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 2018

FINANCIAL HIGHLIGHTS

- Revenue for 2018 amounted to approximately RMB233.8 million, representing an increase of 16.4% from approximately RMB200.9 million recorded in 2017.
- Gross profit for 2018 amounted to approximately RMB122.9 million, representing an increase of 11.0% from approximately RMB110.7 million recorded in 2017.
- Profit attributable to owners of the parent for 2018 amounted to approximately RMB14.0 million, representing a decrease of 60.7% from approximately RMB35.6 million recorded in 2017.
- Final dividend of RMB0.0075 per share recommended, results in a full-year dividend of RMB0.0075 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 2018 with the comparative figures for the year ended 31 December 2017 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**233,750**	200,921
Cost of sales		**(110,842)**	(90,237)
Gross profit		**122,908**	110,684
Other income and gains	5	**3,162**	1,634
Selling and distribution expenses		**(4,169)**	(2,749)
Administrative expenses		**(101,276)**	(63,704)
(Impairment losses)/reversal of impairment of financial assets, net		**(1,072)**	213
Other expenses		**(3,090)**	(2,430)
Finance costs	7	**(2,632)**	(690)
Share of profits of:			
A joint venture	18	**–**	171
An associate	19	**381**	8
PROFIT BEFORE TAX	6	**14,212**	43,137
Income tax expense	10	**(9,311)**	(8,434)
PROFIT FOR THE YEAR		**4,901**	34,703
Attributable to:			
Owners of the parent		**14,021**	35,595
Non-controlling interests		**(9,120)**	(892)
		4,901	34,703

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

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations		**527**	(1,915)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**527**	(1,915)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,428**	32,788
Attributable to:			
Owners of the parent		**14,548**	33,680
Non-controlling interests		**(9,120)**	(892)
		5,428	32,788
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	12	**RMB3.50 cents**	RMB8.90 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	**As at 31 December 2018** *RMB'000*	As at 31 December 2017 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	13	**118,676**	106,488
Investment properties	14	**20,717**	21,992
Prepaid land lease payments	15	**5,954**	6,198
Goodwill	16	**3,129**	572
Intangible assets	17	**4,425**	732
Investment in a joint venture	18	**–**	1,678
Investment in an associate	19	**3,489**	3,108
Equity investment designated at fair value through other comprehensive income	20	**3,000**	–
Deferred tax assets	21	**815**	1,041
Prepayments, other receivables and other assets	23	**6,614**	929
Total non-current assets		**166,819**	142,738
CURRENT ASSETS			
Trade and bills receivables	22	**42,263**	22,563
Prepayments, other receivables and other assets	23	**15,524**	18,581
Available-for-sale investments	24	**–**	21,300
Financial assets at fair value through profit or loss	24	**27,000**	–
Pledged deposits	25	**400**	397
Cash and cash equivalents	25	**76,848**	48,791
Total current assets		**162,035**	111,632
CURRENT LIABILITIES			
Trade payables	26	**12,293**	3,718
Contract liabilities	27	**2,379**	–
Other payables and accruals	28	**35,383**	31,671
Interest-bearing bank loans and other borrowings	29	**62,881**	6,061
Tax payable		**3,253**	1,801
Interest payables		**1,472**	–
Total current liabilities		**117,661**	43,251
NET CURRENT ASSETS		**44,374**	68,381
TOTAL ASSETS LESS CURRENT LIABILITIES		**211,193**	211,119

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2018

	Notes	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	29	**13,204**	11,681
Deferred tax liabilities	21	**741**	1,111
Interest payables		**257**	–
Other payables		**–**	29
Total non-current liabilities		**14,202**	12,821
Net assets		**196,991**	198,298
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	**131**	131
Reserves	32	**201,753**	195,075
		201,884	195,206
Non-controlling interests		**(4,893)**	3,092
Total equity		**196,991**	198,298

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the parent							
	Share capital *RMB'000*	* Capital reserve *RMB'000*	* Statutory reserves *RMB'000*	* Exchange fluctuation reserve *RMB'000*	* Retained profits *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
As at 1 January 2017	131	93,019	11,426	3,226	63,848	171,650	–	171,650
Profit for the year	–	–	–	–	35,595	35,595	(892)	34,703
Other comprehensive loss for the year:								
Exchange differences on translation of foreign operations	–	–	–	(1,915)	–	(1,915)	–	(1,915)
Total comprehensive income for the year	–	–	–	(1,915)	35,595	33,680	(892)	32,788
Final 2016 dividend declared	–	–	–	–	(10,000)	(10,000)	–	(10,000)
Capital contributions from non-controlling shareholders	–	–	–	–	–	–	2,863	2,863
Equity-settled share option arrangements *(note 31)*	–	627	–	–	–	627	–	627
Acquisition of a subsidiary	–	–	–	–	–	–	370	370
Equity transactions with non-controlling shareholders	–	(751)	–	–	–	(751)	751	–
Transfer from retained profits	–	–	4,329	–	(4,329)	–	–	–
As at 31 December 2017 and 1 January 2018	131	92,895	15,755	1,311	85,114	195,206	3,092	198,298
Profit for the year	–	–	–	–	14,021	14,021	(9,120)	4,901
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations	–	–	–	527	–	527	–	527
Total comprehensive income for the year	–	–	–	527	14,021	14,548	(9,120)	5,428
Final 2017 dividend declared *(note 11)*	–	–	–	–	(10,000)	(10,000)	–	(10,000)
Equity-settled share option arrangements *(note 31)*	–	1,553	–	–	–	1,553	–	1,553
Acquisition of a subsidiary *(note 33)*	–	–	–	–	–	–	1,712	1,712
Equity transactions with non-controlling shareholders	–	577	–	–	–	577	(577)	–
Transfer from retained profits	–	–	3,574	–	(3,574)	–	–	–
As at 31 December 2018	131	95,025	19,329	1,838	85,561	201,884	(4,893)	196,991

* As at 31 December 2018, these reserve accounts comprise the consolidated reserves of RMB201,753,000 (31 December 2017: RMB195,075,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**14,212**	43,137
Adjustments for:			
Share of profit of a joint venture	18	**–**	(171)
Share of profit of an associate	19	**(381)**	(8)
Finance costs	7	**2,632**	690
Depreciation of property, plant and equipment	6	**11,855**	9,261
Depreciation of investment properties	6	**1,275**	1,223
Amortisation of prepaid land lease payments	6	**244**	244
Amortisation of intangible assets	6	**296**	88
(Gain)/loss on disposals of items of property, plant and equipment, net	6	**(44)**	33
Gain on disposals of bank financial products	6	**(761)**	(242)
Impairment/(reversal of impairment) of trade receivables	6	**529**	(213)
Impairment of financial assets included in prepayments, other receivables and other assets, net	6	**543**	–
Equity-settled share option expense	31	**1,553**	627
		31,953	54,669
Increase in trade and bills receivables		**(20,725)**	(18)
Decrease/(increase) in prepayments, other receivables and other assets		**4,098**	(2,096)
Increase/(decrease) in trade payables		**8,575**	(897)
Increase in contract liabilities		**2,379**	–
Increase/(decrease) in other payables and accruals		**2,163**	(1,159)
Cash generated from operations		**28,443**	50,499
Income tax paid		**(8,462)**	(5,205)
Net cash flows from operating activities		**19,981**	45,294

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(28,236)**	(42,099)
Payment for intangible assets		**(1,604)**	–
Proceeds from disposals of items of property, plant and equipment		**340**	263
Purchase of bank financial products		**(115,500)**	(100,800)
Disposals of bank financial products		**109,800**	88,500
Gain on disposals of bank financial products	5	**761**	242
Purchase of interests in an associate		**–**	(3,100)
Purchases of equity investment designated at fair value through other comprehensive income		**(3,000)**	–
Acquisition of subsidiaries, net of cash acquired	33	**(3,156)**	(498)
(Increase)/decrease in pledged deposits		**(3)**	415
Net cash flows used in investing activities		**(40,598)**	(57,077)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling shareholders		**–**	2,863
New bank loans and other borrowings	34	**90,600**	50,370
Repayment of bank loans and other borrowings	34	**(31,888)**	(42,684)
Interest paid	34	**(903)**	(1,900)
Dividend paid		**(10,000)**	(10,000)
Net cash flows from/(used in) financing activities		**47,809**	(1,351)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**27,192**	(13,134)
Effect of foreign exchange rate changes, net		**865**	(1,525)
Cash and cash equivalents at beginning of year		**48,791**	63,450
CASH AND CASH EQUIVALENTS AT END OF YEAR		**76,848**	48,791

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 year, the Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the testing and inspection of coal and coke in the People's Republic of China (the "PRC").

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

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name*	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
China Leon Inspection Holding (BVI) Limited	British Virgin Islands	US$1.00	100	–	Investment holding
Huaxia Leon Inspection Limited (華夏力鴻檢驗有限公司)	The PRC Hong Kong	HK$100	–	100	Investment holding
Top One Quality Management Consultant Limited	British Virgin Islands	US$50,000	100	–	Investment holding
HongKong Top One Global Limited (香港第一環球有限公司)	The PRC Hong Kong	HK$1.00	–	100	Investment holding
Asia Leon Inspection Holding Limited	British Virgin Islands	US$50,000	100	–	Investment holding
Leon Overseas Pte. Ltd.	Singapore	SGD1,000,000	–	51	Inspection and testing of commodities
Leon Inspection & Testing India Private Limited	India	INR500,000	–	80	Inspection and testing of commodities
Pt. Leon Testing and Consultancy	Indonesia	IDR10,005,000,000	–	99.70	Inspection and testing of commodities
Leon Inspection and Testing Australia Pty Ltd. (i)	Australia	AUD1.00	–	100	Inspection and testing of commodities
Leon Inspection Testing Services Sdn. Bhd	Malaysia	MYR1,000,000	–	100	Inspection and testing of commodities
Leon Inspection & Testing (Private) Limited (i)	Pakistan	PRK40,000,000	–	80	Inspection and testing of commodities

