ANNUAL REPORT 2017

中國消防企業集團有限公司
CHINA FIRE SAFETY ENTERPRISE GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code：445

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CORPORATE INFORMATION

NON-EXECUTIVE DIRECTORS
Li Yin Hui, Chairman
Yu Yu Qun
Robert Johnson

EXECUTIVE DIRECTORS
Jiang Xiong, Honorary Chairman
Zheng Zu Hua
Luan You Jun

INDEPENDENT NON-EXECUTIVE DIRECTORS
Loke Yu
Heng Ja Wei
Ho Man

QUALIFIED ACCOUNTANT
Li Ching Wah, AHKICPA

COMPANY SECRETARY
Li Ching Wah, AHKICPA

MEMBERS OF AUDIT COMMITTEE
Loke Yu
Heng Ja Wei
Ho Man

MEMBERS OF REMUNERATION COMMITTEE
Loke Yu
Heng Ja Wei
Ho Man
Zheng Zu Hua

MEMBERS OF NOMINATION COMMITTEE
Heng Ja Wei
Loke Yu
Ho Man

MEMBERS OF RISK MANAGEMENT COMMITTEE
Zheng Zu Hua
Jiang Xiong
Luan You Jun
Loke Yu
Heng Ja Wei
Ho Man

REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Units A-B, 16/F
China Overseas Building
139 Hennessy Road
Wan Chai
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN PRC
No. 8 Section 1, Xin Hua Road
Chengdu Cross-Straits
Technological Industry Park
Wenjiang District
Chengdu City
Sichuan Province
PRC

WEBSITE
www.chinafire.com.cn

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
SM Partners (Cayman) Limited
Royal Bank House - 3rd Floor
24 Shedden Road, P.O.Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor
Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITOR
RSM Hong Kong
Certified Public Accountants
29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

STOCK EXCHANGE LISTING
The Stock Exchange of Hong Kong Limited

STOCK CODE
445

CHAIRMAN'S STATEMENT

2017 opens a new era for CFE. As you may recall, we have commenced the restructuring of the Group's business since 2013 by discarding those operations with continuing losses. In 2015, we expanded our fire engines business by acquiring 40% equity interests in Albert Ziegler GmbH from CIMC, and pursuant to which CIMC became a controlling shareholder of CFE. After two years of assimilation, CFE and CIMC are getting closer and in December 2017, we entered into an agreement to acquire 78.15% equity interest in Pteris Global Limited ("Pteris") from CIMC by issuing shares and convertible bonds of the Company. Subject to approval of the acquisition by the shareholders of the Company eligible to vote at the extraordinary general meeting to be held on 11 April 2018 (the "EGM") and the fulfilment of other condition precedents as prescribed in the agreement, CIMC will hold at least 51% of the Company's enlarged issued share capital at completion of the acquisition of Pteris.

To say that CFE is on the threshold of a new era, this is not just because we are going to become a subsidiary of CIMC, from which we can obtain greater support, but that we are instantly to expand into and gain from the new businesses with proven records of success and with high development potential. Moreover, we will have immediate access to the markets that are new to us. Pteris and its subsidiaries (collectively the "Pteris Group"), are engaged in the design, manufacturing and sale of (i) passenger boarding bridges; (ii) automatic systems for baggage and material sorting, conveyance and storage; (iii) airport ground support equipment, such as various types of special vehicles including airport catering trucks, airport apron buses and aircraft cargo loaders; and (iv) automated parking systems. The Pteris Group is well-known in the aviation industries. It ranked the second largest supplier of passenger boarding bridges in the world in terms of revenue in 2016 and its subsidiary, Shenzhen CIMC-TianDa Airport Support Ltd. ("TianDa"), occupied over 90% market share in China. Its business have been extended into 69 countries and regions in Asia, Europe, Oceania, Latin America and Africa. It also ranked the fifth largest supplier of airport logistic systems in terms of contract value in China and the largest supplier of airport apron buses in China in terms of revenue in 2016. In light of the fast growing civil aviation industry and the expected large number of new civilian airports in China and overseas, the demand for aviation related products and services is expected to keep growing in the foreseeable future. Moreover, grasping the opportunities arising from the rapid growth of the e-commerce and the express delivery industries in China and the acute need for parking space to accommodate the rising number of vehicles, the material handling and warehousing systems and the automated parking systems are expected to become the Group's additional growth drivers.

Despite the big potentials from the Pteris Group's business, it is always our intention to bolster our fire engines and fire equipment business. I expect that the synergistic effect derived from the merger with the Pteris Group would boost its further development. Apart from the benefits of technological know-how and other resources sharing, by leveraging on the close relationship the Pteris Group has with CIMC's business partners worldwide and with the global airport operators, we can efficiently open more markets for the Group's fire engines, especially the airport fire engines that are in development.

CHAIRMAN'S STATEMENT

The Board is mindful to deliver value to our shareholders. We have had plans for further development of the enlarged Group after completion of acquisition of the Pteris Group, which include investments in new production facilities, research and development activities and other suitable acquisitions. I am confident that all these will help us to achieve our goals for the long-term success of the Group and create value for our shareholders.

I take this opportunity to thank all our shareholders and partners who have placed great trust in us. I would also like to express my gratitude to my fellow directors for their invaluable contribution and guidance and to our staff for their continued hard work.

Li Yin Hui
Chairman
27 March 2018

Business review

Revenue and profit of the Group for the year ended 31 December 2017 were respectively RMB529 million and RMB17.8 million, up 12.2% and 2.7% year on year respectively. As the supply of chassis restored, manufacturing schedules of fire engines delayed by the supply shortage in the third quarter was caught up in the last quarter of the year. Sales for the year exceeded that for 2016 as more fire engines were sold. Average unit selling price of the fire engines sold was driven up by the Group's self-developed aerial lifting spray trucks and ladder trucks that were first released during the year.

Notwithstanding the professional fee of approximately RMB25 million incurred for the Pteris Acquisition, the TianDa Acquisition, as set out in note 42 to the consolidated financial statements, and other potential acquisitions negotiated during the year, profit increased for the year was owing to, in addition to revenue growth, the increased in share of profit of Ziegler, the Group's associate in Germany, due to its good financial performance.

Following the sale of the Group's first self-developed aerial lifting fire trucks, other models with longer working heights, like the 32-metre and 52-metre ladder trucks and aerial platform trucks, and the 60-metre jet spray fire trucks are under development. Besides, to seize the potential market arising from the possible massive upgrade and replacement of airport fire engines in China in the coming years, the Group is speeding up its development of the airport rapid mobilisation fire trucks, which is designed with rapid speed acceleration to tackle fire on aircrafts running at high speed. Research is also conducted on the application of new materials to reduce weight of fire engines, and on new design of components and parts to facilitate modularisation and product standardisation, in order to enhance manufacturing efficiency and reduce costs of production.

New business development through acquisition of Pteris Group

Since the Group acquired 40% equity interests of Ziegler from CIMC in 2015 and pursuant to which CIMC has became a controlling shareholder of the Company, both the Group and the CIMC Group have been preparing for closer cooperation. On 4 December 2017, the Group entered into an agreement with CIMC to acquire equity interests in Pteris and its subsidiaries. The Group's business horizon is widened instantly upon completion of the Pteris Acquisition by embracing its four major business segments:

1. Passenger Boarding Bridges (PBB): the design, manufacturing and installation of passenger boarding bridges and the provision of related repair and maintenance services. A PBB is used to connect airport terminals to commercial aircraft, providing direct access for passengers from the terminal to the aircraft and vice versa. Pteris ranked the second largest supplier of PBB in the world in terms of revenue in 2016 and TianDa occupied over 90% market share of the PBB market in China;

2. Baggage, Material and Warehouse Handling Systems (MHS): the provision of engineering and computer software solutions, on a turnkey basis, to (i) airports and seaports for baggage and cargo handling; (ii) e-commerce and express delivery service providers for sorting and handling of different types of parcels; and (iii) customers in the food and beverages, pharmaceuticals, apparels, tires sales, e-commerce, and courier services industries for automated storage and handling of goods and materials;

3. Ground Support Equipment (GSE): manufacture and sale of ground support equipment to aviation industries, including cargo loader and transporters, airport apron buses, aircraft deicers, container/pallet loaders and aircraft catering trucks. TianDa is the largest supplier of airport apron buses in China in terms of revenue in 2016; and

4. Automated Parking System (APS): design, manufacture and sale of different parking systems, including vertical lifting parking systems, aisle stacking parking systems, vertical and horizontal carriage parking systems and lift-only parking systems. The pioneer mechanical smart bus parking garage (機械式智慧公交車立體停車庫), which is specifically designed to solve the land cost problem for bus parking, is in the final development stage and is expected to be one of the future star products.

The Group's existing business could also benefit from the synergistic effect arising from the Pteris Acquisition, such as:

i. Sharing of technical know-how, suppliers base, research & development resources, marketing channels and sales network to optimise the Group's operation efficiency;

ii. Leveraging the close relationship between the Pteris Group and the large number of airport operators in the PRC and worldwide, the Group may open more efficiently the markets for its airport fire engines (the Group's airport rapid mobilisation fire trucks are currently in development);

iii. Taking advantage of the service stations and establishments set up by the Pteris Group worldwide, the Group may expand to suitable overseas market more efficiently; and

iv. Making use of CIMC Group's centralised financial management platform to obtain the low-cost intra-group financing for future development. Strengthened financial credibility allows the Group to have greater access to external financial such as placing of new shares and issuance of debt securities.

The Group will further invest to seize every opportunities arise from the growth in the aviation industries, e-commerce and express delivery, and the fire industries. Future investments will include (i) the establishment of a new PBB factory in the U.S.; (ii) setting up of services companies for PBB in North America, Europe and the Middle East; (iii) new products developments; and (iv) other acquisition of companies or business that fit into the Group's strategies.

Financial resources, liquidity, contingent liabilities and pledge of assets

The Group's bank and cash balances at 31 December 2017 were approximately RMB134 million (2016: RMB136 million), of which RMB9 million (2016: RMB3 million) was pledged for bid bond guarantee issued, performance guarantee, and guarantee for letter of credit issued. All of the outstanding bank borrowings have been repaid during the year. Net cash balances has been maintained at a stable level, and the Group has been strengthening its after-sale services in an attempt to shorten the receivable turnover days by enhancing customers' product satisfaction and thus their efficiency in payment processing.

As at 31 December 2017, the current assets and current liabilities of the Group were approximately RMB654 million (2016: RMB568 million) and RMB331 million (2016: RMB258 million) respectively. The current ratio was approximately 2.0 times (2016: 2.2 times). As all outstanding borrowings has been repaid, the gearing ratio (interest bearing debt/total equity (non-controlling interests excluded)) reduced to zero at end of the year (2016: 1%). The gearing in the future is expected to increase by the issuance of convertible bonds and loans of the Pteris Group upon completion of the Pteris Acquisition. The Group is considering an appropriate level of gearing so as to maintain financial stability and to facilitate its future growth.

Renminbi is the functional currency and adopted as the reporting currency by the Group. The majority of the Group's assets, liabilities, sales and purchases are primarily denominated in Renminbi and Hong Kong dollars. The Group uses forward foreign currency exchange contracts to minimise exposure to exchange rate volatility arising from receivables and payables involving currencies other than Renminbi and Hong Kong dollars when considered necessary. There was no forward foreign currency exchange contract outstanding at 31 December 2017.

Save as disclosed, the Group has no material contingent liabilities or pledge of assets for the year ended 31 December 2017.

Investments, disposals and capital commitments

Investments

As set out in note 42 to the consolidated financial statements, the Group entered into the Pteris Agreements and TianDa Agreement on 4 December 2017 to acquire equity interests in Pteris and TianDa. The completion of the Proposed Acquisitions are subject to certain conditions precedent, including but not limited to, the approval of the shareholders of the Company eligible to vote at the EGM to be held on 11 April 2018. Details of the Proposed Acquisitions are also set out in the circular of the Company dated 15 March 2018.

Capital commitments

As at 31 December 2017, the Group has capital commitment of approximately RMB7 million (2016: RMB14 million) which was mainly related to the investment amount committed to the local government of the county in Sichuan where the Group's factory is located.

Save as disclosed herein, the Group has no other material capital commitments, investments, acquisitions or disposals as at 31 December 2017.

