CFE

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

Annual Report
2016

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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
Royal Bank Of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Ground 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
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CHAIRMAN'S STATEMENT

Despite the 16.6% drop in revenue for the year ended 31 December 2016, the growth in sale of high-margin special vehicles such as bidirectional trucks and large-sized fire engines that equipped with advanced chassis and equipment have driven up the Group's overall profit margin and largely compensated the profit lost from revenue slipped. Profit from operations for the year was broadly in line with that of previous year. However, because of the decrease in share of profit of associates and the provision for a rental dispute, the Group's profit for the year declined as compared to last year. The Group's financial results are explained in the "Business review" section of the Management Discussion and Analysis.

2016 has seen a significant change in the management of the Group. Mr. Zheng Zu Hua, my fellow director, has taken over the challenge of the Chief Executive Officer since April 2016. Mr. Zheng has extensive knowledge and experience in management and has proven records of success with CIMC. During the year, we have engaged an internal control team of the CIMC Group to run a risk assessment and internal control review of the Group, quite a number of areas for improvement have been identified. The assumption of the role of CEO by Mr. Zheng implies not only a new management model but a series of changes to reshape CFE in the years ahead.

The Board is mindful of its role as guardian of shareholders' money. In addition to ensuring operating excellence, we are restless in hunting for shareholders value. On one hand, we have been searching for fire engines and fire equipment manufacturing enterprises in China and overseas for cooperation or merger and acquisition. We have visited quite a number of target companies and have discussed with the respective owners and management and hopefully will have some achievements in 2017. On the other hand, we are committed to optimize the Group's management in all respects, and enhance our competitiveness through flexibility in management and increased input into research and development. We are confident that such measures would well prepare us to overcome the stiff competition brought by the release of the restrictions in number of qualified fire engines manufacturers by the relevant authorities at the beginning of 2016.

When CIMC came into CFE last year, it aims at pushing CFE to top the global fire engines market. Today, CFE and CIMC are still working towards this aim. This is not an easy road and without the dedications of my fellow directors and all the staff, this road is even tougher. I would like to thank all of them for their contributions made.

Li Yin Hui
Chairman
27 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Revenue of the Group dropped 16.6% to RMB471 million for the year ended 31 December 2016. Profit from operations for the year was RMB39.6 million, broadly in line with the prior year. Profit for the year, however, declined 43.2% to RMB17.3 million. To better comply with the accounting policies, the Group's revenue, from fire engines in particular, can only be recognized when customers finished their inspection on the products. The relaxation of the restrictions in number of qualified fire engines manufacturers by the Ministry of Industry and Information Technology and the Ministry of Public Security from the beginning of 2016 has rapidly boost up the number of players in the market and put stress on the Group's order books.

In spite of the decline in revenue, the lost in profit was largely compensated by the increase in gross profit margin due to change in product mix and customer mix. The growth in sales of special vehicles, such as the first lot of bidirectional trucks sold since launched; and sale of large-sized fire engines that equipped with more equipment and advanced chassis, have driven up the gross profit margin for the year as those trucks required comparatively more advanced production techniques and complicated production procedures and could be sold at higher profit margins.

The drop in profit for the year was attributable to: (i) the decrease in share of profit of associates; and (ii) the provision for a rental dispute amounted to RMB16 million as referred to in note 30 to the consolidated financial statements. The Group completed the acquisition of 40% of Albert Ziegler GmbH ("Ziegler") in July 2015 and therefore shared only the financial results for the second half of 2015. The first two quarters of a year are normally the slack seasons for Ziegler and the Group should have been shared a loss of approximately RMB9.4 million for 2015, had Ziegler's results for the full year been taken into account.

The market for conventional fire trucks is approaching saturation but demand for special vehicles is rising. The Group has focused on developing those products that cater for market needs and are able to fill market gaps in recent years. For the projects discussed in the annual report last year, the bi-directional trucks have been sold in 2016. Orders for aerial platform trucks have been received which is expected to be delivered in 2017. The development of the large-scale compressed air extinguishing system which is designed specifically to tackle conflagrations in areas with oil tanks, oil depots and petrochemical storage and factories, one of the research projects of the thirteen national five year plan, is progressing smoothly and may launch soon.

In addition to growth through internal development, the Group is actively looking for merger and acquisition opportunities. The Group is negotiating to acquire fire engine and fire equipment manufacturing companies in China and in Europe. The acquisitions, if succeed, will enrich the Group's product portfolio and technologies and enlarge its market coverage by building a solid foothold in the international market.

Financial resources, liquidity, contingent liabilities and pledge of assets

The Group's bank and cash balances at 31 December 2016 were approximately RMB136 million (2015: RMB116 million), of which RMB3 million (2015: RMB11 million) was pledged for bid bond guarantee issued, performance guarantee, and guarantee for letter of credit issued. Outstanding balances of the short term bank loans borrowed by a subsidiary in Sichuan as at the year-end date reduced to RMB10 million (2015: RMB40 million). The increase in net cash balances was mainly due to the Group's strengthened effort in recovering accounts receivables. The Group has also strengthen its after-sales services to follow up the problems that customers may encounter in respect of the products purchased so as to enhance their satisfaction and willingness to pay.

As at 31 December 2016, the current assets and current liabilities of the Group were approximately RMB568 million (2015: RMB664 million) and RMB258 million (2015: RMB311 million) respectively. The current ratio was approximately 2.2 times (2015: 2.1 times). Gearing ratio (interest bearing debt/total equity (non-controlling interests excluded)) at end of the year was 1% (2015: 4%). The reduction in current assets at end of 2016 was mainly due to the decrease in the amounts due from an associate as the Group waived the loan receivable from Ziegler amounted to RMB76 million (in original currency EUR10 million) in December 2016. In view of the improving performance of Ziegler for recent years and the growing sales orders received, the Group and CIMC, the other 60% shareholder, approved Ziegler to convert the shareholders loans due into capital reserves in December 2016, in order to facilitate its raising of low-rate Euro bank loans in the local German market by improving its debt-to-equity ratio. Following Ziegler's loan-equity conversion, the Group recognised an increase in investment in associate to offset the reduction in amounts due from associate. Decrease in gearing ratio was due to the repayment of bank loans during the year as the Group's cash position improved.

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 minimize 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 2016.

Save as disclosed, the Group has no material contingent liabilities or pledge of assets for the year ended 31 December 2016.

Investments, disposals and capital commitments

Capital commitments

As at 31 December 2016, the Group has capital commitment of approximately RMB14 million (2015: RMB16 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 2016.

Employees and remuneration policies

As at 31 December 2016, the Group had 550 full-time employees (2015: 576). Staff costs for the year (excluding directors' remuneration and those incurred for the discontinued operations) was RMB53.2 million (2015: RMB48.2 million). The Company issued share options to certain directors and employees in August 2015. Subject to the vesting conditions, the options are to be vested in maximum 2 years. They were valued at HKD20 million (approximately RMB16.6 million) at date of grant and among which, HKD10.0 million (approximately RMB8.6 million) in relation to the value of the options for the year ended 31 December 2016 were charged to the profit for the year as share based payments. The share based payments charged to the profit for 2015, from date of grant to 31 December 2015, were HKD5.0 million (approximately RMB4.1 million). 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 20.