Name*	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Saybolt (Tianjin) Metrology & Inspection Co., Ltd. (仕寶（天津）技術檢測有限公司) (ii)	The PRC Mainland China	US$1,150,000	–	100	Inspection and testing of commodities
Leon Overseas (Hong Kong) Limited (ii)	The PRC Hong Kong	HK$1.00	–	100	Inspection and testing of commodities
Beijing Huaxia Lihong Commodity Inspection Co., Ltd. "Beijing Huaxia Lihong" (北京華夏力鴻商品檢驗有限公司)	The PRC Mainland China	RMB50,000,000	–	100	Coal inspection
Qinhuangdao Lihong Coal Testing Co., Ltd. (秦皇島力鴻煤炭檢測有限公司)	The PRC Mainland China	RMB1,000,000	–	100	Coal and coke testing, inspection and relevant service
Tangshan Huaxia Lihong Commodity Inspection Co., Ltd. (唐山華夏力鴻商品檢驗有限公司)	The PRC Mainland China	RMB1,000,000	–	100	Inspection, testing, appraisal and inspection technology development
Tianjin Huaxia Lihong Coal Testing Co., Ltd. (天津華夏力鴻煤炭檢測有限公司)	The PRC Mainland China	RMB1,000,000	–	100	Coal and coke inspection
Nanjing Lihong Coal Testing Co., Ltd. (南京力鴻煤炭檢測有限公司)	The PRC Mainland China	RMB3,000,000	–	100	Coal, coke and minerals inspection
Guangzhou Lihong Coal Testing Co., Ltd. (廣州力鴻煤炭檢測有限公司)	The PRC Mainland China	RMB1,440,000	–	100	Professional technique service
Hebei Lihong Minerals Inspection Co., Ltd. (河北力鴻礦產品檢驗有限公司)	The PRC Mainland China	RMB3,000,000	–	100	Coal inspection technique advisory service
Hunan Lihong Coal Testing Co., Ltd. (湖南力鴻煤炭檢測有限公司)	The PRC Mainland China	RMB3,000,000	–	100	Coal, coke and minerals testing and inspection
Zhuhai Lidaohongtu Coal Testing Technology Services Co., Ltd. (珠海力道鴻圖煤炭檢測技術服務有限公司)	The PRC Mainland China	RMB1,000,000	–	100	Coal and minerals testing, inspection and advisory service

Name*	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Huaxia Lihong Software Development Co., Ltd. (北京華夏力鴻軟件開發有限公司)	The PRC Mainland China	RMB1,000,000	–	100	Software development, technique service and sale of computers and equipment
Tianjin Shengde Tiangong Sampling Technology Co., Ltd. (天津聖德天工採樣技術有限公司)	The PRC Mainland China	RMB10,000,000	–	100	Scientific research, technique service and business service
Shaanxi Huaxia Lihong Commodity Inspection Co., Ltd. (陝西華夏力鴻商品檢驗有限公司)	The PRC Mainland China	RMB50,000,000	–	55	Quality Inspection Service
Huoerguosi Huaxialihong Quality Technical Service Co., Ltd. (霍爾果斯華夏力鴻質量技術服務有限公司)	The PRC Mainland China	RMB1,000,000	–	100	Product quality control,inspection, evaluation supervision, testing and relevant technique service
Leon Sanitary Inspection Technical Service (Tianjin) Co., Ltd. (力鴻衛檢科技服務（天津）有限公司)	The PRC Mainland China	RMB1,000,000	–	100	Vector biological control technology, technological development and consulting and chemical products wholesale and retail
Xinjiang Huaxia Lihong Commodity Inspection Co., Ltd. (新疆華夏力鴻商品檢驗有限公司) (i)	The PRC Mainland China	RMB5,000,000	–	100	Quality inspection service
Guangzhou Lihong Energy Testing Technology Co., Ltd. "Guangzhou Lihong Energy" (廣州力鴻能源檢測技術有限公司) (iii)	The PRC Mainland China	RMB5,000,000	–	50	Coal, coke and minerals inspection
Inner Mongolia Lihong Supply Chain Quality Technology Co., Ltd. (內蒙古力鴻供應鏈質量技術有限公司)	The PRC Mainland China	RMB10,000,000	–	100	Standard technical and quality control technical services

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

(i) Leon Inspection and Testing Australia Pty Ltd., Leon Inspection & Testing (Private) Limited and Xinjiang Huaxia Lihong Commodity Inspection Co., Ltd. were established during the year.

(ii) During the year, the Group acquired Saybolt (Tianjin) Metrology & Inspection Co., Ltd. and Leon Overseas (Hong Kong) Limited from an independent third party. Further details of this acquisition are included in note 33 to the financial statements.

(iii) During the year, the Group took control of Guangzhou Lihong Energy. Further details are included in note 33 to the financial statements.

All these companies were incorporated with limited liability.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and interpretations) issued by the International Accounting Standards Board (the "IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and equity investment designated at fair value through other comprehensive income which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 Changes in Accounting Policies and Disclosures

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 4 and *Annual Improvements 2014–2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) 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 recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

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

	IAS 39 Measurement		Re-		IFRS 9 Measurement	
	Category	Amount	classification	ECL	Amount	Category
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	
Financial assets						
Trade and bills receivables	L&R[1]	22,563	–	–	22,563	AC[2]
Financial assets included in prepayments, other receivables and other assets	L&R	9,257	–	–	9,257	AC
Available-for-sale investments	AFS[3]	21,300	(21,300)	–	–	N/A
To: Financial assets at fair value through profit or loss (i)			(21,300)	–	–	
Financial assets at fair value through profit or loss	N/A	–	21,300	–	21,300	FVPL[4]
From: Available-for-sale investments (i)			21,300	–	–	
Pledged deposits	L&R	397	–	–	397	AC
Cash and bank balances	L&R	48,791	–	–	48,791	AC
Total assets		102,308	–	–	102,308	

	IAS 39 Measurement Category	IAS 39 Measurement Amount	Re-classification	ECL	IFRS 9 Measurement Amount	IFRS 9 Measurement Category
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	
Financial liabilities						
Trade payables	AC	3,718	–	–	3,718	AC
Financial liabilities included in other payables and accruals	AC	20,322	–	–	20,322	AC
Interest-bearing bank loans and other borrowings	AC	17,742	–	–	17,742	AC
		41,782	–	–	41,782	
Other liabilities						
Contract liabilities	AC	1,569	–	–	1,569	AC
		1,569	–	–	1,569	
Total liabilities		43,351	–	–	43,351	

1 L&R: Loans and receivables
2 AC: Financial assets or financial liabilities at amortised cost
3 AFS: Available-for-sale investments
4 FVPL: Financial assets at fair value through profit or loss

Note:

(i) The Group has classified its investments on bank financial products previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these investments did not pass the contractual cash flow characteristics test in IFRS 9.

Impact on reserves and retained profits

There is no material impact on the Group to the opening balance of reserves and retained earnings as at 1 January 2018 for the adoption of ECLs requirements of IFRS 9.

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.

(c) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the 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 the provision of testing services should be recognised at the point in time when the test result is delivered to the customer.

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 had no material impact on the Group's financial statements.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

	Note	**Increase/ (decrease)** *RMB'000*
Liabilities		
Contract liabilities	(i)	1,569
Other payables and accruals	(i)	(1,569)
Total liabilities		–

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on the Group's profit or loss or other comprehensive income, or on the Group's operating, investing and financing cash flows, but has had impact on the consolidated statement of financial position of the Group. The first column shows the amounts recorded under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		
			Previous	**Increase/**
		IFRS 15	**IFRS**	**(decrease)**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities	(i)	2,379	–	2,379
Other payables and accruals	(i)	35,383	37,762	(2,379)

The nature of the adjustments as at 1 January 2018 and the reasons for the changes in the statement of financial position as at 31 December 2018 are described below:

(i) Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as advances received from customers which are included in other payables and accruals. Under IFRS 15, the amount is classified as contract liabilities.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB1,569,000 from other payables and accruals to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under IFRS 15, RMB2,379,000 was reclassified from other payables and accruals to contract liabilities in relation to the consideration received from customers in advance for the provision of services.

(d) Amendments to IAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) IFRIC-Int 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 Issued but not yet effective International Financial Reporting Standards

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	*Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23*[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

IFRS 16 replaces IAS 17 *Leases*, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases – Incentives* and SIC Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB15,056,000 and lease liabilities of RMB15,056,000 will be recognised at 1 January 2019 with a corresponding adjustment to the opening balance of retained earnings.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

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

2.4 Summary of Significant Accounting Policies

Investments in associates and joint ventures

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

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

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

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

Business combinations and goodwill

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

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

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

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

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

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

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

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

Fair value measurement

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

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

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

   (ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Land and buildings	4.75%
Vehicles	9.50% to 23.75%
Electronic equipment and others	19% to 31.67%
Leasehold improvements	10% to 33.33%

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

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

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

Investment properties

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

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

Intangible assets (other than goodwill)

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

Patents and licences

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

Customer relationships and inspection certifications

Customer relationships and inspection certifications acquired in a business combination are recognised at fair value at the acquisition date. The customer relationships and inspection certifications have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over the expected life of the customer relationship and inspection certifications of 6 years.

Research and development costs

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

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

Operating leases

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

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

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

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

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

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

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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

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

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

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

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. 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, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments 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. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

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

Financial assets carried at amortised cost

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

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

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

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

Available-for-sale financial investments

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

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

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

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

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

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

Cash and cash equivalents

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

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

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

Government grants

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

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

The Group provides coal and coke testing and inspection services. Revenue from coal and coke testing and inspection services is recognised, when the agreed services are provided.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

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

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

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

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

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

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contracts for services (applicable before 1 January 2018)

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised over the service terms as the services are rendered.

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements.

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

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

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

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

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

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

Employee benefits

Social pension plans

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

Housing fund and other social insurances

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

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

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

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

Foreign currencies

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments – Group as lessor

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

Classification between investment properties and owner-occupied properties

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

Estimation uncertainty

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

Impairment of goodwill

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

Provision for expected credit losses on trade receivables and other receivables

The Group uses a provision matrix to calculate ECLs for trade receivables and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and other receivables are disclosed in notes 22 and 23 to the financial statements, respectively.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which the tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2018 was RMB48,957,000 (2017: RMB6,305,000). Further details are contained in note 21 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

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

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

Share option scheme

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield and making assumptions about them. Continuous estimation is required for the calculation of cumulative share-based payment cost at each reporting date until vesting, including estimate of the number that will vest. Details of share-based payments are contained in note 31 to the financial statements.