Employees and remuneration policies

As at 31 December 2017, the Group had approximately 567 full-time employees (2016: 550). Staff costs (excluding directors' remuneration) for the year was RMB55.1 million (2016: RMB53.2 million) and included in which was the share based payments amounted to RMB3.8 million (2016: RMB6.6 million) from the amortisation of the fair value of share options over the two years vesting period commencing July 2015. Apart from the annual salaries and wage adjustment, staff costs for the year grew mainly due to the increase in number of staff for the research and development function.

All full-time employees are entitled to medical contributions, provident funds and retirement plans. The Group provides a series of comprehensive on-the-job training to staff to keep their technical skills and standards up to date for quality services and to enhance work safety.

Principal risks and uncertainties

The fire engines and equipment market in China is highly competitive with low entry barrier. Competitions come from not only domestic manufacturers but also foreign imports, especially in the high-end market. Quality products that tailored for market needs are the cornerstone on which the Group to stand firm in the industry and to maintain sustainable growth in such environment. In this regard, the Group is facing risks and uncertainties in respect of:

Product development

The Group's long term profitability depends on its ability to successfully develop, launch and market its new products.

Human capital

A decisive factor for the Group's success is its employees and their knowledge and competence. Future development depends on the Group's ability to maintain its position as an attractive employer.

Environmental policies and performance

The Group's environmental policies and performance are set out in the Environmental, Social and Governance Report on page 22.

Compliance with regulations

There was no material breach or non-compliance with the laws and regulations applicable to the Group. Rules and regulations that have significant impact on the operations of the Group are set out in respective sections of the Environmental, Social and Governance Report on page 22.

Relationship with employees, customers and suppliers

The Group's policies in respect of staff recruitment, development and training, compensation and communication are set out in the relevant sections in the Environmental, Social and Governance Report on page 22.

The Group recognises the importance of fulfilling needs of customers to its business development. Close relationship are maintained with all customers and provide with them the best pre-sale and post-sale services. The Group strives to maintain fair and cooperating relationships with all suppliers as they are an important element of the Group's supply chain management.

DIRECTORS

Non-executive directors

Dr. LI Yin Hui, aged 50, was appointed as a non-executive director and the Chairman of the Company on 29 July 2015. He is (i) a vice-president of CIMC; (ii) the chairman of C&C Trucks Co., Ltd.; and (iii) the chairman of the supervisory board of Ziegler. Dr. Li has been working for CIMC for over 10 years and has extensive experience in managing large-scale enterprises. He has also been a non-executive director of Shougang Concord International Enterprises Company Limited, a company whose shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), since January 2018. Dr. Li obtained a Bachelor's degree in Arts (History) and a Doctorate degree in World Economy from the Jilin University in 1991 and 2001 respectively. In addition, he obtained a Master's degree in Business Administration from the Nanjing University in 1997. Dr. Li completed his Postdoctoral research in China Centre for International Economic Exchanges in 2016.

Mr. YU Yu Qun, aged 52, was appointed as a non-executive director of the Company on 26 May 2016. He is a vice-president and the secretary to the board of directors and company secretary of CIMC, responsible for shareholder relations, investor relations and financing management. He is also (i) a non-executive director of CIMC Enric Holdings Limited; and (ii) a non-executive director of Pteris Global Limited, a company whose shares were delisted from the Singapore Stock Exchange on 7 September 2016. Mr. Yu was a non-executive director of TSC Group Holdings Limited from March 2011 to July 2016. CIMC Enric Holdings Limited and TSC Group Holdings Limited are companies whose shares are listed on the Stock Exchange. Mr. Yu had worked in the State Bureau of Commodity Prices of the PRC before joining CIMC in 1992. He is a member of the Appellate Review Committee of the Shenzhen Stock Exchange and a member of the first session of the Mergers and Acquisitions Financing Committee of the China Association for Public Companies. Mr. Yu obtained a bachelor's degree and a master's degree in Economics from the Peking University in 1987 and 1992 respectively.

Mr. Robert JOHNSON, aged 26, was appointed as a non-executive director of the Company on 26 May 2016. He is a Justice of the Peace (JP) in Australia and is the president of Australia-China Youth Cooperation, a non-governmental organization established in Australia aiming at promoting cooperation and fostering friendships and partnerships between young Australian and Chinese. Because of his commitments and contributions in the promotion of Australian-Chinese friendship and youth leadership, Mr. Johnson was granted one of the young leaders of Boao Forum for Asia and participated in 2014 Boao Forum for Asia's young leaders' roundtable. Mr. Johnson had served in the Australian Defense Force (Reserve) for three years. He won the Australian Defense Force Long Tan Youth Leadership and Teamwork Awards in 2009. Mr. Johnson is a son of Mr. Jiang Xiong.

Executive directors

Mr. JIANG Xiong, aged 51, was appointed as an executive director of the Company on 19 February 2002. He is also the Honorary Chairman of the Company. Mr. Jiang has over 20 years' experience in the fire services and maintenance industry in the PRC. In April 1996, he was awarded the title "Fuzhou Outstanding Entrepreneur" (福州市優秀私營企業家). In May 1996, Mr. Jiang was awarded one of the "Ten Most Outstanding Youths in Fuzhou" and in November 1997, he was appointed as "member of the Ninth Standing Committee of Fuzhou City People's Political Consultative Conference" (中國人民政治協商會議第九屆福建省福州市常務委員會委員). In May 1999, he was given the award of "Fujian Outstanding Entrepreneur" (福建省優秀青年企業家). In November 2001, he was appointed as vice-secretary-general of Fire Committee of International Police Foundation (世界警察基金會消防行業委員會副秘書長), a non-profit organisation for the promotion of police goodwill and development of police science. Mr. Jiang is a qualified engineer in the PRC and obtained the qualification of senior economist from the Human Resources Office of Fujian Provincial Government (福建省人事廳) in January 2004. Mr. Jiang was appointed as vice-president of Fujian Overseas Exchanges Association (福建省海外交流協會) in June 2013; as the executive president of Council of World Fujian Youth Association (世界福建青年聯合會) in November 2013; as the overseas committee member of Fujian Province Committee of the Chinese People's Political Consultative Conference (福建省政協海外列席委員) in 2014 and as the startup consultant of China (Fujian) Pilot Free Trade Zone (福建自貿試驗區第一批企業創新顧問專家) in 2015. Mr. Jiang is Mr. Robert Johnson's father.

Mr. ZHENG Zu Hua, aged 54, was appointed as a non-executive director of the Company on 29 July 2015 and re–designated to executive director and Chief Executive Officer on 5 April 2016. Mr. Zheng is the Chairman of the risk management committee of the Company. Mr. Zheng is (i) a member of the execution board and the general manager of the management committee of the airport sector of CIMC; (ii) the vice-chairman of the supervisory board of Ziegler; (iii) the chairman of Shenzhen CIMC-TianDa Airport Support Ltd. ("Shenzhen CIMC-TianDa"), one of the world's biggest manufacturers of passengers boarding bridge, and that of a number of other enterprises in CIMC's airport sector; and (iv) a non–executive Chairman (former executive director and CEO)of Pteris Global Limited. Mr. Zheng has over 30 years' experience in the field of engineering and machinery manufacturing. He has been working for CIMC for over 29 years. He was instrumental in Shenzhen CIMC-TianDa's rise to one of the world's top airport support companies and influential in the establishment of the airport sector of CIMC. Mr. Zheng obtained a Bachelor's degree in Engineering from the Huazhong University of Science and Technology in 1983 and graduated form the Post-graduate in Mechanical Engineering of the Southwest Jiaotong University in 1987. In addition, he obtained a Master's degree in Business Administration from the Guanghua School of Management of the Peking University in 2002.

Mr. LUAN You Jun, aged 54, was appointed as an executive director of the Company on 29 July 2015. He is also a Vice-President of the Company. Mr. Luan is (i) the chairman and the chief executive officer of Ziegler; and (ii) the vice-chairman of Shenzhen CIMC-TianDa. Mr. Luan has been working for CIMC for over 24 years and has extensive experience in sales and marketing and managing machinery manufacturing businesses. Mr. Luan obtained a Bachelor's degree and a Master's degree in Mechanical Engineering from the Dalian University of Technology in 1986 and 1989 respectively. Besides, he was awarded an advance certificate in Business Administration from the Tsinghua University in 2006.

Independent non-executive directors

Dr. LOKE Yu alias Loke Hoi Lam, aged 68, was appointed as an independent non-executive director of the Company on 1 August 2006. He is the Chairman of the audit committee and remuneration committee of the Company. Dr. Loke has over 40 years of working experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administration degree from University Teknology Malaysia and a Doctor of Business Administration degree from University of South Australia. He is a Fellow of The Institute of Chartered Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Directors. Dr Loke is also an Associate member of The Hong Kong Institute of Chartered Secretaries.

In additional to his directorship in the Company, Dr. Loke also serves as an independent non-executive director of the following companies whose shares are listed on the Stock Exchange: Chiho-Environmental Group Limited, China Beidahuang Industry Group Holdings Limited, China Household Holdings Limited, Forebase International Holdings Limited, Hang Sang (Siu Po) International Holding Company Limited, Hong Kong Resources Holdings Company Limited, Lamtex Holdings Limited, Martix Holdings Limited, SCUD Group Limited, Tianhe Chemicals Group Limited, Tianjin Development Holdings Limited, V1 Group Limited, Zhenro Properties Group Limited and Zhong An Real Estate Limited. Dr. Loke was an independent non-executive director of Winfair Investment Company Limited from April 2007 to April 2018. He had been the Company Secretary of Minih Group Limited up to 7 February 2018. Dr. Loke is a brother-in-law of Mr. Heng Ja Wei's father.

Mr. HENG Ja Wei, aged 40, was appointed as an independent non-executive director of the Company on 4 March 2009. He is the Chairman of the nomination committee of the Company. Mr. Heng is the Managing Partner of Morison Heng, Certified Public Accountants. Mr. Heng holds a Master of Science degree of the Imperial College, University of London. He is a member of The Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Certified Public Accountants. Mr. Heng is also an independent non-executive director of the following companies whose shares are listed on the Stock Exchange: Best Food Holding Company Limited, Lee & Man Chemical Company Limited, Matrix Holdings Limited and SCUD Group Limited. He also serves as the company secretary and authorized representative of China Life Insurance Company Limited. Mr. Heng is the son of a brother-in-law of Dr. Loke Yu.

Mr. HO Man, aged 49, was appointed as an independent non-executive director of the Company on 29 July 2015. Mr. Ho has over 19 years of working experience in private equity investment and finance and is currently the managing director of an investment holding company. Prior to that, Mr. Ho served as an executive partner representative of a Chengdu-based private equity investment fund from December 2011 to May 2014. Mr. Ho worked for a Hong Kong based private fund management company during January 2010 to December 2013 and was the managing director and head of China growth and expansion capital of CLSA Capital Partners from August 1997 to October 2009. Mr. Ho was awarded an Executive Master of Business Administration degree from Tsinghua University and a master's degree in finance from the London Business School. He is a Chartered Financial Analyst and a Certified Public Accountant.

In addition to his directorship in the Company, Mr. Ho has/had directorship in the following companies whose share are listed on the Stock Exchange: he was the non-executive director of SCUD Group Limited from December 2006 to October 2009 and Shanghai Tonva Petrochemical Co., Ltd. (currently known as Shanghai Dasheng Agriculture Finance Technology Co., Ltd.) from September 2008 to October 2009. He has been an independent non-executive director of Fantasia Holdings Group Co., Ltd. since October 2009; an independent non-executive director of Fu Shou Yuan International Group Limited since December 2013; an independent non–executive director of Infinity Financial Group (Holdings) Limited since November 2016; an independent non-executive director of Midas International Holdings Limited since January 2018; and an independent non-executive director of Wanjia Group Holdings Limited since February 2018. Besides, Mr. Ho was the independent director of Shenzhen Form Syntron Information Company Limited, a company listed on the ChiNext of Shenzhen Stock Exchange, from February 2012 to February 2018. He has been a director of Shenzhen Daxiang United Space Construction Ltd, a company listed on the National Equities Exchange and Quotations, since September 2015.

SENIOR MANAGEMENT

Mr. WANG De Feng, aged 49, is the president of Sichuan Chuanxiao Fire Trucks Manufacturing Company Limited) ("Sichuan Chuanxiao"), the Company's major subsidiary engaged in the production and sale of fire engines and fire prevention and fighting equipment. Mr. Wang graduated from the Second Mechanical Engineering Department of the Chongqing University. He joined the Group in 2005 and is responsible for overseeing the Group's production and sales of fire engines and fire protection equipment. Mr. Wang served as an executive director of the Company during the period from September 2006 to July 2015.

