Note: Non-current assets excluded financial instruments and deferred tax assets.

Information about a major customer

During the year ended 31 December 2019, revenue generated from one of the Group's customers accounting for 10% or more of the Group's total revenue was RMB67,498,000 (2018: RMB38,915,000).

5. INCOME TAX EXPENSE

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 subsidiaries incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profits. The tax on the dividend distributed by a subsidiary of RMB20,000,000 in the PRC has been provided at the rate of 10% during the year.

The Company's subsidiaries in the PRC are subject to income tax at a statutory rate of 25% on their respective taxable income, except for certain subsidiaries, which have been identified as "high and new technology enterprises" and were entitled to a preferential income tax rate of 15% for the years ended 31 December 2019 and 2018.

The Company's subsidiaries incorporated in Singapore is subject to income tax at the rate of 17.0% on the estimated assessable profits.

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.

	2019 ***RMB'000***	2018 *RMB'000*
Current income tax		
– The PRC	**8,415**	9,863
– Other jurisdictions	**1,067**	–
Withholding tax of dividends distributed by a PRC subsidiary	**2,000**	–
Underprovision in prior years	**1,844**	–
Deferred tax	**4,817**	(552)
Tax charge for the year	**18,143**	9,311

6. PROFIT FOR THE YEAR

The Group's profit for the year has been arrived at after charging (crediting):

	2019	2018
	RMB'000	*RMB'000*
Auditor's remuneration	**1,681**	1,350
Cost of services provided	**210,249**	110,842
Depreciation of property, plant and equipment	**17,295**	11,855
Depreciation of investment properties	**1,274**	1,275
Depreciation of right-of-use assets	**13,057**	–
Amortisation of prepaid land lease payments	**–**	244
Amortisation of intangible assets	**683**	296
Research and development costs:		
– Current year expenditure	**9,957**	11,618
Minimum lease payments under operating leases:		
– Land and buildings	**–**	7,876
Employee benefit expenses (including directors' and the chief executive's remuneration):		
– Wages and salaries	**131,657**	93,907
– Pension scheme contributions	**14,347**	9,510
– Welfare and other expenses	**30,080**	14,970
– Equity-settled share option expense	**844**	1,553
	176,928	119,940
Impairment (reversal of impairment) of financial assets, net:		
– Impairment of trade receivables, net	**1,106**	529
– (Reversal of impairment) impairment of financial assets included in prepayments, other receivables and other assets, net	**(320)**	543
	786	1,072

7. DIVIDENDS

Dividends for ordinary shareholders of the Company recognised as distribution during the year:

	2019	2018
	RMB'000	*RMB'000*
2018 final dividend – RMB0.0075 (2018: 2017 final dividend – RMB0.025) per ordinary share	**3,000**	10,000

Subsequent to the end of the reporting period, a final dividend of RMB0.0375 (2018: RMB0.0075) per share totalling RMB15,000,000 (2018: RMB3,000,000) for the year ended 31 December 2019 has been proposed by the directors of the Company and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 400,000,000 (2018: 400,000,000) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the 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.

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

	2019	2018
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to owners of the Company, used in the basic and diluted earnings per share calculations	**24,171**	14,021

	Number of shares	
	2019	2018
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**	400,000,000
Effect of dilution – weighted average number of ordinary shares:		
– Share options	**162,301**	610,759
	400,162,301	400,610,759

The computation of diluted earnings per share does not assume the exercise of certain of the Company's options because the exercise price of those options were higher than the average market price for shares for both 2019 and 2018.

9. TRADE RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**97,165**	43,619
Allowance for credit losses	**(2,462)**	(1,356)
	94,703	42,263

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB22,563,000.

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 receivables are non-interest-bearing.

