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China Fire Safety Enterprise Group Limited

中國消防企業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 445)

INSIDE INFORMATION ANNOUNCEMENT – INDEPENDENT AUDITOR’S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

This announcement is made by China Fire Safety Enterprise Group Limited (the “**Company**”) pursuant to the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Reference is made to the joint announcement issued by the Company and China International Marine Containers (Group) Co., Ltd. (“**CIMC**”) on 4 December 2017 in relation to, among other things, the Proposed Acquisitions, the proposed issuance of Consideration Shares and Convertible Bonds, the application for the Whitewash Waiver and the Special Deal (the “**Joint Announcement**”). Unless otherwise defined in this announcement, capitalized terms used herein shall have the same meanings as those defined in the Joint Announcement.

Pursuant to the requirements under the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange and in relation to the Proposed Acquisitions, CIMC is required to publish the independent auditor’s report and the audited consolidated financial statements of the Company for the nine months ended 30 September 2017 (the “**Financial Reports**”), on the website of the Shenzhen Stock Exchange.

The Financial Reports are set forth below in this announcement:

AUDITOR'S REPORT

Ruihua Shen Zi No. [2018]48460013

TO THE SHAREHOLDERS OF CHINA FIRE SAFETY ENTERPRISE GROUP LIMITED

I. AUDIT OPINION

We have audited the accompanying financial statements of China Fire Safety Enterprise Group Limited (“CFE” or “the Company”), which comprise the consolidated statement of financial position as at 30 September 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statements of cash flows and the consolidated statement of changes in equity for the nine months ended 30 September 2017, and the notes to the financial statements.

In our opinion, the consolidated financial statements attached below give a true and fair view of the consolidated financial position of the Company as at 30 September 2017, and of its consolidated financial performance and its consolidated cash flows for the nine months ended 30 September 2017 in accordance with Hong Kong Financial Reporting Standards.

II. BASIS FOR OPINION

We conducted our audit in accordance with the Auditing Standards for Certified Public Accountants of China. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of the auditor’s report. We are independent of the Company in accordance with the Certified Public Accountants of China’s Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matter we identified is as follows:

(I) Impairment assessment of trade receivables

1. Description of the matter

Refer to note 22 to the consolidated financial statements in relation to trade and bills receivables, note 4(k) accounting policies for trade, bills and other receivables, and note 5(c) in relation to impairment loss for bad and doubtful debts under critical judgement and key estimates. As at 30 September 2017, the carrying amount of trade and bills receivables was RMB247,167,000, of which RMB118,845,000 was past due but not impaired. Assessing the recoverability of past due trade receivables involved complex and significant management judgements.

In the audit, we focused on this area due to the fact that complex and significant judgements were involved in assessing the impairment of trade receivables balance and determining the provisioning amounts.

2. How our audit addressed the key audit matter

We have performed the following procedures to address the impairment assessment of trade receivables:

- (1) We understood, evaluated and validated the effectiveness of the management's internal controls towards identifying impairment events of trade receivables and assessing impairment provision, including management's credit review and the review and approval of key assumptions.
- (2) We performed independent credit reviews of trade receivables on a sample basis, to identify impairment events. We focused on trade receivable which were overdue but not impaired, by checking the debtors' payment records and overdue status; we discussed with the management to understand their collection actions in respect of overdue receivables; reviewed the receipts of cash subsequent to period end date; reviewed the credit information available of customers with overdue amounts, etc.

- (3) For the trade receivables with impairment identified, we have obtained management's worksheets and tested the mathematical accuracy of the calculations for the impaired amount. We also analysed the reasonableness of the amounts and timing for the future cash flow projection by reviewing debtors' financial position and the subsequent settlement of the trade receivables.

IV. OTHER INFORMATION

The consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statements of cash flows and the consolidated statement of changes in equity for the year ended 31 December 2016, and the notes to the financial statements were audited by other accounting firm which has expressed an unqualified opinion on 27 March 2017.

The consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the nine months ended 30 September 2016, and notes to the financial statements have not been audited.

The financial statements attached hereafter are prepared in connection with the proposed acquisition of Pteris Global Limited made by CFE as well as for the submission to the Shenzhen Stock Exchange and Hong Kong Exchange and Clearing Limited but for no other purpose. Our report is intended solely for the board of directors of CFE and should not be used by any other parties for any purpose.

V. RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE FINANCIAL STATEMENTS

The directors of CFE (the "Directors") are responsible for the preparation of the financial statements that give a true and fair view in accordance with the requirements of HKFRSs, as well as the design, execution and maintenance of such internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing CFE's ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless the Management either intend to liquidate CFE or to cease operations, or have no realistic alternative but to do so.

The Audit Committee assists the Directors in discharging their responsibilities for overseeing CFE's financial reporting process.

VI. CERTIFIED PUBLIC ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes audit opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made based on these financial statements.

As part of an audit in accordance with the auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- (4) Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on CFE's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required by the auditing standards to draw attention of users of financial statements in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the information obtained up to the date of the auditor's report. However, future events or conditions may cause CFE to cease to continue as a going concern.

- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient, appropriate audit evidence regarding the financial information of the entities or business activities within CFE to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for the audit opinion.

We communicate with the Audit Committee, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguard measures.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because of the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ruihua Certified Public Accountants LLP
(Special General Partnership)

Beijing, the People's Republic of China

Certified Public Accountant of China
(Engagement Partner):

Certified Public Accountant of China:

Xing Xiangzong

Yan Yusong

15 March 2018

The audited consolidated financial statements of CFE for the nine months ended 30 September 2017 are set out as below:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the nine months ended 30 September 2017

| | | For the nine months ended 30 September 2017 RMB'000 | For the nine months ended 30 September 2016 RMB'000 (unaudited) | For the year ended 31 December 2016 RMB'000 |
|---|-------------|--|---|---|
| | <i>Note</i> | | | |
| Revenue | 7 | 323,997 | 335,621 | 471,252 |
| Cost of sales | | (252,583) | (264,391) | (363,991) |
| Gross profit | | 71,414 | 71,230 | 107,261 |
| Other income | 8 | 5,684 | 3,683 | 6,047 |
| Selling and distribution costs | | (13,745) | (8,916) | (14,779) |
| Administrative expenses | | (52,714) | (52,467) | (58,914) |
| Profit from operations | | 10,639 | 13,530 | 39,615 |
| Share of profit/(loss) of an associate | | 13,611 | (3,960) | 2,881 |
| Finance costs | 10 | (131) | (1,269) | (1,400) |
| Other expense | 11 | – | – | (16,224) |
| Profit before tax | | 24,119 | 8,301 | 24,872 |
| Income tax expense | 12 | (5,949) | (6,142) | (7,586) |
| Profit for the period/year attributable to owners of the Company | 13 | <u>18,170</u> | <u>2,159</u> | <u>17,286</u> |
| Other comprehensive income: | | | | |
| <i>Items that may be reclassified to profit or loss:</i> | | | | |
| Exchange differences on translating foreign operations | | 36,429 | 4,981 | 20,403 |
| Share of other comprehensive income of an associate | | (851) | 159 | 164 |
| Other comprehensive income for the period/year, net of tax | | <u>35,578</u> | <u>5,140</u> | <u>20,567</u> |
| Total comprehensive income for the period/year | | <u>53,748</u> | <u>7,299</u> | <u>37,853</u> |
| Earnings per share (RMB cent) | 15 | | | |
| Basic | | <u>0.45</u> | <u>0.05</u> | <u>0.42</u> |
| Diluted | | <u>0.45</u> | <u>0.05</u> | <u>0.42</u> |

Consolidated Statement of Financial Position

As at 30 September 2017

| | | As at 30 September 2017 | As at 31 December 2016 |
|---|-------------|-------------------------------|------------------------------|
| | <i>Note</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Non-current assets | | | |
| Property, plant and equipment | 16 | 177,079 | 183,354 |
| Prepaid land lease payments | 17 | 31,959 | 32,555 |
| Goodwill | 18 | 7,630 | 7,630 |
| Investment in an associate | 20 | 568,182 | 518,993 |
| | | <u>784,850</u> | <u>742,532</u> |
| Current assets | | | |
| Inventories | 21 | 146,111 | 138,232 |
| Trade and bills receivables | 22 | 247,167 | 207,533 |
| Prepayments, deposits and other receivables | | 92,474 | 83,571 |
| Amount due from an associate | 23 | – | 2,151 |
| Prepaid land lease payments | 17 | 794 | 794 |
| Other current assets | 24 | 8,500 | – |
| Pledged bank deposits | 25 | 6,675 | 3,270 |
| Bank and cash balances | 25 | 65,497 | 132,576 |
| | | <u>567,218</u> | <u>568,127</u> |
| Current liabilities | | | |
| Trade and other payables | 26 | 224,199 | 226,265 |
| Bank borrowings | 27 | – | 10,000 |
| Provision | 28 | 16,224 | 16,224 |
| Current tax liabilities | | 500 | 5,171 |
| | | <u>240,923</u> | <u>257,660</u> |
| Net current assets | | <u>326,295</u> | <u>310,467</u> |
| NET ASSETS | | <u><u>1,111,145</u></u> | <u><u>1,052,999</u></u> |

| | | As at 30 September 2017 | As at 31 December 2016 |
|-----------------------------|-------------|--|---------------------------------------|
| | <i>Note</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Capital and reserves | | | |
| Share capital | 30 | 39,977 | 39,977 |
| Reserves | 32 | <u>1,071,168</u> | <u>1,013,022</u> |
| TOTAL EQUITY | | <u><u>1,111,145</u></u> | <u><u>1,052,999</u></u> |