Mr. HU Yong, aged 49, is the general manager of Sichuan Chuanxiao. Mr. Hu graduated from the Xihua University (formerly known as Sichuan Institute of Technology), specializing in hydraulic mechanics. Upon graduation, he joined Sichuan Chuanxiao as a product designer. He has been working for Sichuan Chuanxiao for 22 years and was promoted to the chief engineer and then to the general manager. He has extensive experience in product technology and design, production operations, and administration and management of the company. Mr. Hu served as an executive director of the Company during the period from May 2010 to July 2015.

Ms. LIAO Hong, aged 50, is the general manager of Allied Best (China) Fire Safety Appliances Manufacturing Co., Ltd., a subsidiary of the Company. Ms. Liao is a graduate of the Chongqing University, specializing in Mechanical Engineering. Ms. Liao joined Sichuan Chuanxiao upon graduation in 1989 and had served the enterprise as a quality control officer and then sales manager, before she resigned in 2005. Ms. Liao has extensive experience in the sales and production of fire safety equipment. She joined the Group again in 2007.

CORPORATE GOVERNANCE

Corporate governance practices

Throughout the year ended 31 December 2017, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules, except for the following:

1. There were no fixed terms of appointment for the non-executive directors.

2. According to the Articles of Association, no director holding office as chairman and/or managing director shall be subject to retirement by rotation.

The details of such deviation have been disclosed in the relevant paragraphs below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

BOARD OF DIRECTORS

The Board, as at the date of this report, is composed of three executive directors, three non-executive directors and three independent non-executive directors. Name of the directors are set out in the table below. Mr. Jiang Xiong (Honorary Chairman) and Mr. Robert Johnson are father and son. Mr. Heng Ja Wei is the son of a brother-in-law of Dr. Loke Yu.

There were six Board meetings held during the year which, besides the approval of the Company's interim and annual reports, were mainly related to strategic and investment decisions. Day to day operational decisions were delegated to the management team of the Company. Other than in Board meetings, members of the Board are communicated regularly to discuss the performance of the Group which allow the Board members to have a more thorough understanding of the Group to exercise effective leadership and supervision of the Group.

The number of Board meeting attended by each of the directors of the Company is set out below:

Name of directors	No. of meetings attended
Non-executive directors	
Dr. Li Yin Hui (Chairman)	6/6
Mr. Yu Yu Qun	4/6
Mr. Robert Johnson	6/6
Executive directors	
Mr. Jiang Xiong (Honorary Chairman)	5/6
Mr. Zheng Zu Hua (Chief Executive Officer)	6/6
Mr. Luan You Jun	3/6
Independent non-executive directors	
Dr. Loke Yu	6/6
Mr. Heng Ja Wei	6/6
Mr. Ho Man	6/6

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

CONTINUOUS PROFESSIONAL DEVELOPMENT

To ensure that their contributions to the board are informed and relevant, the directors have done the following to develop and refresh their knowledge and skill:

Non-executive directors	
Dr. Li Yin Hui (Chairman)	Attend courses and trainings
Mr. Yu Yu Qun	Attend courses and trainings
Mr. Robert Johnson	Attend courses and trainings
Executive directors	
Mr. Jiang Xiong (Honorary Chairman)	Study relevant materials
Mr. Zheng Zu Hua (Chief Executive Officer)	Study relevant materials
Mr. Luan You Jun	Study relevant materials
Independent non-executive directors	
Dr. Loke Yu	Attend courses and trainings
Mr. Heng Ja Wei	Attend courses and trainings
Mr. Ho Man	Attend courses and trainings

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dr. Li Yin Hui is the Chairman of the Board and Mr. Zheng Zu Hua is the Chief Executive Officer of the Company. The Chairman is responsible for leading the Board in formulating strategic plans for the Group while the Chief Executive Officer oversees the Group's daily operations and execution of Board's decisions.

According to the Articles of Association, no director holding office as chairman and/or managing director shall be subject to retirement by rotation. This is not in strict compliance with the code provision of the Code on Corporate Governance Practices which requires every director (including those appointed for a specific term) to be subject to retirement by rotation at least once every three years.

NON-EXECUTIVE DIRECTORS

There were no fixed terms of appointment for the non-executive directors but they are subject to retirement by rotation according to the Company's Articles of Association. Under the Company's Articles of Association, one third of the directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation at each annual general meeting in accordance with the provisions of the Articles of Association. The Board is of the opinion that this serves the same objectives of the relevant provision.

REMUNERATION COMMITTEE

The Remuneration Committee as at the date of this report comprises:

Name of members	
Dr. Loke Yu (Chairman)	Independent non-executive director
Mr. Heng Ja Wei	Independent non-executive director
Mr. Ho Man	Independent non-executive director
Mr. Zheng Zu Hua	Executive director

The primary duties of the committee are to formulate policy and structure of remuneration of directors and senior management of the Group and to provide advice and recommendations thereon to the Board. During the year, the remuneration committee held one meeting and all the members have attended the meetings to review remuneration packages of the executive directors and senior management.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration of senior management of the Group for the year ended 31 December 2017 by bands is set out below:

	No. of senior management
Nil to RMB1,000,000	3

Details of the directors' remuneration are set out in note 14 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee comprises Mr. Heng Ja Wei (Chairman), Dr. Loke Yu and Mr. Ho Man, all are independent non-executive directors of the Company. The primary duties of the committee are to review the structure, size and composition of the Board, identify individuals suitably qualified to become Board members, and to make recommendation to the Board thereon. New director(s) is(are) expected to have expertise in relevant area to make contribution to the Company and to have sufficient time to participate in the decision making process of the Company. Under the Company's Articles of Association, one third of the directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation at each annual general meeting in accordance with the provisions of the Articles of Association. During the year, the nomination committee held one meeting and all the members have attended the meetings.

AUDIT COMMITTEE

The Audit Committee comprises the three independent non-executive directors, Dr. Loke Yu (Chairman), Mr. Heng Ja Wei and Mr. Ho Man. The primary duties of the audit committee are to review the Company's annual report and accounts and half-yearly report and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

During the year, the audit committee held three meetings to review and comment on the Company's interim and annual financial reports and to meet with the external auditors and participate in the reappointment and assessment of the performance of the external auditors. All the members have attended the meetings.

The Group's results for the year have been reviewed by the audit committee.

RISK MANAGEMENT COMMITTEE

As at the date of this report, the Risk Management Committee comprises:

Name of members	
Mr. Zheng Zu Hua (Chairman)	Executive director
Mr. Jiang Xiong	Executive director
Mr. Luan You Jun	Executive director
Dr. Loke Yu	Independent non-executive director
Mr. Heng Ja Wei	Independent non-executive director
Mr. Ho Man	Independent non-executive director

Its primary duties are to consider the overall objective and polices of the Group's comprehensive risk management system, to review the Group's risk management system, to assess the Group's risk profile and risk management capabilities, to consider major investigations findings on risk management matters, and to make recommendation to the Board thereon.

CORPORATE GOVERNANCE FUNCTIONS

The full Board is responsible for the corporate governance functions, during the year, it has performed the following:

– develop and review the Company's policies and practices on corporate governance;

– review and monitor training and continuous professional development of directors and senior management;

– review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

– develop, review and monitor the code of conduct to employees and directors; and

– review compliance with the Code of Corporate Governance and disclosure in the Corporate Governance Report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing their effectiveness. The Risk Management Committee and the Audit Committee assist the Board in fulfilling such responsibilities.

The Group has embedded its risk management systems into the core operating practices of its business units. Each business unit is required to review and assess the potential risks that may have impact on its ability to achieve its business objectives assigned on an ongoing basis. The review include an assessment of the relevancy and adequacy of the internal control system in addressing the potential risks. The Board has engaged the internal control team of the CIMC Group to conduct a risk assessment and internal control review on the Group's major operating functions during the year. The internal audit team reviewed the Group's operations through a predefined risk assessment and internal audit plans and discussions with the management and staff. Major risks identified are analysed with reference to the "Internal Control – Integrated Framework" issued by COSO. Risks and defects in the operations of the Group identified were reported to the Risk Management Committee and the Audit Committee and subsequently to the Board for discussions. Key management of the Group's major operating subsidiaries from different functions are assigned the tasks of designing and implementing plans to follow up the risks and defects identified.

In respect of the year ended 31 December 2017, the Board considered that the Group's risk management and internal control systems effective and adequate. In all circumstances, the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

To ensure that inside information remains confidential until disclosure and that the disclosure of such information are approved and on a timely manner, the Group adopted a "Policy and Disclosure of Inside Information" which was made with reference to the "Guidelines on Disclosure of Inside Information" published by the SFC.

AUDITOR'S REMUNERATION

The auditor's remuneration for the year were as follows:

	RMB'000
For audit services	1,147
For non-audit services	1,041
	2,188

It is the responsibilities of the directors of the Company to prepare the financial statements of the Group. The auditor is responsible for expressing an independent opinion on the consolidated financial statements of the Group based on their audit and to report the opinion to the shareholders of the Company.

GENERAL MEETING

The Company's annual general meeting was held on 22 May 2017 in Hong Kong. All the directors of the Company at the time has attended the meeting other than Mr. Luan You Jun and Mr. Robert Johnson who were occupied by other business matters.

SHAREHOLDERS' RIGHTS

Any one or more shareholders of the Company holding not less than one-tenth of the paid up share capital of the Company carrying the right of voting general meetings of the Company shall have the right to require the Board to call extraordinary general meetings ("EGM"). The shareholder(s) requesting the convening of an EGM should deposit a written requisition to the Board or the Company Secretary, specifying the transaction of business to be dealt with in the EGM. The Board shall convene such meeting within twenty one days from the date the requisition deposited and the EGM shall be held within two months after the deposit of the requisition. The written requisition may be sent to the Board or the Company Secretary by post to the Company's head office or principal place of business in Hong Kong.

A qualified shareholder may nominate a person as candidate for election of director of the Company by sending a written notice giving his intention to propose. Such nomination notice must be lodged at the Company's head office or at its Hong Kong branch share registrar within 7 days from the day after the dispatch of the notice of the general meeting (or such other period, being a period of not less than 7 days, commencing no earlier than the day after the dispatch of the notice of such meeting and ending no later than 7 days prior to the date appointed for such meeting, as may be determined by the Directors from time to time). The nomination notice lodged must be accompanied by:

a. A notice signed by the candidate indicating his/her willingness to be elected in the general meeting.

b. A biographical details of the candidate as set out in Rule13.51(2) of the Listing Rules.

ENVIRONMENTAL

In respect of environmental protection, our long term aim is to operate the Group's manufacturing processes and facilities in a manner that exert minimum impact to the environment and to ensure an efficient use of resources.

We adheres to the relevant laws and regulations including the Environmental Protection Law of the PRC, the Prevention and Control of Atmospheric Pollution Law of the PRC, the Water Pollution Prevention and Control Law of the PRC, Law of the PRC on the Prevention and Control of Ambient Noise Pollution, Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes, the Waste Disposal Ordinance and the Product Eco-responsibility Ordinance.

The Group's greenhouse gas (GHG) emission is mainly from (i) gasoline consumed by company vehicles; (ii) diesel consumed in fire engines and equipment delivery; (iii) purchased electricity for production, offices and dormitories; and (iv) natural gas for production and staff canteens. Their consumptions and the resulting GHG emission are shown in the table below:

	Units	2017 Quantity
Gasoline	ton	**22.0**
Diesel	ton	**205.6**
Purchased electricity	mWh	**1,541.2**
Natural gas	m^3	**95,232.0**
GHG emission	tCO_2e	**2,377.6**

During the production process and from domestic use of staff, sewage and hazardous waste generated are shown in the table below:

	Units	2017 Quantity
Water consumed	ton	**65,337.9**
Sewage		
Industrial	ton	**46,426.4**
Domestic	ton	**10,458.9**
Hazardous Waste		
Waste gasoline	ton	**0.8**
Waste hydraulic fluid	ton	**0.9**
Waste paint	ton	**2.9**
Waste sponge filter, activated carbon filters, cotton etc.	ton	**16.7**

We have implemented a number of environmental protection measures to reduce waste from production and to enhance the efficient use of resources, including:

(i) the use of polymer composites materials, which are recyclable, for production of tanks and truck compartments. Weight of fire engines are reduced and energy conversation enhanced with the use of the new materials;

(ii) the development of electric fire engines and hybrid electric fire engines;

(iii) the replacing of paint spraying by coloured aluminum plate purchased to reduce paint waste;

(iv) the replacing of over 400 old lightings by LED lights in factory;

(v) using daylight whenever possible and lightings on when needed only;

(vi) air-conditioning on only when outdoor temperature is above 30°C or below 5°C and indoor temperature set at 26°C in summer and 20°C in winter;

(vii) selling food scraps from staff canteen to pig farmers; and

(viii) the engagement of qualified recyclers to collect hazardous and chemical waste for decontamination at designated sites.