The following is an ageing analysis of trade receivables net of allowance for credit losses presented based on the invoice dates:

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**77,024**	34,312
Over 3 to 6 months	**10,026**	4,953
Over 6 months to 1 year	**4,336**	2,374
Over 1 to 2 years	**3,317**	613
Over 2 years	**–**	11
	94,703	42,263

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB17,602,000 (2018: RMB7,951,000) which are past due as at the reporting date. Out of the past due balances, RMB7,653,000 (2018: RMB1,417,000) has been past due 90 days or more and is not considered as in default due to the management's historical experience on the settlement pattern or satisfactory record from these debtors and the good business relationship with these debtors. The Group does not hold any collateral over these balances.

10. TRADE PAYABLES

The following is an ageing analysis of the trade and bills payables presented based on the invoice dates.

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**38,310**	11,620
Over 3 to 6 months	**5,770**	438
Over 6 months to 1 year	**1,154**	51
Over 1 to 2 years	**222**	125
Over 3 years	**–**	59
	45,456	12,293

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

MANAGEMENT DISCUSSION AND ANALYSIS

I. Business and Market Review

According to IHS, the global TIC market size reached RMB 1.601 trillion in 2018, while the overall industry growth was stable. In the past five years, the compound growth rate of the global TIC industry had been approximately 10%, and that of Chinese market for the same period was as high as 15%, indicating the continuing rapid growth of TIC industry in developing countries. The TIC industry in China mainly benefited from two aspects: firstly, the relaxation of government policies of third party inspection market; secondly, the increasing demand for internal quality control by companies from all types of industries. As a result, the industry has witnessed the rise of companies becoming leaders in their respective niche markets. With strong technology and abundant talent resources, they enjoy good market credibility and large economies of scale, therefore, ensuring a long-term and stable development of the industry. During the year, the Company has also expanded its service network in Asia-Pacific region where there are emerging markets with high growth potential.

The Company recorded a revenue of RMB396.5 million and a net profit of RMB28.8 million in 2019, representing an increase of 69.6% and 486.8%, respectively, as compared to 2018, which was mainly attributable to the Company's successful layout and stable development in the field of commodities and energy inspection.

(I) Further improvement of service network. The energy inspection business is limited by service radius, thus the location of outlets is absolutely essential to business development. During the reporting period, the Company has 20 inspection agencies and laboratories within China, covering major domestic trading ports and cities, including Hong Kong, Qinhuangdao, Tangshan, Tianjin, Cangzhou, Nanjing, Jiangyin, Hunan, Hubei, Guangzhou, Zhuhai, Xinjiang, Shaanxi, Inner Mongolia, Dalian, Zhoushan, Xiamen, Nanjing and Dongguan. Overseas, the Company has 8 inspection agencies and laboratories, covering Singapore, India, Malaysia, Indonesia, Pakistan, Brunei and Australia. Singapore is our overseas command center which allows us to capitalise on its unique advantage in the oil and commodities trading markets in order to actively participate international markets.

(II) Sustainable business structure and growing customer base. While further strengthening the leading position in coal inspection industry within China, the Company has made great efforts in developing the petrochemical product inspection business and achieved remarkable results, thereby forming the two major pillars of inspection business of coal and petrochemical product and supplemented by other commodities inspection business including mineral products and agricultural products. During the reporting period, the energy inspection business continuously integrated both upstream and downstream in the supply chain. The key customers of the Group include CHN Energy, Shaanxi Coal Group, China Coal Group, Yitai Group, Datang Group, China Resources Group, CNPC, SINOPEC, CNOOC, ChemChina, SinoChem, Shell, BP, Exxon – Mobil, Chevron, Total, Saudi Aramco, ENOC and Rosneft, etc.

(III) Management capabilities and talent platform

The Company remains committed in enhancing operational efficiencies and internal controls by continuously embarking in three initiatives that involve (1) standardisation, (2) digitisation and (3) automation. In addition, the company strives to improve management control and enhance key management execution capabilities through better performance measurement systems and improving investment analysis. During the year, the Company (1) partnered with SAP in implementing ERP and HR information systems, (2) established a strategic 'Innovation' taskforce dedicated in exploring new service offerings in the inspection field and (3) continued to attract new talents through incubator framework and M&A.