Business combinations and goodwill

When the Group completes a business combination, the identifiable assets acquired and the liabilities assumed are recognised at their fair value. Management estimation is required to determine the fair values of the assets acquired, the liabilities assumed, and the purchase consideration, and on the allocation of the purchase consideration to the identifiable assets and liabilities. The fair values of the identifiable assets acquired and the liabilities assumed are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable market where possible, but where this is not feasible, a degree of judgement and estimation is required in establishing fair values. Management must estimate the expected future cash flows and discount rate in order to calculate the fair values.

4. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	2018	2017
	RMB'000	*RMB'000*
Mainland China	**196,904**	194,873
Indonesia	**12,841**	2,001
Other countries/regions	**24,005**	4,047
	233,750	200,921

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

(b) Non-current assets

	As at 31 December 2018	As at 31 December 2017
	RMB'000	*RMB'000*
Mainland China	**143,942**	139,715
Other countries/regions	**19,062**	1,982
	163,004	141,697

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

Information about a major customer

During the year ended 31 December 2018, revenue generated from one of the Group's customers accounting for 10% or more of the Group's total revenue was RMB38,915,000 (year ended 31 December 2017: RMB73,834,000).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Rendering of services	**233,750**	200,921

(i) Disaggregated revenue information

	2018	2017
	RMB'000	*RMB'000*
Segments		
Type of services		
Testing services	**204,108**	164,213
Surveying services	**21,619**	28,500
Witnessing and ancillary services	**8,023**	8,208
Total revenue from contracts with customers	**233,750**	200,921
Geographical markets		
Mainland China	**196,904**	194,873
Indonesia	**12,841**	2,001
Other countries/regions	**24,005**	4,047
Total revenue from contracts with customers	**233,750**	200,921
Timing of revenue recognition		
Services transferred at a point in time	**233,750**	200,921
Total revenue from contracts with customers	**233,750**	200,921
Revenue from contracts with customers		
External customers	**233,750**	200,921
Intersegment sales	**14,599**	28,353
	248,349	229,274
Intersegment adjustments and eliminations	**(14,599)**	(28,353)
Total revenue from contracts with customers	**233,750**	200,921

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018
	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Rendering of services	1,569

(ii) Performance obligations

Rendering of services

The Group performs analytical tests for coal quality and usually issues testing certificates or reports within 24 to 48 hours after completion of the on-site preparation. The performance obligation is satisfied upon completion of coal testing services.

An analysis of other income and gains is as follows:

		2018	2017
	Note	***RMB'000***	*RMB'000*
Other income			
Bank interest income		**87**	54
Tax refund		**400**	108
Rental income		**832**	581
		1,319	743
Gains			
Gain on disposal of bank financial products		**761**	242
Gain on acquisition of subsidiaries	33	**34**	85
Gain on foreign exchange difference		**744**	28
Gain on disposals of items of property, plant and equipment		**162**	15
Others		**142**	521
		1,843	891
		3,162	1,634

6. PROFIT BEFORE TAX

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

	Notes	**2018** *RMB'000*	2017 *RMB'000*
Cost of services provided		**110,842**	90,237
Depreciation of property, plant and equipment	13	**11,855**	9,261
Depreciation of investment properties	14	**1,275**	1,223
Amortisation of prepaid land lease payments	15	**244**	244
Amortisation of intangible assets	17	**296**	88
Research and development costs:			
Current year expenditure		**11,618**	14,051
Minimum lease payments under operating leases:			
Land and buildings		**7,876**	6,835
Auditor's remuneration		**1,350**	1,200
Employee benefit expenses (including directors' and the chief executive's remuneration):			
Wages and salaries		**93,907**	53,172
Pension scheme contributions		**9,510**	4,948
Welfare and other expenses		**14,970**	11,560
Equity-settled share option expense	31	**1,553**	627
		119,940	70,307
Impairment/(reversal of impairment) of financial assets, net:			
Impairment/(reversal of impairment) of trade receivables, net	22	**529**	(213)
Impairment of financial assets included in prepayments, other receivables and other assets, net		**543**	–
		1,072	(213)
Bank interest income		**(87)**	(54)
(Gain)/loss on disposals of items of property, plant and equipment, net		**(44)**	33
Gain on disposals of bank financial products		**(761)**	(242)

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 *RMB'000*	2017 *RMB'000*
Interest on bank loans and other borrowings	**2,632**	690

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2018	2017
	RMB'000	*RMB'000*
Fees	**255**	252
Other emoluments:		
Salaries, allowances and benefits in kind	**3,258**	2,217
Performance related bonuses	**1,497**	720
Equity-settled share option expense	**657**	–
Pension scheme contributions	**190**	153
	5,602	3,090
	5,857	3,342

During the year, YANG Rongbing was granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

YANG Rongbing ceased to be the chairman of the Audit Committee with effect from 23 July 2018 while LIU Hoi Keung has been appointed as the chairman of the Audit Committee in replacement of Mr. Yang with effect from the same date.

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

	2018	2017
	RMB'000	*RMB'000*
YANG Rongbing	**48**	84
ZHAO Hong	**85**	84
WANG Zichen	**85**	84
LIU Hoi Keung	**37**	–
	255	252

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

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

2018

Mr. Yang has been re-designated from an independent non-executive director to an executive director and was appointed as the vice chairman of the Company with effect from 23 July 2018.

	Salaries, allowances and benefits in kind *RMB'000*	**Performance related bonuses** *RMB'000*	**Equity-settled share option expense** *RMB'000*	**Pension scheme contributions** *RMB'000*	**Total remuneration** *RMB'000*
Executive directors					
LI Xiangli (Chief executive)	**1,122**	**811**	**–**	**55**	**1,988**
LIU Yi	**943**	**351**	**–**	**55**	**1,349**
YANG Rongbing	**592**	**43**	**657**	**29**	**1,321**
ZHANG Aiying	**601**	**292**	**–**	**51**	**944**
	3,258	**1,497**	**657**	**190**	**5,602**
Non-executive director					
WANG Gang	**–**	**–**	**–**	**–**	**–**
	3,258	**1,497**	**657**	**190**	**5,602**

2017

	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Equity-settled share option expense *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
Executive directors					
LI Xiangli (Chief executive)	865	200	–	51	1,116
LIU Yi	748	220	–	51	1,019
ZHANG Aiying	604	300	–	51	955
	2,217	720	–	153	3,090
Non-executive director					
WANG Gang	–	–	–	–	–
	2,217	720	–	153	3,090

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors of the Company (2017: three), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2017: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018	2017
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**3,274**	1,800
Performance related bonuses	**530**	585
Equity-settled share option expense	**–**	68
Pension scheme contributions	**120**	102
	3,924	2,555

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

	2018	2017
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$2,500,000	**2**	1
	2	2

During the year, no non-director and non-chief executive highest paid employees were granted share options.

During the prior years, share options were granted to two non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the prior year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

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

The Company's 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 income from a subsidiary in Mainland China has been provided at the rate of 10% during the year.

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 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 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.

	2018	2017
	RMB'000	*RMB'000*
Current income tax		
– Mainland China	**9,863**	6,946
– Elsewhere	**–**	90
Deferred *(note 21)*	**(552)**	1,398
Tax charge for the year	**9,311**	8,434

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:

	2018	2017
	RMB'000	*RMB'000*
Profit before tax	**14,212**	43,137
Income tax charge at the statutory income tax rate of 25%	**3,553**	10,784
Effect of the preferential income tax rate	**(4,539)**	(4,188)
Tax losses not recognised	**9,320**	1,576
Expenses not deductible for tax	**896**	353
Additional tax deduction for research and development expenditure	**(1,535)**	(1,459)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**333**	1,111
Others	**1,283**	257
Tax charge for the year at the effective rate	**9,311**	8,434

11. DIVIDENDS

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

On 22 March 2019, the board of directors proposed a final dividend of RMB0.0075 per share totalling RMB3,000,000 for the year ended 31 December 2018. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 400,000,000 (2017: 400,000,000) in issue during the year, as adjusted to reflect the rights 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 parent. 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:

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**14,021**	35,595

	Number of Shares	
	2018	2017
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	**610,759**	–
	400,610,759	400,000,000

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *RMB'000*	Vehicles *RMB'000*	Electronic equipment and others *RMB'000*	Construction in progress *RMB'000*	Leasehold improvements *RMB'000*	Total *RMB'000*
31 December 2018						
At 31 December 2017 and 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	**67,345**	**5,523**	**12,765**	**18,906**	**1,949**	**106,488**
At 1 January 2018, net of accumulated depreciation	**67,345**	**5,523**	**12,765**	**18,906**	**1,949**	**106,488**
Additions	**1,076**	**4,869**	**7,535**	**7,776**	**1,180**	**22,436**
Disposals	**–**	**(56)**	**(238)**	**–**	**–**	**(294)**
Acquisition of subsidiaries *(note 33)*	**–**	**4**	**1,753**	**–**	**599**	**2,356**
Depreciation provided during the year *(note 6)*	**(3,328)**	**(2,393)**	**(4,870)**	**–**	**(1,264)**	**(11,855)**
Transfers	**9,890**	**–**	**2,756**	**(19,742)**	**7,096**	**–**
Exchange realignment	**–**	**(56)**	**(372)**	**–**	**(27)**	**(455)**
At 31 December 2018, net of accumulated depreciation	**74,983**	**7,891**	**19,329**	**6,940**	**9,533**	**118,676**
At 31 December 2018:						
Cost	**80,746**	**23,630**	**44,110**	**6,940**	**13,095**	**168,521**
Accumulated depreciation	**(5,763)**	**(15,739)**	**(24,781)**	**–**	**(3,562)**	**(49,845)**
Net carrying amount	**74,983**	**7,891**	**19,329**	**6,940**	**9,533**	**118,676**