Compliance with regulations

There was no material breach or non-compliance with the laws and regulations applicable to the Group. Certain rules and regulations have significant impact on the operations of the Group especially those govern the design and production of its products. Details of such rules and regulations are set out in the section "Product Responsibility" of the Environmental, Social and Governance Report on page 20.

Relationship with employees, customers and suppliers

The Group's policies in respect of staff recruitment, training, compensation and communication are set out in the relevant sections in the Environmental, Social and Governance Report on page 20.

The Group recognizes 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 AND SENIOR MANAGEMENT

DIRECTORS

Non-executive directors

Dr. LI Yin Hui, aged 49, was appointed as a non-executive director and the Chairman of the Company on 29 July 2015. He is (i) the 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. 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 51, was appointed as a non-executive director of the Company on 26 May 2016. He is 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 of Hong Kong Limited (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 third session 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 25, 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.

DIRECTORS AND SENIOR MANAGEMENT

Executive directors

Mr. JIANG Xiong, aged 50, 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 53, 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. ("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 28 years. He was instrumental in 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.

DIRECTORS AND SENIOR MANAGEMENT

Mr. LUAN You Jun, aged 52, 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 CIMC-TianDa. Mr. Luan has been working for CIMC for over 20 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 obtained an Executive Master's degree in Business Administration from the Tsinghua University in 2006.

Independent non-executive directors

Dr. LOKE Yu alias Loke Hoi Lam, aged 67, 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 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.

Dr. Loke is currently the company secretary of Minth Group Limited. In additional to his directorship in the Company, he also serves as an independent non-executive director of the following companies whose shares are listed on the Stock Exchange: Chiho-Tiande Group Limited, China Beidahuang Industry Group Holdings Limited, China Household Holdings Limited, Forebase International Holdings Limited, Hang Sang (Siu Po) International Holding Company Limited, Lamtex Holdings Limited, Martix Holdings Limited, SCUD Group Limited, Tianhe Chemicals Group Limited, Tianjin Development Holdings Limited, V1 Group Limited, Winfair Investment Company Limited and Zhong An Real Estate Limited. He was an independent non-executive director of Mega Medical Technology Limited from June 2014 to January 2017. Dr. Loke is a brother-in-law of Mr. Heng Ja Wei's father.

Mr. HENG Ja Wei, aged 39, 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 was an independent non-executive director of Daohe Global Group Limited from August 2016 to January 2017. 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.

DIRECTORS AND SENIOR MANAGEMENT

Mr. HO Man, aged 48, was appointed as an independent non-executive director of the Company on 29 July 2015. Mr. Ho is currently 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 a managing director and head of China growth and expansion capital of CLSA Capital Partners which he worked for during August 1997 to October 2009. Mr. Ho has over 18 years of working experience in private equity investment and finance. Mr. Ho holds an EMBA from Tsinghua University and a Master of Science degree in Finance from the London Business School. He is a Chartered Financial Analyst and Certified Public Accountant.

In addition to that of the Company, Mr. Ho has/had directorship in the following companies whose share are listed on the Stock Exchange: he was an independent non-executive director and member of the audit committee of SCUD Group Limited and Shanghai Tonva Petrochemical Co., Ltd. from December 2006 to October 2009 and from September 2008 to October 2009, respectively; he has been an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee and nomination committee of Fantasia Holdings Group Co., Ltd. since October 2009; and has served as an independent non-executive director and chairman of the audit comittee of Fu Shou Yuan International Group Limited; and an independent non–executive director of Infinity Financial Grouop (Holdings) Limited. Besides he has served since February 2012 as an independent non-executive director of Shenzhen Form Syntron Information Company Limited, whose shares are listed on the ChiNext of Shenzhen Stock Exchange. Mr. Ho has served as a director of Shenzhen Daxiang United Space Construction Ltd, a company listed in the National Equities Exchange and Quotations, since September 2015.

SENIOR MANAGEMENT

Mr. JIANG Qing, aged 52, resigned as a non–executive director of the Company on 26 May 2016 but remained employed as the Company's Chief Business Development Officer. Mr. Jiang joined the Group in April 1995 and has over 20 years' experience in the building construction industry and fire prevention and fighting systems installation. Prior to joining the Group, Mr. Jiang was an assistant executive of Fujian Construction and Development Limited (福建省建設發展總公司), a company engaged in property development, he was mainly responsible for the management and administration for construction projects. Mr. Jiang received the professional certificate from Fujian Technical Institute of Construction (福建建築高等專科學校) in September 2000 and 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 elected the chairman of the Construction Industry Association and its branch for fire safety industry in 2006. He is the elder brother of Mr. Jiang Xiong.

DIRECTORS AND SENIOR MANAGEMENT

Mr. WANG De Feng, aged 48, 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 48, 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. ZHANG Yu Rong, aged 54, is the financial controller of Sichuan Chuanxiao. Ms. Zhang graduated from the Sichuan Radio TV University (四川廣播電視大學), major in finance and accounting. Ms. Zhang was awarded "Qualified Senior Accountant" by the Human Resources Office of the Sichuan Provincial Government (四川省人事廳) in 2000. Upon graduation, she joined Sichuan Chuanxiao, and has been working in the accounting unit for over 20 years. She was promoted to the financial controller in 2005. She has extensive experience in the finance, taxation, accounting, and management of the company.

Ms. LIAO Hong, aged 49, 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 2016, 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 five Board meetings held during the year which, besides the approval of the Company's interim and annual reports, were mainly related to strategic 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)	5/5
Mr. Yu Yu Qun *Note 1*	2/3
Mr. Robert Johnson *Note 1*	3/3
Mr. Jiang Qing *Note 2*	2/2
Executive directors	
Mr. Jiang Xiong (Honorary Chairman)	5/5
Mr. Zheng Zu Hua (Chief Executive Officer)	5/5
Mr. Luan You Jun	5/5
Independent non-executive directors	
Dr. Loke Yu	5/5
Mr. Heng Ja Wei	5/5
Mr. Ho Man	5/5

Notes:

1. The directors were appointed on 26 May 2016. The denominators of the attendance record shown represented the total number of meetings convened after their appointment.

2. Mr. Jiang Qing ceased to be the Chief Executive Officer of the Company and was re-designated from an executive director to a non-executive director on 5 April 2016. He subsequently resigned as a non-executive director on 26 May 2016. The denominators of the attendance record shown represented the total number of meetings convened before his resignation.

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	Study relevant materials
Executive directors	
Mr. Jiang Xiong (Honorary Chairman)	Study relevant materials
Mr. Zheng Zu Hua (Chief Executive Officer)	Attend courses and trainings
Mr. Luan You Jun	Attend courses and trainings
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

Mr. Jiang Qing resigned as a member of the remuneration committee on 26 May 2016.