(IV) Improving core competence through research and development

During the year, the Company successfully conducted 'China Leon Innovative Coal Quality Management Forum 2019' to showcase its 10-year scientific achievements, particularly its in-house 'LEON LIMS' laboratory system, which not only automates much of laboratory processes, but also feeds important data to the Company for better operational monitoring. In another feat, the Company developed China's first robotic coal sampling system, which became operational-ready. It not only leads to lower manpower costs and higher service efficiency, but also ensures the Company's sustainable growth.

(V) Becoming a global brand

In April 2019, the Company became the first member of TIC Council (a merger of IFIA and CEOC) from China, and was invited to attend the first TIC Council meeting to discuss industry development issues with 90 active member organisations from more than 160 countries. The conference laid foundation for inter-organisation cooperation and provided the Company an excellent platform in promoting its brand.

II. Business Strategies and Future Outlook

In 2020, the Company will continue to focus on the performance targets set by the management in line with our strategic goals. Our growth strategy is based on further strengthening existing business as well as continuing to expand into new service offerings. We will increase our competitive advantage through better allocation of enterprise's resources on cost control and performance measurement as well as improve our enterprise-wide business platform. BP World Energy Outlook report indicates that most of the world energy consumption growth in Asia-Pacific region is driven by the total population and ever growing middle class group. The Company aims to maximise our local strength within the region by continuously improve our regional network. The Company will continue maintain its leading position and market share in its established markets while further promoting our "Leon" brand. In addition to maintaining our competitive advantage in the traditional operation settings, the Company will also actively develop new service offering in quality control solutions and related technical consulting areas in order to capitalise on our brand and service capabilities.

Impact of the pandemic of novel coronavirus on the Company's business

The pandemic of novel coronavirus in 2020 is a tremendous challenge for all companies. Even though it brings delayed operations to the TIC industry, the overall situation of energy demand which grows continuously has not changed. The demand for energy inspection will rebound when the pandemic is over.

Due to the inherent nature and unpredictability of future development, the actual financial effects could be different depending on the future development of the outbreak, government policies and measures in response to the outbreak. The management team will continuously monitor the development and further strengthen cost control and improve the quality of services and business.

FINANCIAL REVIEW

Overview

	2019	2018	
	RMB'000	*RMB'000*	*Change*
Revenue	**396,456**	233,750	69.6%
Gross Profit	**186,207**	122,908	51.5%
Profit before tax	**46,900**	14,212	230.0%
Profit for the year	**28,757**	4,901	486.8%

Revenue

The Group's revenue increased by 69.6% from approximately RMB233.8 million in 2018 to approximately RMB396.5 million in 2019. The increase was mainly due to a combination of steady growth in traditional coal inspection business and successful deployment of Group's strategy in developing new inspection business focused on petroleum and oil industry. The table below sets forth the revenue breakdown for each of our service offerings.

	2019	2018
	RMB'000	*RMB'000*
Testing services	**254,282**	204,108
Surveying services	**127,426**	21,619
Witnessing and ancillary services	**14,748**	8,023
	396,456	233,750

Cost of Sales

The Group's cost of sales consists primarily of operational manpower-related costs, port charges and third-party subcontract inspection costs. The Group's cost of sales was approximately RMB210.2 million in 2019, compared to approximately RMB110.8 million in 2018, representing 53.0% and 47.4% of the Group's revenue for the same periods respectively. Such increase was in tandem with a rise in Group's revenue.

Gross Profit and Gross Profit Margin

The Group's gross profit increased by 51.5% from approximately RMB122.9 million in 2018 to approximately RMB186.2 million in 2019 mainly due to rise in revenue. The gross profit margin decreased from 52.6% in 2018 to 47.0% in 2019, which was primarily due to lower gross margin from business generated by the Group's overseas subsidiaries.

Income Tax Expense

For the year ended 31 December 2019, income tax expense amounted to approximately RMB18.1 million, representing a 94.9% increase from approximately RMB9.3 million recorded last year, primarily due to higher current income and increase in deferred tax.

