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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)

(1) UPDATE ON THE USE OF PROCEEDS AND SHARE OPTION SCHEME

(2) DISCLOSEABLE TRANSACTION — CONSTRUCTION AGREEMENT

UPDATE ON THE USE OF PROCEEDS AND SHARE OPTION SCHEME

Reference is made to the 2021 Annual Report, this announcement is made by the Company for keeping the Shareholders and potential investors informed of the update on the use of proceeds of the CB Subscription and further information on the Share Option Scheme.

DISCLOSEABLE TRANSACTION

The Agreement

The Board is pleased to announce that, on 29 September 2022 (after trading hours), Hebei Lihong (an indirect wholly-owned subsidiary of the Company) entered into the Agreement with the Contractor, pursuant to which the Contractor will provide construction services to Hebei Lihong for the construction of the new service base at the Consideration of RMB42,500,000.

Listing Rules Implications

As one or more of the applicable percentage ratios (as defined under the Listing Rules) calculated under Rule 14.07 of the Listing Rules in respect of the transaction contemplated under the Agreement exceeds 5% but all are less than 25%, the transaction contemplated under the Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements but is exempt from the circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

UPDATE ON THE USE OF PROCEEDS AND SHARE OPTION SCHEME

Reference is made to the 2021 Annual Report, this announcement is made by the Company for keeping the Shareholders and potential investors informed of the update on the use of proceeds of the CB Subscription and further information on the Share Option Scheme.

The use of proceeds

The table below sets out details of the use of the proceeds of the CB Subscription as at 31 December 2021:

	Planned use of proceeds <i>HK\$'million</i>	Actual utilized amount during the year ended 31 December 2021 <i>HK\$'million</i>	Unutilized balance as at 31 December 2021 <i>HK\$'million</i>
(a) Business expansion	9.3	(7.4)	1.9
(b) Capital expenditure	34.3	(16.2)	18.1
(c) General working capital	<u>6.0</u>	<u>(6.0)</u>	<u>—</u>
Total	<u>49.6</u>	<u>(29.6)</u>	<u>20.0</u>

As disclosed in the Company's 2022 interim report, during the six months ended 30 June 2022, the Group has utilized all the remaining balance of approximately HK\$20.0 million of the net proceeds of the CB Subscription for (a) the business expansion with the consideration of approximately HK\$1.9 million; and (b) capital expenditure of approximately HK\$18.1 million. Accordingly, the proceeds from the CB Subscription have been fully utilized as at 30 June 2022.

The Group prioritizes "ESG-oriented development" through 3 main implementation dimensions of (1) ESG+; (2) ESG-Focused; and (3) ESG-Friendly. In the first half of 2022, our capital expenditures also primarily focused on ESG+ business with three core business sectors of clean energy, environmental protection and climate change. We increased investment in the clean energy sector, and have extended our reach to provide professional technical service support for prominent wind and solar power generation projects. We have deployed drones to enhance our service capability in the Group's offshore wind power business. In the environmental protection and climate change sectors, we have continued to strengthen the service capabilities of our outlets and have fully enhanced the operational efficiency and capabilities. The relevant capital expenditures have paved the way for the stable development of ESG+ business and future profit growth. Meanwhile, the further consolidation of the sustainable development capability and core competitiveness of ESG+ business will deliver the Group's long-term "sustainable development goals".

Further information on the Share Option Scheme

As at the date of the 2021 Annual Report, the Company had 42,996,000 share options outstanding under the Share Option Scheme, which represented approximately 9.7% of the Company's shares in issue as at the date of the 2021 Annual Report.

DISCLOSEABLE TRANSACTION

Introduction

The Board is pleased to announce that, on 29 September 2022 (after trading hours), Hebei Lihong (an indirect wholly-owned subsidiary of the Company) entered into the Agreement with the Contractor, pursuant to which the Contractor will provide construction services to Hebei Lihong for the construction of the new service base at the Consideration of RMB42,500,000.

The Agreement

The principal terms of the Agreement are set out below:

Date:	29 September 2022
Parties:	(i) Hebei Lihong; and (ii) the Contractor.
Subject Matter:	The Contractor is appointed as the contractor responsible for the construction of the new service base located at the Construction Area.
Construction Period:	The construction is expected to complete in February 2023.
Consideration:	The Consideration payable to the Contractor pursuant to the Agreement shall be RMB42,500,000 (equivalent to approximately HK\$46,700,000).
Basis of determination of Consideration:	The Consideration was determined after taken into account the following factors, which include but not limited to, (i) thorough evaluation and comparison of the fee quotations provided by similar contractors; (ii) the reputation, experience and capability of the Contractor; (iii) the expected cost of the construction works; and (iv) the prevailing market price for carrying out a construction of similar scale and complexity.
Payment Terms:	The Consideration shall be settled by Hebei Lihong in the following manner: (i) in the course of construction, Hebei Lihong shall make payments to the Contractor which amount to an aggregate of 51% of the Consideration based on the progress of the construction work completed; (ii) upon the completion of all construction works, up to 80% of the Consideration shall be paid;

- (iii) after Hebei Lihong have inspected the construction works and accepted the same, and the settlement procedure having been completed, up to 97% of the Consideration shall be paid; and
- (iv) the remaining 3% of the Consideration will be withheld by Hebei Lihong as quality assurance fee under the Agreement, which shall be payable within one (1) month after the expiry of the two (2) years period that commences after the inspection and acceptance of the completed construction works by Hebei Lihong pursuant to the Agreement (subject to deduction of maintenance expenses incurred by Hebei Lihong relating to quality issues of the construction works under the Agreement during such period).