SOCIAL

Employment and labour practices

Employment and labour standard

A decisive factor for our sustainability is our staff. Their knowledge and competence are critical to our future development. We strive to provide them a safe and suitable platform for career development. We adhere to the applicable employment laws and regulations in Hong Kong and PRC, including the Employment Ordinance, Mandatory Provident Fund Schemes Ordinance, Employees' Compensation Ordinance, Minimum Wage Ordinance, Labour Law of the PRC and Labour Contract Law of the PRC.

At 31 December 2017, we had 567 staffs of which 307 were production line workers, 52 worked for research and development, 39 were sales representatives, 128 were back office staffs and 41 were managerial staffs. Male and female staff were in the ratio of 3.6:1, approximately 15% of our staff are university graduate or above, 20% graduated from technical college and 29% graduated from high school. We have employed four disabled staff who are responsible for various duties on the production lines.

Staff and workers are recruited after assessment of their caliber against requirements of the positions to be filled, irrespective of age, gender, race and family status of the applicant. But in any circumstances, we prohibit child labour and forced labour. We understand that our future success depends on our ability to maintain as an attractive employer. In addition to a competitive level of salary and piece rate, our staffs are also entitled to year-end bonus, staff canteen and free crew bus. Besides, all full-time employees are eligible to share options granted according to the Group's share option scheme which was set up as an incentive for continuous performance improvement. Compensation packages are regularly reviewed and adjusted against results of staff performance evaluation, change in market rate and profitability of the Group. Working hours and rest period for employees are determined in line with relevant employment laws and employment contracts.

We recognise that staff's idea and opinion are valuable as it may form a crucial part of the solution to a critical problem or may reveal an unnoticed fatal defects. We have therefore set up a mailbox in the intranet and WeChat groups for our staff to express their opinion on whatever aspect of the Group and to lodge complaints on named or anonymous basis.

Health and Safety

We have set up a committee for work safety which is responsible for implementing the Production Safety Law of the PRC to ensure a safe and healthy working environment through the formulation and execution of a series of policies. Budget for work safety are allocated each year for purchase and upgrade of protection facilities, first aid equipment and trainings, provision of information about prevention of occupational diseases and other work safety measures. All new staffs are given orientation training in which, apart from job responsibilities and work skills, workplace safety is the most emphasized topic. We have obtained the "GB/T 28001 Occupational health and safety management system" accreditation and have been following its implementation guidelines to ensure our employees' work safety.

Development and training

In addition to the on-the-job trainings, our staffs are also subsidized, on approval basis, for attending training courses that are relevant to their job responsibilities or that may strengthen their job skills. Staff may be awarded bonus for attaining accredited professional or technical qualifications. We aim to foster a learning culture such that our employees can enhance their skills and knowledge and competitiveness through continuous learning.

Operating practices

Supply chain management

The main objective of our supply management is to enable us to reduce the risk of interruption in supply flow. Our suppliers are largely selected those located in Sichuan and other provinces in the south west region. Costs and time for transportation are reduced as well as greenhouse gas emission as distance of transportation is shortened. Equipment or materials are sometimes procured overseas on customers' request. Suppliers are selected on the basis of their product quality, technical capability, production reliability, after-sale services, financial stability, prices and payment terms offered. Suppliers with comprehensive systems of quality control and records throughout the manufacturing process are preferred. Except for chassis which can only be purchased from the authorized dealers and certain parts and components that need to be tailor-made, we normally have two or more suppliers on the list of qualified suppliers (one of them as the major supplier and the others as standbys) for each production material, parts and components from which the purchasing department can select. Market information is updated regularly such that the most competitive supplier in terms of price and quality will be on the list. For some critical materials, long-term contracts are signed with the suppliers to secure stock availability at stable prices. However, we are still facing uncontrollable risk from the supplier especially in the case of chassis which is the most fundamental component of a fire engines with no substitutes and limited number of suppliers, interruption in its supply for whatever reasons will impose significant impact on our productions. The Group's production schedules were disrupted by the supply shortage of chassis in the third quarter of 2017.

Product responsibility

As a leading manufacturer of fire engines and firefighting equipment in China, CFE has never been simply a business enterprise, we shoulder the mission and responsibility of protecting lives and properties. CFE strives to provide high quality products that comply with all applicable quality and safety standards because we know each of our products may have direct bearing on the rescue of hundreds of thousands of lives and dollar worth of properties.

We have complied with all standards, rules and regulations that have significant impact on our operations, including:

(i) Standards for fire engines promulgated and administered by the National Standardisation Administration Committee of the General Administration of Quality Supervision, Inspection and Quarantine of the PRC:

- GB7956-2014 "Fire Engines Part 1: General Technical Requirements"
- GB7956-2014 "Fire Engines Part 2: Water Tender"
- GB7956-2014 "Fire Engines Part 3: Foam Tender"
- GB7956-2015 "Fire Engines Part 6: Compressed Air Foam Fire Trucks"
- GB7956-2015 "Fire Engines Part 12: Aerial Lifting Fire Trucks"
- GB7956-2015 "Fire Engines Part 14: Fire Rescue Trucks"
- GA39-2016 "Fire Engines – Performance Requirements and Test Methods"

(ii) China Compulsory Certificates (CCC certificates) for Automobiles (Fire Engines) administered by the Certification and Accreditation Administration;

(iii) National automobile emission standards in relation to the Prevention and Control of Atmospheric Pollution Law of the PRC; and

(iv) Announcement of Automobile Manufacturers and Products (道路機動車輛生產企業及產品公告) according to the Policies for Automobile Trade – Order of the Ministry of Commerce No. 16 (2005)

Product quality control
To ensure our products are up to the quality standards, we have established series of quality control procedures that run from materials purchases, through the whole production process and to the post-sales services. Quality standards are prepared by the technical department, with reference to regulatory requirements and internal quality requirements, against which the components and materials (externally acquired or internally manufactured), work-in-progress and finished goods are inspected and tested.

All fire engines sold are strictly adhered to the technical specifications as stated in the announcement published according to the requirement of the "Announcement of Automobile Manufacturers and Products". No product return/recall happened during the year.

Communications with customers
Continuous communications are kept with customers to collect their comments and feedback on the Group's products for future development and improvement. Information collected from customers is used only for the purpose for which it has been collected.

Anti-corruption
We have complied with the laws and regulations relating to anti-corruption and bribery that are applicable, such as the Law of the PRC on Anti-money Laundering and Prevention of Bribery Ordinance in Hong Kong.

Bribery, extortion, fraud and money laundering are explicitly prohibited in the Group. Cases found will be reported to the police and staff involved will be dismissed.

Community Investment
We care about environmental protection, uphold equal employment opportunities and committed to build a fair and just society.

DIRECTORS' REPORT

The directors present their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

1. PRINCIPAL ACTIVITIES AND SEGMENT ANALYSIS OF OPERATIONS

The Company acts as an investment holding company. The activities of its principal subsidiaries and associate are set out in notes 21 and 22 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segment is set out in note 9 to the consolidated financial statements.

2. RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 43.

The directors do not recommend the payment of a dividend for the year ended 31 December 2017.

3. DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at 31 December 2017 were RMB962,447,000 (2016: RMB953,824,000).

Under the Company Law (Revised) Chapter 22 of Cayman Islands, the share premium and the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of share premium and contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

4. PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on prorata basis to existing shareholders.

5. FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 112 of the annual report.

6. PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, cancelled or redeemed any listed securities of the Company.

7. SHARE OPTIONS

Particulars of the Company's share option scheme (the "Scheme") are set out in note 32 to the consolidated financial statements.

Details of the movement of share options granted under the Scheme are as follows:

Grantees	Number of shares issuable under the options Outstanding at 1 January and 31 December 2017	Exercise price	Percentage of issued share capital of the Company
		HKD	
Executive director and a substantial shareholder			
Mr. Jiang Xiong	4,000,000	0.42	0.098%
Independent non-executive directors			
Dr. Loke Yu	4,000,000	0.42	0.098%
Mr. Heng Ja Wei	4,000,000	0.42	0.098%
Mr. Ho Man	2,000,000	0.42	0.049%
	14,000,000		0.343%
Other employees	101,625,000	0.42	2.492%
	115,625,000		2.835%

7. SHARE OPTIONS *(cont'd)*

The share options outstanding at 1 January and 31 December 2017 were granted on 26 August 2015 and are valid for 10 years from 26 August 2015 to 25 August 2025 (both dates inclusive).

All of the share options outstanding were vested and available for exercise on 11 July 2017. No share option has been exercised since being vested and up to 31 December 2017.

8. DIRECTORS

The directors who held office during the year and up to date of this report were:

Non-executive directors
Dr. Li Yin Hui (*Chairman)*
Mr. Yu Yu Qun
Mr. Robert Johnson

Executive directors
Mr. Jiang Xiong *(Honorary Chairman)*
Mr. Zheng Zu Hua
Mr. Luan You Jun

Independent non-executive directors
Dr. Loke Yu
Mr. Heng Ja Wei
Mr. Ho Man

In accordance with the provisions of the Company's Articles of Association, Mr. Jiang Xiong, Mr. Zheng Zu Hua and Dr. Loke Yu retire from office and, being eligible, offer themselves for re-election.

9. DIRECTORS' SERVICE CONTRACTS

No service contract has been entered into between the Company and the directors. The term of office of each of the directors is the period to his/her retirement by rotation in accordance with the Company's Articles of Association.

10. DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE GROUP'S BUSINESS

Save as disclosed in note 14(b) to the consolidated financial statements, no transaction, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company and the director's connected party (as defined in the Listing Rules) had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

11. BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on page 10 of this annual report.

12. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE COMPANY'S SECURITIES

Save as disclosed below, as of 31 December 2017, none of the directors or chief executives has any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to Section 352 of the SFO to be entered in the register required to be kept therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), to be notified to the Company and the Stock Exchange.

Long positions in ordinary shares of the Company

Name of director	Capacity and types of interests	Number of issued shares of HK$0.01 each of the Company held	Percentage of issued capital of the Company
Mr. Jiang Xiong	Beneficial owner	981,600,000	24.07%

12. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE COMPANY'S SECURITIES *(cont'd)*

Options to subscribe for ordinary shares in the Company

Details of share options granted to the directors and chief executives are set out in section 7 "SHARE OPTIONS" to this report.

No options were granted to, or exercised by, the directors of the Company during the year.

13. DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed in section 7 "SHARE OPTIONS" to this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executives, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

14. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

As at 31 December 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors of the Company, the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company.