Profit for the Year

The Group's profit for the year increased by 486.8% from approximately RMB4.9 million in 2018 to approximately RMB28.8 million in 2019, Such increase was mainly attributable to a significant rise in overall business volume.

Trade Receivables

The Group's trade receivables primarily represented amounts due from its customers for its services provided in the ordinary course of business. As at 31 December 2018 and 2019, the Group had trade receivables of approximately RMB42.3 million and RMB94.7 million respectively. Such increase in receivables as at 31 December 2019 was primarily due to significant increase in scale of business compared to last year.

Cash and Cash Equivalents

The Group's cash and cash equivalents consist primarily of cash and bank balances denominated in RMB, USD and SGD. As at 31 December 2018 and 2019, the Group's cash and cash equivalents remained steady at RMB76.0 million and RMB76.9 million respectively.

Trade Payables

The Group's trade payables primarily represent amounts payable for port charges and third-party inspection work. As at 31 December 2018 and 2019, the Group had trade payables of RMB12.3 million and RMB45.5 million, respectively. The increase in the Group's trade payables as at 31 December 2019 was primarily attributable to significant increase in scale of business compared to last year.

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 considering 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. 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 period-end balance amounts.

Contingent Liabilities

As at 31 December 2019, 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 "borrowings" as shown in the consolidated statement of financial position. Total capital is calculated as "total equity" as shown in the consolidated statement of financial position.

	2019	2018
	RMB'000	*RMB'000*
Total debt	**63,273**	76,085
Total equity	**221,270**	196,991
Gearing Ratio	**28.6%**	38.6%

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 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 Group was exposed to foreign currency risk on cash and cash equivalents, receivables, payables and borrowings that were denominated in a currency other than respective functional currencies of the Group's entities. The currencies giving rise to this risk were primarily Hong Kong dollar and United States dollar.

Significant Investments

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

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

On 8 May 2019, Leon Overseas Pte. Ltd., a subsidiary of the Group, entered into a Sales and Purchase Agreement with Saybolt Holding BV to purchase the entire share capital of Saybolt (Singapore) Pte. Ltd. at a consideration of US$3.75 million. The acquisition was completed on 15 May 2019 and with effective from this date, the financial results of Saybolt (Singapore) Pte. Ltd. were consolidated into the accounts of the Group.

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 "Change in Use of Proceeds from the Global Offering" announcement of the Company dated 16 June 2017, the Company intended to use the net proceeds from its global offering for the follow purposes:

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

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

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

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

— approximately 10.0% of the net proceeds would be used to fund general corporate purposes.

Changes in Use of Proceeds in 2018

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 initial allocation of the net proceeds, the revised allocation of the net proceeds, the amount utilized and the remaining balance of the net proceeds:

	Initial allocation of net proceeds and its percentage to total proceeds *(Approximately RMB million)*		Revised allocation of net proceeds and its percentage to total proceeds *(Approximately RMB million)*		Amount utilized as at 31 December 2019 *(Approximately RMB million)*	The remaining balance of proceeds after the revised allocation and utilized *(Approximately RMB million)*
To construct new service facilities at Huanghua port	16.4	30.0%	16.4	30.0%	16.4	0.0
To construct new service facilities at Tangshan port	13.7	25.0%	13.7	25.0%	13.7	0.0
To construct new service facilities at Tianjin port	10.9	20.0%	—	0.0%	—	—
Strategic acquisition or investment	8.2	15.0%	19.1	35.0%	19.1	0.0
To fund general corporate purposes	5.4	10.0%	5.4	10.0%	5.4	0.0
Total	**54.6**	**100.0%**	**54.6**	**100.0%**	**54.6**	**0.0**