	Land and buildings *RMB'000*	Vehicles *RMB'000*	Electronic equipment and others *RMB'000*	Construction in progress *RMB'000*	Leasehold improvements *RMB'000*	Total *RMB'000*
31 December 2017						
At 31 December 2016 and 1 January 2017:						
Cost	22,553	21,372	23,016	18,978	4,370	90,289
Accumulated depreciation	(788)	(15,228)	(12,043)	–	(1,564)	(29,623)
Impairment	–	–	–	(1,028)	–	(1,028)
Net carrying amount	21,765	6,144	10,973	17,950	2,806	59,638
At 1 January 2017, net of accumulated depreciation and impairment	21,765	6,144	10,973	17,950	2,806	59,638
Additions	–	1,674	5,393	51,056	–	58,123
Disposals	–	(49)	(246)	(2,350)	–	(2,645)
Acquisition of a subsidiary	–	118	528	–	–	646
Depreciation provided during the year *(note 6)*	(2,034)	(2,344)	(3,900)	–	(983)	(9,261)
Transfers to investment properties *(note 14)*	(933)	–	–	–	–	(933)
Transfers	48,547	–	105	(48,778)	126	–
Impairment written off	–	–	–	1,028	–	1,028
Exchange realignment	–	(20)	(88)	–	–	(108)
At 31 December 2017, net of accumulated depreciation	67,345	5,523	12,765	18,906	1,949	106,488
At 31 December 2017:						
Cost	69,780	22,162	29,246	18,906	3,505	143,599
Accumulated depreciation	(2,435)	(16,639)	(16,481)	–	(1,556)	(37,111)
Net carrying amount	67,345	5,523	12,765	18,906	1,949	106,488

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

14. INVESTMENT PROPERTIES

	2018	2017
	RMB'000	*RMB'000*
Cost:		
At beginning of the year	**26,833**	25,513
Transfer from owner-occupied properties *(note 13)*	**–**	1,320
At end of the year	**26,833**	26,833
Accumulated depreciation:		
At beginning of the year	**4,841**	3,231
Transfer from owner-occupied properties *(note 13)*	**–**	387
Depreciation charge for the year *(note 6)*	**1,275**	1,223
At end of the year	**6,116**	4,841
Net carrying amount:		
At beginning of the year	**21,992**	22,282
At end of the year	**20,717**	21,992

The Group's investment properties consist of two commercial properties in Beijing and Cangzhou. The directors of the Company have determined that the class of the investment properties is commercial based on the nature, characteristics and risks of each property. The Group's investment properties were valued on 31 December 2018 based on valuations performed by Jiangsu Sanshi Assets Appraisal Co., Ltd., an independent professionally qualified valuer, at RMB27,410,000 (31 December 2017: RMB29,375,000), on an open market, existing use basis.

Certain of the Group's investment properties with a total carrying value of RMB19,858,000 (31 December 2017: RMB21,071,000) were pledged to obtain a banking facility from a bank amounting to RMB15,000,000 as at 31 December 2018. The pledge of these investment properties has not been released as at 31 December 2018.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 36(a) to the financial statements.

Fair value hierarchy

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

31 December 2018

	Fair value measurement using			
	Quoted prices in active market (Level 1) *RMB'000*	**Significant observable inputs (Level 2)** *RMB'000*	**Significant unobservable inputs (Level 3)** *RMB'000*	**Total** *RMB'000*
Investment properties	**–**	**–**	**27,410**	**27,410**

31 December 2017

	Fair value measurement using			
	Quoted prices in active market (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Investment properties	–	–	29,375	29,375

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

15. PREPAID LAND LEASE PAYMENTS

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Carrying amount at beginning of the year	**6,436**	10,608
Disposal	**–**	(3,928)
Amortisation for the year *(note 6)*	**(244)**	(244)
Carrying amount at end of the year	**6,192**	6,436
Current portion included in prepayments, other receivables and other assets *(note 23)*	**(238)**	(238)
Non-current portion	**5,954**	6,198

16. GOODWILL

	RMB'000
At beginning/end of 2017:	
Cost and net carrying amount	572
Cost at 1 January 2018	572
Acquisition of subsidiaries *(note 33)*	2,350
Exchange realignment	207
Cost and net carrying amount at 31 December 2018	3,129

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Regional coal inspection service-rendering cash-generating unit; and

- Regional petrol inspection service-rendering cash-generating unit.

Regional coal inspection service-rendering cash-generating unit

The recoverable amount of the regional coal inspection service-rendering cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15% (2017: 15%). The growth rate used to extrapolate the cash flows of the regional coal inspection service-rendering unit beyond the five-year period is 2% (2017: 2%).

Regional petrol inspection service-rendering cash-generating unit

The recoverable amount of the regional petrol inspection service-rendering cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 18%. The growth rate used to extrapolate the cash flows of the regional petrol inspection service-rendering unit beyond the five-year period is 2%.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	As at 31 December 2018 ***RMB'000***	As at 31 December 2017 *RMB'000*
Carrying amount of goodwill		
Coal inspection service-rendering	**572**	572
Petrol inspection service-rendering	**2,557**	–
	3,129	572

Assumptions were used in the value in use calculation of the cash-generating unit for 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

17. INTANGIBLE ASSETS

	Patents	Software	Customer relationships and inspection certifications	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2018				
Cost at 1 January 2018, net of accumulated amortisation	**7**	**725**	**–**	**732**
Additions	**–**	**1,604**	**–**	**1,604**
Acquisition of subsidiaries *(note 33)*	**–**	**–**	**2,400**	**2,400**
Amortisation provided during the year *(note 6)*	**(2)**	**(120)**	**(174)**	**(296)**
Exchange realignment	**–**	**–**	**(15)**	**(15)**
At 31 December 2018, net of accumulated amortisation	**5**	**2,209**	**2,211**	**4,425**
At 31 December 2018:				
Cost	**13**	**2,463**	**2,385**	**4,861**
Accumulated amortisation	**(8)**	**(254)**	**(174)**	**(436)**
Net carrying amount	**5**	**2,209**	**2,211**	**4,425**

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

18. INVESTMENT IN A JOINT VENTURE

	As at 31 December 2018 ***RMB'000***	As at 31 December 2017 *RMB'000*
Share of net assets	–	1,678

On 9 January 2018, Beijing Huaxia Lihong took the control over Guangzhou Lihong Energy, therefore, the financial statements of Guangzhou Lihong Energy have been consolidated by the Company since 9 January 2018. More details about this acquisition are disclosed in note 33 to the consolidated statements.

The Group's trade and bills receivable balances due from the joint venture are disclosed in note 22 to the financial statements.

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

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

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

	2018 ***RMB'000***	2017 *RMB'000*
Share of the joint venture's profit for the year	–	171
Share of the joint venture's total comprehensive income	–	171

19. INVESTMENT IN AN ASSOCIATE

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Share of net assets	**3,489**	3,108

The Group's prepayments and other receivable balances due from the associate are disclosed in note 23 to the financial statements.

The Group's other payables and accruals due to the associate are disclosed in note 28 to the financial statements.

Particulars of the Group's associate are as follows:

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

Zhuhai Runheyuan Technology Partnership, which Group's employees owned majority shares, has 29% interests in this associate.

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

	2018 *RMB'000*	2017 *RMB'000*
Share of the associate's profit for the year	**381**	8
Share of the associate's total comprehensive income	**381**	8

20. EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 *RMB'000*	2017 *RMB'000*
Equity investment designated at fair value through other comprehensive income		
Unlisted equity investment, at fair value	**3,000**	–

On 19 December 2018, the Group acquired a 12.5% interest in UnionTest Technology (Guangzhou) Co., Ltd. ("UnionTest") with a total cash consideration of RMB3,000,000. The Group has no significant influence over UnionTest's financial and operating policy

The above equity investment was irrevocably designated at fair value through other comprehensive income as the Group considers this investments is strategic in nature.

21. DEFERRED TAX

Deferred tax assets

	Provision for impairment of trade receivables and other receivables	**Provision for impairment of construction in progress**	**Accrued employee benefits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	143	148	1,537	1,828
Deferred tax charged to profit or loss *(note 10)*	(93)	(148)	(546)	(787)
At 31 December 2017 and 1 January 2018	50	–	991	1,041
Deferred tax credited/(charged) to profit or loss *(note 10)*	**121**	**–**	**(347)**	**(226)**
At 31 December 2018	**171**	**–**	**644**	**815**

The Group has accumulated tax losses arising in Mainland China of RMB9,699,000 (31 December 2017: RMB1,857,000) that will expire in one to five years for offsetting against future taxable profits.

The Group also has accumulated tax losses arising in Hong Kong and other countries/regions of RMB39,258,000 (31 December 2017: RMB4,448,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

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

Deferred tax liabilities

	2018 Withholding tax	2017 Withholding tax
	RMB'000	*RMB'000*
At beginning of the year	**1,111**	500
Acquisition of subsidiaries *(note 33)*	**408**	–
Deferred tax (credited)/charged to profit or loss *(note 10)*	**(778)**	611
At end of the year	**741**	1,111

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

At 31 December 2018, deferred tax liabilities of RMB333,000 have been recognised for withholding taxes that would be payable on the unremitted earnings of RMB3,333,000 that are subject to withholding taxes of the Group's subsidiaries. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB108,379,000 at 31 December 2018 (2017: RMB80,530,000). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

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

22. TRADE AND BILLS RECEIVABLES

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Trade and bills receivables	**43,619**	22,894
Impairment	**(1,356)**	(331)
	42,263	22,563

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 the loss allowance, is as follows:

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Within 3 months	**34,312**	18,597
3 to 6 months	**4,953**	2,411
6 months to 1 year	**2,374**	1,543
1 to 2 years	**613**	12
Over 2 years	**11**	–
	42,263	22,563

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	**331**	817
Impairment losses/(reversal of impairment), net *(note 6)*	**529**	(213)
Amount written off as uncollectible	**–**	(273)
Acquisition of subsidiaries	**496**	–
At end of the year	**1,356**	331

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region and customer rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018:

		Past due		
	Current	**Less than 9 months**	**Over 9 months**	**Total**
Gross carrying amount (RMB'000)	**34,961**	**7,487**	**1,171**	**43,619**
Expected credit losses (RMB'000)	**649**	**160**	**547**	**1,356**

Impairment under IAS 39 for the year ended 31 December 2017

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

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

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

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

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

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Joint venture	**–**	488

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

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Prepaid land lease payments *(note 15)*	**238**	238
Prepayments	**17,810**	10,015
Deposits and other receivables	**4,472**	9,257
	22,520	19,510
Impairment allowance	**(382)**	–
	22,138	19,510
Portion classified as non-current assets	**(6,614)**	(929)
	15,524	18,581

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2018, the probability of default applied ranged from 0.17% to 100% and the loss given default was estimated to be 100%.