Long positions in the ordinary shares and shares interested under equity derivatives of the Company

Shareholders	Capacity/type of interest	Number of shares of the Company interested *(Note 10)*	Percentage of issued shares of the Company *(Note 10)*	Number of shares of the Company interested (other than under equity derivatives *(Note 11)*	Number of shares of the Company interested under equity derivatives *(Note 11)*	Total number of shares/ underlying shares of the Company under equity derivatives *(Note 11)*	Percentage of issued shares of the Company *(Note 12)*
CIMC Top Gear B.V.	Beneficial owner	1,223,571,430	30.0%	1,223,571,430	–	1,223,571,430	6.7%
Cooperatie CIMC U.A.	Interest of a controlled corporation *(Note 1)*	1,223,571,430	30.0%	1,223,571,430	–	1,223,571,430	6.7%
Sharp Vision Holdings Limited ("Sharp Vision")	Beneficial owner	–	–	4,664,472,279	4,954,490,318	9,618,962,597	52.3%
China International Marine Containers (Hong Kong) Limited ("CIMC HK")	Interest of a controlled corporation *(Note 2 & 3)*	1,223,571,430	30.0%	5,888,043,709	4,954,490,318	10,842,534,027	59.0%
CIMC	Interest of a controlled corporation *(Note 4)*	1,223,571,430	30.0%	5,888,043,709	4,954,490,318	10,842,534,027	59.0%
Fengqiang Holdings Limited ("Fengqiang")	Beneficial owner	–	–	985,600,000	1,631,151,693	2,616,751,693	14.2%
Fengqiang Hong Kong Co., Limited ("Fengqiang HK")	Interest of a controlled corporation *(Note 5)*	–	–	985,600,000	1,631,151,693	2,616,751,693	14.2%
Shenzhen TGM Ltd.* (深圳特哥盟科技有限公司) ("TGM")	Interest of a controlled corporation *(Note 5)*	–	–	985,600,000	1,631,151,693	2,616,751,693	14.2%
Genius Earn Limited	Beneficial owner	–	–	129,000,000	–	129,000,000	0.7%
Lucky Rich Holdings Limited ("Lucky Rich")	Beneficial owner	–	–	1,014,679,470	947,884,300	1,962,563,770	10.7%
Shanghai Yunrong Investment Centre* ("Shanghai Yunrong") (上海蘊融投資中心(有限合伙))	Interest of a controlled corporation (Note 6)	–	–	1,014,679,470	947,884,300	1,962,563,770	10.7%

14. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY *(cont'd)*

Long positions in the ordinary shares and shares interested under equity derivatives of the Company *(cont'd)*

Shareholders	Capacity/type of interest	Number of shares of the Company interested *(Note 10)*	Percentage of issued shares of the Company *(Note 10)*	Number of shares of the Company interested (other than under equity derivatives) *(Note 11)*	Number of shares of the Company interested under equity derivatives *(Note 11)*	Total number of shares/underlying shares of the Company under equity derivatives *(Note 11)*	Percentage of issued shares of the Company *(Note 12)*
Shenzhen Jiuming Investment Consulting Co., Ltd.* (深圳市久名投資諮詢有限公司)	Interest of a controlled corporation *(Note 6)*	–	–	1,014,679,470	947,884,300	1,962,563,770	10.7%
Liu Xiaolin	Interest of a controlled corporation *(Note 7)*	–	–	1,143,679,470	947,884,300	2,091,563,770	11.4%
Yang Yuan	Interest of Spouse *(Note 8)*	–	–	1,143,679,470	947,884,300	2,091,563,770	11.4%
Dazi Dingcheng Capital Investment Co., Ltd.* (達孜縣鼎誠資本投資有限公司)	Interest of a controlled corporation *(Note 9)*	–	–	1,014,679,470	947,884,300	1,962,563,770	10.7%
Beijing Zhongrong Dingxin Investment Management Co., Ltd.* (北京中融鼎新投資管理有限公司)	Interest of a controlled corporation *(Note 9)*	–	–	1,014,679,470	947,884,300	1,962,563,770	10.7%
Zhongrong International Trust Co., Ltd.* (中融國際信託有限公司)	Interest of a controlled corporation *(Note 9)*	–	–	1,014,679,470	947,884,300	1,962,563,770	10.7%
Jingwei Textile Machinery Co., Ltd	Interest of a controlled corporation *(Note 9)*	–	–	1,014,679,470	947,884,300	1,962,563,770	10.7%

* The English translations of the Chinese names of such PRC entities are provided for identification purpose only.

Notes:

1. Cooperatie CIMC U.A. is beneficially interested in the entire share capital of CIMC Top Gear B.V. and is taken to be interested in the 1,223,571,430 shares in which CIMC Top Gear B.V. has declared interest for the purpose of the SFO.

2. CIMC HK and CIMC are beneficially interested in 1% and 99% respectively of the issued share capital of Cooperatie CIMC U.A. and are taken to be interested in the 1,223,571,430 shares in which Cooperatie CIMC U.A. has declared interest for the purpose of the SFO.

14. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY *(cont'd)*

Long positions in the ordinary shares and shares interested under equity derivatives of the Company *(cont'd)*

Notes: *(cont'd)*

3. CIMC HK is beneficially interested in the entire share capital of Sharp Vision and is taken to be interested in the 4,664,472,279 shares and 4,954,490,318 shares interested under equity derivatives in which Sharp Vision has declared interest for the purpose of the SFO.

4. CIMC is beneficially interested in the entire share capital of CIMC HK and is taken to be interested in the 5,888,043,709 shares and 4,954,490,318 shares interested under equity derivatives in which CIMC HK has declared interest for the purpose of the SFO.

5. Fengqiang HK is beneficially interested in the entire share capital of Fengqiang and is deemed or taken to be interested in the 985,600,000 shares and 1,631,151,693 shares interested under equity derivatives in which Fengqiang has declared an interest for the purpose of the SFO. TGM is benefically interested in the entire share capital of Fengqiang HK and is deemed or taken to be interested in the 985,600,000 shares and 1,631,151,693 shares interested under equity derivatives in which Fengqiang HK has declared an interest for the purpose of the SFO.

6. Shanghai Yunrong is beneficially interested in the entire share capital of Lucky Rich and is deemed or taken to be interested in the 1,014,679,470 shares and 947,884,300 shares interested under equity derivatives in which Lucky Rich has declared an interest for the purpose of SFO. Shenzhen Jiuming Investment Consulting Co., Ltd. is beneficially interested in 0.2% of Shanghai Yunrong.

7. Mr. Liu Xiaolin is beneficially interested in the entire share capital of Genius Earn Ltd. and is deemed or taken to be interested in the 129,000,000 shares in which Genius Earn Ltd. has declared an interest for the purpose of SFO. Mr. Liu Xiaolin is beneficially interested in the entire share capital of Shenzhen Jiuming Investment Consulting Co., Ltd.

8. Ms. Yang Yuan is the spouse of Mr. Liu Xiaolin. Ms. Yang Yuan is taken to be interested in the shares in which Mr. Liu Xiaolin has declared interest for the purpose of the SFO.

9. Dazi Dingcheng Capital Investment Co., Ltd. is beneficially interested in 0.2% of the issued share capital of Shanghai Yunrong. Beijing Zhongrong Dingxin Investment Management Co., Ltd is beneficially interested in the entire issued share capital of Dazi Dingcheng Capital Investment Co., Ltd. and is beneficially interested in 88.5% of the issued share capital of Shanghai Yunrong. Zhongrong International Trust Co., Ltd. is beneficially interested in the entire issued share capital of Beijing Zhongrong Dingxin Investment Management Co., Ltd. Jingwei Textile Machinery Co., Ltd. is beneficially interested in 37.47% of the issued share capital of Zhongrong International Trust Co., Ltd.

10. The number of shares and percentage stated represents the number of shares held and as percentage of the issued share capital of the Company at 31 December 2017.

14. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY *(cont'd)*

Long positions in the ordinary shares and shares interested under equity derivatives of the Company *(cont'd)*

Notes: *(cont'd)*

11. Number of shares represents the number of shares in issue immediately after completion of the Pteris Acquisition and TianDa Acquisition, assuming (i) all the convertible bonds issued as consideration have been fully converted; and (ii) all of the outstanding share options of the Company have been exercised, as stated in the relevant disclosure of interest forms.

12. Percentage calculated based on the total number of Shares in issue immediately after completion of Pteris Acquisition and TianDa Acquisition, assuming (i) all the convertible bonds issued as consideration have been fully converted; and (ii) all of the outstanding share options of the Company have been exercised, as stated in the relevant disclosure of interest forms.

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 31 December 2017.

15. MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

16. MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2017, the aggregate purchases and revenue attributable to the Group's five largest suppliers and customers were both less than 30% of the Group's purchases and revenue respectively.

17. CONNECTED TRANSACTIONS

As disclosed in note 42 to the consolidated financial statements, on 4 December 2017, the Company and its wholly owned subsidiary entered into the Pteris agreement with Sharp Vision, an indirect wholly owned subsidiary of CIMC, a controlling shareholder of the Company. Pursuant to the Pteris Agreement, as consideration to acquire 78.15% of the equity interests in Pteris Global Limited, the Company will issue to Sharp Vision (or its nominee(s)), either (i) 6,326,428,570 shares of the Company at an issue price of HKD0.366 per share and convertible bonds in the principal amount of up to RMB1,024,307,336; or (ii) 4,664,472,279 shares of the Company at an issue price of HKD0.366 per share and convertible bonds in the principal amount of up to RMB1,541,341,938, depending on whether the TianDa Acquisition takes place. The Pteris Acquisition is subject to approval of the shareholders of the Company eligible to vote at the EGM to be held on 11 April 2018.

Details of the Pteris 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.

Save as disclosed above, the Group had no connected transaction that are required to be disclosed in accordance with Chapter 14A of the Listing Rules during the year.

The related party transactions set out in note 40 to the financial statements do not constitute connected transactions under Chapter 14A of the Listing Rules.

18. SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, it is confirmed that the Company has maintained a sufficient public float of at least 25% throughout the year ended 31 December 2017.

19. COMPETING INTERESTS

None of the directors or the management shareholder of the Company and their respective associates (as defined in the Listing Rules) had any interest in a business which competes or may compete with the business of the Group or had any other conflicts of interest, which any such person has or may have with Group.

20. EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 32 to the consolidated financial statements.

21. BUSINESS REVIEW

Business review of the Company is set out in "Management Discussion and Analyasis" on page 5 of this annual report.

22. PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the directors of the Company is currently in force and was in force throughout the financial year.

The Company has taken out and maintained directors' liability insurance throughout the year, which provides appropriate cover for the directors of the Group.

23. EVENT AFTER THE REPORTING PERIOD

Details of events occuring after the reporting period are set out in note 42 to the consolidated financial statements.

24. AUDITOR

The consolidated financial statements for the year ended 31 December 2017 have been audited by RSM Hong Kong. RSM Hong Kong will retire as auditor of the Company at the conclusion of forthcoming annual general meeting of the Company and will not offer itself for re-appointment. The Board has resolved, with the recommendation of the audit committee, to propose the appointment of PwC as auditor of the Company following the retirement of RSM Hong Kong, subject to approval by the shareholders of the Company at the forthcoming annual general meeting of the Company.

On behalf of the Board

Li Yin Hui
Chairman

27 March 2018

TO THE SHAREHOLDERS OF
CHINA FIRE SAFETY ENTERPRISE GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of China Fire Safety Enterprise Group Limited and its subsidiaries (the "Group") set out on pages 43 to 111, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), 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.

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:

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of trade receivables Refer to the financial statement disclosures in note 24 to the consolidated financial statements, the accounting policies in notes 4(k) and 4(x) and the key estimates in note 5(d). As of 31 December 2017, trade and bills receivables amounted to RMB306 million which included past due trade receivables of RMB85 million. Assessing the recoverability of past due trade receivables involves significant management judgement.	Our procedures in relation to management's impairment assessment included: – testing on a sample basis the accuracy of the ageing of trade receivables. – reviewing the receipts of cash after the year end for significant past due amounts. – holding discussions with management to understand their collection actions in respect of past due amounts and the basis of any impairment provisions for irrecoverable amounts. – reviewing critically management's impairment provision in light of the recent collection experience and also the available credit information about customers with past due amounts. – considering the adequacy of the disclosures related to credit risk and trade receivables.

Other Information

The directors are responsible for the Other Information. The Other Information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirement of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group 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 the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(cont'd)*

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 our 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.

- 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 the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' 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 the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(cont'd)*
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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Chris Wong Wo Cheung.