Approved by the Board of Directors on 15 March 2018 and are signed on its behalf by:

Li Yin Hui
Director

Zheng Zu Hua
Director

Consolidated Statement of Changes in Equity

For the nine months ended 30 September 2017

| | Attributable to owners of the Company | | | | | | | | Total RMB'000 |
|---|---------------------------------------|-----------------------------|---|--|--|---|---|----------------------------------|------------------|
| | Share capital RMB'000 | Share premium RMB'000 | Special reserve RMB'000 (Note 32(b)(i)) | Capital reserve RMB'000 (Note 32(b)(ii)) | Share-based payment reserve RMB'000 (Note 32(b)(iii)) | Exchange reserve RMB'000 (Note 32(b)(iv)) | Other reserve RMB'000 (Note 32(b)(v)) | Accumulated losses RMB'000 | |
| At 1 January 2016 | 39,977 | 1,037,907 | (6,692) | 88,783 | 4,111 | (1,498) | - | (156,001) | 1,006,587 |
| Total comprehensive income for the year | - | - | - | - | - | 20,403 | 164 | 17,286 | 37,853 |
| Share-based payments | - | - | - | - | 8,559 | - | - | - | 8,559 |
| Total comprehensive income and changes in equity for the year | - | - | - | - | 8,559 | 20,403 | 164 | 17,286 | 46,412 |
| At 31 December 2016 | 39,977 | 1,037,907 | (6,692) | 88,783 | 12,670 | 18,905 | 164 | (138,715) | 1,052,999 |
| At 1 January 2017 | 39,977 | 1,037,907 | (6,692) | 88,783 | 12,670 | 18,905 | 164 | (138,715) | 1,052,999 |
| Total comprehensive income for the period | - | - | - | - | - | 36,429 | (851) | 18,170 | 53,748 |
| Share-based payments | - | - | - | - | 4,398 | - | - | - | 4,398 |
| Total comprehensive income and changes in equity for the period | - | - | - | - | 4,398 | 36,429 | (851) | 18,170 | 58,146 |
| At 30 September 2017 | 39,977 | 1,037,907 | (6,692) | 88,783 | 17,068 | 55,334 | (687) | (120,545) | 1,111,145 |
| (Unaudited) | | | | | | | | | |
| At 1 January 2016 | 39,977 | 1,037,907 | (6,692) | 88,783 | 4,111 | (1,498) | - | (156,001) | 1,006,587 |
| Total comprehensive income for the period | - | - | - | - | - | 4,981 | 159 | 2,159 | 7,299 |
| Share-based payments | - | - | - | - | 6,358 | - | - | - | 6,358 |
| Total comprehensive income and changes in equity for the period | - | - | - | - | 6,358 | 4,981 | 159 | 2,159 | 13,657 |
| At 30 September 2016 | 39,977 | 1,037,907 | (6,692) | 88,783 | 10,469 | 3,483 | 159 | (153,842) | 1,020,244 |

Consolidated Statement of Cash Flows

For the nine months ended 30 September 2017

| | For the nine months ended 30 September 2017 | For the nine months end 30 September 2016 | For the year ended 31 December 2016 |
|--|---|---|--|
| <i>Note</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | | (unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | 24,119 | 8,301 | 24,872 |
| Adjustments for: | | | |
| Gain on bargain purchase of a subsidiary | 33 (348) | – | – |
| Amortisation of prepaid land lease payments | 596 | 596 | 794 |
| Depreciation of property, plant and equipment | 8,113 | 8,097 | 10,804 |
| Impairment loss for bad and doubtful debts | – | – | 339 |
| Provision for a legal claim in respect of a rental dispute | – | – | 16,224 |
| Interest income | (1,670) | (1,004) | (2,752) |
| Finance costs | 131 | 1,269 | 1,400 |
| Loss on disposal of property, plant and equipment | 256 | 13 | 50 |
| Share-based payments | 4,398 | 6,358 | 8,559 |
| Share of (profit)/loss of an associate | (13,611) | 3,960 | (2,881) |
| Operating profit before working capital changes | 21,984 | 27,590 | 57,409 |
| (Increase)/decrease in inventories | (7,868) | 16,117 | (1,517) |
| (Increase)/decrease in trade and bills receivables | (39,063) | 24,902 | 64,359 |
| Increase in prepayments, deposits and other receivables | (7,155) | (43,318) | (19,911) |
| Decrease in trade and other payables | (2,424) | (29,870) | (38,788) |
| Cash (used in)/generated from operations | (34,526) | (4,579) | 61,552 |
| Interest paid | (131) | (1,269) | (1,400) |
| Income tax paid | (10,639) | (6,903) | (8,001) |
| Net cash (used in)/generated from operating activities | (45,296) | (12,751) | 52,151 |

| | For the nine months ended 30 September 2017 | For the nine months end 30 September 2016 | For the year ended 31 December 2016 |
|--|--|--|--|
| <i>Note</i> | <i>RMB'000</i> | <i>RMB'000</i> (unaudited) | <i>RMB'000</i> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of a subsidiary | 33 (327) | – | – |
| Purchases of property, plant and equipment | (1,686) | (1,167) | (2,045) |
| Prepayment for purchases of property, plant and equipment | (1,701) | – | – |
| Purchase of financial products | (8,500) | – | – |
| (Increase)/decrease in pledged bank deposits | (3,405) | 3,996 | 7,456 |
| Interest received | 1,670 | 1,004 | 2,752 |
| Decrease/(increase) in advance to an associate | 2,151 | (2,548) | (2,875) |
| Proceeds from disposal of property, plant and equipment | 15 | 64 | 78 |
| Net cash (used in)/generated from investing activities | <u>(11,783)</u> | <u>1,349</u> | <u>5,366</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank loans raised | – | 20,000 | 20,000 |
| Repayment of bank loans | (10,000) | (50,000) | (50,000) |
| Net cash used in financing activities | <u>(10,000)</u> | <u>(30,000)</u> | <u>(30,000)</u> |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (67,079) | (41,402) | 27,517 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD/YEAR | <u>132,576</u> | <u>105,059</u> | <u>105,059</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF PERIOD/YEAR | <u><u>65,497</u></u> | <u><u>63,657</u></u> | <u><u>132,576</u></u> |
| ANALYSIS OF CASH AND CASH EQUIVALENTS | | | |
| Bank and cash balances | <u><u>65,497</u></u> | <u><u>63,657</u></u> | <u><u>132,576</u></u> |

Notes to the Financial Statements

For the nine months ended 30 September 2017

1. GENERAL INFORMATION

China Fire Safety Enterprise Group Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-1111, Cayman Islands. The principal place of business in the People’s Republic of China (the “PRC”) is No. 8 Section 1, Xin Hua Road, Chengdu Cross-Straits Technological Industry Park, Wenjiang District, Chengdu City, Sichuan Province, PRC.

The Company is an investment holding company. The principal activities of its principal subsidiaries and associate are set out in notes 19 and 20 respectively.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”), Hong Kong Accounting Standards (“HKAS”); and Interpretations. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of such new and revised HKFRSs to the extent that they are applicable to the Group for the current and prior accounting periods as reflected in these consolidated financial statements.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2017. None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning on 1 January 2017. These new and revised HKFRSs include the following, which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|---|---|
| HKFRS 9 Financial Instruments | 1 January 2018 |
| HKFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| Amendments to HKFRS 2 Share-based Payment: Classification and measurement of share-based payment transactions | 1 January 2018 |
| HKFRS 16 Leases | 1 January 2019 |
| Amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures: Sale or contribution of assets between an investor and its associate or joint venture | To be determined |

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course.

HKFRS 9 Financial Instruments

The standard replaces HKAS 39 Financial Instruments: Recognition and Measurement.

The standard introduces a new approach to the classification of financial assets which is based on cash flow characteristics and the business model in which the asset is held. A debt instrument that is held within a business model whose objective is to collect the contractual cash flows and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at amortised cost. A debt instrument that is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the instruments and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at fair value through other comprehensive income. All other debt instruments are measured at fair value through profit or loss. Equity instruments are generally measured at fair value through profit or loss. However, an entity may make an irrevocable election on an instrument-by-instrument basis to measure equity instruments that are not held for trading at fair value through other comprehensive income.

The requirements for the classification and measurement of financial liabilities are carried forward largely unchanged from HKAS 39 except that when the fair value option is applied, changes in fair value attributable to changes in own credit risk are recognised in other comprehensive income unless such create an accounting mismatch.

HKFRS 9 introduces a new expected-loss impairment model to replace the incurred-loss impairment model in HKAS 39. Under the expected-loss impairment model, it is no longer necessary for a credit event or impairment to have occurred before impairment losses are recognised. For financial assets measured at amortised cost or fair value through other comprehensive income, an entity will generally recognise 12-month expected credit losses. If there has been a significant increase in credit risk since initial recognition, an entity will recognise lifetime expected credit losses. The standard includes a simplified approach for trade receivables to always recognise the lifetime expected credit losses under normal circumstances.

The de-recognition requirements in HKAS 39 are carried forward largely unchanged.

HKFRS 9 substantially overhauls the hedge accounting requirements in HKAS 39 to align hedge accounting more closely with risk management and establish a more principle-based approach.

The new expected credit loss impairment model in HKFRS 9 may result in the earlier recognition of impairment losses for the Group's trade receivables and other financial assets. The Group is unable to quantify the impact until a more detailed assessment is completed.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 replaces all existing revenue standards and interpretations.