Reasons for the Changes in Use of Proceeds in 2018

The Board resolved to adjust and reallocate the remaining balance of RMB10.9 million of the proceeds which was 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 would 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 be tighten. According to the 2017 Air Pollution Prevention and Control Work Program for Beijing-Tianjin-Hebei Region and Surrounding Areas (《京津冀及周邊地區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 2017, 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, more than half of which were 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 is of the view that environmental factors will bring new uncertainties to the original plan of new service facilities construction at Tianjin port in 2018, and carrying out the original plan will 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, representing 20% of net proceeds, which was originally planned to use to construct new service facilities at Tianjin port by the Company would be reallocated. As of the date of this announcement, the proceeds have not yet been 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 May 2019, we had entered into a Sales and Purchase Agreement with Saybolt Holding BV, an independent third party which is incorporated in the Netherlands to purchase the entire share capital of Saybolt (Singapore) Pte. Ltd., bringing our business further 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 commodities.

As disclosed in the interim report of the Company for the six months ended 30 June 2019, the Company had utilized as to approximately RMB14.2 million to construct new service facilities in Huanghua port, as to approximately RMB14.4 million towards strategic acquisition or investment. From 1 July 2019 to 31 December 2019, the Company had further utilized an additional of approximately RMB2.2 million of the net proceeds to construct new service facilities in Huanghua port and an additional of approximately RMB4.7 million of the net proceeds towards strategic acquisition or investment. As at the date of this announcement, the net proceeds have been fully utilized under the revised allocation.

The Board confirms that save as disclosed above, 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 are in the best interests of the Company and its shareholders as a whole.

EMPLOYEES

As of 31 December 2019, the Group had 1,400 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. Other agreed employee benefits includes pension scheme, medical insurance, on-job training, education subsidy and other social security and paid leaves stipulated under the relevant jurisdiction of places of operation.

During the year ended 31 December 2019, the Company did not experience any strikes or significant labor disputes which materially affected the operation of the Company. The Company maintained good relationship with its employees.

The emolument policy of the employees of the Group is based on their merit, qualifications and competence. The Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees. The emoluments of the Directors are recommended and decided by the Remuneration Committee and the Board respectively, having regard to the Company's operating results, individual performance and comparable market statistics.

PRE-EMPTIVE RIGHTS

There are no provisions of pre-emptive rights under the Company's articles of association, or the laws of the 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 had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

DIVIDEND AND CLOSURE OF REGISTER

The Board recommends the payment of a final dividend of RMB0.0375 per share in respect of the year ended 31 December 2019 to shareholders whose names appear on the register of members of the Company on Monday, 6 July 2020. The proposed final dividend will be paid on or about Friday, 24 July 2020, subject to approval at the annual general meeting of the Company to be held on Tuesday, 16 June 2020 (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 Tuesday, 9 June 2020 to Tuesday, 16 June 2020.

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

(i) from Tuesday, 9 June 2020 to Tuesday, 16 June 2020, 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 Monday, 8 June 2020; and

(ii) from Thursday, 2 July 2020 to Monday, 6 July 2020, 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 Tuesday, 30 June 2020.

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 on Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Listing Rules.

For the year ended 31 December 2019, in the opinion of the Directors, the Company had 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 chairman of the Board and chief executive officer ("**CEO**") of the Company, which is deviated from code provision A.2.1 of the CG Code that the roles of chairman and chief executive officer of the Company are performed by the same individual. The Board considers that Mr. LI possesses the essential leadership skills to manage the Board and extensive knowledge in the business of the Group. In the opinion of the Directors, through supervision by the Board and the independent non-executive Directors, together 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. The Board will review the effectiveness of this arrangement from time to time.

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 as 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 Company's employees who, because of their offices or employments, are likely to possess inside information of the Company and/or its securities.

Having made specific enquiry by the Company with all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code regarding directors' securities transactions throughout the year ended 31 December 2019.

REVIEW OF FINANCIAL STATEMENTS

Audit Committee

The Company has established the audit committee (the "**Audit Committee**") of the Board in compliance with Rules 3.21 and 3.22 of the Listing Rules. 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.

"Scope of work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary 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 2019 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 2019 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, 31 March 2020

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.