RSM Hong Kong
Certified Public Accountants
29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

27 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Revenue	7	**528,555**	471,252
Cost of sales		**(414,210)**	(363,991)
Gross profit		**114,345**	107,261
Other income	8	**7,838**	6,047
Selling and distribution costs		**(21,677)**	(14,779)
Administrative expenses		**(86,190)**	(58,914)
Profit from operations		**14,316**	39,615
Finance costs	10	**(131)**	(1,400)
Other expense	11	**–**	(16,224)
Share of profit of an associate		**14,718**	2,881
Profit before tax		**28,903**	24,872
Income tax expense	12	**(11,151)**	(7,586)
Profit for the year attributable to owners of the Company	13	**17,752**	17,286
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**34,381**	20,403
Share of other comprehensive income of an associate		**(1,166)**	164
Other comprehensive income for the year, net of tax		**33,215**	20,567
Total comprehensive income for the year attributable to owners of the Company		**50,967**	37,853
Earnings per share (RMB cent)	17		
Basic		**0.44**	0.42
Diluted		**0.44**	0.42

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	18	**179,156**	183,354
Prepaid land lease payments	19	**31,761**	32,555
Goodwill	20	**7,630**	7,630
Investment in an associate	22	**566,926**	518,993
		785,473	742,532
Current assets			
Inventories	23	**124,841**	138,232
Trade and bills receivables	24	**305,914**	207,533
Prepayments, deposits and other receivables		**88,562**	83,571
Amount due from an associate	25	**–**	2,151
Prepaid land lease payments	19	**794**	794
Pledged bank deposits	26	**9,166**	3,270
Bank and cash balances	26	**124,731**	132,576
		654,008	568,127
Current liabilities			
Trade and other payables	27	**309,522**	226,265
Bank borrowings	28	**–**	10,000
Provision	29	**16,224**	16,224
Current tax liabilities		**5,371**	5,171
		331,117	257,660
Net current assets		**322,891**	310,467
NET ASSETS		**1,108,364**	1,052,999

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Capital and reserves			
Share capital	31	**39,977**	39,977
Reserves	33	**1,068,387**	1,013,022
TOTAL EQUITY		**1,108,364**	1,052,999

Approved by the Board of Directors on 27 March 2018 and are signed on its behalf by:

Li Yin Hui	**Zheng Zu Hua**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 *(Note 33 (b)(i))*	Capital reserve RMB'000 *(Note 33 (b)(ii))*	Share-based payment reserve RMB'000 *(Note 33 (b)(iii))*	Exchange reserve RMB'000 *(Note 33 (b)(iv))*	Other reserve RMB'000 *(Note 33 (b)(v))*	Accumulated losses RMB'000	Total 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 year	–	–	–	–	–	34,381	(1,166)	17,752	50,967
Share-based payments	–	–	–	–	4,398	–	–	–	4,398
Total comprehensive income and changes in equity for the year	–	–	–	–	4,398	34,381	(1,166)	17,752	55,365
At 31 December 2017	39,977	1,037,907	(6,692)	88,783	17,068	53,286	(1,002)	(120,963)	1,108,364

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**28,903**	24,872
Adjustments for:			
Amortisation of prepaid land lease payments		**794**	794
Depreciation of property, plant and equipment		**10,833**	10,804
Impairment loss for bad and doubtful debts		**2,644**	339
Reversal of allowance for obsolete and slow-moving inventories		**(484)**	–
Provision for a legal claim		**–**	16,224
Gain on bargain purchase of a subsidiary	35	**(348)**	–
Finance costs		**131**	1,400
Interest income		**(2,028)**	(2,752)
Loss on disposal of property, plant and equipment		**515**	50
Share-based payments		**4,398**	8,559
Share of profit of an associate		**(14,718)**	(2,881)
Operating profit before working capital changes		**30,640**	57,409
Decrease/(increase) in inventories		**13,886**	(1,517)
(Increase)/decrease in trade and bills receivables		**(100,454)**	64,359
Increase in prepayments, deposits and other receivables		**(4,944)**	(19,911)
Increase/(decrease) in trade and other payables		**82,899**	(38,788)
Cash generated from operations		**22,027**	61,552
Interest paid		**(131)**	(1,400)
Income tax paid		**(10,970)**	(8,001)
Net cash generated from operating activities		**10,926**	52,151

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of a subsidiary	35	**(327)**	–
Purchases of property, plant and equipment		**(6,745)**	(2,045)
(Increase)/decrease in pledged bank deposits		**(5,896)**	7,456
Interest received		**2,028**	2,752
Decrease/(increase) in advance to an associate		**2,151**	(2,875)
Proceeds from disposal of property, plant and equipment		**18**	78
Net cash (used in)/generated from investing activities		**(8,771)**	5,366
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans raised		**–**	20,000
Repayment of bank loans		**(10,000)**	(50,000)
Net cash used in financing activities		**(10,000)**	(30,000)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(7,845)**	27,517
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**132,576**	105,059
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**124,731**	132,576
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**124,731**	132,576

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 I, Xin Hua Road, Chengdu Cross Straits Technological Industry Park, Wenjiang District, Chengdu City, Sichuan Province, the PRC.

The Company is an investment holding company. The principal activities of its principal subsidiaries and associate are set out in notes 21 and 22 to the consolidated financial statements 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. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). 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 these developments to the extent that they are relevant to the Group for the current and prior accounting periods 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 impact on the accounting policies of the Group. However, the Amendments to HKAS 7 Statement of Cash Flows: Disclosure Initiative require disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The effect of the amendments on the Group's consolidated financial statements has been the inclusion of additional disclosures in note 36.

(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 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 HKAS 40 Investment Property: Transfers of investment property	1 January 2018
HKFRS 16 Leases	1 January 2019
HK(IFRIC) 23 Uncertainty over Income Tax Treatments	1 January 2019

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(cont'd)*

(b) New and revised HKFRSs in issue but not yet effective *(cont'd)*

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. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

HKFRS 9 Financial Instruments

HKFRS 9 will replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed the impact of HKFRS 9 to the Group's consolidated financial statements as follows:

Impairment

HKFRS 9 requires the Group to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group does not expect the application of HKFRS 9 have significant impact on the recognition of impairment loss.

3. **ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS** *(cont'd)*

(b) **New and revised HKFRSs in issue but not yet effective** *(cont'd)*

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

Currently revenue from the sale of fire engines and fire prevention and fighting equipment is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

1. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

2. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

3. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(cont'd)*

(b) New and revised HKFRSs in issue but not yet effective *(cont'd)*

HKFRS 15 Revenue from Contracts with Customers (cont'd)

(a) Timing of revenue recognition *(cont'd)*

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

For contracts with customers in which the sale of fire engine and fire prevention and fighting equipment is generally expected to be the only performance obligation, adoption of HKFRS 15 is not expected to have any impact on the Group's revenue or profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

(b) Sales with a right of return

Currently when the customers are allowed to return the Group's products, the Group estimates the level of expected returns and makes an adjustment against revenue and cost of sales.

The Group has assessed that the adoption of HKFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(cont'd)*

(b) New and revised HKFRSs in issue but not yet effective *(cont'd)*

HKFRS 15 Revenue from Contracts with Customers (cont'd)

(c) Warranty obligations

The Group generally provides for warranties for repairs to fire engines and fire prevention and fighting equipment and does not provide extended warranties in its contracts with customers. As such, most existing warranties will be assurance-type warranties under HKFRS 15, which will continue to be accounted for under HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with its current practice.

The Group anticipates that the application of HKFRS 15 in the future may result in more disclosures, however, the Group do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating 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.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(cont'd)*

(b) New and revised HKFRSs in issue but not yet effective *(cont'd)*

HKFRS 16 Leases (cont'd)

As disclosed in note 38, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to RMB4,729,000 as at 31 December 2017. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

HK(IFRIC) 23 Uncertainty over Income Tax Treatments

The interpretation of HKAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

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 up to 31 December. 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 current ability to direct the relevant activities, 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(a) Consolidation *(cont'd)*

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 which is attributed to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(b) Business combination and goodwill *(cont'd)*

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.

4. **SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)*

(c) **Associates** *(cont'd)*

Investments 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 in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment 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 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(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 Company's functional and presentation currency 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 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 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;

4. **SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)*

(d) **Foreign currency translation** *(cont'd)*

(iii) Translation on consolidation (cont'd)

– 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 reclassified to consolidated profit or loss as part 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 repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(e) Property, plant and equipment *(cont'd)*

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(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:

– The technical feasibility of completing 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 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 is 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; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(i) Recognition and derecognition of financial instruments *(cont'd)*

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 in the case of 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. Typically trade and other receivables, bank balances and cash are 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(l) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and 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 is any contract that evidences a residual interest in the 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 would be 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(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 recognised 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(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 (excluding the effect of non-market based vesting conditions) of the equity instruments 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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(v) Taxation *(cont'd)*

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 from 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(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, 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(x) Impairment of financial assets *(cont'd)*

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. 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 31 December 2017 was RMB179,156,000 (2016: RMB183,354,000).

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 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 year, income tax of RMB11,151,000 (2016: RMB7,586,000) was charged to profit or loss based on the estimated profit for the year.

(c) 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 31 December 2017 was RMB7,630,000 (2016: RMB7,630,000). Details of the goodwill are provided in note 20 to the consolidated financial statements.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(cont'd)*

(d) Impairment loss for bad and doubtful debts

The Group makes 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 31 December 2017, the accumulated impairment loss for bad and doubtful debts was amounted to RMB19,219,000 (2016: RMB16,705,000).

(e) 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 31 December 2017, the allowance for obsolete and slow-moving inventories was amounted to RMB2,589,000 (2016: RMB3,073,000).

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 cash balances that are denominated in foreign currencies, i.e. currencies other than the functional currency of the operations to which the transactions relate.

6. FINANCIAL RISK MANAGEMENT *(cont'd)*

(a) Foreign currency risk *(cont'd)*

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

Group	Exposure to foreign currencies					
	2017			2016		
	United States dollars RMB'000	**Euro RMB'000**	**Hong Kong dollars RMB'000**	United States dollars RMB'000	Euro RMB'000	Hong Kong dollars RMB'000
Trade and bills receivables	**157**	**–**	**–**	–	–	–
Pledged bank deposits and bank and cash balances	**6,789**	**–**	**5,499**	2,514	–	5,778
Amounts due from an associate	**–**	**–**	**–**	–	2,151	–
Trade payable	**(38)**	**–**	**–**	(40)	–	–
Accrued charges	**–**	**(172)**	**(7,166)**	–	–	(2,755)
	6,908	**(172)**	**(1,667)**	2,474	2,151	3,023

The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group 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.

6. FINANCIAL RISK MANAGEMENT *(cont'd)*

(a) Foreign currency risk *(cont'd)*

	Increase/(decrease) in profit and other comprehensive income for the year	
	2017	2016
	RMB'000	RMB'000
– if RMB weakens against foreign currencies		
Hong Kong dollars ("HKD")	**(83)**	151
United States dollars ("USD")	**345**	124
Euro ("EUR")	**(9)**	108
– if RMB strengthens against foreign currencies		
HKD	**83**	(151)
USD	**(345)**	(124)
EUR	**9**	(108)

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

The Group has no significant concentrations of credit risk.

6. FINANCIAL RISK MANAGEMENT *(cont'd)*

(b) Credit risk *(cont'd)*

It has policies in place to ensure that sales are 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 international 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 the short and 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
At 31 December 2017					
Trade and other payables	**220,112**	–	–	–	**220,112**
Bank borrowings	–	–	–	–	–
At 31 December 2016					
Trade and other payables	182,264	–	–	–	182,264
Bank borrowings	10,203	–	–	–	10,203

6. FINANCIAL RISK MANAGEMENT *(cont'd)*

(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 taking place at the beginning of each year and held constant throughout the respective year.

	2017	2016
Reasonably possible change in interest rate	**50 basis points**	50 basis points
	(Decrease)/increase in profit and other comprehensive income for the year	
	RMB'000	RMB'000
– 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

	2017	2016
	RMB'000	RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**467,648**	383,285
Financial liabilities:		
Financial liabilities at amortised cost	**220,112**	192,264

(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 year less discounts and sales related tax.