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 two meetings and all the sitting members at the time 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 2016 by bands is set out below:

	No. of senior management
Nil to RMB1,000,000	1
RMB1,000,001 to RMB2,000,000	3

Details of the directors' remuneration are set out in note 15 to the consolidated financial statements. The remuneration of Mr. Jiang Qing for the year ended 31 December 2016, who resigned as a director of the Company on 26 May 2016 but remain employed as the Company's Chief Business Development Officer, is also set out in note 15 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 three meetings 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 REPORT

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. During the year, the Board engaged an internal control team of the CIMC Group to conduct a risk assessment and internal control review on the Group's major operating functions. The team reviewed the Group's operations through a predefined risk assessment and internal audit plans and communications with management and staff. Certain risks were identified and improvement programs, including organization restructuring and other improvement measures, were drawn up to reduce the risks to as low level as possible. 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. The Group considers that its risk management and internal control systems work better in terms of adequacy and effectiveness after implementation of the improvement programs. 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 Securities and Futures Commission.

AUDITOR'S REMUNERATION

Auditor's remuneration is for audit services provided only. The auditor did not provide any non-audit services to the Group during the year.

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 26 May 2016 in Hong Kong. All the directors of the Company at the time has attended the meeting other than Mr. Jiang Qing, Mr. Yu Yu Qun (Mr. Yu) and Mr. Robert Johnson (Mr. Johnson). Mr. Yu and Mr. Johnson were appointed as directors of the Company on 26 May 2016 and Mr. Jiang Qing resigned on the same day.

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.

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.

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. Our works on quality control mainly include: controls on quality of suppliers, quality check on assembled parts and finished goods, workers training, maintenance of tools and machinery and performance evaluation.

Controls on quality of suppliers

Quality products are made up of quality materials and components. To minimize quality problems from the very beginning, we have started moving the quality check a step backward to our suppliers since a few years ago. Suppliers of critical components are required to sign quality assurance agreement and submit to us their production inspection and quality check reports upon goods delivery. Besides, we have staff visiting selected suppliers to conduct on-site quality check periodically and the result of which are the basis for discussion on quality improvement with suppliers and assessment of whether change of supplier is needed.

Quality check on assembled parts and finished goods

Production line supervisors are responsible for quality control during the production process. Samples of assembled parts and components are checked against control models by quality inspectors. Each of the fire trucks manufactured is inspected to ensure the designed quality standards are achieved although fire equipment (such as sprinklers, valves etc.) produced are only sampling checked because of the quantity involved.

Workers training

Trainings on production skills and techniques are provided to front line workers periodically, during which quality standards, requirements and opinion and comment on ways of quality improvement are also communicated. Advancement in workers' quality awareness could enhance efficiency of works such that wastage and costs of rework reduced.

Maintenance of tools and machinery

Tools and machines are regularly inspected, cleaned and tuned such that they are maintained at a good condition for the production of quality products.

Performance evaluation

Workers' performance evaluation are linked not only to attendance and piece works completed but more importantly, the quality of works. Workers are awarded for quality achieved which also push them aiming for higher quality standards.

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.

No product return/recall happened during the year, although there were delay in delivery of a few number of fire engines due to quality issues. More resources, including additional staff and inspection equipment, have been planned to strengthen our exercise of quality control.

Laws and regulations

Certain rules and regulations have significant impact on our operations especially those governed the design and production of our products like: (i) CCC certificates administered by the Certification and Accreditation Administration; (ii) Standards formulated and promulgated by the Standardization Administration of the PRC; and (iii) national automobile emission standards such as the Phase V of the National Emission Standards for Diesel Vehicles to be effective from 1 July 2017. During the year, we have no records of products that materially breach or non-compliance with the laws and regulations applicable.

Product development

Quality products that tailored for market needs are the cornerstone on which we sustain. Therefore, addressing our customers' needs is our primary responsibility in product design. Subject matter of each product development project is selected mainly based on the results of market analysis and feedback from customers. During the year, we spent RMB19 million in research and development. Twelve projects were completed during 2016 and eleven were in progress at end of the year, which covered fire engines and fire equipment. Other than the ladder trucks, most of the projects were for upgrading or development of new version of existing products that better fit the changing environment (including change in regulations) and needs of customers. The development of the ladder trucks, which will be a brand new product line of the Group that support the currently scarce domestic market supply, is scheduled to be launched in 2017.

SUPPLY MANAGEMENT

The main objective of our supply management is to enable us to reduce the risk of interruption in supply flow. We have over 150 suppliers who are largely located in Sichuan and other provinces in the south west region to reduce costs and time for transportation. 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. Except for chassis which can only be purchased from the authorized dealers, 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. For some critical materials, long-term contracts are signed with the suppliers to secure stock availability at stable prices. We are in the process of strengthening our inventory management by considering upgrading the ERP system to ensure better communication among units of production, procurement and warehousing so as to avoid disruption in production schedule due to shortage of any parts and materials that have happened occasionally. In spite of these, 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.

OUR STAFF

A decisive factor for our sustainability is our employees. Their knowledge and competence are critical to our future development. At 31 December 2016, we had 550 staffs of which 309 are production line workers, 42 work for research and development, 50 are sales representatives, 115 are other back office and supporting staffs and 34 are managerial staffs. Male and female staff are in the ratio of 3.4: 1, approximately 15% of our staff are university graduate, 19% graduated from technical college and 23% graduated from high school. We have employed five 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. All new staffs are given orientation training in which, apart from job responsibilities and work procedures, 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 a safe working environment. 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.

We understand that our future success depends on our ability to maintain as an attractive employer. In addition to a market competitive salary and piece rate, our staff are also entitled to discretionary 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 to as an incentive to our staff for their loyalty and improved performance. We recognize that staff's idea and opinion on the Group are very apt and to the point, we have therefore set up a "President's mailbox" for our staff to express their opinion on whatever aspect of the Group and to lodge complaints on a named or anonymous basis. We understand that we have a lot to do to improve our human resources management. As a first step, we are planning to redesign the performance appraisal system and the related promotion standards so as to increase their transparency. The "President's mailbox" and other ways of communication with staff of all levels will help strengthen the Group in all respects to attract and retain more talents for future development.

THE ENVIRONMENT

In respect of environmental protection, our long term aim is to operate our manufacturing processes and facilities in a manner that exert minimum impact to the environment. The Group's factory complies with the regulatory requirements regarding the discharge and disposal of three wastes. We engage professional environmental testing laboratory to conduct monitoring measurement on sewage, stack emission and noise in our factory every year.

	Items measured
Sewage	pH, Linear Alkylbezene Sulfonates, colour, suspended solid, animal and plant oil, Amonia Nitrogen, and COD *Standards measured against:* (i) *"Wastewater quality standards for discharge to municipal sewers" CJ343-2010* (ii) *"Integrated wastewater discharge standard" GB8978-1996*
Stack emission	Particulate, Toulene, Dimethylbenzene, and Nitrogen Oxides *Standards measured against: "Integrated emission standard of air pollutants" GB16297-1996*
Noise	Noise to the surrounding environment *Standards measured against: "Emission standard for industrial enterprises noise at boundary" GB12348-2008*

Other environmental protection measures have also been implemented: (i) use daylight whenever possible and lightings on only when needed; (ii) 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; (iii) food scraps from staff canteen are sold to pig farmers for feed; (iv) recycle of scrap materials whenever possible; and (v) engagement of qualified recyclers to collect hazardous and chemical waste for decontamination at designated sites.