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

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Associate	**–**	871

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

24. AVAILABLE-FOR-SALE INVESTMENTS/FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Financial assets at fair value through profit or loss		
Bank financial products	**27,000**	–
Available-for-sale financial assets		
Bank financial products	**–**	21,300

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.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Cash and bank balances	**76,848**	48,791
Time deposits	**400**	397
	77,248	49,188
Less: Time deposits pledged for construction in the progress	**(400)**	(397)
Cash and cash equivalents	**76,848**	48,791

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.

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB12,511,000 (31 December 2017: RMB15,059,000). 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.

26. TRADE PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Within 3 months	**11,620**	3,650
3 to 6 months	**438**	1
6 months to 1 year	**51**	8
1 to 2 years	**125**	–
Over 3 years	**59**	59
	12,293	3,718

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

27. CONTRACT LIABILITIES

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Short-term advances received from customers		
Rendering of services	**2,379**	–

Contract liabilities include short-term advances received to render services. The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances received from customers in relation to the provision of inspection services at the end of the year.

28. OTHER PAYABLES AND ACCRUALS

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Advance from customers	**–**	1,569
Accrued salaries, wages and benefits	**14,932**	9,025
Other taxes payable	**707**	755
Payable to vendors of property, plant and equipment	**14,815**	14,930
Others	**4,929**	5,392
	35,383	31,671

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

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

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Leon Intelligence & Information (Beijing) Technology Co., Ltd.	**1,850**	–

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

29. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	As at 31 December 2018			As at 31 December 2017		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Current portion of long-term bank loans						
– Unsecured	**6.65**	**2019**	**6,460**	6.65	2018	6,045
Other borrowing						
– Secured	**10.00**	**2019**	**56,404**	–	–	–
Current portion of other borrowing						
– Unsecured	**9.75**	**2019**	**17**	9.75	2018	16
			62,881			6,061
Non-current						
Long-term bank loans						
– Unsecured	**6.65**	**2020**	**3,652**	6.65	2020	10,112
Other borrowings						
– Unsecured	**4.75**	**2022–2023**	**9,550**	4.75	2022	1,550
– Unsecured	**9.75**	**2020**	**2**	9.75	2020	19
			13,204			11,681
			76,085			17,742
Interest-bearing bank loans and other borrowings are denominated in:						
– RMB			**19,662**			17,707
– HK$			**56,404**			–
– INR			**19**			35
			76,085			17,742

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

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Analysed into:		
Bank loans and other borrowings repayable		
Within one year	**62,881**	6,061
In the second year	**3,654**	6,477
In the third to fifth years, inclusive	**9,550**	5,204
	76,085	17,742

Notes:

(i) During the year, the Company issued secured guaranteed note ("Note") to an independent third party ("Purchaser") by way of private placement in the amount of HK$64,500,000 (equivalent to RMB56,404,000), which will mature on 28 September 2019. The Note bears interest on its outstanding principle amount at the rate of 10% per annum, due and payable in arrear every six months by the Company from the issue date.

To secure the liabilities of the Company to the Purchaser under the Note, the Company's shareholders, Leon Cornerstone Investment Holding Limited owned by LI Xiangli, Hawk Flying Investment Holding Limited owned by Liu Yi and Swan Stone Investment Holding Limited owned by ZHANG Aiying, charged 26,090,000 shares, 35,550,000 shares and 49,290,000 shares, respectively, on an aggregate basis being 110,930,000 shares representing approximately 27.73% of the total issued share capital of the Company in favor of the Purchaser.

In addition to the share charges, LI Xiangli and ZHANG Aiying provided personal guarantee in favor of the Purchaser.

(ii) The Group's other borrowing amounting to RMB9,550,000 (31 December 2017: RMB1,550,000) as at 31 December 2018 was a loan from LEI Xihu, the non-controlling shareholder of a subsidiary.

(iii) The Group's bank loans amounting to RMB10,112,000 (31 December 2017: RMB16,157,000) as at 31 December 2018 were guaranteed by LI Xiangli and ZHANG Aiying.

30. SHARE CAPITAL

Shares

	As at 31 December 2018		As at 31 December 2017	
	Number of shares *'000*	**Value** *RMB'000*	Number of shares *'000*	Value *RMB'000*
Issued and fully paid ordinary shares	**400,000**	**131**	400,000	131

31. 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 include the Group's employees, directors and other participants in order to retain and provide incentive to the employees of the Group to achieve its business objectives. The Scheme became effective on 5 May 2017 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes shall not in aggregate exceed 10% of the shares in issue as at the date of approval by the Shareholders and as such limit is refreshed by the Shareholders from time to time. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes shall not exceed 30% of the shares in issue from time to time.

The total number of shares issued and to be issued upon exercise of the options granted to each participant that is eligible under the Scheme and any other option schemes (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the total number of shares in issue. Where any further grant of options to an eligible participant would result in the shares issued and to be issued upon exercise of the options granted to such eligible participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of shares in issue, such further grant must be separately approved by the shareholders at the general meeting.

The exercise period of the share options granted is determinable by the directors. For the share options granted up to 31 December 2018, the exercising periods commences either on the grant date to two years or after a vesting period of one to three years and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

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

Particulars and movements of the target shares under the Scheme

2018

			Number of options			
Date of grant	*Notes*	**Fair value per option** *HK$*	**As at 1 January** *'000*	**Granted during the year** *'000*	**Lapsed during the year** *'000*	**As at 31 December** *'000*
4 July 2017	(a)	**0.34**	**7,750**	**–**	**(600)**	**7,150**
23 July 2018	(b)	**0.44**	**–**	**3,000**	**–**	**3,000**
			7,750	**3,000**	**(600)**	**10,150**

2017

Date of grant	Notes	Fair value per option HK$	Number of options As at 1 January '000	Granted during the year '000	Lapsed during the year '000	As at 31 December '000
4 July 2017	(a)	0.34	–	8,000	(250)	7,750

No share options were exercised during the year (2017: Nil).

(a) On 4 July 2017, the board of directors of the Company approved the initial grant only to the Group's employees. The total number of the target shares under the initial grant was 8,000,000, representing approximately 2% of the issued share capital of the Company.

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

(b) On 23 July 2018, the board of directors of the Company approved the grant to a director, Mr. Yang Rongbing. The total number of the target shares under this grant was 3,000,000, representing approximately 0.75% of the issued share capital of the Company.

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

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

2018

Number of options ***'000***	**Exercise price*** ***HK$ per option***	**Exercise period**
2,325	**1.28**	**4 July 2018 to 3 July 2023**
1,965	**1.28**	**4 July 2019 to 3 July 2024**
2,860	**1.28**	**4 July 2020 to 3 July 2025**
1,000	**1.414**	**23 July 2018 to 22 July 2023**
1,000	**1.414**	**23 July 2019 to 22 July 2024**
1,000	**1.414**	**23 July 2020 to 22 July 2025**
10,150		

2017

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

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

The fair value of the share options granted during the year was HK$1,320,000 (HK$0.44 each) (2017: HK$2,720,000), of which the Group recognised a share option expense of HK$1,829,000 (equivalent to RMB1,553,000) (2017: HK$724,000 (equivalent to RMB627,000)) during the year ended 31 December 2018.

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

	2018	2017
Dividend yield (%)	**1.77**	1.86
Expected volatility (%)	**37.39**	36.33
Historical volatility (%)	**37.39**	36.33
Risk-free interest rate (%)	**2.11**	1.79
Expected life of options (year)	**5.00**	5.00
Weighted average share price (HK$ per share)	**0.44**	0.34

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

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

At the end of the reporting period, the Company had 10,150,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 10,150,000 additional ordinary shares of the Company and additional share capital of HK$13,394,000 (equivalent to RMB11,736,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 10,150,000 share options outstanding under the Scheme, which represented approximately 2.5% of the Company's shares in issue as at that date.

32. RESERVES

The amounts of the Group's reserves and the movements therein are presented in the consolidated statements of changes in equity for the current and prior years on pages 5 and 6 of these financial statements.

33. BUSINESS COMBINATIONS

Acquisition of Guangzhou Lihong Energy Testing Technology Co., Ltd.

Beijing Huaxia Lihong directly owns half of the equity interests in 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 a shareholders' voting agreement with the other equity owner of Guangzhou Lihong Energy, pursuant to which it is agreed that Beijing Huaxia Lihong has the right to make the final decision when the two parties have different opinions. The PRC lawyer of Beijing Huaxia Lihong confirmed that the shareholders' voting agreement is valid under the relevant PRC law. On top of the shareholders' voting agreement, the directors are of the opinion that the Group has the right 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 have been consolidated by the Company since 9 January 2018.

The fair values of the identifiable assets and liabilities of Guangzhou Lihong Energy as at the date of acquisition were as follows:

	Notes	9 January 2018 *RMB'000*
Property, plant and equipment	13	959
Trade receivables		994
Prepayments, other receivables and other assets		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	5	(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 year ended 31 December 2018 *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**

Since the acquisition, Guangzhou Lihong Energy contributed approximately RMB9,311,000 to the Group's revenue and approximately RMB2,147,000 to the Group's profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB233,750,000 and RMB4,901,000, respectively.

Acquisition of Saybolt (Tianjin) Metrology & Inspection Co., Ltd. and Leon Overseas (Hong Kong) Ltd.

On 22 June 2018, Leon Overseas Pte. Ltd., an indirectly non-wholly-owned subsidiary of the Company, entered in to an acquisition contract with Saybolt Holding BV, an independent third party which is incorporated in the Netherlands to acquire a 100% interest in Saybolt (Tianjin) Metrology & Inspection Co., Ltd. and Core Laboratories (Hong Kong) Limited at an aggregate consideration of US$1,000,000 (equivalent to RMB6,831,000). Core Laboratories (Hong Kong) Limited changed its name to Leon Overseas (Hong Kong) Ltd. on 17 July 2018. On 8 August 2018, Leon Overseas Pte. Ltd completed the acquisition transaction.