8. OTHER INCOME

	2017 RMB'000	2016 RMB'000
Interest income	**2,028**	2,752
Government grants (note)	**3,000**	1,634
Rental income	**–**	192
Gain on bargain purchase of a subsidiary (note 35)	**348**	–
Sundry income	**2,462**	1,469
	7,838	6,047

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. They are managed separately because each business 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 an associate, income tax expense and finance costs. Segment assets do not include investment in an associate, 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.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

9. SEGMENT INFORMATION *(cont'd)*

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

	Production and sale of fire engines RMB'000	Production and sale of fire prevention and fighting equipment RMB'000	Elimination RMB'000	Total RMB'000
For the year ended 31 December 2017				
REVENUE				
External sales	415,481	113,074	–	528,555
Inter-segment sales	–	–	–	–
Total	415,481	113,074	–	528,555
RESULTS				
Segment profit	41,487	8,542		50,029
Interest income				2,028
Unallocated corporate expenses				(37,741)
Profit from operations				14,316
Finance costs				(131)
Share of profit of an associate				14,718
Profit before tax				28,903
Income tax expense				(11,151)
Profit for the year				17,752

9. SEGMENT INFORMATION *(cont'd)*

Information about operating segment profit or loss, assets and liabilities: *(cont'd)*

	Production and sale of fire engines RMB'000	Production and sale of fire prevention and fighting equipment RMB'000	Elimination RMB'000	Total RMB'000
At 31 December 2017				
ASSETS				
Segment assets	650,815	87,125		737,940
Investment in an associate				566,926
Pledged bank deposits				9,166
Bank and cash balances				124,731
Unallocated other receivables				718
				1,439,481
LIABILITIES				
Segment liabilities	236,171	60,261		296,432
Current tax liabilities				5,371
Provision				16,224
Unallocated other payables				13,090
				331,117
OTHER INFORMATION				
Additions to non-current assets	6,203	542		6,745
Depreciation and amortisation	10,735	892		11,627
Impairment loss for bad and doubtful debts	2,295	349		2,644
Loss on disposal of property, plant and equipment	257	258		515
(Reversal of)/allowance for obsolete and slow moving inventories	(806)	322		(484)

9. SEGMENT INFORMATION *(cont'd)*

Information about operating segment profit or loss, assets and liabilities: *(cont'd)*

	Production and sale of fire engines RMB'000	Production and sale of fire prevention and fighting equipment RMB'000	Elimination RMB'000	Total RMB'000
For the year ended 31 December 2016				
REVENUE				
External sales	370,369	100,883	–	471,252
Inter-segment sales	–	–	–	–
Total	370,369	100,883	–	471,252
RESULTS				
Segment profit	45,000	5,591		50,591
Interest income				2,752
Unallocated corporate expenses				(13,728)
Profit from operations				39,615
Finance costs				(1,400)
Other expense				(16,224)
Share of profit of an associate				2,881
Profit before tax				24,872
Income tax expense				(7,586)
Profit for the year				17,286

9. SEGMENT INFORMATION *(cont'd)*

Information about operating segment profit or loss, assets and liabilities: *(cont'd)*

	Production and sale of fire engines RMB'000	Production and sale of fire prevention and fighting equipment RMB'000	Elimination RMB'000	Total RMB'000
At 31 December 2016				
ASSETS				
Segment assets	557,346	85,027		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				11,296
				1,310,659
LIABILITIES				
Segment liabilities	166,939	56,571		223,510
Current tax liabilities				5,171
Bank borrowings				10,000
Provision				16,224
Unallocated other payables				2,755
				257,660
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	31	19		50

9. SEGMENT INFORMATION *(cont'd)*

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	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**528,555**	471,252	**218,542**	223,538
Germany	**–**	–	**566,926**	518,993
Others	**–**	–	**5**	1
	528,555	471,252	**785,473**	742,532

Revenue from major customers:

None of the customers contributed more than 10% of the Group's total revenue for both 2016 and 2017.

10. FINANCE COSTS

	2017	2016
	RMB'000	RMB'000
Interest on bank borrowings	**131**	1,400

11. OTHER EXPENSE

	2017	2016
	RMB'000	RMB'000
Provision for a legal claim in respect of a rental dispute (note 29)	**–**	16,224

12. INCOME TAX EXPENSE

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

	2017 RMB'000	2016 RMB'000
Current tax – PRC Enterprise Income Tax		
Provision for the year	**11,164**	7,910
Over-provision in prior years	**(13)**	(324)
	11,151	7,586

No provision for Hong Kong Profits Tax has been made for 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 Enterprise 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% (2016: 15%).

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

	2017 RMB'000	2016 RMB'000
Profit before tax	**28,903**	24,872
Tax at the PRC Enterprise Income Tax rate of 25% (2016: 25%)	**7,226**	6,218
Tax effect of income that is not taxable	**(876)**	(1,271)
Tax effect of expenses that are not deductible	**10,652**	12,399
Tax effect of temporary differences not recognised	**902**	(4,689)
Tax effect of share of result of an associate	**(3,680)**	(721)
Tax effect attributable to tax concessions	**(6,425)**	(5,273)
Tax effect of tax losses not recognised	**795**	823
Over-provision in prior years	**(13)**	(324)
Withholding tax on dividend	**1,622**	–
Effect of different tax rates of subsidiaries	**948**	424
Income tax expense	**11,151**	7,586

13. PROFIT FOR THE YEAR

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

	2017	2016
	RMB'000	RMB'000
Amortisation of prepaid land lease payments	**794**	794
Auditor's remuneration	**1,147**	1,383
Cost of inventories sold (note (i))	**414,210**	363,991
Depreciation of property, plant and equipment	**10,833**	10,804
Impairment loss for bad and doubtful debts	**2,644**	339
Loss on disposal of property, plant and equipment	**515**	50
Net foreign exchange loss/(gain)	**1,087**	(1,826)
Operating lease charges in respect of rented premises	**2,329**	2,252
Provision for a legal claim	**–**	16,224
Research and development expenditure (note (ii))	**18,621**	18,622
Reversal of allowance for obsolete and slow-moving inventories	**(484)**	–

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 RMB32,063,000 (2016: RMB31,587,000) 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 RMB6,668,000 (2016: RMB5,699,000) which are included in the amounts disclosed separately above.

14. BENEFITS AND INTEREST OF DIRECTORS

(a) Directors' emoluments

The remuneration of every director is set out below:

	2017						2016					
	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Retirement benefits scheme contribution RMB'000	Estimated money value of other benefit RMB'000 (Note (i))	Total RMB'000	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Retirement benefits scheme contribution RMB'000	Estimated money value of other benefit RMB'000 (Note (i))	Total RMB'000
Non-executive directors												
Dr. Li Yin Hui	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Yu Yu Qun	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Robert Johnson	335	–	–	–	–	335	–	–	–	–	–	–
Mr. Jiang Qing (note iii)	–	–	–	–	–	–	–	140	–	2	296	438
	335	–	–	–	–	335	–	140	–	2	296	438
Executive directors												
Mr. Jiang Xiong	–	1,300	–	16	159	1,475	–	1,286	–	8	310	1,604
Mr. Zheng Zu Hua (note ii)	208	591	–	16	–	815	205	796	–	4	–	1,005
Mr. Luan You Jun	208	–	–	–	–	208	272	–	–	–	–	272
Mr. Jiang Qing (note iii)	–	–	–	–	–	–	–	259	–	4	562	825
	416	1,891	–	32	159	2,498	477	2,341	–	16	872	3,706
Independent non-executive directors												
Dr. Loke Yu	208	–	–	–	159	367	206	–	–	–	310	516
Mr. Heng Ja Wei	208	–	–	–	159	367	206	–	–	–	310	516
Mr. Ho Man	208	–	–	–	80	288	206	–	–	–	155	361
	624	–	–	–	398	1,022	618	–	–	–	775	1,393
	1,375	1,891	–	32	557	3,855	1,095	2,481	–	18	1,943	5,537

14. BENEFITS AND INTEREST OF DIRECTORS *(cont'd)*

(a) Directors' emoluments *(cont'd)*

Notes:

(i) Estimated money values of other benefit represents share-based payments.

(ii) Mr. Zheng Zu Hua was re-designated from non-executive director to executive director on 5 April 2016.

(iii) Mr. Jiang Qing was re-designated from executive director to non-executive director on 5 April 2016. He subsequently resigned on 26 May 2016 but continue to be employed as the Chief Business Development Officer of the Company.

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

Neither the Chief Executive nor any of the directors waived any emoluments during the year. Mr. Jiang Qing waived a bonus of RMB10,000,000 granted to him during 2016.

(b) Directors' material interests in transactions, arrangements or contracts

On 4 December 2017, the Company and its subsidiary, Wang Sing Technology Limited ("Wang Sing"), entered into a sales and purchase agreement to acquire 78.15% and 21.26% respectively from Sharp Vision Holdings Limited ("Sharp Vision") and Fengqiang Holdings Limited ("Fengqiang"), of the equity interests in Pteris Global Limited ("Pteris"), a non-wholly owned subsidiary of China International Marine Containers (Group) Co., Ltd. ("CIMC") (the "Pteris Acquisition"). Fengqiang is wholly-owned by Shenzhen TGM Limited (深圳特哥盟科技有限公司) ("TGM"), a company established in the PRC which is in turn owned by the employees of Pteris and its subsidiaries. Mr. Zheng Zu Hua and Mr. Luan You Jun, each being an executive director of the Company, hold approximately 7.2% and 4.5% of the equity interest in TGM, respectively. Details of the Pteris Acquisition 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. CIMC is a 30% shareholder of the Company.

Save as disclosed above, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

15. EMPLOYEE BENEFITS EXPENSE

	2017 RMB'000	2016 RMB'000
Employee benefits expense (including directors' emoluments):		
Salaries, bonuses and allowances	**45,923**	42,502
Equity-settled share-based payments	**4,398**	8,559
Retirement benefit scheme contributions	**8,668**	7,654
	58,989	58,715

Five highest paid individuals

The five highest paid individuals in the Group during the year included one (2016: two) director, whose emoluments are included in note 14 to the consolidated financial statements. The emoluments of the remaining four (2016: three) individuals are set out below:

	2017 RMB'000	2016 RMB'000
Salaries and other benefits	**2,501**	1,942
Equity-settled share-based payments	**2,375**	2,449
Retirement benefit scheme contributions	**92**	68
	4,968	4,459

15. EMPLOYEE BENEFITS EXPENSE *(cont'd)*

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
Nil to HKD1,000,000 (equivalent to RMB834,100)	**–**	–
HKD1,000,001 to HKD1,500,000 (equivalent to RMB834,101 to RMB1,251,150)	**3**	–
HKD1,500,001 to HKD2,000,000 (equivalent to RMB1,251,151 to RMB1,668,200)	**–**	3
HKD2,000,001 to HKD2,500,000 (equivalent to RMB1,668,201 to RMB2,085,250)	**1**	–
	4	3

During the year, no emoluments were paid by the Group to any of the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2016: Nil).

16. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2017 (2016: Nil).

17. EARNINGS PER SHARE

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

	2017	2016
	RMB'000	RMB'000
Profit for the year attributable to owners of the Company	**17,752**	17,286
Number of shares	**'000**	'000
Weighted average number of ordinary shares	**4,078,571**	4,078,571

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

18. PROPERTY, PLANT AND EQUIPMENT

	Group						
	Buildings	Plant and equipment	Furniture and fixtures	Computers	Motor vehicles	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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	–	5,936	205	260	344	–	6,745
Acquisition of a subsidiary (note 35)	–	5	–	9	409	–	423
Disposals	–	(1,752)	(105)	(177)	(420)	–	(2,454)
Written off	–	–	–	(27)	–	–	(27)
At 31 December 2017	267,906	26,133	2,282	1,269	4,762	37	302,389
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 year	7,952	1,998	219	189	475	–	10,833
Disposals	–	(1,310)	(95)	(156)	(360)	–	(1,921)
Written off	–	–	–	(27)	–	–	(27)
At 31 December 2017	103,975	14,593	1,648	637	2,343	37	123,233
Carrying amount							
At 31 December 2017	163,931	11,540	634	632	2,419	–	179,156
At 31 December 2016	171,883	8,039	658	573	2,201	–	183,354

19. 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:

	2017 RMB'000	2016 RMB'000
At 1 January	**33,349**	34,143
Amortisation of prepaid land lease payments	**(794)**	(794)
At 31 December	**32,555**	33,349
Current portion	**(794)**	(794)
Non-current portion	**31,761**	32,555

20. GOODWILL

	2017 RMB'000	2016 RMB'000
Cost and carrying amount		
At 1 January and 31 December	**7,630**	7,630

20. GOODWILL *(cont'd)*

Goodwill acquired in a business combination is allocated to the following cash-generating unit ("CGU") that are expected to benefit from that business combination. The carrying amount of goodwill as at 31 December 2016 and 2017 is allocated as follows:

	2017	2016
	RMB'000	RMB'000
Production and sale of fire engines	**7,630**	7,630

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 14.40% (2016: 15.27%). The cash flows beyond that five-year period have been extrapolated using a steady annual growth rate at 1% (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.

21. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 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/limited liability company	British Virgin Islands	4,984,359 ordinary shares of USD1 each	100% (note (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
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 Co., Ltd (“Chuanxiao Motor Services”)/limited liability company (note ii)	PRC	Paid-up capital of RMB800,000	100%	Provision of fire engines repairs and maintenance services

Note: (i) Shares held directly by the Company.

(ii) The Group acquired all the equity interest of Chuanxiao Motor Services in 2017.

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

21. INVESTMENTS IN SUBSIDIARIES *(cont'd)*

At 31 December 2017, the bank and cash balances of the Group's subsidiaries in the PRC denominated in RMB amounted to RMB121,590,000 (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.

22. INVESTMENT IN AN ASSOCIATE

	2017	2016
	RMB'000	RMB'000
Unlisted investments:		
Share of net assets	**245,277**	217,138
Goodwill	**321,649**	301,855
	566,926	518,993

Details of the Group's associate at 31 December 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, representing 30% issued share capital of the Company to CIMC Top Gear B.V. ("CIMC Top Gear", a wholly owned subsidiary of CIMC) as purchase consideration. The closing price of the Company's shares as quoted on the Stock Exchange on the date of completion 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 date of completion which was recognised as amount due from an associate. In 2016, the Group and CIMC Top Gear resolved to waive the shareholders loan and approved Ziegler to convert the said loan into Ziegler's capital reserves on 1 December 2016 (note 25).