ANTI-CORRUPTION

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

INVESTMENT IN COMMUNITY

Although we have no specific policies in respect of community interests, we care about environmental protection, uphold equal employment opportunities and committed to build a fair and just society.

The directors present their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

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 22 and 23 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 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 39.

The directors do not recommend the payment of a dividend for the year ended 31 December 2016.

3. DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at 31 December 2016 were RMB953,824,000 (2015: RMB967,373,000).

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 116 of the annual report.

6. PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2016, 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 33 to the consolidated financial statements.

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

	Number of shares issuable under the options					
Grantees	Outstanding at 1 January 2016	Granted during the year	Reclassification	Outstanding at 31 December 2016	Exercise price HKD	Percentage of issued share capital of the Company
Executive director and a substantial shareholder						
Mr. Jiang Xiong	4,000,000	–	–	4,000,000	0.42	0.098%
Non-executive director						
Mr. Jiang Qing *(Note)*	28,000,000	–	(28,000,000)	–	0.42	–
Independent non-executive directors						
Dr. Loke Yu	4,000,000	–	–	4,000,000	0.42	0.098%
Mr. Heng Ja Wei	4,000,000	–	–	4,000,000	0.42	0.098%
Mr. Ho Man	2,000,000	–	–	2,000,000	0.42	0.049%
	42,000,000	–	(28,000,000)	14,000,000		0.343%
Other employees	73,625,000	–	28,000,000	101,625,000	0.42	2.492%
	115,625,000	–	–	115,625,000		2.835%

Note: Mr. Jiang Qing ceased to be an executive director and Chief Executive Officer of the Company and was re-designated as a non-executive director and Chief Business Development Officer of the Company on 5 April 2016. He subsequently resigned as a non-executive director on 26 May 2016 but remained employed as the Company's Chief Business Development Officer.

7. SHARE OPTIONS *(cont'd)*

The share options outstanding at 1 January and 31 December 2016 were granted on 26 August 2015. They will be valid for 10 years from 26 August 2015 to 25 August 2025 (both dates inclusive) but cannot be exercised until they are vested which shall be on the earliest of the following dates:

(i) the first business day after the second anniversary of 10 July 2015, being the date on which CIMC first becoming a controlling shareholder (as defined in the Listing Rules) of the Company;

(ii) the first business day after the day on which CIMC disposed of any number of shares it held such that its shareholdings in the Company will decrease to below 30%; and

(iii) the first business day after the day on which CIMC's shareholdings in the Company increased to an extent that exercise of all the share options that were granted on 26 August 2015 will not dilute its shareholdings in the Company to below 30%.

All of the share options outstanding at 31 December 2016 have not yet been vested and therefore not exercisable.

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 (appointed on 26 May 2016)
Mr. Robert Johnson (appointed on 26 May 2016)
Mr. Jiang Qing (re-designated from executive director to non-executive director on 5 April 2016 and subsequently resigned on 26 May 2016)

Executive directors

Mr. Jiang Xiong *(Honorary Chairman)*
Mr. Zheng Zu Hua (re-designated from non-executive director to executive director on 5 April 2016)
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. Yu Yu Qun, Mr. Robert Johnson and Mr. Heng Ja Wei 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

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 8 of this annual report.

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

Save as disclosed below, as of 31 December 2016, 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 under the section 7 "SHARE OPTIONS" above.

Save as disclosed above, 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" above, 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. INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, 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, the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company.

Long positions in ordinary shares of the Company

Name of shareholder	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
CIMC Top Gear B.V.	Beneficial owner	1,223,571,430	30.00%
Cooperatie CIMC U.A.	Interest of a controlled corporation *(Note a)*	1,223,571,430	30.00%
China International Marine Containers (Hong Kong) Limited ("CIMC (HK)")	Interest of a controlled corporation *(Note b)*	1,223,571,430	30.00%
CIMC	Interest of a controlled corporation *(Note c)*	1,223,571,430	30.00%
EH Investment Management Ltd.	Beneficial owner	218,015,000	5.35%
Mr. Ngan Iek	Interest of a controlled corporation *(Note d)*	218,015,000	5.35%

14. INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS *(cont'd)*

Notes:

(a) 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.

(b) 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.

(c) CIMC is beneficially interested in the entire share capital of CIMC (HK) and is taken to be interested in the 1,223,571,430 shares in which CIMC (HK) has declared interest for the purpose of the SFO.

(d) Mr. Ngan Iek is beneficially interested in the entire share capital of EH Investment Management Ltd. and is taken to be interested in the 218,015,000 shares in which EH Investment Management Ltd. has declared interest for the purpose of the SFO.

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 2016.

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 2016, 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

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 41 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 2016.

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 33 to the consolidated financial statements.

21. BUSINESS REVIEW

Business review of the Company is set out in "Management Discussion and Analaysis" on page 4 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 43 to the consolidated financial statements.

24. AUDITOR

The consolidated financial statements have been audited by RSM Hong Kong who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Li Yin Hui
Chairman

27 March 2017

INDEPENDENT AUDITOR'S REPORT

RSM

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 39 to 115, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, 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

Impairment assessment of trade receivables

Refer to the financial statement disclosures in note 25 to the consolidated financial statements, the accounting policies in notes 4(l) and 4(z) and the key estimates in note 5(c).

As of 31 December 2016, trade and bills receivables amounted to RMB207 million which included past due trade receivables of RMB74 million.

Assessing the recoverability of past due trade receivables involves significant management judgement.

How our audit addressed the Key Audit Matter

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 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
Hong Kong

27 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Continuing operations			
Revenue	7	**471,252**	565,178
Cost of sales		**(363,991)**	(453,369)
Gross profit		**107,261**	111,809
Other income	8	**6,047**	6,889
Selling and distribution costs		**(14,779)**	(18,469)
Administrative expenses		**(58,914)**	(59,663)
Profit from operations		**39,615**	40,566
Finance costs	10	**(1,400)**	(4,538)
Other expense	11	**(16,224)**	–
Share of profit of associates		**2,881**	15,137
Profit before tax		**24,872**	51,165
Income tax expense	12	**(7,586)**	(8,136)
Profit for the year from continuing operations	13	**17,286**	43,029
Discontinued operations			
Loss for the year from discontinued operations	14	**–**	(12,585)
Profit for the year		**17,286**	30,444
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences reclassified to profit or loss on disposal of subsidiaries		**–**	(493)
Exchange differences on translating foreign operations		**20,403**	5,013
Share of other comprehensive income of an associate		**164**	–
Other comprehensive income for the year, net of tax		**20,567**	4,520
Total comprehensive income for the year		**37,853**	34,964

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Profit for the year attributable to:			
Owners of the Company		**17,286**	18,611
Non-controlling interests		**–**	11,833
		17,286	30,444
Total comprehensive income for the year attributable to:			
Owners of the Company		**37,853**	23,131
Non-controlling interests		**–**	11,833
		37,853	34,964
Earnings per share (RMB cent)	18		
From continuing and discontinued operations			
Basic		**0.42**	0.54
Diluted		**0.42**	0.54
From continuing operations			
Basic		**0.42**	0.91
Diluted		**0.42**	0.91