The fair values of the identifiable assets and liabilities of Saybolt (Tianjin) Metrology & Inspection Co., Ltd. and Leon Overseas (Hong Kong) Ltd. as at the date of acquisition were as follows:

	Notes	8 August 2018 *RMB'000*
Property, plant and equipment	13	1,397
Intangible assets	17	2,400
Trade receivables		1,010
Prepayments, other receivables and other assets		432
Cash and cash equivalents		623
Trade payables		(614)
Other payables and accruals		(359)
Deferred tax liabilities	21	(408)
Total identifiable net assets at fair value		4,481
Goodwill on acquisition	16	2,350
Satisfied by cash		6,831

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

	For the year ended 31 December 2018 *RMB'000*
Cash paid for the acquisition	
Cash consideration	**(6,831)**
Unpaid amount as at 31 December 2018	**683**
	(6,148)
Cash and cash equivalents acquired	**623**
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(5,525)**

Since the acquisition, Saybolt (Tianjin) Metrology & Inspection Co., Ltd. and Leon Overseas (Hong Kong) Ltd. contributed approximately RMB14,132,000 to the Group's revenue and approximately RMB4,688,000 to the Group's profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB240,901,000 and RMB4,337,000, respectively.

34. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank loans and other borrowings *RMB'000*	**Interest payables** *RMB'000*
At 1 January 2017	**10,000**	**1,210**
Changes from financing cash flows	**7,686**	**(1,900)**
Increase arising from acquisition of a subsidiary	**56**	**–**
Interest expense *(note 7)*	**–**	**690**
At 31 December 2017 and 1 January 2018	**17,742**	**–**
Changes from financing cash flows	**58,712**	**(903)**
Interest expense *(note 7)*	**–**	**2,632**
Foreign exchange movement	**(369)**	**–**
At 31 December 2018	**76,085**	**1,729**

35. PLEDGE OF ASSETS

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

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

As at 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Within one year	**413**	365
In the second to fifth years, inclusive	**326**	132
	739	497

(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 to ten years.

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

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Within one year	**7,940**	5,537
In the second to fifth years, inclusive	**10,782**	11,985
After five years	**2,445**	3,127
	21,167	20,649

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36(b) above, the Group had the following capital commitments as at 31 December 2018 and 2017:

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Contracted, but not provided for:		
Property, plant and equipment	**3,704**	2,490

At the end of the reporting period, the Group did not have any significant commitment.

38. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties during the year:

	2018 *RMB'000*	2017 *RMB'000*
Rental income from an associate	**229**	–
Provision of testing service by a joint venture	**–**	350
Provision of testing service to a joint venture	**–**	2,255
Provision of technical services by an associate	**3,743**	3,184
Purchase of property, plant and equipment and intangible assets from an associate	**5,347**	–

(b) Outstanding balances with related parties:

Details of the outstanding balances with related parties are set out in notes 22, 23 and 28 to these financial statements.

(c) Guarantees with related parties*:

The Group's bank loans amounting to RMB10,112,000 (31 Decmeber 2017: RMB16,157,000) as at 31 December 2018 were guaranteed by LI Xiangli and ZHANG Aiying.

The Group's other borrowing amounting to RMB56,404,000 as at 31 December 2018 was guaranteed by Leon Cornerstone Investment Holding Limited owned by LI Xiangli, Hawk Flying Investment Holding Limited owned by Liu Yi and Swan Stone Investment Holding Limited owned by ZHANG Aiying with pledged shares which representing approximately 27.73% of the total issued share capital of the Company. This borrowing was also guaranteed by LI Xiangli and ZHANG Aiying.

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

	2018 *RMB'000*	2017 *RMB'000*
Short-term employee benefits	**6,785**	5,871
Pension scheme contributions	**302**	287
Equity-settled share option expense	**707**	77
	7,794	6,235

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

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

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Financial assets at amortised cost:		
Trade and bills receivables	**42,263**	22,563
Financial assets included in prepayments, other receivables and other assets	**4,090**	9,257
Pledged deposits	**400**	397
Cash and cash equivalents	**76,848**	48,791
Financial assets at fair value through other comprehensive income:		
Equity investment designated at fair value through other comprehensive income	**3,000**	–
Financial assets at fair value through profit or loss:		
Available-for-sale financial assets	**–**	21,300
Financial assets at fair value through profit or loss	**27,000**	–
	153,601	102,308

Financial liabilities

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Financial liabilities at amortised cost:		
Trade payables	**12,293**	3,718
Financial liabilities included in other payables and accruals	**19,744**	20,322
Interest-bearing bank loans and other borrowings	**76,085**	17,742
Interest payables	**1,729**	–
	109,851	41,782

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts As at 31 December		Fair values As at 31 December	
	2018 *RMB'000*	2017 *RMB'000*	**2018** *RMB'000*	2017 *RMB'000*
Financial assets				
Equity investment designated at fair value through other comprehensive income	**3,000**	–	**3,000**	–
Available-for-sale investments	**–**	21,300	**–**	21,300
Financial assets at fair value through profit or loss	**27,000**	–	**27,000**	–
	30,000	21,300	**30,000**	21,300
Financial liabilities				
Interest-bearing bank loans and other borrowings	**76,085**	17,742	**76,085**	17,742
Interest payables	**1,729**	–	**1,729**	–
	77,814	17,742	**77,814**	17,742

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in prepayments, other receivables and other assets, 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 values:

The fair values of interest-bearing bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans and other borrowings at 31 December 2018 was assessed to be insignificant.

Financial assets at fair value through profit or loss at 31 December 2018 and available-for-sale investments at 31 December 2017 represented financial products issued by banks. The fair values of the financial assets at fair value through profit or loss and available-for-sale investments have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

Fair value hierarchy

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

Assets measured at fair value

31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	**Significant observable inputs (Level 2)** *RMB'000*	**Significant unobservable inputs (Level 3)** *RMB'000*	**Total** *RMB'000*
Equity investment designated at fair value through other comprehensive income	**–**	**–**	**3,000**	**3,000**
Financial assets at fair value through profit or loss	**–**	**27,000**	**–**	**27,000**
	–	**27,000**	**3,000**	**30,000**

31 December 2017

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

Liabilities for which fair values are disclosed

31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) ***RMB'000***	**Significant observable inputs (Level 2)** ***RMB'000***	**Significant unobservable inputs (Level 3)** ***RMB'000***	**Total** ***RMB'000***
Interest-bearing bank loans and other borrowings	**–**	**76,085**	**–**	**76,085**
Interest payables	**–**	**1,729**	**–**	**1,729**
	–	**77,814**	**–**	**77,814**

31 December 2017

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

As at 31 December 2018, approximately 13% (31 December 2017: 91%) of the Group's bank loans and interest-bearing borrowings bore interest at floating rates.

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

2018

	Increase/(decrease) in basis points	**Increase/(decrease) in profit before tax** *RMB'000*	**Increase/(decrease) in equity** *RMB'000*
RMB	**1%**	**(79)**	**(68)**
RMB	**(1%)**	**79**	**68**

2017

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

Foreign currency risk

The Group's businesses are principally located in Mainland China and substantially all transactions are conducted in RMB. The Group has currency exposures from its cash and cash equivalents, interest payable and interest-bearing bank borrowings. As at 31 December 2018, the Group's cash and cash equivalents, interest payable and interest-bearing bank borrowings denominated in currencies other than functional currency were equivalent to RMB49,214,000 (31 December 2017: RMB6,241,000), RMB1,472,000 (31 December 2017: Nil) and RMB56,404,000 (31 December 2017: Nil), respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate by 5%, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities):

2018

	Increase/(decrease) in foreign exchange rate	**Increase/(decrease) in profit before tax** *RMB'000*	**Increase/(decrease) in equity** *RMB'000*
If RMB weakens against the Hong Kong dollar	**5%**	**(433)**	**(433)**
If RMB strengthens against the Hong Kong dollar	**(5%)**	**433**	**433**

2017

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

Credit risk

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

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	**Lifetime ECLs**			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills receivables*	–	–	–	42,263	42,263
Financial assets included in prepayments, other receivables and other assets					
– Normal**	4,090	–	–	–	4,090
– Doubtful**	–	–	–	–	–
Pledged deposits					
– Not yet past due	400	–	–	–	400
Cash and cash equivalents					
– Not yet past due	76,848	–	–	–	76,848
	81,338	–	–	42,263	123,601

* For trade and bills receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Maximum exposure as at 31 December 2017

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, and by geographical region. As at 31 December 2018 and 2017, the Group had concentrations of credit risk as 8% and 19% of its total trade and bills receivables were due from its largest customer and 31% and 41% of its total trade and bills receivables were due from its top five customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 22 to the financial statements.