22. INVESTMENT IN AN ASSOCIATE *(cont'd)*

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 IFRS financial statements of Ziegler and its subsidiaries.

	Ziegler	
	2017	2016
	RMB'000	RMB'000
At 31 December:		
Non-current assets	**425,982**	398,404
Current assets	**1,141,824**	949,677
Non-current liabilities	**(77,429)**	(74,131)
Current liabilities	**(875,058)**	(729,179)
Non-controlling interests	**(2,125)**	(1,926)
Net assets	**613,194**	542,845
The Group's 40% share of net assets	**245,277**	217,138
Goodwill	**321,649**	301,855
The Group's share of carrying amount of interests	**566,926**	518,993

The change in balance of goodwill represents the exchange difference arising from translation of the goodwill, which is denominated in the functional currency of Ziegler, into RMB at the closing rate at 31 December 2017.

22. INVESTMENT IN AN ASSOCIATE *(cont'd)*

	Ziegler For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Revenue	**1,776,419**	1,620,019
Profit for the year attributable to owners of Ziegler	**36,795**	7,201
Other comprehensive income	**(2,915)**	408
Total comprehensive income	**33,880**	7,609
The Group's 40% share of profit	**14,718**	2,881
The Group's 40% share of other comprehensive income	**(1,166)**	164

At 31 December 2016 and 2017, Ziegler has no bank and cash balances in the PRC denominated in RMB.

23. INVENTORIES

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

	2017	2016
	RMB'000	RMB'000
Raw materials	**35,919**	25,895
Work in progress	**36,169**	32,117
Finished goods	**52,753**	80,220
	124,841	138,232

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

24. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade and bills receivables	**325,133**	224,238
Less: Impairment loss for bad and doubtful debts	**(19,219)**	(16,705)
	305,914	207,533

The Group allows an average credit period of 30 days to 180 days to its trade 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:

	2017 RMB'000	2016 RMB'000
0 – 90 days	**187,421**	91,292
91 – 180 days	**33,686**	42,095
181 – 360 days	**35,800**	35,705
Over 360 days	**49,007**	38,441
	305,914	207,533

24. TRADE AND BILLS RECEIVABLES *(cont'd)*

Apart from the trade and bills receivables 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 at 31 December 2016 and 2017 were all denominated in RMB.

As at 31 December 2017, trade and bills receivables of RMB84,807,000 (2016: RMB74,146,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2017	2016
	RMB'000	RMB'000
181 – 360 days	**35,800**	35,705
Over 360 days	**49,007**	38,441
	84,807	74,146

Reconciliation of impairment loss for bad and doubtful debts:

	2017	2016
	RMB'000	RMB'000
At 1 January	**16,705**	17,571
Impairment loss for the year	**2,644**	339
Amounts written off	**(130)**	(1,205)
At 31 December	**19,219**	16,705

The management closely monitors the credit quality of the trade receivables and considers the trade receivables that were past due but not impaired to be recoverable. Based on the payment pattern of the customers of the Group, trade receivables that were past due but not impaired were generally collectable as there has not been a significant change in credit quality and loss event of these customers. Impairment loss for bad and doubtful debts recognised for 2016 and 2017 were on trade receivables which were either aged over two years or customers which had either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

25. AMOUNT DUE FROM AN ASSOCIATE

	2017 RMB'000	2016 RMB'000
Interest receivable	–	2,151

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

26. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

Bank balances carry interest ranging from Nil to 0.35% (2016: Nil to 0.35%) per annum.

The pledged bank deposits are mainly to secure banking facilities granted to the Group and carry interest at 0.35% (2016: 0.35%) per annum.

As at 31 December 2017, pledged bank deposit and bank and cash balances of the Group in the PRC denominated in RMB amount to RMB121,590,000 (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.

27. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	146,183	106,397
Accrued charges	73,929	61,312
Receipts in advance	71,331	44,001
Value added tax, sales tax and other levies	18,079	14,555
	309,522	226,265

27. TRADE AND OTHER PAYABLES *(cont'd)*

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

	2017 RMB'000	2016 RMB'000
0 – 30 days	**65,293**	50,480
31 – 60 days	**21,549**	12,292
61 – 90 days	**7,172**	7,892
Over 90 days	**52,169**	35,733
	146,183	106,397

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

28. BANK BORROWINGS

	2017 RMB'000	2016 RMB'000
Bank loans, unsecured	**–**	10,000

The Group's bank borrowings at 31 December 2016 were denominated in RMB and were due for settlement within 12 months (shown under current liabilities).

The bank loans were guaranteed by a subsidiary of the Company.

The average interest rates for the year ended 31 December are as follows:

	2017	2016
Bank loans	**N/A**	5.315%

The interest rates for the bank loans outstanding 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.

29. PROVISION

	RMB'000
At 1 January 2016	–
Addition	16,224
At 31 December 2016, 1 January 2017 and 31 December 2017	16,224

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

30. DEFERRED TAX

At 31 December 2017, the Group has unused tax losses of RMB89,312,000 (2016: RMB143,300,000) available for offset 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 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 is RMB236,023,000 (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.

31. SHARE CAPITAL

	Number of shares	Amount
		HKD'000
Authorised:		
Shares of HKD0.01 (2016: HKD0.01) each		
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	10,000,000,000	100,000
Issued and fully paid:		
Shares of HKD0.01 (2016: HKD0.01) each		
At 1 January 2016	2,855,000,000	28,550
Shares issued for acquisition of an associate (note 22)	1,223,571,430	12,236
At 31 December 2016, 1 January 2017 and 31 December 2017	4,078,571,430	40,786

	2017	2016
	RMB'000	RMB'000
Shown in the consolidated financial statements as	**39,977**	39,977

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 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).

31. SHARE CAPITAL *(cont'd)*

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

	2017	2016
	RMB'000	RMB'000
Total debt	**–**	10,000
Adjusted capital	**1,108,364**	1,052,999
Debt-to-adjusted capital ratio	**N/A**	1%

The decrease in the debt-to-adjusted capital ratio during 2017 resulted primarily from the repayments of bank borrowings.

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 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.

32. 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.

32. SHARE-BASED PAYMENTS *(cont'd)*

Equity-settled share option scheme *(cont'd)*

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 in any event not exceeding 10 years. 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 report.

32. SHARE-BASED PAYMENTS *(cont'd)*

Equity-settled share option scheme *(cont'd)*

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

	2017		2016	
	No. of share options	**Exercise Price (HKD)**	No. of share options	Exercise price (HKD)
Outstanding at 1 January and 31 December	**115,625,000**	**0.42**	115,625,000	0.42
Exercisable at end of the year	**115,625,000**	**0.42**	–	–

The share options outstanding at 31 December 2016 and 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 31 December 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 year ended 31 December 2017, employee's share-based payment of approximately HKD4,984,000 (equivalent to approximately RMB4,398,000) (2016: HKD9,983,000 (equivalent to approximately RMB8,559,000)) has been charged to the Group's profit for the year with a corresponding credit to the share-based payment reserve.

33. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are 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 in note 4(s) to the consolidated financial statements.

(iv) Exchange reserve

Group

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.

Company

The exchange reserve arose from the change of functional currency of the Company from HKD to RMB in prior year.

(v) Other reserve

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

34. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Non-current assets		
Investments in subsidiaries	**187,567**	187,567
Current assets		
Prepayments, deposits and other receivables	**40**	44
Amounts due from subsidiaries	**814,405**	801,567
Bank and cash balances	**4,549**	4,743
	818,994	806,354
Current liabilities		
Accrued charges	**1,412**	1,793
Net current assets	**817,582**	804,561
NET ASSETS	**1,005,149**	992,128
Capital and reserves		
Share capital	**39,977**	39,977
Reserves	**965,172**	952,151
	1,005,149	992,128

Approved by the Board of Directors on 27 March 2018 and are signed on its behalf by:

Li Yin Hui	**Zheng Zu Hua**
Director	*Director*

34. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(cont'd)*

(b) Reserve movement of the Company

	Share premium	Capital reserve	Share-based payment reserve	Exchange reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000 (Note 33(b)(iv))	RMB'000	RMB'000
At 1 January 2016	1,037,907	170,607	4,111	(3,342)	(252,142)	957,141
Total comprehensive income for the year	–	–	–	–	(13,549)	(13,549)
Share-based payments	–	–	8,559	–	–	8,559
At 31 December 2016 and 1 January 2017	1,037,907	170,607	12,670	(3,342)	(265,691)	952,151
Total comprehensive income for the year	–	–	–	–	8,623	8,623
Share-based payments	–	–	4,398	–	–	4,398
At 31 December 2017	1,037,907	170,607	17,068	(3,342)	(257,068)	965,172

35. ACQUISITION OF A SUBSIDIARY

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

35. ACQUISITION OF A SUBSIDIARY *(cont'd)*

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

	At date of acquisition
	RMB'000
Property, plant and equipment (note 18)	423
Inventories	11
Trade and other receivables	618
Bank and cash balances	473
	1,525
Trade and other payables	(358)
Current tax liabilities	(19)
	(377)
Fair value of net identifiable assets attributable to the Group	1,148
Consideration of acquisition	(800)
Gain on bargain purchase	348

Net cash outflow arising from acquisition:

Consideration of acquisition settled in cash	(800)
Cash and cash equivalents acquired	473
	(327)

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2017	**Cash flows**	**Interest expenses**	**31 December 2017**
	RMB'000	RMB'000	RMB'000	RMB'000
Bank Borrowings (note 28)	10,000	(10,131)	131	–

37. CAPITAL COMMITMENTS

At 31 December 2017, the Group's capital commitments are as follows:

	2017	2016
	RMB'000	RMB'000
Property, plant and equipment	**7,467**	14,205

38. OPERATING LEASE COMMITMENTS

As lessee

At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017	2016
	RMB'000	RMB'000
Within one year	**2,425**	1,991
In the second to fifth year inclusive	**2,304**	3,366
	4,729	5,357

38. OPERATING LEASE COMMITMENTS *(cont'd)*

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.

39. 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% (2016: 19%) of the basic salary of its eligible PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions paid for the year ended 31 December 2017 amounted to RMB8,564,000 (2016: RMB7,566,000).

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 contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme. During the year ended 31 December 2017, the Group made to the MPF Scheme contributions amounting to RMB104,000 (2016: RMB88,000).

40. RELATED PARTY TRANSACTIONS

(a) 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 year:

	2017	2016
	RMB'000	RMB'000
Interest income receivable from an associate	–	1,420

(b) The key management personnel are the directors. The details of the remuneration paid to them are set out in note 14 to the consolidated financial statements.

41. CONTINGENT LIABILITIES

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

42. EVENT 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 78.15% and 21.26% of the equity interests in Pteris, a non-wholly owned subsidiary of CIMC, respectively from Sharp Vision and Fengqiang; and
TianDa Agreement:	to acquire 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 Lucky Rich (the "TianDa Acquisition).

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 HKD0.366 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 the EGM 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

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 to be held on 11 April 2018.

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.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	**2017** **RMB'000**
RESULTS					
Revenue	836,812	846,828	662,399	471,252	**528,555**
(Loss)/profit before tax	(149,449)	(490,859)	39,928	24,872	**28,903**
Income tax expense	(12,281)	(11,180)	(9,484)	(7,586)	**(11,151)**
(Loss)/profit for the year	(161,730)	(502,039)	30,444	17,286	**17,752**
Attributable to:					
Owners of the Company	(152,871)	(503,854)	18,611	17,286	**17,752**
Non-controlling interests	(8,859)	1,815	11,833	–	**–**
	(161,730)	(502,039)	30,444	17,286	**17,752**
(Loss)/earnings per share (RMB cents)					
Basic	(5.35)	(17.65)	0.54	0.42	**0.44**
Diluted	(5.35)	(17.65)	0.54	0.42	**0.44**

	At 31 December				
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	**2017** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,687,623	1,324,258	1,317,226	1,310,659	**1,439,481**
Total liabilities	(602,527)	(721,099)	(310,639)	(257,660)	**(331,117)**
	1,085,096	603,159	1,006,587	1,052,999	**1,108,364**
Equity attributable to owners of the Company	1,057,464	549,123	1,006,587	1,052,999	**1,108,364**
Non-controlling interests	27,632	54,036	–	–	**–**
Total equity	1,085,096	603,159	1,006,587	1,052,999	**1,108,364**