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	19	**183,354**	192,241
Prepaid land lease payments	20	**32,555**	33,349
Goodwill	21	**7,630**	7,630
Investment in an associate	23	**518,993**	419,532
		742,532	652,752
Current assets			
Inventories	24	**138,232**	136,715
Trade and bills receivables	25	**207,533**	272,231
Prepayments, deposits and other receivables		**83,571**	63,660
Amount due from an associate	26	**2,151**	75,289
Prepaid land lease payments	20	**794**	794
Pledged bank deposits	27	**3,270**	10,726
Bank and cash balances	27	**132,576**	105,059
		568,127	664,474
Current liabilities			
Trade and other payables	28	**226,265**	265,053
Bank borrowings	29	**10,000**	40,000
Provision	30	**16,224**	–
Current tax liabilities		**5,171**	5,586
		257,660	310,639
Net current assets		**310,467**	353,835
NET ASSETS		**1,052,999**	1,006,587

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	**2016** **RMB'000**	2015 RMB'000
Capital and reserves			
Share capital	32	**39,977**	39,977
Reserves	34	**1,013,022**	966,610
TOTAL EQUITY		**1,052,999**	1,006,587

Approved by the Board of Directors on 27 March 2017 and are signed on its behalf by:

Li Yin Hui
Director

Jiang Xiong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company												
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 *(Note 34(b)(i))*	Capital reserve RMB'000 *(Note 34(b)(ii))*	Statutory surplus reserve RMB'000 *(Note 34(b)(iii))*	Statutory public welfare fund RMB'000 *(Note 34(b)(iv))*	Share-based payment reserve RMB'000 *(Note 34(b)(v))*	Exchange reserve RMB'000 *(Note 34(b)(vi))*	Other reserve RMB'000 *(Note 34(b)(vii))*	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	30,168	646,363	(6,692)	88,783	32,803	19,724	–	(6,018)	–	(256,008)	549,123	54,036	603,159
Total comprehensive income for the year	–	–	–	–	–	–	–	4,520	–	18,611	23,131	11,833	34,964
Issue of shares for acquisition of an associate (note 23)	9,809	461,040	–	–	–	–	–	–	–	–	470,849	–	470,849
Payment of interim dividend out of share premium account (note 17)	–	(69,496)	–	–	–	–	–	–	–	–	(69,496)	–	(69,496)
Share-based payments	–	–	–	–	–	–	4,111	–	–	–	4,111	–	4,111
Disposal of subsidiaries (note 37)	–	–	–	–	(32,803)	(19,724)	–	–	–	52,527	–	–	–
Acquisition of non-controlling interests (note 36)	–	–	–	–	–	–	–	–	–	28,869	28,869	(65,869)	(37,000)
Total comprehensive income and changes in equity for the year	9,809	391,544	–	–	(32,803)	(19,724)	4,111	4,520	–	100,007	457,464	(54,036)	403,428
At 31 December 2015	39,977	1,037,907	(6,692)	88,783	–	–	4,111	(1,498)	–	(156,001)	1,006,587	–	1,006,587
At 1 January 2016	39,977	1,037,907	(6,692)	88,783	–	–	4,111	(1,498)	–	(156,001)	1,006,587	–	1,006,587
Total comprehensive income for the year	–	–	–	–	–	–	–	20,403	164	17,286	37,853	–	37,853
Share-based payments	–	–	–	–	–	–	8,559	–	–	–	8,559	–	8,559
Total comprehensive income and changes in equity for the year	–	–	–	–	–	–	8,559	20,403	164	17,286	46,412	–	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	–	1,052,999

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax			
Continuing operations		**24,872**	51,165
Discontinued operations		**–**	(11,237)
		24,872	39,928
Adjustments for:			
Allowance for obsolete and slow-moving inventories		**–**	116
Amortisation of prepaid land lease payments		**794**	794
Depreciation of property, plant and equipment		**10,804**	10,819
Gain on disposal of subsidiaries	37	**–**	(2,095)
Impairment loss for bad and doubtful debts		**339**	153
Provision for a legal claim in respect of a rental dispute		**16,224**	–
Unrecoverable amounts due from associates written off		**–**	1,268
Finance costs		**1,400**	4,538
Interest income		**(2,752)**	(2,637)
Loss on disposal of property, plant and equipment		**50**	324
Share-based payments		**8,559**	4,111
Share of profit of associates		**(2,881)**	(15,137)
Operating profit before working capital changes		**57,409**	42,182
(Increase)/decrease in inventories		**(1,517)**	31,871
Decrease/(increase) in trade and bills receivables		**64,359**	(71,395)
Decrease in amounts due from contract customers		**–**	1,267
(Increase)/decrease in prepayments, deposits and other receivables		**(19,911)**	49,406
Decrease in trade and other payables		**(38,788)**	(11,768)
Increase in amounts due to contract customers		**–**	8,173
Cash generated from operations		**61,552**	49,736
Interest paid		**(1,400)**	(4,538)
Income tax paid		**(8,001)**	(7,732)
Net cash generated from operating activities		**52,151**	37,466

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(2,045)**	(1,232)
Decrease/(increase) in pledged bank deposits		**7,456**	(1,667)
Interest received		**2,752**	2,637
Advance to associates		**(2,875)**	(890)
Disposal of subsidiaries (net of cash and cash equivalent disposed of)	37	**–**	33,714
Proceeds from disposal of property, plant and equipment		**78**	153
Net cash generated from investing activities		**5,366**	32,715
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of non-controlling interests		**–**	(37,000)
New bank loans raised		**20,000**	40,000
Repayment of bank loans		**(50,000)**	(100,000)
Dividend paid		**–**	(69,496)
Net cash used in financing activities		**(30,000)**	(166,496)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**27,517**	(96,315)
Effect of foreign exchange rate changes		**–**	(643)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**105,059**	202,017
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**132,576**	105,059
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**132,576**	105,059

1. GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of its principal subsidiaries and associate are set out in notes 22 and 23 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 (“Listing Rules”) and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed in note 4.

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 2016. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

Amendments to HKAS 1 Presentation of Financial Statements: Disclosure Initiative

The amendments to HKAS 1 clarify, rather than significantly change, existing HKAS 1 requirements. The amendments clarify various presentation issues relating to:

- Assessment of materiality versus minimum disclosure requirements of a standard.

- Disaggregation of specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position. There is also new guidance on the use of subtotals.

- Confirmation that the notes do not need to be presented in a particular order.

- Presentation of other comprehensive income items arising from equity-accounted associates and joint ventures.

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

(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 2016. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7 Statement of Cash Flows: Disclosure initiative	1 January 2017
Amendments to HKAS 12 Income Taxes: Recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to HKFRS 4 Insurance Contracts	1 January 2018
HKFRS 9 Financial Instruments	1 January 2018
HKFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to HKFRS 2 Share-based Payment: Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 16 Leases	1 January 2019
Amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures: Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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

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 9 Financial Instruments

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

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

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

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

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

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

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 9 Financial Instruments (cont'd)

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

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 replaces all existing revenue standards and interpretations.