Liquidity risk

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

31 December 2018

	Within one year *RMB'000*	**In the second year** *RMB'000*	**In the third to fifth years, inclusive** *RMB'000*	**Total** *RMB'000*
Trade payables	**12,293**	**–**	**–**	**12,293**
Financial liabilities included in other payables and accruals	**19,744**	**–**	**–**	**19,744**
Interest-bearing bank loans and other borrowings	**62,881**	**3,654**	**9,550**	**76,085**
Interest payment on bank loans and other borrowings	**6,129**	**79**	**2,016**	**8,224**
	101,047	**3,733**	**11,566**	**116,346**

31 December 2017

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

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

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

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Trade payables	**12,293**	3,718
Other payables and accruals *(note 28)*	**35,383**	30,102
Interest-bearing bank loans and other borrowings	**76,085**	17,742
Interest payables	**1,729**	–
Less: Cash and cash equivalents	**(76,848)**	(48,791)
Net debt	**48,642**	2,771
Equity attributable to owners of the parent	**201,884**	195,206
Capital and net debt	**250,526**	197,977
Gearing ratio	**19.42%**	1.40%

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	As at 31 December 2018	As at 31 December 2017
	RMB'000	*RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**5**	8
Investment in a subsidiary	**54,978**	52,343
Total non-current assets	**54,983**	52,351
CURRENT ASSETS		
Other receivables and other assets	**88,730**	77,611
Cash and cash equivalents	**49,301**	1,879
Total current assets	**138,031**	79,490
CURRENT LIABILITIES		
Other payables	**11,262**	8,581
Interest payables	**1,472**	–
Total current liabilities	**12,734**	8,581
NET CURRENT ASSETS	**125,297**	70,909
TOTAL ASSETS LESS CURRENT LIABILITIES	**180,280**	123,260
NON-CURRENT LIABILITIES		
Other borrowings	**56,404**	–
Total non-current liabilities	**56,404**	–
Net assets	**123,876**	123,260
EQUITY		
Share capital	**131**	131
Reserves	**123,745**	123,129
Total equity	**123,876**	123,260

Note:

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

	Capital reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
As at 1 January 2017	125,869	7,390	(797)	132,462
Loss for the year	–	–	(2,561)	(2,561)
Other comprehensive loss for the year:				
Exchange differences related to foreign operations	–	(7,399)	–	(7,399)
Total comprehensive loss for the year	–	(7,399)	(2,561)	(9,960)
Equity-settled share option arrangements	627	–	–	627
As at 31 December 2017 and 1 January 2018	126,496	(9)	(3,358)	123,129
Final 2017 dividend declared	–	–	(10,000)	(10,000)
Profit for the year	–	–	4,312	4,312
Other comprehensive income for the year:				
Exchange differences related to foreign operations	**–**	**4,751**	**–**	**4,751**
Total comprehensive income for the year	**–**	**4,751**	**4,312**	**9,063**
Equity-settled share option arrangements	**1,553**	**–**	**–**	**1,553**
As at 31 December 2018	**128,049**	**4,742**	**(9,046)**	**123,745**

43. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 22 March 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Market Review

In 2018, the economy of the People's Republic of China (the "**PRC**" of "**China**") grew steadily, the demand for energy increased slightly, coal price declined steadily, while both power generation and coal production volume recovered and increased. In 2018, the domestic power production increased by 6.8% as compared to 2017, coal-fired power generation increased by 5.0% year-on-year, and the production volume of raw coal was 3.55 billion tons, representing an increase of 5.2% as compared to 2017. In 2018, the targets regarding capacity reduction of the coal industry in China were overachieved. The structural policies on capacity reduction implemented by the National Development and Reform Commission of the PRC concerning the development of advanced production facilities, replacement and elimination of outdated production facilities continued to push forward. We estimated that the demand for power generation is expected to grow more rapidly in 2019, while coal consumption and trading volume may grow slightly. The structural optimization of coal production capacity and the anticipation of the merger and restructuring of the coal-fired power industry in the future will increase the concentration of customers of the coal industry, that is the market share of coal enterprises with quality coal mine resources and advanced production facilities will increase. In general, the industry and market environment in 2019 will be favourable to the future business development of the Company.

The Company recorded a revenue of RMB233.8 million and a net profit of RMB4.9 million in 2018, representing an increase of 16.4% and a decrease of 85.9%, respectively, as compared to 2017. The gross profit margin of the Group decreased from 55.1% in 2017 to 52.6% in 2018.

In 2018, the Group increased its input of resources based on the established international, diversified, automation and informatization strategies, and achieved the following results:

(1) Improved the domestic service network, established service centers in Xinjiang, further laid out the inland coal testing services, explored new business models, and expanded to the coal industry upstream and downstream, such as setting up laboratories in cooperation with Shaanxi Coal and Chemical Industry Group Co., Ltd* (陝西煤業化工集團有限責任公司) ("**Shaanxi Coal and Chemical**") and conducted on-site test in cooperation with power plants. Currently, the number of domestic service centers reaches 12.

(2) Accelerated the pace of internationalization, apart from the original four overseas service centers in Singapore, India, Malaysia and Indonesia, established two new overseas service centers in Australia and Pakistan in 2018. The overseas service network has covered Southeast Asia, South Asia and Australia and businesses have achieved breakthroughs in terms of diversity. The business regarding the inspection of other minerals other than coal, petrochemical products and agricultural products in overseas service centers has been developed.

(3) Diversified development; we acquired Saybolt's PRC company and obtained the right to use Saybolt brand in Southeast Asia. In the future, we will take Singapore as the center of our petrochemical business and set up a service network in China and Asian countries to carry out the petrochemical business imported from Asian countries to China.

(4) Continued investing in scientific research, upgraded the traditional coal testing to full intelligent testing (including but not limited to research and development of intelligent coal testing standard laboratory, intelligent coal sampling system and mobile standardized coal laboratory), researched and developed the intelligent six-sided water gauge measuring system and had priority use of the relevant research results in the major service centers of the Company.

(5) A new generation of informatization system "LEON LIMS 1.0" self-developed by us has officially commenced operation in August 2017, under which informatization management and control over coal inspection are achieved throughout the entire business process from acceptance of appointment to issuance of certificates. A unified informatization platform will be established in the future.

Business Strategies and Future Outlook

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

Upgrade and expand our network of service centers

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

In 2017 and prior to that, our service centers covered primarily major seaports for coal trade in China and provided testing services for seaborne coal trade. We established new service centers in Shaanxi Province and Hubei Province in 2017 and established service centers in Xinjiang in 2018, continued to penetrate into the coal testing and inspection market for inland coal via rail or truck, such as setting up laboratories in cooperation with Shaanxi Coal and Chemical and on-site test in cooperation with power plants. Currently, we expect to expand our testing service to inland coal trade, which is a market mostly not yet developed by testing and inspection organizations. We also plan to expand our service network to other regions that are of strategic importance to China's seaborne coal trade, including certain key seaports located in Shandong Province and Fujian Province.

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

Further strengthen our capabilities in scientific research and innovation

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

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

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

In 2018, the Company tried to adopt different models to achieve business development. We rapidly entered into new regional markets, established overseas service network and entered into inspection service areas of other commodities by introducing outstanding personnel and teams or partners, expanded our development potential and tried new business models through investment holding. We believe that there are still abundant acquisition and cooperation opportunities in the testing and inspection industry and we will focus on opportunities that can enhance our service capabilities or coverage of services. The key criteria we apply in selecting acquisition or investment targets include their market size, customer base, technical capabilities and management team. If there are suitable targets and opportunities in the testing and inspection market of other commodities (such as minerals, petrochemicals) in the future, we would also consider. We are of the opinion that the abovementioned acquisitions and joint ventures can further expand our service capabilities and coverage, thereby helping the Company become an international, diversified and technologically advanced independent quality assurance service provider.

FINANCIAL REVIEW

Overview

	2018	2017	Change
	RMB'000	*RMB'000*	
Revenue	**233,750**	200,921	16.4%
Gross Profit	**122,908**	110,684	11.0%
Profit before tax	**14,212**	43,137	–67.1%
Profit for the year	**4,901**	34,703	–85.9%

Revenue

The Group's revenue increased by 16.4% from approximately RMB200.9 million in 2017 to approximately RMB233.8 million in 2018. The increase was mainly contributed by (1) a rise in business volume of testing services generated by overseas subsidiaries as 2018 marked their first full year of operations and (2) an increase in business volume of testing services at Tangshan Port, partially offset by a decline in business volume of testing services at Huanghua Port. The table below sets forth the revenue breakdown for each of our service offerings.

	2018	2017
	RMB'000	*RMB'000*
Testing services	**204,108**	164,213
Surveying services	**21,619**	28,500
Witnessing and ancillary services	**8,023**	8,208
	233,750	200,921

Cost of Sales

The Group's cost of sales was approximately RMB110.8 million in 2018, compared to approximately RMB90.2 million in 2017, representing 47.4% and 44.9% of the Group's revenue for the same periods, respectively. Such increase was mainly due to (1) a rise in manpower-related costs at overseas subsidiaries and (2) more overseas subcontract work by third-party inspection companies, partially offset by lower port charges at Huanghua Port as a result of reduced business volume there.

Gross Profit and Gross Profit Margin

The Group's gross profit increased by 11.0% from approximately RMB110.7 million in 2017 to approximately RMB122.9 million in 2018. The gross profit margin decreased from 55.1% in 2017 to 52.6% in 2018, which was primarily due to lower gross margin from business generated by the Group's overseas subsidiaries.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by 51.7% from approximately RMB2.7 million in 2017 to approximately RMB4.2 million in 2018. The increase in the Group's selling and distribution expenses was primarily attributable to (1) an increase in sales staff costs and (2) an increase in entertainment expenses incurred at overseas subsidiaries.

Administrative Expenses

The Group's administrative expenses increased by 59.0% from approximately RMB63.7 million in 2017 to approximately RMB101.3 million in 2018. The increase in the Group's administrative expenses was primarily attributable to (1) an increase in overall employees' remuneration packages; (2) a rise in manpower-related and administrative costs at overseas subsidiaries as part of Group's overseas expansion plans; and (3) higher depreciation of properties, plant and equipment at overseas subsidiaries.

Other Expenses

The Group recorded other expenses of RMB2.4 million and RMB3.1 million in 2017 and 2018, respectively. The increase in the Group's other expenses was primarily attributable to higher out-of-pocket expenses incurred by overseas subsidiaries.

Finance Costs

The Group recorded finance costs of approximately RMB0.7 million and RMB2.6 million in 2017 and 2018, respectively, representing an increase of 281.4%, due to the finance costs incurred by an interest-bearing Secured Guaranteed Note issued by the Group in 2018, whereas lower finance costs were incurred in 2017 due to settlement of certain bank loans.

Income Tax Expense

For the year ended 31 December 2018, income tax expense amounted to approximately RMB9.3 million, representing an increase from approximately RMB8.4 million recorded last year.

Profit for the Year

The Group's profit for the year decreased by 85.9% from approximately RMB34.7 million in 2017 to approximately RMB4.9 million in 2018. The decrease was mainly attributable to the expansion of the Group's testing and inspection business by way of overseas acquisitions, and these newly acquired operations are still in business incubation period that require relatively large initial-stage expenditure such as manpower-related costs and administrative expenses.