Information of the Group and Hebei Lihong

The Company is incorporated in the Cayman Islands with limited liability and its Shares are listed on the Main Board of the Stock Exchange. The Group is principally engaged in provision of inspection and testing services.

Hebei Lihong, an indirect wholly-owned subsidiary of the Company, was established in the PRC with limited liability. It is principally engaged in examination, inspection, identification, testing, supervision, cargo inspection, evaluation, and other inspection and identification technical services.

Information on the Contractor

The Contractor is a limited liability company established in the PRC in 1987 and a state-owned enterprise invested and controlled by the China Academy of Building Research (中國建築科學研究院) under the State-owned Assets Supervision and Administration Commission of the State Council. It is principally engaged in the provision of general contracting construction of building works, professional engineering construction, data center construction, engineering design, survey, planning, engineering supervision and research, engineering technology advice and services. Over the years, the Contractor has won numerous awards namely, the National Quality Project Award, the National Excellent Design Award and the China Science and Technology Progress Award. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Contractor and its ultimate beneficial owner is an Independent Third Party.

Reasons for and benefits of entering into the Agreement

The location of the Construction Area, Caofeidian New District, enjoys a unique advantage of having a deep-water coastline of 116 kilometres, where 375 berths can be constructed for ore, coal, crude oil, LNG, timber, liquid chemicals and containers with 300,000 to 400,000 tons can be constructed. In addition, Caofeidian New District is blessed with its strategically advantageous location, a connection point between “The Belt and Road Initiative” and Coordinated Development of Beijing-Tianjin-Hebei Region, with efficient transportation and traffic access, which is of great significance to the energy and commodity business for the Company.

Caofeidian project is our first fully-integrated green and smart service base incorporating laboratories, R&D and training centers. We are committed to pioneering the project as an industry benchmark and we will be able to further enhance our operation efficiency, data reliability and brand credibility. The Company is committed to the long-term sustainable development and the Group’s core competitiveness advantages are strengthened by consistent strategic investments. This industry-leading project will contribute to strengthen our services capability and to further consolidate our leading position in niche markets.

The Group has entered into the Agreement to commence construction work of the new service base at the Construction Area that involves a total construction area of 9,396 square metres. The Directors (including the independent non-executive Directors) are of the view that (i) the terms of the Agreement are fair and reasonable; (ii) the Agreement is on normal commercial terms; and (iii) the Agreement is in the interests of the Company and its shareholders as a whole.

Listing Rules Implications

As one or more of the applicable percentage ratios (as defined under the Listing Rules) calculated under Rule 14.07 of the Listing Rules in respect of the transaction contemplated under the Agreement exceeds 5% but all are less than 25%, the transaction contemplated under the Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements but is exempt from the circular and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings when used herein:

“2021 Annual Report”	annual report of the Company for the year ended 31 December 2021
“Agreement”	the agreement dated 29 September 2022 entered into between Hebei Lihong and the Contractor in respect of the construction of factory plant, dormitories and ancillary facilities located at the Construction Area
“Board”	the board of Directors of the Company

“CB Subscription”	the subscription for the 5-year 2% coupon unlisted convertible bonds in the principal amount of HK\$50,000,000 as disclosed in the Company’s announcements dated 12 May 2021 and 11 June 2021
“Company”	China Leon Inspection Holding Limited (中國力鴻檢驗控股有限公司), a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1586)
“connected person(s)”	has the meanings ascribed to it under the Listing Rules
“Consideration”	the total consideration in the amount of RMB42,500,000 payable for services to be obtained under the Agreement
“Construction Area”	a piece of land situated at Lingang Business District, Caofeidian District, Tangshan City, Hebei Province, the PRC (中國河北省唐山市曹妃甸區臨港商務區) with the total construction area of 9,396 square metres
“Contractor”	China Building Technique Group Co., Ltd.* (中國建築技術集團有限公司), a company established in the PRC with limited liability
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hebei Lihong”	Hebei Lihong Minerals Inspection Co., Ltd.* (河北力鴻礦產品檢驗有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party”	a party who is not a connected person of the Company and is independent of and not connected with the Company and its connected persons
“Listing Rules”	the rules governing the listing of securities on the Stock Exchange
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan for the purposes of this announcement
“RMB”	Renminbi, the lawful currency of the PRC

“Share Option Scheme”	the share option scheme adopted by the Company on 5 May 2017
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	any entity within the meaning of the term “subsidiary” as defined in the Listing Rules and the term “subsidiaries” shall be construed accordingly
“%”	per cent

By Order of the Board
China Leon Inspection Holding Limited
Yang Rongbing
Executive Director

Beijing, PRC, 29 September 2022

As at the date of this announcement, the Board of the Company comprises eight Directors:

Executive Directors:

Mr. Li Xiangli (*Chairman and CEO*)
Ms. Zhang Aiyong (*Vice President*)
Mr. Liu Yi (*Vice President*)
Mr. Yang Rongbing (*Vice Chairman*)

Non-executive Director:

Mr. Hao Yilei

Independent Non-executive Directors:

Mr. Wang Zichen
Mr. Zhao Hong
Mr. Liu Hoi Keung

For the purposes of this announcement, the exchange rate of HK\$1.00=RMB0.91 has been used for currency translation, where applicable. Such an exchange rate is for illustrative purposes and does not constitute representations that any amount in RMB or HK\$ has been, could have been or may be converted at such a rate.

The English translation of Chinese names or words in this announcement, where indicated by “”, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*