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

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

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

The standard also includes comprehensive disclosure requirements relating to revenue.

The Group is currently assessing the impacts of adopting HKFRS 15 on the consolidated financial statements. The Group is unable to estimate the impact of the new standard on the consolidated financial statements until a more detailed analysis is completed.

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

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

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

As disclosed in note 39, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to RMB5,357,000 as at 31 December 2016. The Group will need to perform a more detailed assessment in order to determine the new assets and liabilities arising from these operating leases commitments after taking into account the transition reliefs available in HKFRS 16 and the effects of discounting.

4. SIGNIFICANT ACCOUNTING POLICIES

These 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.

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.

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

(a) Consolidation *(cont'd)*

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

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

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

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

(b) Business combination and goodwill

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

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

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

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.

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.

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

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

(iii) Translation on consolidation

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

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

- All resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the exchange reserve. When a foreign operation is sold, such exchange differences are 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.

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

(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.

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.

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

(f) Leases

The Group as lessee

Operating leases

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

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

The Group as lessor

Operating leases

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

(g) Research and development expenditure

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

- 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.

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

(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) Installation contracts

When the outcome of an installation contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of an installation contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. The accounting policy for contract revenue is stated in (s) below.

Installation contracts in progress at the end of the reporting period are recorded at the amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the consolidated statement of financial position as "Amounts due from contract customers". When progress billings exceed costs incurred plus recognised profits less recognised losses, the surplus is recorded in the consolidated statement of financial position as "Amounts due to contract customers". Progress billings not yet paid by the customer are included in the statement of financial position under "Trade and bills receivables". Amounts received before the related work is performed are included in the statement of financial position under "Trade and other payables".

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

(j) 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.

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.

(k) 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.

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

(l) 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.

(m) Discontinued operations

A discontinued operation is a component of the Group (i.e. the operations and cash flows of which can be clearly distinguished from the rest of the Group) that either has been disposed of, or is classified as held for sale, and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the component meets the criteria to be classified as held for sale in accordance with HKFRS 5, if earlier. It also occurs when the component is abandoned.

When an operation is classified as discontinued, a single amount is presented in the statement of profit or loss, which comprises:

- The post-tax profit or loss of the discontinued operation; and

- The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

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

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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)*

(s) 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.

When the outcome of an installation contract can be estimated reliably, revenue from a fixed price installation contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. When the outcome of an installation contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable to be recoverable.

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

(t) 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.

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

(t) Employee benefits *(cont'd)*

(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.

(u) 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.

(v) Borrowing costs

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

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

(w) 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.

(x) Taxation

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

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

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

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

(x) Taxation *(cont'd)*

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)*

(y) 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.

(z) 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.

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

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

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

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.

(aa) 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.

(bb) Events after the reporting period

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

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgement in applying accounting policies

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

Legal titles of certain buildings

As stated in note 19 to the consolidated financial statements, the Group is in the process of applying for the property rights certificates in respect of certain buildings. Despite the fact that the Group has not obtained all the relevant legal titles, the directors determined to recognise those buildings as property, plant and equipment on the ground that the Group is in substance controlling those buildings.

Key sources of estimation uncertainty

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

(a) Property, plant and equipment and depreciation

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

The carrying amount of property, plant and equipment as at 31 December 2016 was RMB183,354,000 (2015: RMB192,241,000).

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(cont'd)*

Key sources of estimation uncertainty *(cont'd)*

(b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was RMB7,630,000. Details of the goodwill are provided in note 21 to the consolidated financial statements.

(c) 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 2016, accumulated impairment loss for bad and doubtful debts amounted to RMB16,705,000 (2015: RMB17,571,000).

(d) Allowance for obsolete and slow-moving inventories

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

As at 31 December 2016, allowance for obsolete and slow-moving inventories amounted to RMB3,073,000 (2015: RMB3,073,000).

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(cont'd)*

Key sources of estimation uncertainty *(cont'd)*

(e) 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, RMB7,586,000 (2015: RMB8,136,000) of income tax was charged to profit or loss based on the estimated profit from continuing operations.

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.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at 31 December 2016 and 31 December 2015 are as follows:

Group	Exposure to foreign currencies					
	2016			2015		
	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
Pledged bank deposits and bank and cash balances	**2,514**	**–**	**5,778**	22	2	14,737
Amounts due from an associate	**–**	**2,151**	**–**	–	75,289	–
Trade payable	**(40)**	**–**	**–**	–	–	–
Accrued charges	**–**	**–**	**(2,755)**	–	–	(4,308)
	2,474	**2,151**	**3,023**	22	75,291	10,429

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

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

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.

	Increase/(decrease) in profit and other comprehensive income for the year	
	2016	2015
	RMB'000	RMB'000
– if RMB weakens against foreign currencies		
Hong Kong dollars ("HKD")	**151**	521
United States dollars ("USD")	**124**	1
Euro ("EUR")	**108**	3,765
– if RMB strengthens against foreign currencies		
HKD	**(151)**	(521)
USD	**(124)**	(1)
EUR	**(108)**	(3,765)

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 2016					
Trade and other payables	**182,264**	–	–	–	**182,264**
Bank borrowings	**10,203**	–	–	–	**10,203**
Provision	**16,224**	–	–	–	**16,224**
At 31 December 2015					
Trade and other payables	265,053	–	–	–	265,053
Bank borrowings	41,423	–	–	–	41,423

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.

	2016	2015
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	**(133)**	(376)
– as a result of decrease in interest rate	**133**	376

(e) Categories of financial instruments

	2016	2015
	RMB'000	RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**383,285**	476,023
Financial liabilities:		
Financial liabilities at amortised cost	**208,488**	224,347

(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 from continuing operations 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

	2016 RMB'000	2015 RMB'000
Continuing operations		
Interest income	**2,752**	2,580
Gain on disposal of subsidiaries	**–**	1,134
Government grants (note)	**1,634**	1,347
Rental income	**192**	345
Sundry income	**1,469**	1,483
	6,047	6,889

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, gain on disposal of subsidiaries, other expense, share of profit of associates, 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 from continuing operations:

	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 from continuing operations				17,286

9. SEGMENT INFORMATION *(cont'd)*

Information about operating segment profit or loss, assets and liabilities from continuing operations: *(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)*

Information about operating segment profit or loss, assets and liabilities from continuing operations: *(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 2015				
REVENUE				
External sales	438,685	126,493	–	565,178
Inter-segment sales	337	2,739	(3,076)	–
Total	439,022	129,232	(3,076)	565,178
RESULTS				
Segment profit	45,585	15,694		61,279
Interest income				2,580
Gain on disposal of subsidiaries				1,134
Unallocated corporate expenses				(24,427)
Profit from operations				40,566
Finance costs				(4,538)
Share of profit of associates				15,137
Profit before tax				51,165
Income tax expense				(8,136)
Profit for the year from continuing operations				43,029