The core principle of the standard is that an entity recognises revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to become entitled in exchange for those goods and services.

An entity recognises revenue in accordance with the core principle by applying a 5-step model:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies a performance obligation

The standard also includes comprehensive disclosure requirements relating to revenue.

The Group anticipates that the application of HKFRS 15 in the future may give rise to more disclosures. However, the Group does not expect that the application of HKFRS 15 will have material effect on the timing and amount of revenue recognised for each reporting period.

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees, the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

The Group's office property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in note 36, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to RMB5,591,000 as at 30 September 2017. The Group will need to perform a more detailed assessment in order to determine the new assets and liabilities arising from these operating leases commitments after taking into account the transition reliefs available in HKFRS 16 and the effects of discounting.

4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made for the nine months ended 30 September. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the ability to direct the activities of the relevant entity, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated exchange reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less allowance for impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase attributable to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in associates is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate are measured at their fair values at the acquisition date. The excess of the cost of the acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the entire carrying amount of that associate (including goodwill) and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional and presentation currency of the Company and the principal operating subsidiaries of the Group.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is also recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated profit or loss classified as a component of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance fees are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives/annual rates are as follows:

| | |
|------------------------|--|
| Buildings | Over the term of the lease or 20 – 30 years |
| Plant and equipment | 10%-33% |
| Furniture and fixtures | 10%-33% |
| Computers | 20%-33% |
| Motor vehicles | 10%-25% |
| Leasehold improvements | Over the shorter of the term of the lease or 20% |

The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(f) Leases

The Group as lessee

Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

Prepaid land lease payments are stated at cost and subsequently amortised on straight-line basis over the remaining term of lease.

The Group as lessor

Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(g) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset is recognised only if all of the following conditions are met:

- It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available;
- The expenditure attributable to the intangible asset during its development can be reliably measured.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overheads, and where appropriate, subcontracting charges. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire and the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither substantially transfers nor retains all the risks and rewards of ownership of the assets and has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(j) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs, except for the financial assets at fair value through profit or loss.

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Trade and other receivables, bank balances and cash are typically classified in this category.

(k) Trade, bills and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade, bill and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

(l) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and cash on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(m) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument represents any contract that evidences a interest in the residual assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(o) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting under the effective interest method is immaterial, in which case they are stated at cost.

(p) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Service income is recognised when the services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

(r) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

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

(s) Share-based payments

The Group issues equity-settled share-based payments to certain directors and employees. Equity-settled share-based payments are measured at the fair value of the equity instruments (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

(t) Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

(u) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(v) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(w) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount 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. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(x) Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the financial assets have been affected.

For trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, and observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account, and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

(y) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(z) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgement in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgement that has the most significant effect on the amounts recognised in the consolidated financial statements.

Legal titles of certain buildings

As stated in note 16 to the consolidated financial statements, the Group is in the process of applying for the property rights certificates in respect of certain buildings. Despite the fact that the Group has not obtained all the relevant legal titles, the directors determined to recognise those buildings as property, plant and equipment on the ground that the Group is in substance controlling those buildings.

Key sources of 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 discussed below

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

The carrying amount of property, plant and equipment as at 30 September 2017 was RMB177,079,000 (as at 31 December 2016: RMB183,354,000).

(b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was RMB7,630,000. Details of the goodwill are provided in note 18 to the consolidated financial statements.

(c) Impairment loss for bad and doubtful debts

The Group provides for the impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade, bills and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairment arises where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade, bills and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

As at 30 September 2017, accumulated impairment loss for bad and doubtful debts amounted to RMB16,705,000 (as at 31 December 2016: RMB16,705,000).

(d) Allowance for obsolete and slow-moving inventories

Allowance for slow-moving inventories is made based on the aging and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

As at 30 September 2017, allowance for obsolete and slow-moving inventories amounted to RMB3,073,000 (as at 31 December 2016: RMB3,073,000).

(e) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the period, income tax expense of RMB5,949,000 was charged to profit or loss based on the calculation of estimated profit from operations (RMB6,142,000 (unaudited) and RMB7,586,000 for the nine months ended 30 September 2016 and the year ended 31 December 2016 respectively).

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and bank and cash balances that are denominated in foreign currencies, i.e. currencies other than the functional currency of the entities to which the transactions relate.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currency as at 30 September 2017 and 31 December 2016 are as follows:

Group

| | Exposure to foreign currencies | | | | | |
|--|--------------------------------|--------------|------------------|------------------------|--------------|------------------|
| | As at 30 September 2017 | | | As at 31 December 2016 | | |
| | United States dollars | Euro | Hong Kong dollar | United States dollars | Euro | Hong Kong dollar |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Pledged bank deposits and bank and cash balances | 3,417 | – | 15,644 | 2,514 | – | 5,778 |
| Trade and bills receivables | 160 | – | – | – | – | – |
| Amounts due from an associate | – | – | – | – | 2,151 | – |
| Trade payables | – | (521) | – | (40) | – | – |
| Accrued charges | – | (175) | (1,225) | – | – | (2,755) |
| | <u>3,577</u> | <u>(696)</u> | <u>14,419</u> | <u>2,474</u> | <u>2,151</u> | <u>3,023</u> |

The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group however monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The following table details the Group's sensitivity to a reasonably possible change of 5% in exchange rate of each foreign currency against RMB while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items at the end of the reporting period and adjusts their translation at each end of the reporting period for a 5% change in foreign currency rates.

**Increase/(decrease) in profit
and other comprehensive income
for the period/year**

| | For the nine months ended 30 September 2017 | For the year ended 31 December 2016 |
|---|--|--|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| – if RMB weakens against foreign currencies | | |
| Hong Kong dollars (“HKD”) | 721 | 151 |
| United States dollars (“USD”) | 179 | 124 |
| Euro (“EUR”) | (35) | 108 |
| – if RMB strengthens against foreign currencies | | |
| HKD | (721) | (151) |
| USD | (179) | (124) |
| EUR | 35 | (108) |

In the management’s opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the period/year end exposure and does not reflect the exposure during the period/year.

(b) Credit risk

The Group’s credit risk is primarily attributable to its trade, bills and other receivables. In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group’s credit risk has been significantly reduced.

The Group has no significant concentrations of credit risk.

The Group has policies in place to ensure that sales are only made to customers with an appropriate credit history. Amounts due from related companies are closely monitored by the directors.

The credit risk on cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by Hong Kong credit-rating agencies.

The Group does not provide any other guarantees which would expose the Group to credit risk.

(c) **Liquidity risk**

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in both a short and a longer term.

The maturity analysis based on contractual undiscounted cash flows of the Group's non-derivative financial liabilities is as follows:

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|--------------------------------|---|--|--|-------------------------------------|--------------------------|
| As at 30 September 2017 | | | | | |
| Trade and other payables | 170,071 | – | – | – | 170,071 |
| Provision | 16,224 | – | – | – | 16,224 |
| | <u>170,071</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>170,071</u> |
| As at 31 December 2016 | | | | | |
| Trade and other payables | 182,264 | – | – | – | 182,264 |
| Bank borrowings | 10,203 | – | – | – | 10,203 |
| Provision | 16,224 | – | – | – | 16,224 |
| | <u>182,264</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>182,264</u> |

(d) **Interest rate risk**

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings. The Group currently does not have policy on cash flow hedges of interest rate risk. However, management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group's sensitivity to interest rate risk has been determined based on the exposure to interest rates for the variable-rate bank borrowings at the end of the reporting period and the reasonably possible change which took place at the beginning of each year and was held constant throughout the respective year.

| | For the nine months ended 30 September 2017 | For the year ended 31 December 2016 |
|---|---|--|
| Reasonably possible change in interest rate | 50 basis points | 50 basis points |
| | (Decrease)/increase in profit and other comprehensive income for the period/year | |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| – as a result of increase in interest rate | N/A | (133) |
| – as a result of decrease in interest rate | N/A | 133 |

(e) **Categories of financial instruments**

| | 30 September 2017 | 31 December 2016 |
|---|------------------------------|-----------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Financial assets: | | |
| Loans and receivables (including cash and cash equivalents) | 403,356 | 383,285 |
| Financial liabilities | | |
| Financial liabilities at amortised cost | <u>186,295</u> | <u>208,488</u> |

(f) **Fair values**

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. REVENUE

Revenue represents the proceeds of sale of fire engines and fire prevention and fighting equipment during the period/year less discounts and sales related tax.

8. OTHER INCOME

| | For the nine months ended 30 September 2017 | For the nine months ended 30 September 2016 | For the year ended 31 December 2016 |
|--|--|--|--|
| | <i>RMB'000</i> | <i>RMB'000</i> (unaudited) | <i>RMB'000</i> |
| Interest income | 1,670 | 1,004 | 2,752 |
| Government grants (<i>note</i>) | 1,985 | 1,375 | 1,634 |
| Rental income | – | 168 | 192 |
| Gain on bargain purchase of a subsidiary (<i>note 33</i>) | 348 | – | – |
| Sundry income | <u>1,681</u> | <u>1,136</u> | <u>1,469</u> |
| | <u>5,684</u> | <u>3,683</u> | <u>6,047</u> |

Note: The government grants represent subsidies provided by government organisations or authorities in the PRC for subsidising certain research and development projects conducted by the Group's subsidiaries.

9. SEGMENT INFORMATION

The Group has two operating segments as follows:

- production and sale of fire engines; and
- production and sale of fire prevention and fighting equipment.