Property, Plant and Equipment

Property, plant and equipment consist primarily of buildings, vehicles, equipment, construction in progress and leasehold improvements. The Group had property, plant and equipment of approximately RMB106.5 million and RMB118.7 million as at 31 December 2017 and 2018, respectively. The increase as at 31 December 2018 was primarily due to (1) addition of plant and equipment both in China and overseas as part of the Group's plans to expand its inspection and testing capabilities, and (2) addition of leasehold improvements in China.

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 RMB20.7 million as at 31 December 2017 and 2018, respectively.

Goodwill

The Group's goodwill represents the excess of fair value of consideration paid by the Group over the net fair value of acquisition target's identifiable assets and liabilities measured at acquisition date. As at 31 December 2017 and 2018, the Group had goodwill of approximately RMB0.6 million and RMB3.1 million, respectively. The increase arose mainly from a new acquisition by the Group in 2018 of an inspection and testing business focused on petroleum and oil industry as part of the Group's effort to expand its service offerings.

Intangible Assets

The Group's intangible assets primarily consist of software, patents, customer relationships and inspection certifications. As at 31 December 2017 and 2018, the Group had intangible assets of approximately RMB0.7 million and RMB4.4 million, respectively. The increase was mainly due to (1) installation of new inspection and testing software in China and (2) newly secured customer relationships and inspection certifications for petroleum and oil industry through an acquisition of a third-party inspection and testing business in 2018.

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 2018, the Group had trade and bills receivables of approximately RMB22.6 million and RMB42.3 million, respectively. Such increase in receivables as at 31 December 2018 was primarily due to (1) higher business volume generated by overseas subsidiaries as 2018 marked their first full year of operations and (2) slower collection from certain customers as contracts are being renewed.

Prepayments, Other Receivables and Other Assets

The Group's prepayments, other receivables and other assets primarily represent rental payments, value-added tax, prepayment for construction in progress, and deposits paid to enter open tender process and land auction process. The current portion of the Group's prepayments, other receivables and other assets decreased by 16.5% from approximately RMB18.6 million as at 31 December 2017 to approximately RMB15.5 million as at 31 December 2018, primarily due to decrease in other receivables as amount paid previously for land use rights in Caofeidian was collected back; partially offset by an increase of estimated input tax. The non-current portion of the Group's prepayments, deposits and other receivables increased from approximately RMB0.9 million as at 31 December 2017 to approximately RMB6.6 million as at 31 December 2018, which was due to an increase in prepayment for vendors of property, plant and equipment.

Available-for-sale Investments and Financial Assets at Fair Value Through Profit and Loss

The Group's available-for-sale investments and financial assets at fair value through profit or loss primarily represent low-risk financial products purchased from commercial banks using its cash on hand. Available-for-sale investments are classified as financial assets at fair value through profit or loss under IFRS 9 which is adopted as at 1 January 2018 by the Group. As at 31 December 2017 and 2018, the Group's available-for-sale investments and financial assets at fair value through profit and loss reached RMB21.3 million and RMB27.0 million, respectively. Such increase as at 31 December 2018 was due to utilization of idle funds to purchase additional financial products.

Cash and Cash Equivalents

The Group's cash and cash equivalents consist primarily of cash and bank balances denominated in RMB and HKD. As at 31 December 2017 and 2018, the Group's cash and cash equivalents were approximately RMB48.8 million and RMB76.8 million, respectively. The increase in the Group's cash and cash equivalents as at 31 December 2018 was primarily attributable to (1) net cash inflows from operating activities of RMB20.0 million and (2) cash proceeds of RMB90.6m from new bank loans and other borrowings; partially offset by (1) dividend distribution of RMB10.0 million, (2) repayment of borrowings and interest of RMB32.8 million and (3) purchase of property, plant and equipment and intangible assets of RMB29.8 million.

Trade Payables

The Group's trade payables primarily represent amounts payable for port charges and third-party inspection work. As at 31 December 2017 and 2018, the Group had trade payables of RMB3.7 million and RMB12.3 million, respectively. The increase in the Group's trade payables as at 31 December 2018 was primarily attributable to (1) an increase in port charges payable at Tangshan Port, (2) an increase in overseas amount payable to third-party inspection companies and (3) franchise fees payable for newly acquired inspection and testing business for petroleum and oil industry in 2018.

Other Payables and Accruals

The Group's other payables and accruals primarily represent accrued salaries, wages and benefits, other taxes payable and other payables. As at 31 December 2017 and 2018, the Group had other payables and accruals of RMB31.7 million and RMB35.4 million, respectively. Such increase as at 31 December 2018 was mainly due to an increase in accrued salaries, wages and benefits as the number of employees grew.

Interest-bearing Bank Loans

The Group had interest-bearing bank loans of RMB16.2 million and RMB10.1 million as at 31 December 2017 and 2018, respectively. The decrease as at 31 December 2018 was due to progressive repayment of the principal loan amount.

Interest-bearing Other Borrowings

As at 31 December 2017 and 2018, the Group had interest-bearing other borrowings of RMB1.6 million and RMB66.0 million, respectively. The increase was mainly due to a Secured Guaranteed Note issued by the Group in 2018.

Liquidity and Capital Resources

The Group had cash and cash equivalents of RMB76.8 million as at 31 December 2018. The Group is in a strong and healthy financial position and has enough resources to support its operations and meet its foreseeable capital expenditure.

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.

Cash Flows from Operating Activities

The Group had net cash flows from operating activities of approximately RMB45.3 million and RMB20.0 million in 2017 and 2018, respectively. The decrease in the Group's cash flows from operating activities was primarily due to (1) higher remuneration and administrative expenses and (2) an increase in trade and bills receivables, partially offset by an increase in trade payables.

Cash Flows from Financing Activities

The Group had net cash outflows from financing activities of approximately RMB1.4 million in 2017 and net cash inflows of approximately RMB47.8 million in 2018. The cash flows from financing activities changed from net outflows to net inflows. This was primarily due to cash proceeds of RMB90.6 million received from new bank loans and other borrowings, partially offset by (1) dividend payment of RMB10 million and (2) repayment of borrowings and interest of RMB32.8 million.

Commitments

As at 31 December 2018, the Group had a total capital commitment of approximately RMB3.7 million for contracted but not performed acquisition of property, plant and equipment.

Contingent Liabilities

As at 31 December 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 loans and other 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.

	2018	2017
	RMB'000	*RMB'000*
Total debt	**76,085**	17,742
Total equity	**196,991**	198,298
Gearing Ratio	**38.6%**	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 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, hence 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 Currency Risk

The Group was exposed to foreign currency risk on cash and cash equivalents, receivables, payables and bank loans 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, Associates and Joint Ventures

During the year ended 31 December 2018, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

Charges on Assets

During the year ended 31 December 2017, the Group purchased two buildings from an independent third party with a cash consideration of RMB37.7 million. The building was pledged by this third party for certain purpose before the purchase, and as of 31 December 2018, the pledge had not been released and property ownership certificates had not been obtained.

In addition, certain of the Group's investment properties with a carrying value of RMB19.9 million were pledged to obtain a banking facility from a bank amounting to RMB15 million as at 31 December 2018. The pledge of these investment properties had not been released as of 31 December 2018.

CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING

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

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

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

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

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

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

Changes in Use of Proceeds

The Board resolved on 23 March 2018 to change the proposed use of the net proceeds due to the reasons set out below. Set out below are details of the 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		**Revised allocation of net proceeds and its percentage to total proceeds**		**Amount utilized**	**The remaining balance of proceeds after the re-vised allocation**
	(Approximately RMB million)		*(Approximately RMB million)*		*(Approximately RMB million)*	*(Approximately RMB million)*
To construct new service facilities at Huanghua port	16.4	30.0%	16.4	30.0%	14.2	2.2
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%	14.4	4.7
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%**	**47.7**	**6.9**

Reasons for the Changes in Use of Proceeds

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 will result in a more efficient use of net proceeds from the global offering.

In 2017, the environmental governance policies for the Beijing-Tianjin-Hebei region continued to be tighten. According to the 2017 Air Pollution Prevention and Control Work Program for Beijing-Tianjin-Hebei Region and Surrounding Areas (《京津冀及週邊地區2017年大氣污染防治工作方案》) issued by the Ministry of Environmental Protection in February 2017, it was required that by the end of September 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 for the year, 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 be used to construct new service facilities at Tianjin port by the Company will 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 2017, through strategic acquisition or investment, we had set up four overseas service centers and completed establishing our Southeast Asian service network, bringing our business towards globalization and diversification. In the future, we plan to increase our capital investment, continue to expand our overseas network, and develop inspection and testing business for other products. As at the date of this announcement, we have not yet entered into at any new acquisition agreement.

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

EMPLOYEES

As of 31 December 2018, the Group had 1,085 employees in total. The Group's employee compensation includes base salary, bonuses and cash subsidies. In general, we determine employee compensation based on each employee's performance, qualifications, position and seniority. We are subject to social insurance contribution plans organized by the PRC local governments and the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. 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.

During the year ended 31 December 2018, 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, details of the Scheme Option Scheme are set out in note 31 to the financial statements. 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 2018.

DIVIDEND AND CLOSURE OF REGISTER

The Board recommends the payment of a final dividend of RMB0.0075 per share in respect of the year ended 31 December 2018 to shareholders whose names appear on the register of members of the Company on Monday, 27 May 2019. The proposed final dividend will be paid on or about Friday, 21 June 2019, subject to approval at the annual general meeting of the Company to be held on Friday, 17 May 2019 (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 Friday, 10 May 2019 to Friday, 17 May 2019.

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

(i) from Friday, 10 May 2019 to Friday, 17 May 2019, 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 Thursday, 9 May 2019; and

(ii) from Thursday, 23 May 2019 to Monday, 27 May 2019, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Wednesday, 22 May 2019.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

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

For the year ended 31 December 2018, 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding dealings in the securities of the Company by the Directors and the Company's employees who, because of their offices or employments, are likely to possess inside information of the Company and/or 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 2018.

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. Following the cessation 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 independent non-executive Directors.

Ernst & Young was appointed as the international auditor of the Company for the year ended 31 December 2018. The financial figures in this announcement in respect of the consolidated results for the year ended 31 December 2018 have been agreed by Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2018. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Federation of Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

The Audit Committee has discussed with the management and reviewed the annual consolidated financial statements of the Group for the year ended 31 December 2018 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 2018 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, 22 March 2019

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.