9. SEGMENT INFORMATION *(cont'd)*

Information about operating segment profit or loss, assets and liabilities from continuing operations: *(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 2015				
ASSETS				
Segment assets	547,978	148,054		696,032
Investment in an associate				419,532
Amount due from an associate				75,289
Pledged bank deposits				10,726
Bank and cash balances				105,059
Unallocated other receivables				10,588
				1,317,226
LIABILITIES				
Segment liabilities	189,244	71,433		260,677
Current tax liabilities				5,586
Bank borrowings				40,000
Unallocated other payables				4,376
				310,639
OTHER INFORMATION				
Additions to non-current assets	694	538		1,232
Allowance for obsolete and slow moving inventories	–	116		116
Depreciation and amortisation	9,040	2,573		11,613
Impairment loss for bad and doubtful debts	81	72		153
Loss on disposal of property, plant and equipment	203	121		324

9. SEGMENT INFORMATION *(cont'd)*

Geographical information:

The Group's revenue from continuing operations 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	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**471,252**	551,061	**223,538**	233,215
Germany	**–**	–	**518,993**	419,532
Others	**–**	14,117	**1**	5
	471,252	565,178	**742,532**	652,752

Revenue from major customers:

None of the customers contributed more than 10% of the Group's total revenue for both 2015 and 2016.

10. FINANCE COSTS

	2016	2015
	RMB'000	RMB'000
Continuing operations		
Interest on bank borrowings	**1,400**	4,538

11. OTHER EXPENSE

	2016	2015
	RMB'000	RMB'000
Provision for a legal claim in respect of a rental dispute (note 30)	**16,224**	–

12. INCOME TAX EXPENSE

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

	2016 RMB'000	2015 RMB'000
Current tax – PRC Enterprise Income Tax		
Provision for the year	**7,910**	7,316
(Over)/under-provision in prior years	**(324)**	820
	7,586	8,136

No provision for Hong Kong Profits Tax has been made for 2015 and 2016 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 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 15% to 25% (2015: 15% to 25%).

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

	2016 RMB'000	2015 RMB'000
Profit before tax (from continuing operations)	**24,872**	51,165
Tax at the PRC Enterprise Income Tax rate of 25% (2015: 25%)	**6,218**	12,791
Tax effect of income that is not taxable	**(1,271)**	(13,292)
Tax effect of expenses that are not deductible	**12,399**	25,298
Tax effect of temporary differences not recognised	**(4,689)**	(12,516)
Tax effect of share of results of associates	**(721)**	(3,784)
Tax effect attributable to tax concessions	**(5,273)**	(4,266)
Tax effect of tax losses not recognised	**823**	2,596
(Over)/under – provision in prior years	**(324)**	820
Effect of different tax rates of subsidiaries	**424**	489
Income tax expense (relating to continuing operations)	**7,586**	8,136

13. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

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

	2016 RMB'000	2015 RMB'000
Allowance for obsolete and slow-moving inventories	–	116
Amortisation of prepaid land lease payments	794	794
Auditor's remuneration	1,383	1,126
Cost of inventories sold (note (i))	363,991	453,369
Depreciation of property, plant and equipment	10,804	10,819
Gain on disposal of subsidiaries	–	(1,134)
Impairment loss for bad and doubtful debts	339	153
Loss on disposal of property, plant and equipment	50	324
Net foreign exchange gain	(1,826)	(2,916)
Operating lease charges in respect of rented premises	2,252	1,383
Provision for a legal claim in respect of a rental dispute	16,224	–
Research and development expenditure (note (ii))	18,622	16,874
Unrecoverable amounts due from associates written off	–	1,268

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 RMB31,587,000 (2015: RMB32,155,000) 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 RMB5,699,000 (2015: RMB5,355,000) which are included in the amounts disclosed separately above.

14. DISCONTINUED OPERATIONS

For the year ended 31 December 2015, discontinued operations referred to the Group's two business units: provision of installation of fire prevention and fighting systems services and provision of maintenance of fire prevention and fighting systems services. The Group entered into a sale and purchase agreement to dispose of the entire equity interests in a group of subsidiaries that had been engaged mainly in the two business units on 27 February 2015 and decided to cease operating the relevant businesses upon completion of the disposal. The disposal was completed in April 2015.

As the disposal of the subsidiaries constituted a discontinuance of major lines of business, the profit or loss of the respective subsidiaries were classified as discontinued operations and disclosed separately as follows:

	2016	2015
	RMB'000	RMB'000
Loss for the year from discontinued operations:		
Revenue	–	97,221
Cost of sales and services	–	(94,178)
Gross profit	–	3,043
Other income	–	57
Administrative expenses	–	(15,298)
Loss before tax	–	(12,198)
Income tax expense	–	(1,348)
	–	(13,546)
Gain on disposal of subsidiaries	–	961
Loss for the year from discontinued operations attributable to owners of the Company	–	(12,585)

14. DISCONTINUED OPERATIONS *(cont'd)*

	2016 RMB'000	2015 RMB'000
Loss for the year from discontinued operations include the following:		
Gain on disposal of subsidiaries	–	(961)
Employee benefits expense (including directors' emoluments):		
Salaries, bonuses and allowances	–	2,323
Retirement benefit scheme contributions	–	293
	–	2,616
Cash flows from discontinued operations:		
Net cash outflow from operating activities	–	(21,442)
Net cash outflow from investing activities	–	(14,028)
Net cash outflow	–	(35,470)

15. BENEFITS AND INTEREST OF DIRECTORS

(a) Directors' emoluments

The remuneration of every director is set out below:

	2016						2015					
	Fees	Salaries	Discretionary bonus	Retirement benefits scheme contribution	Estimated money value of other benefit	Total	Fees	Salaries	Discretionary bonus	Retirement benefits scheme contribution	Estimated money value of other benefit	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note (i))	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note (i))	RMB'000
Non-executive directors												
Dr. Li Yin Hui (note ii)	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Yu Yu Qun (note iii)	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Robert Johnson (note iii)	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Jiang Qing (note iv)	–	140	–	2	296	438	–	–	–	–	–	–
	–	140	–	2	296	438	–	–	–	–	–	–
Executive directors												
Mr. Jiang Xiong	–	1,286	–	8	310	1,604	–	1,158	–	–	146	1,304
Mr. Zheng Zu Hua (note ii)	205	796	–	4	–	1,005	–	–	–	–	–	–
Mr. Luan You Jun (note ii)	272	–	–	–	–	272	–	–	–	–	–	–
Mr. Jiang Qing (note iv)	–	259	–	4	562	825	–	1,013	–	8	1,024	2,045
Mr. Wang De Feng (note v)	–	–	–	–	–	–	84	252	–	17	–	353
Ms. Weng Xiu Xia (note v)	–	–	–	–	–	–	84	30	–	4	–	118
Mr. Hu Yong (note v)	–	–	–	–	–	–	84	268	–	15	–	367
	477	2,341	–	16	872	3,706	252	2,721	–	44	1,170	4,187
Independent non-executive directors												
Dr. Loke Yu	206	–	–	–	310	516	161	–	–	–	146	307
Mr. Heng Ja Wei	206	–	–	–	310	516	161	–	–	–	146	307
Mr. Ho Man (note ii)	206	–	–	–	155	361	77	–	–	–	73	150
Ms. Sun Guo Li (note v)	–	–	–	–	–	–	84	–	–	–	–	84
	618	–	–	–	775	1,393	483	–	–	–	365	848
	1,095	2,481	–	18	1,943	5,537	735	2,721	–	44	1,535	5,035

15. 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) Dr. Li Yin Hui, Mr. Zheng Zu Hua, Mr. Luan You Jun and Mr. Ho Man were appointed on 29 July 2015. Mr. Zheng Zu Hua was re-designated from non-executive director to executive director on 5 April 2016.