The Group's reportable segments are strategic business units that offer different products and services, and each segment requires different production techniques and marketing strategies.

The accounting policies of the operating segments are the same as those described in note 4 to the consolidated financial statements. Segment profits or losses do not include interest income, unallocated corporate expenses, other expense, share of profit of associates, income tax expense and finance costs. Segment assets do not include investment in an associate, other current assets, amounts due from an associate, pledged bank deposits, bank and cash balances and unallocated other receivables. Segment liabilities do not include current tax liabilities, bank borrowings, provision and unallocated other payables.

Inter-segment sales and transfers of the Group are accounted for as if the sales or transfers were to third parties, i.e. at current market prices.

Information about operating segment profit or loss, assets and liabilities:

| | Production and sale of fire engines | Production and sale of fire prevention and fighting equipment | Elimination | Total |
|--|--|--|--------------------|-------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| For the nine months ended 30 September 2017 | | | | |
| REVENUE | | | | |
| External sales | 253,643 | 70,354 | – | 323,997 |
| Inter-segment sales | – | 1,891 | (1,891) | – |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total | <u>253,643</u> | <u>72,245</u> | <u>(1,891)</u> | <u>323,997</u> |
| RESULTS | | | | |
| Segment profit | 22,639 | 3,271 | – | 25,910 |
| Interest income | | | | 1,670 |
| Unallocated corporate expenses | | | | <u>(16,941)</u> |
| Profit from operations | | | | 10,639 |
| Finance costs | | | | (131) |
| Share of profit of an associate | | | | <u>13,611</u> |
| Profit before tax | | | | 24,119 |
| Income tax expense | | | | <u>(5,949)</u> |
| Profit for the period | | | | <u>18,170</u> |

| | Production and sale of fire engines | Production and sale of fire prevention and fighting equipment | Elimination | Total |
|---|--|--|--------------------|------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| At 30 September 2017 | | | | |
| ASSETS | | | | |
| Segment assets | <u>618,565</u> | <u>84,233</u> | | 702,798 |
| Investment in an associate | | | | 568,182 |
| Other current assets | | | | 8,500 |
| Pledged bank deposits | | | | 6,675 |
| Bank and cash balances | | | | 65,497 |
| Unallocated other receivables | | | | <u>416</u> |
| | | | | <u>1,352,068</u> |
| LIABILITIES | | | | |
| Segment liabilities | <u>166,328</u> | <u>55,739</u> | | 222,067 |
| Current tax liabilities | | | | 500 |
| Provision | | | | 16,224 |
| Unallocated other payables | | | | <u>2,132</u> |
| | | | | <u>240,923</u> |
| OTHER INFORMATION | | | | |
| Additions to non-current assets | 1,177 | 509 | | 1,686 |
| Depreciation and amortisation | 8,014 | 695 | | 8,709 |
| Loss on disposal of property, plant and equipment | <u>256</u> | <u>–</u> | | <u>256</u> |

| | Production and sale of fire engines | Production and sale of fire prevention and fighting equipment | Elimination | Total |
|--|--|--|--------------------|-----------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| For the nine months ended 30 September 2016 | | | | |
| (unaudited) | | | | |
| REVENUE | | | | |
| External sales | 265,689 | 69,932 | – | 335,621 |
| Inter-segment Sales | – | – | – | – |
| | <u>265,689</u> | <u>69,932</u> | <u>–</u> | <u>335,621</u> |
| Total | <u>265,689</u> | <u>69,932</u> | <u>–</u> | <u>335,621</u> |
| RESULTS | | | | |
| Segment profit | 26,399 | 3,139 | – | 29,538 |
| Interest income | | | | 1,004 |
| Unallocated corporate expenses | | | | <u>(17,012)</u> |
| Profit from operations | | | | 13,530 |
| Finance costs | | | | (1,269) |
| Share of loss of an associate | | | | <u>(3,960)</u> |
| Profit before tax | | | | 8,301 |
| Income tax expense | | | | <u>(6,142)</u> |
| Profit for the period | | | | <u>2,159</u> |
| For the year ended 31 December 2016 | | | | |
| REVENUE | | | | |
| External sales | 370,369 | 100,883 | – | 471,252 |
| Inter-segment sales | – | – | – | – |
| | <u>370,369</u> | <u>100,883</u> | <u>–</u> | <u>471,252</u> |
| Total | <u>370,369</u> | <u>100,883</u> | <u>–</u> | <u>471,252</u> |
| RESULTS | | | | |
| Segment profit | 45,000 | 5,591 | | 50,591 |
| Interest income | | | | 2,752 |
| Unallocated corporate expenses | | | | <u>(13,728)</u> |
| Profit from operations | | | | 39,615 |
| Finance costs | | | | (1,400) |
| Other expense | | | | (16,224) |
| Share of profit of an associate | | | | <u>2,881</u> |
| Profit before tax | | | | 24,872 |
| Income tax expense | | | | <u>(7,586)</u> |
| Profit for the year | | | | <u>17,286</u> |

| | Production and sale of fire engines | Production and sale of fire prevention equipment | Elimination | Total |
|---|--|---|--------------------|------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| At 31 December 2016 | | | | |
| ASSETS | | | | |
| Segment assets | <u>557,346</u> | <u>85,027</u> | | 642,373 |
| Investment in an associate | | | | 518,993 |
| Amount due from an associate | | | | 2,151 |
| Pledged bank deposits | | | | 3,270 |
| Bank and cash balances | | | | 132,576 |
| Unallocated other receivables | | | | <u>11,296</u> |
| | | | | <u>1,310,659</u> |
| LIABILITIES | | | | |
| Segment liabilities | <u>166,939</u> | <u>56,571</u> | | 223,510 |
| Current tax liabilities | | | | 5,171 |
| Bank borrowings | | | | 10,000 |
| Provision | | | | 16,224 |
| Unallocated other payables | | | | <u>2,755</u> |
| | | | | <u>257,660</u> |
| OTHER INFORMATION | | | | |
| Additions to non-current assets | 1,360 | 685 | | 2,045 |
| Depreciation and amortisation | 10,366 | 1,232 | | 11,598 |
| Impairment loss for bad and doubtful debts | 266 | 73 | | 339 |
| Loss on disposal of property, plant and equipment | <u>31</u> | <u>19</u> | | <u>50</u> |

Geographical information:

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

| | Revenue | | | Non-current assets | |
|---------|--|---|---|---|--|
| | For the nine months ended 30 September 2017 <i>RMB'000</i> | For the nine months ended 30 September 2016 <i>RMB'000</i> (unaudited) | For the year ended 31 December 2016 <i>RMB'000</i> | 30 September 2017 <i>RMB'000</i> | 31 December 2016 <i>RMB'000</i> |
| PRC | 323,997 | 335,621 | 471,252 | 216,662 | 223,538 |
| Germany | – | – | – | 568,182 | 518,993 |
| Others | – | – | – | 6 | 1 |
| | <u>323,997</u> | <u>335,621</u> | <u>471,252</u> | <u>784,850</u> | <u>742,532</u> |

Revenue from major customers:

None of the customers contributed more than 10% of the Group's total revenue for the year ended 31 December 2016 and the nine months ended 30 September 2016 and 2017.

10. FINANCE COST

| | For the nine months ended 30 September 2017 <i>RMB'000</i> | For the nine months ended 30 September 2016 <i>RMB'000</i> (unaudited) | For the year ended 31 December 2016 <i>RMB'000</i> |
|-----------------------------|--|---|---|
| Interest on bank borrowings | <u>131</u> | <u>1,269</u> | <u>1,400</u> |

11. OTHER EXPENSE

| | For the nine months ended 30 September 2017 RMB'000 | For the nine months ended 30 September 2016 RMB'000 (unaudited) | For the year ended 31 December 2016 RMB'000 |
|---|--|--|--|
| Provision for a legal claim in respect of a rental dispute (<i>note 28</i>) | – | – | 16,224 |

12. INCOME TAX EXPENSE

Income tax relating to operations has been recognised in profit or loss as follows:

| | For the nine months ended 30 September 2017 RMB'000 | For the nine months ended 30 September 2016 RMB'000 (unaudited) | For the year ended 31 December 2016 RMB'000 |
|---------------------------------------|--|--|--|
| Current tax – the PRC | | | |
| Provision for the period/year | 5,962 | 6,137 | 7,910 |
| (Over)/under-provision in prior years | (13) | 5 | (324) |
| | <u>5,949</u> | <u>6,142</u> | <u>7,586</u> |

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2016 and the nine months ended 30 September 2016 and 2017 as the relevant group entities had no assessable profits for both years.

Income tax on profits arising in the PRC has been provided based on the prevailing tax rates applicable to the respective group entities.

In accordance with the enterprise income tax laws in the PRC, the statutory tax rate for PRC operations is 25% from 1 January 2008. However, certain of the Group's subsidiaries are qualified as High and New Technology Enterprises or Small Low-Profit Enterprises and are entitled to reduction in the PRC statutory income tax rate. The relevant tax rates for the Group's subsidiaries in the PRC range from 10% to 15% (for the nine months ended 30 September 2016 and year ended 31 December 2016: 15%).

The reconciliation between the income tax expense and profit before tax at applicable tax rates is as follows:

| | For the nine months ended 30 September 2017 RMB'000 | For the nine months ended 30 September 2016 RMB'000 (unaudited) | For the year ended 31 December 2016 RMB'000 |
|--|--|--|--|
| Profit before tax | 24,119 | 8,301 | 24,872 |
| Tax at the PRC Enterprise Income Tax rate of 25% (for the year ended 31 December 2016 and for the nine months ended 30 September 2016: 25%) | 6,030 | 2,075 | 6,218 |
| Tax effect of income that is not taxable | – | (266) | (1,271) |
| Tax effect of expenses that are not deductible | 2,748 | 1,105 | 12,399 |
| Tax effect of temporary differences not recognised | 286 | 2,290 | (4,689) |
| Tax effect of share of results of an associate | (3,403) | 990 | (721) |
| Tax effect attributable to tax concessions | (2,913) | (3,567) | (5,273) |
| Tax effect of tax losses not recognised | 770 | 1,958 | 823 |
| (Over)/under-provision in prior years | (13) | 5 | (324) |
| Effect of different tax rates of subsidiaries | 822 | 1,552 | 424 |
| PRC dividend withholding tax | 1,622 | – | – |
| Income tax expense | <u>5,949</u> | <u>6,142</u> | <u>7,586</u> |

13. PROFIT FOR THE PERIOD/YEAR

The Group's profit for the period/year is stated after charging/(crediting) the following:

| | For the nine months ended 30 September 2017 RMB'000 | For the nine months ended 30 September 2016 RMB'000 (unaudited) | For the year ended 31 December 2016 RMB'000 |
|---|--|--|--|
| Amortisation of prepaid land lease payments | 596 | 596 | 794 |
| Auditor's remuneration | 990 | 1,214 | 1,383 |
| Cost of inventories sold (<i>note (i)</i>) | 252,583 | 264,391 | 363,991 |
| Depreciation of property, plant and equipment | 8,113 | 8,097 | 10,804 |
| Impairment loss for bad and doubtful debts | – | – | 339 |
| Loss on disposal of property, plant and equipment | 256 | 13 | 50 |
| Net foreign exchange loss/(gain) | 951 | (2,579) | (1,826) |
| Operating lease charges in respect of rented premises | 1,735 | 1,651 | 2,252 |
| Provision for a legal claim in respect of a rental dispute | – | – | 16,224 |
| Research and development expenditure (<i>note (ii)</i>) | 15,169 | 10,946 | 18,622 |
| | <u> </u> | <u> </u> | <u> </u> |

Notes:

- (i) Cost of inventories sold includes staff costs, depreciation of property, plant and equipment, amortisation of prepaid land lease payments and operating lease charges of approximately RMB22,420,000 (RMB14,626,000 (unaudited) and RMB31,587,000 for the nine months ended 30 September 2016 and the year ended 31 December 2016 respectively), which are included in the amounts disclosed separately above.
- (ii) Research and development expenditure includes staff costs and depreciation of property, plant and equipment of approximately RMB4,370,000 (RMB2,533,000 (unaudited) and RMB5,699,000 for the nine months ended 30 September 2016 and the year ended 31 December 2016 respectively), which are included in the amounts disclosed separately above.

14. EMPLOYEE BENEFITS EXPENSE

| | For the nine months ended 30 September 2017 RMB'000 | For the nine months ended 30 September 2016 RMB'000 (unaudited) | For the year ended 31 December 2016 RMB'000 |
|--|--|--|--|
| Employee benefits expense (including directors' emoluments): | | | |
| Salaries, bonuses and allowances | 31,170 | 32,035 | 42,502 |
| Equity-settled share-based payments | 4,398 | 6,358 | 8,559 |
| Retirement benefit scheme contributions | 6,535 | 6,146 | 7,654 |
| | <u>42,103</u> | <u>44,539</u> | <u>58,715</u> |

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

| | For the nine months ended 30 September 2017 RMB'000 | For the nine months ended 30 September 2016 RMB'000 (unaudited) | For the year ended 31 December 2016 RMB'000 |
|--|--|--|--|
| Profit for the period/year attributable to owners of the Company | <u>18,170</u> | <u>2,159</u> | <u>17,286</u> |
| Number of shares | <i>'000</i> | <i>'000</i> | <i>'000</i> |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | 4,078,571 | 4,078,571 | 4,078,571 |
| Effect of dilutive potential ordinary shares arising from share options issued by the Company | <u>—</u> | <u>—</u> | <u>—</u> |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | <u>4,078,571</u> | <u>4,078,571</u> | <u>4,078,571</u> |

There was no dilutive potential ordinary shares in relation to the share options as the average market price of the shares for the nine months ended 30 September 2016 and 2017 and for the year ended 31 December 2016 were lower than the exercise price of the share options.

16. PROPERTY, PLANT AND EQUIPMENT

| | Group | | | | | | Total RMB'000 |
|--|----------------------|-----------------------------------|--------------------------------------|----------------------|------------------------------|--------------------------------------|------------------|
| | Buildings RMB'000 | Plant and equipment RMB'000 | Furniture and fixtures RMB'000 | Computers RMB'000 | Motor vehicles RMB'000 | Leasehold improvements RMB'000 | |
| Cost | | | | | | | |
| At 1 January 2016 | 267,367 | 20,885 | 2,080 | 966 | 5,173 | 37 | 296,508 |
| Additions | 539 | 1,059 | 102 | 238 | 107 | - | 2,045 |
| Disposals | - | - | - | - | (851) | - | (851) |
| At 31 December 2016 and 1 January 2017 | 267,906 | 21,944 | 2,182 | 1,204 | 4,429 | 37 | 297,702 |
| Additions | - | 920 | 200 | 222 | 344 | - | 1,686 |
| Acquisition of a subsidiary (note 33) | - | 5 | - | 9 | 409 | - | 423 |
| Disposals | - | (905) | (86) | (146) | (291) | - | (1,428) |
| At 30 September 2017 | 267,906 | 21,964 | 2,296 | 1,289 | 4,891 | 37 | 298,383 |
| Accumulated depreciation and impairment | | | | | | | |
| At 1 January 2016 | 88,095 | 11,932 | 1,162 | 487 | 2,554 | 37 | 104,267 |
| Charge for the year | 7,928 | 1,973 | 362 | 144 | 397 | - | 10,804 |
| Disposals | - | - | - | - | (723) | - | (723) |
| At 31 December 2016 and 1 January 2017 | 96,023 | 13,905 | 1,524 | 631 | 2,228 | 37 | 114,348 |
| Charge for the period | 5,964 | 1,490 | 171 | 134 | 354 | - | 8,113 |
| Disposals | - | (689) | (77) | (131) | (260) | - | (1,157) |
| At 30 September 2017 | 101,987 | 14,706 | 1,618 | 634 | 2,322 | 37 | 121,304 |
| Carrying amount | | | | | | | |
| At 30 September 2017 | 165,919 | 7,258 | 678 | 655 | 2,569 | - | 177,079 |
| At 31 December 2016 | 171,883 | 8,039 | 658 | 573 | 2,201 | - | 183,354 |

| | Group | | | | | | |
|--|----------------|------------------------|---------------------------|----------------|-------------------|---------------------------|----------------|
| | Buildings | Plant and equipment | Furniture and fixtures | Computers | Motor vehicles | Leasehold improvements | Total |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Unaudited: | | | | | | | |
| Cost | | | | | | | |
| At 1 January 2016 | 267,367 | 20,885 | 2,080 | 966 | 5,173 | 37 | 296,508 |
| Additions | - | 749 | 102 | 209 | 107 | - | 1,167 |
| Disposals | - | - | - | - | (571) | - | (571) |
| | <u>267,367</u> | <u>21,634</u> | <u>2,182</u> | <u>1,175</u> | <u>4,709</u> | <u>37</u> | <u>297,104</u> |
| At 30 September 2016 | <u>267,367</u> | <u>21,634</u> | <u>2,182</u> | <u>1,175</u> | <u>4,709</u> | <u>37</u> | <u>297,104</u> |
| Accumulated depreciation and impairment | | | | | | | |
| At 1 January 2016 | 88,095 | 11,932 | 1,162 | 487 | 2,554 | 37 | 104,267 |
| Charge for the period | 5,946 | 1,477 | 269 | 105 | 300 | - | 8,097 |
| Disposals | - | - | - | - | (494) | - | (494) |
| | <u>94,041</u> | <u>13,409</u> | <u>1,431</u> | <u>592</u> | <u>2,360</u> | <u>37</u> | <u>111,870</u> |
| At 30 September 2016 | <u>94,041</u> | <u>13,409</u> | <u>1,431</u> | <u>592</u> | <u>2,360</u> | <u>37</u> | <u>111,870</u> |
| Carrying amount | | | | | | | |
| At 30 September 2016 | <u>173,326</u> | <u>8,225</u> | <u>751</u> | <u>583</u> | <u>2,349</u> | <u>-</u> | <u>185,234</u> |

As at 30 September 2017, the Group was in the process of applying for the property rights certificates in respect of buildings with carrying amount of RMB77,425,000 (as at 31 December 2016: RMB80,192,260).

17. PREPAID LAND LEASE PAYMENTS

The Group's interests in prepaid land lease payments represent prepaid operating lease payments for land use rights certificates in the PRC under medium-term leases. The carrying amount is analysed as follows:

| | For the nine months ended 30 September 2017 RMB'000 | For the nine months ended 30 September 2016 RMB'000 (unaudited) | For the year ended 31 December 2016 RMB'000 |
|---|--|--|--|
| At the beginning of the period/year | 33,349 | 34,143 | 34,143 |
| Amortisation of prepaid land lease payments | <u>(596)</u> | <u>(596)</u> | <u>(794)</u> |
| At the end of the period/year | 32,753 | 33,547 | 33,349 |
| Current portion | <u>(794)</u> | <u>(794)</u> | <u>(794)</u> |
| Non-current portion | <u><u>31,959</u></u> | <u><u>32,753</u></u> | <u><u>32,555</u></u> |

18. GOODWILL

| | 30 September 2017 RMB'000 | 31 December 2016 RMB'000 |
|---|--|---|
| Cost | | |
| At the beginning of the period/year and at the end of the period/year | <u>7,630</u> | <u>7,630</u> |
| Accumulated impairment losses | | |
| At the beginning of the period/year and at the end of the period/year | <u>—</u> | <u>—</u> |
| Carrying amount | | |
| At the beginning of the period/year and at the end of the period/year | <u><u>7,630</u></u> | <u><u>7,630</u></u> |

Goodwill acquired in a business combination is allocated to the following CGU that are expected to benefit from that business combination. The carrying amount of goodwill (net of accumulated impairment losses) as at 31 December 2016 and 30 September 2017 is allocated as follows:

| | 30 September 2017 | 31 December 2016 |
|-------------------------------------|------------------------------|-----------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Production and sale of fire engines | <u>7,630</u> | <u>7,630</u> |

The recoverable amount of the above CGU has been determined on the basis of its value in use calculation using discounted cash flow method. The cash flow projection was based on financial budget approved by management covering a five-year period, and pre-tax discount rate at 14.19% (for the year ended 31 December 2016: 15.27%). The cash flows beyond that five-year period have been extrapolated using a steady annual growth rate at 1% (for the year ended 31 December 2016: 1%). This growth rate is based on the forecast of the relevant industries and does not exceed their average long-term growth rate. Other key assumptions for the value in use calculation included budgeted sales and gross margins and their related cash inflows and outflows patterns, estimated based on the CGU's historical performance and management's expectation of the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the recoverable amount of CGU to fall below its carrying amount.

19. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries as at 30 September 2017 are as follows:

| Name/type of legal entity | Place of incorporation | Issued and paid-up capital | Percentage of ownership interest attributable to the Company | Principal activities |
|---|------------------------|--|--|---|
| Wang Sing Technology Limited ("Wang Sing")/limited liability company | British Virgin Islands | 4,984,359 ordinary shares of USD1 each | 100% <i>(note (i))</i> | Investment holding |
| Allied Best Holdings Limited/limited liability company | British Virgin Islands | 1 ordinary share of USD1 | 100% | Investment holding |
| 萃聯(中國)消防設備製造有限公司 Allied Best (China) Fire Safety Appliances Manufacturing Co., Ltd./wholly foreign-owned enterprise | PRC | Registered capital of HKD50,000,000 | 100% | Production and sale of fire prevention and fighting equipment |
| CFE Appliances Investment Company Limited/limited liability company | Hong Kong | Ordinary shares of HKD1,000 | 100% | Investment holding |

| Name/type of legal entity | Place of incorporation | Issued and paid-up capital | Percentage of ownership interest attributable to the Company | Principal activities |
|---|------------------------|---|--|--|
| Profit Asia International Trading Limited/limited liability company | British Virgin Islands | 1 ordinary share of USD1 | 100% | Investment holding |
| 四川川消消防車輛製造有限公司 Sichuan Chuanxiao Fire Trucks Manufacturing Co., Ltd./sino-foreign equity joint venture | PRC | Registered capital of RMB80,640,000 | 100% | Production and sale of fire engines and fire prevention and fighting equipment |
| 四川川消汽車服務有限公司 Sichuan Chuanxiao Motor Services Company Limited ("Chuanxiao Motor Services")/limited liability company | PRC | Paid-up capital of RMB800,000 (note (ii)) | 100% | Fire Engines repair and maintenance services |

Notes:

- (i) Shares held directly by the Company.
- (ii) The Group acquired all the equity interest of Chuanxiao Motor Services on 31 March 2017.

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. As at 30 September 2017, the bank and cash balances of the Group's subsidiaries in the PRC denominated in RMB amounted to RMB53,110,000 (At 31 December 2016: RMB127,554,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

20. INVESTMENT IN AN ASSOCIATE

| | 30 September 2017 RMB'000 | 31 December 2016 RMB'000 |
|-----------------------|---------------------------------|--------------------------------|
| Unlisted investments: | | |
| Share of net assets | 245,415 | 217,138 |
| Goodwill | 322,767 | 301,855 |
| | <u>568,182</u> | <u>518,993</u> |

Details of the Group's associate as at 30 September 2017 are as follows:

| Name/type of legal entity | Place of incorporation | Issued and paid up capital | Percentage of ownership interest | Principal activities |
|--|------------------------|----------------------------|----------------------------------|--|
| Albert Ziegler GmbH("Ziegler")/limited liability company | Germany | EUR13,543,000 | 40% | Production and sale of fire engines and fire prevention and fighting equipment |

The Group completed the acquisition of 40% equity interests in Ziegler on 10 July 2015. The Company issued 1,223,571,430 shares of the Company, representing 30% of the enlarged issued share capital of the Company, to CIMC Top Gear B.V. ("CIMC Top Gear", a wholly owned subsidiary of China International Marine Containers (Group) Co., Ltd. ("CIMC")) as consideration of the acquisition. The closing price of the Company's shares as quoted on the Stock Exchange on the acquisition completion date was HKD0.48 per share, giving rise to a total consideration of HKD587,314,000 (equivalent to approximately RMB470,849,000 at date of acquisition). Consideration paid amounted to EUR10,356,000 was for acquiring 40% of the shareholders loan advanced by CIMC Top Gear to Ziegler (on a 1:1 basis) at the completion of acquisition, which was recognised as amount due from an associate. In 2016, the Group and CIMC Top Gear resolved to waive the shareholders loans and approved Ziegler to convert the said loans into Ziegler's capital reserves on 1 December 2016 (note 23).

The following table shows information on Ziegler, which is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the financial statements of Ziegler and its subsidiaries prepared in accordance with the HKFRS.

| | Ziegler | |
|---|------------------------------|-----------------------------|
| | 30 September 2017 | 31 December 2016 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| At the end of the period: | | |
| Non-current assets | 423,961 | 398,404 |
| Current assets | 1,090,250 | 949,677 |
| Non-current liabilities | (77,178) | (74,131) |
| Current liabilities | (821,520) | (729,179) |
| Non-controlling interests | (1,977) | (1,926) |
| Net assets | <u>613,536</u> | <u>542,845</u> |
| The Group's 40% share of net assets | 245,415 | 217,138 |
| Goodwill | <u>322,767</u> | <u>301,855</u> |
| The Group's share of carrying amount of interests | <u>568,182</u> | <u>518,993</u> |

The change in balance of goodwill represents the exchange difference arising from the translation of the goodwill, which is denominated in the functional currency of Ziegler, into RMB at the closing rate at 30 September 2017.

| | For the nine months ended 30 September 2017 | For the year ended 31 December 2016 |
|---|--|--|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue | 1,246,046 | 1,620,019 |
| Profit for the period/year | 34,026 | 7,201 |
| Other comprehensive income | (2,126) | 408 |
| Total comprehensive income | 31,900 | 7,609 |
| The Group's 40% share of profit | 13,611 | 2,881 |
| The Group's 40% share of other comprehensive income | (851) | 164 |
| | <u><u> </u></u> | <u><u> </u></u> |

As at 31 December 2016 and 30 September 2017, Ziegler has no bank and cash balances denominated in RMB.

21. INVENTORIES

Inventories represent fire engines, fire prevention and fighting equipment and related materials.

| | 30 September 2017 | 31 December 2016 |
|------------------|------------------------------|-----------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Raw materials | 29,349 | 25,895 |
| Work in progress | 49,349 | 32,117 |
| Finished goods | 67,413 | 80,220 |
| | <u> </u> | <u> </u> |
| | <u><u>146,111</u></u> | <u><u>138,232</u></u> |

The above inventories are stated at lower of cost and net realisable value.

22. TRADE AND BILLS RECEIVABLES

| | 30 September 2017 | 31 December 2016 |
|--|------------------------------|-----------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade and bills receivables | 263,872 | 224,238 |
| Less: Impairment loss for bad and doubtful debts | <u>(16,705)</u> | <u>(16,705)</u> |
| | <u>247,167</u> | <u>207,533</u> |

The Group allows an average credit period of 30 days to 180 days to its customers. Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits.

The aging analysis of trade and bills receivables, based on the invoice date and net of impairment loss for bad and doubtful debts, is as follows:

| | 30 September 2017 | 31 December 2016 |
|----------------|------------------------------|-----------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| 0 – 90 days | 63,960 | 91,292 |
| 91 – 180 days | 64,362 | 42,095 |
| 181 – 360 days | 64,157 | 35,705 |
| Over 360 days | <u>54,688</u> | <u>38,441</u> |
| | <u>247,167</u> | <u>207,533</u> |

Apart from those disclosed in note 6(a) to the consolidated financial statements which were denominated in USD, the carrying amount of the Group's trade and bills receivables as at 31 December 2016 and 30 September 2017 were all denominated in RMB.

As at 30 September 2017, trade and bills receivables of RMB118,845,000 (as at 31 December 2016: RMB74,146,000) were past due but not impaired. These relate to a number of independent customers whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

| | 30 September 2017 | 31 December 2016 |
|----------------|------------------------------|-----------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| 181 – 360 days | 64,157 | 35,705 |
| Over 360 days | 54,688 | 38,441 |
| | <u>118,845</u> | <u>74,146</u> |

Reconciliation of impairment loss for bad and doubtful debts is as follows:

| | For the nine months ended 30 September 2017 | For the nine months ended 30 September 2016 | For the year ended 31 December 2016 |
|-------------------------------------|--|--|--|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | | (unaudited) | |
| At the beginning of the period/year | 16,705 | 17,571 | 17,571 |
| Impairment loss for the period/year | – | – | 339 |
| Amounts written off | – | – | (1,205) |
| | <u>16,705</u> | <u>17,571</u> | <u>16,705</u> |

The management closely monitors the credit quality of the trade and bills receivables and considers the trade and bills receivables that were neither past due nor impaired to be recoverable. Based on the payment pattern of the customers of the Group, trade and bills receivables that were past due but not impaired were generally collectable as there has not been a significant change in credit quality or loss event of these customers. Impairment loss for bad and doubtful debts recognised for the year ended 31 December 2016 and for the nine months ended 30 September 2017 were on trade receivables which were either aged over two years or from customers which had either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

23. AMOUNT DUE FROM AN ASSOCIATE

| | 30 September | 31 December |
|----------------------|---------------------|--------------------|
| | 2017 | 2016 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Interest receivables | – | 2,151 |

The Group and CIMC Top Gear resolved to waive the shareholders loan and approved Ziegler to convert the loans into capital reserves in 2016. The interest due as at 31 December 2016 was fully settled by Ziegler in January 2017.

24. OTHER CURRENT ASSETS

| | 30 September | 31 December |
|---------------------------|---------------------|--------------------|
| | 2017 | 2016 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Wealth Management Product | 8,500 | – |

25. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

Bank balances carry interest ranging from Nil to 0.35% (for the year ended 31 December 2016: Nil to 0.35%) per annum.

The pledged bank deposits are mainly for securing banking facilities granted to the Group and carry interest at 0.35% (for the year ended 31 December 2016: 0.35%) per annum.

As at 30 September 2017, pledged bank deposit and bank and cash balances of the Group in the PRC denominated in RMB amount to RMB53,110,000 (as at 31 December 2016: RMB127,554,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

26. TRADE AND OTHER PAYABLES

| | 30 September 2017 | 31 December 2016 |
|---|------------------------------|-----------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade payables | 109,648 | 106,397 |
| Accrued charges | 60,423 | 61,312 |
| Receipts in advance | 43,076 | 44,001 |
| Value added tax, sales tax and other levies | 11,052 | 14,555 |
| | <u>224,199</u> | <u>226,265</u> |

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

| | 30 September 2017 | 31 December 2016 |
|--------------|------------------------------|-----------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| 0 – 30 days | 40,834 | 50,480 |
| 31 – 60 days | 9,017 | 12,292 |
| 61 – 90 days | 5,972 | 7,892 |
| Over 90 days | 53,825 | 35,733 |
| | <u>109,648</u> | <u>106,397</u> |

Except for the part of the accrued charges and trade payables as disclosed in note 6(a) to the consolidated financial statements which were denominated in HKD and USD respectively, the carrying amount of the Group's trade and other payables as at 31 December 2016 and 30 September 2017 were all denominated in RMB.

27. BANK BORROWINGS

| | 30 September 2017 | 31 December 2016 |
|-----------------------|------------------------------|-----------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Bank loans, unsecured | – | 10,000 |

As at 31 December 2016, bank borrowings of the Group were all denominated in RMB and were due for settlement within 12 months (shown under current liabilities).

The bank loans were guaranteed by subsidiaries of the Company. The average interest rates at the end of the period are as follows:

| | 30 September 2017 | 31 December 2016 |
|------------|------------------------------|-----------------------------|
| Bank loans | N/A | 5.315% |

The interest rates for the bank loans outstanding as at 31 December 2016 were arranged at 110% to 118% of the benchmark interest rate as stipulated by the People's Bank of China and exposed the Group to cash flow interest rate risk.

28. PROVISION

| | For the nine months ended 30 September 2017 RMB'000 | For the nine months ended 30 September 2016 RMB'000 (unaudited) | For the year ended 31 December 2016 RMB'000 |
|-------------------------------------|--|--|--|
| At the beginning of the period/year | 16,224 | – | – |
| Addition | – | – | 16,224 |
| At the end of the period/year | <u>16,224</u> | <u>–</u> | <u>16,224</u> |

The provision represents the provision for a legal claim in respect of a rental dispute brought against the Group by a lessor for the unsettled rental payment. The provision was made based on the court written judgement and the management's estimation.

29. DEFERRED TAX

As at 30 September 2017, the Group has unused tax losses of RMB148,012,000 (As at 31 December 2016: RMB143,300,000) available for offsetting against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. As at 31 December 2016 and 30 September 2017, all tax losses may be carried forward indefinitely.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries and an associate for which deferred tax liabilities have not been recognised amounts to RMB209,373,000 (as at 31 December 2016: RMB192,682,000). No liability has been recognised in respect of these differences because the timing of reversal of the temporary differences were under control by the Group and related companies and it is probable that such differences will not be reversed in the foreseeable future.

30. SHARE CAPITAL

| | Number of shares | Amount <i>HKD'000</i> |
|---|------------------------------|-----------------------------|
| Authorised: Shares of HKD0.01 (At 31 December 2016: HKD0.01) each | | |
| At 1 January 2016, 31 December 2016, 1 January 2017 and 30 September 2017 | <u>10,000,000,000</u> | <u>100,000</u> |
| Issued and fully paid: Shares of HKD0.01 (At 31 December 2016: HKD0.01) each | | |
| At 1 January 2016, 31 December 2016, 1 January 2017 and 30 September 2017 | <u>4,078,571,430</u> | <u>40,786</u> |
| | 30 September 2017 | 31 December 2016 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Balance shown in the consolidated financial statements as | <u>39,977</u> | <u>39,977</u> |

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group from time to time monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as total debt divided by adjusted capital. Total debt comprises bank borrowings. Adjusted capital comprises all components of equity (i.e. share capital, retained profits and other reserves).

During the nine months ended 30 September 2017, the Group's strategy, which was unchanged from 2016, was to maintain the debt-to-adjusted capital ratio at a reasonable level. The debt-to-adjusted capital ratios as at 31 December 2016 and 30 September 2017 were as follows:

| | 30 September 2017 | 31 December 2016 |
|--------------------------------|----------------------|---------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Total debt | – | 10,000 |
| Adjusted capital | <u>1,111,145</u> | <u>1,052,999</u> |
| Debt-to-adjusted capital ratio | <u>N/A</u> | <u>1%</u> |

The externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares maintained throughout the year.

The Company was not informed of any change in the Company's shareholdings that would lead to its non-compliance with the 25% public float requirement throughout the year.

31. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The shareholders of the Company adopted a share option scheme on 29 May 2009 which shall be valid and effective until the close of business of the Company on the date which falls ten years after the date of adoption, after which period no further options will be granted.

The purpose of the Scheme is to advance the interests of the Company and its shareholders by offering the eligible persons a performance incentive for better services and loyalty with the Company and its subsidiaries and enhancing such persons' contributions to the Group by share ownership. A duly authorised committee of the board of directors of the Company may, at its absolute discretion, offer any full-time employee of the Company or any its subsidiaries, including any executive and non-executive directors of the Company or any of its subsidiaries, options to subscribe for shares on the terms set out in the Scheme.

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time, the total number of shares in respect of which options may be granted under the Scheme when aggregated with any shares subject to any other schemes must not exceed 10% of the shares of the Company as at the date of adoption of the Scheme, i.e. 285,500,000 shares of the Company, without prior approval of the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period must not exceed 1% of the shares of the Company in issue, without prior approval of the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in any one year exceeding 0.1% of the Company's shares in issue and having an aggregate value in excess of HKD5,000,000 must be approved by the Company's shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HKD1 per each grant transaction. Options may be exercised at any time from the date of acceptance of the share options to such date as determined by the Board of Directors but the exercise period of the options is in any event not exceeding 10 years. The exercise price is determined by the directors of the Company and will not be less than the highest of the closing price of the Company's shares on the date of grant, the average closing prices of the Company's shares for the five business days immediately preceding the date of grant and the nominal value of the Company's shares.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of the share options; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer, when applicable.

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

The total number of shares available for issue under the Scheme is 285,500,000 shares, representing 7% of the Company's issued share capital as at the date of this Announcement

Details of the movement of share options during the period/year are as follows:

| | For the nine months ended | | | | | |
|---|--|---------------------------------|--|---------------------------------|--|---------------------------------|
| | For the nine months ended 30 September 2017 | | 30 September 2016 (unaudited) | | For the year ended 31 December 2016 | |
| | <i>No. of share options</i> | <i>Exercise price (HKD)</i> | <i>No. of share options</i> | <i>Exercise price (HKD)</i> | <i>No. of share options</i> | <i>Exercise price (HKD)</i> |
| Outstanding at the beginning and the end of the period/year | 115,625,000 | 0.42 | 115,625,000 | 0.42 | 115,625,000 | 0.42 |
| Exercisable at the beginning and the end of the period/year | 115,625,000 | 0.42 | - | - | - | - |

The share options outstanding as at 31 December 2016 and 30 September 2017 were granted to certain directors of the Company and certain employees of the Group on 26 August 2015. The share options granted will be valid for 10 years from 26 August 2015 to 25 August 2025 (both dates inclusive).

The share options granted were vested on 11 July 2017. No option has been exercised since being vested and up to 30 September 2017.

The estimated fair value of the share options granted on 26 August 2015, as calculated using the Binomial pricing model, was HKD19,956,000. The inputs into the model were as follows:

| | 2015 |
|------------------------------|-------------|
| Share price at date of grant | HKD0.365 |
| Exercise price | HKD0.42 |
| Expected volatility | 55.5% |
| Expected life of options | 10 years |
| Risk free rate | 1.684% |
| Expected dividend yield | 0% |

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous ten years.

For the nine months ended 30 September 2017, the evaluated fair value of employee's share-based payment of approximately HKD4,984,000 (equivalent to approximately RMB4,398,000) (HKD7,487,000 (equivalent to approximately RMB6,358,000) (unaudited) and HKD9,983,000 (equivalent to approximately RMB8,559,000) for the nine months ended 30 September 2016 and the year ended 31 December 2016 respectively) has been charged to the Group's profit with a corresponding credit to the share-based payment reserve.

32. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein have been presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Special reserve

The special reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition under the group reorganisation.

(ii) Capital reserve

The capital reserve represents the share premium arising from the issue of shares of a subsidiary to the investors under the group reorganisation.

(iii) Share-based payment reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments as described in note 4(s) to the consolidated financial statements.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(d) to the consolidated financial statements.

(v) Other reserve

The other reserve represents the share of other comprehensive income of an associate.

33. ACQUISITION OF A SUBSIDIARY

On 8 February 2017, the Group entered into a sales and purchases agreement to acquire the entire equity interest of Chuanxiao Motor Services. Chuanxiao Motor Services is a company incorporated in Sichuan and principally engaged in the provision of fire engines repairs and maintenance services.

Details of the assets acquired and liabilities assumed as at the acquisition date are set out as follows:

| | At date of acquisition <i>RMB'000</i> |
|---|---|
| Property, plant and equipment (<i>note 16</i>) | 423 |
| Inventories | 11 |
| Trade and other receivables | 618 |
| Bank and cash balances | 473 |
| | <hr/> |
| | 1,525 |
| | <hr/> |
| Trade and other payables | (358) |
| Current taxation | (19) |
| | <hr/> |
| | (377) |
| | <hr/> |
| Fair value of net identifiable assets attributable to the Group | 1,148 |
| | <hr/> |
| Consideration of acquisition | (800) |
| | <hr/> |
| Gain on bargain purchase | 348 |
| | <hr/> <hr/> |
| Net cash outflow arising from acquisition: | |
| Consideration of acquisition settled in cash | (800) |
| Cash and cash equivalents acquired | 473 |
| | <hr/> |
| | (327) |
| | <hr/> <hr/> |

34. NOTES TO THE STATEMENT OF CASH FLOW

Reconciliation of liabilities incurred from financing activities:

The following table sets out the details of the changes of liabilities of the Group incurred from financing activities, including cash and non-cash changes.

Liabilities incurred from financing activities are cash flows or future cash flows classified to cash flow from financing activities in the consolidated statement of cash flow of the Group.

| | 1 January 2017 | Cash flow | Interest expenses | 31 December 2017 |
|------------------------------------|---------------------------|------------------|------------------------------|-----------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Bank borrowings (<i>Note 27</i>) | 10,000 | (10,131) | 131 | – |

35. CAPITAL COMMITMENTS

As at 30 September 2017, the Group's capital commitments are as follows:

| | 30 September 2017 | 31 December 2016 |
|-------------------------------|------------------------------|-----------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Property, plant and equipment | <u>12,525</u> | <u>14,205</u> |

36. OPERATING LEASE COMMITMENTS

As lessee

At 30 September 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | 30 September 2017 | 31 December 2016 |
|---------------------------------------|------------------------------|-----------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Within one year | 2,497 | 1,991 |
| In the second to fifth year inclusive | <u>3,094</u> | <u>3,366</u> |
| | <u>5,591</u> | <u>5,357</u> |

Operating lease payments represent rentals payable by the Group for certain of its premises, offices and staff quarters. Length of the leases ranged from six months to three years and rentals are fixed over the lease terms and do not include contingent rentals.

37. RETIREMENT BENEFIT SCHEMES

The group entities operating in the PRC participate in a state-managed retirement benefit plan operated by the government of the PRC. All eligible PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. The Group is required to make specific contributions to the retirement schemes at 19% (for the year ended 31 December 2016: 19%) of the basic salary of its eligible PRC employees. The Group has no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions paid for the nine months ended 30 September 2017 amounted to RMB6,456,000 (RMB6,088,000 (unaudited) and RMB7,566,000 for the nine months ended 30 September 2016 and the year ended 31 December 2016 respectively).

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a Mandatory Provident Fund Scheme (“MPF Scheme”) for all qualifying Hong Kong employees. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated statement of profit or loss and other comprehensive income represent total contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme. During the nine months ended 30 September 2017, the Group’s total contributions to the MPF Scheme amounted to RMB79,000 (RMB58,000 (unaudited) and RMB88,000 for the nine months ended 30 September 2016 and the year ended 31 December 2016 respectively).

38. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the period/year:

| | For the nine months ended 30 September 2017 RMB'000 | For the nine months ended 30 September 2016 RMB'000 (unaudited) | For the year ended 31 December 2016 RMB'000 |
|--|--|--|--|
| Interest income receivable from an associate | — | — | 1,420 |

39. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 September 2017 (as at 31 December 2016: RMB Nil).

40. EVENTS AFTER THE REPORTING PERIOD

(i) Acquisitions

On 4 December 2017, the Company and its subsidiary, Wang Sing, entered into two sales and purchase agreements as follows:

Pteris Agreement: to acquire (the “Pteris Acquisition”) 78.15% and 21.26% of the equity interests in Pteris Global Limited (“Pteris”), a non-wholly owned subsidiary of China International Marine Containers (Group) Co., Ltd. (“CIMC”), respectively from Sharp Vision Holdings Limited (“Sharp Vision”) and Fengqiang Holdings Limited (“Fengqiang”); and

TianDa Agreement: to acquire (the “TianDa Acquisition”) 30% equity interests in Shenzhen CIMC-TianDa Airport Support Ltd. (深圳中集天達空港設備有限公司) from (“TianDa”) Lucky Rich Holdings Limited (“Lucky Rich”).

The Pteris Acquisition and the TianDa Acquisition are collectively referred to as the “Proposed Acquisitions”. The completion of the TianDa Acquisition is conditional upon the completion of the Pteris Acquisition.

Pursuant to the Pteris Agreement and TianDa Agreement, the Company will issue up to 7,470,108,040 shares of the Company (the “Consideration Shares”) at an issue price of HK\$0.366 per share and convertible bonds in the aggregate principal amount of up to RMB2,093,133,694 to Sharp Vision, Fengqiang and Lucky Rich (or their respective nominee(s)) as consideration for the Proposed Acquisitions. After completion of the Proposed Acquisitions, assuming no change in the issued share capital of the Company other than the issuance and allotment of the Consideration Shares, CIMC, through its indirect shareholdings in Sharp Vision and CIMC Top Gear B.V., will hold 51% equity interests in the Company.

The completion of the Proposed Acquisitions are subject to certain conditions precedents, including but not limited to, the approval of the shareholders of the Company eligible to vote at an extraordinary general meeting (the “EGM”) which is to be held on 11 April 2018.

Details of the Proposed Acquisitions are set out in the joint announcement of the Company and CIMC dated 4 December 2017 and in the circular of the Company dated 15 March 2018.

(ii) Placing of new shares of the Company

On 6 February 2018, the Company entered into a subscription agreement (the “Subscription Agreement”) with State-Owned Enterprise Structural Adjustment China Merchants Buyout Fund (Limited Partnership) (深圳國調招商併購股權投資基金合夥企業(有限合夥)) (the “Subscriber”), a limited partnership established in the PRC, pursuant to which, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, 673,225,000 shares of the Company at a subscription price of HKD0.366 each (the “Subscription”). The Subscription is conditional upon certain condition precedents, among which, are the completion of the Pteris Acquisition and the approval of the shareholders of the Company eligible to vote at the EGM.

Details of the Subscription are set out in the announcement of the Company dated 6 February 2018 and in the circular of the Company dated 15 March 2018.

The audited consolidated financial statements of the Company for the nine months ended 30 September 2017, together with the relevant management discussion and analysis, have been included in the circular in relation to, among other things, the Proposed Acquisitions, the proposed issuance of Consideration Shares and Convertible Bonds, the application for the Whitewash Waiver and the Special Deal, which will be despatched by the Company on 15 March 2018.

By order of the Board
China Fire Safety Enterprise Group Limited
Li Ching Wah
Company Secretary

Hong Kong, 15 March 2018

As at the date of this announcement, the Directors are as follows:

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| <i>Dr. Li Yin Hui</i> | <i>Chairman and Non-executive Director</i> |
| <i>Mr. Jiang Xiong</i> | <i>Honorary Chairman and Executive Director</i> |
| <i>Mr. Zheng Zu Hua</i> | <i>Executive Director</i> |
| <i>Mr. Luan You Jun</i> | <i>Executive Director</i> |
| <i>Mr. Yu Yu Qun</i> | <i>Non-executive Director</i> |
| <i>Mr. Robert Johnson</i> | <i>Non-executive Director</i> |
| <i>Dr. Loke Yu</i> | <i>Independent non-executive Director</i> |
| <i>Mr. Heng Ja Wei</i> | <i>Independent non-executive Director</i> |
| <i>Mr. Ho Man</i> | <i>Independent non-executive Director</i> |