(iii) Mr. Yu Yu Qun and Mr. Robert Johnson were appointed on 26 May 2016.

(iv) 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. His total emoluments for 2016 was RMB3,099,000 which comprises salaries of RMB916,000; retirement benefit scheme contribution of RMB15,000 and share-based payments of RMB2,168,000.

(v) Mr. Wang De Feng, Ms. Weng Xiu Xia, Mr. Hu Yong and Ms. Sun Guo Li resigned on 29 July 2015.

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.

Mr. Jiang Qing waived a bonus of RMB10,000,000 granted to him during the year. Save as disclosed above, there was no other arrangement under which a director waived or agreed to waive any emoluments (2015: RMBNil).

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

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.

16. EMPLOYEE BENEFITS EXPENSE

	2016 RMB'000	2015 RMB'000
Employee benefits expense (including directors' emoluments):		
Salaries, bonuses and allowances	**42,502**	40,943
Equity-settled share-based payments	**8,559**	4,111
Retirement benefit scheme contributions	**7,654**	8,202
	58,715	53,256

Five highest paid individuals

The five highest paid individuals in the Group during the year included two (2015: two) directors, whose emoluments are included in note 15 to the consolidated financial statements. The emoluments of the remaining three (2015: three) individuals are set out below:

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	**1,942**	1,749
Equity-settled share-based payments	**2,449**	817
Retirement benefit scheme contributions	**68**	54
	4,459	2,620

The emoluments fell within the following bands:

	Number of individuals 2016	2015
Nil to HKD1,000,000 (equivalent to RMB899,800)	**–**	2
HKD1,000,001 to HKD2,000,000 (equivalent to RMB899,801 to RMB1,799,600)	**3**	1
	3	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 (2015: RMBNil).

17. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Interim dividend of HK3 cents per share, paid on 31 July 2015	–	69,496

The directors recommended an interim dividend of HK3 cents per share of the Company to be paid entirely out of the share premium account of the Company on 5 June 2015. The interim dividend was approved by the shareholders of the Company at an extraordinary general meeting on 24 June 2015 and was subsequently paid on 31 July 2015.

Save as disclosed above, no dividend was declared or paid for the year ended 31 December 2015 and 2016.

18. EARNINGS PER SHARE

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

	From continuing and discontinued operations	
	2016 **RMB'000**	2015 RMB'000
Profit for the year attributable to owners of the Company	**17,286**	18,611
Number of shares	**'000**	'000
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**4,078,571**	3,441,644
Effect of dilutive potential ordinary shares arising from share options issued by the Company	–	883
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**4,078,571**	3,442,527

18. EARNINGS PER SHARE *(cont'd)*

	From continuing operations		From discontinued operations	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit/(loss) for the year attributable to owners of the Company	**17,286**	31,196	**–**	(12,585)

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 was lower than the exercise price of the share options.

From discontinued operations

The weighted average number of ordinary shares used as denominators in calculating the basic and diluted earnings/(loss) per share are the same. The basic and diluted loss per share from discontinued operations for 2015 were RMB0.37 cent per share.

19. 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 2015	267,277	21,891	3,278	2,100	10,481	1,109	306,136
Additions	176	915	6	135	–	–	1,232
Disposals	(86)	(1,186)	(972)	(907)	(463)	–	(3,614)
Disposal of subsidiaries	–	(735)	(232)	(362)	(4,845)	(1,072)	(7,246)
At 31 December 2015 and 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	267,906	21,944	2,182	1,204	4,429	37	297,702
Accumulated depreciation and impairment							
At 1 January 2015	80,218	11,722	1,899	1,491	7,390	1,100	103,820
Charge for the year	7,954	1,908	364	172	413	8	10,819
Disposals	(77)	(963)	(875)	(819)	(403)	–	(3,137)
Disposal of subsidiaries	–	(735)	(226)	(357)	(4,846)	(1,071)	(7,235)
At 31 December 2015 and 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	96,023	13,905	1,524	631	2,228	37	114,348
Carrying amount							
At 31 December 2016	171,883	8,039	658	573	2,201	–	183,354
At 31 December 2015	179,272	8,953	918	479	2,619	–	192,241

At 31 December 2016, the Group was in the process of applying for the property rights certificates in respect of buildings with carrying amount of RMB80,192,260 (2015: RMB83,953,000).

20. 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:

	2016	2015
	RMB'000	RMB'000
At 1 January	**34,143**	34,937
Amortisation of prepaid land lease payments	**(794)**	(794)
At 31 December	**33,349**	34,143
Current portion	**(794)**	(794)
Non-current portion	**32,555**	33,349

21. GOODWILL

	2016	2015
	RMB'000	RMB'000
Cost		
At 1 January	**7,630**	17,762
Derecognised on disposal of subsidiaries	**–**	(10,132)
At 31 December	**7,630**	7,630
Accumulated impairment losses		
At 1 January	**–**	10,132
Derecognised on disposal of subsidiaries	**–**	(10,132)
At 31 December	**–**	–
Carrying amount		
At 31 December	**7,630**	7,630

21. 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 (net of accumulated impairment losses) as at 31 December 2015 and 2016 is allocated as follows:

	2016	2015
	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 15.27% (2015: 17.76%). The cash flows beyond that five-year period have been extrapolated using a steady annual growth rate at 1% (2015: 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.

22. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2016 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

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

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

At 31 December 2016, the bank and cash balances of the Group's subsidiaries in the PRC denominated in RMB amounted to RMB127,554,000 (2015: RMB101,024,000). 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.

23. INVESTMENT IN AN ASSOCIATE

	2016	2015
	RMB'000	RMB'000
Unlisted investments:		
Share of net assets	**217,138**	135,426
Goodwill	**301,855**	284,106
	518,993	419,532

Details of the Group's associate at 31 December 2016 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 China International Marine Containers (Group) Co., Ltd. ("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. During the year, the Group and CIMC Top Gear resolved to waive the shareholders loans and approved Ziegler to convert the said loans into Ziegler's capital reserves on 1 December 2016 (note 26).

23. 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 financial statements of Ziegler and its subsidiaries prepared in accordance with the International Financial Reporting Standards.

	Ziegler	
	2016	2015
	RMB'000	RMB'000
At 31 December:		
Non-current assets	**398,404**	408,391
Current assets	**949,677**	916,991
Non-current liabilities	**(74,131)**	(86,651)
Current liabilities	**(729,179)**	(898,545)
Non-controlling interests	**(1,926)**	(1,621)
Net assets	**542,845**	338,565
The Group's 40% share of net assets	**217,138**	135,426
Goodwill	**301,855**	284,106
The Group's share of carrying amount of interests	**518,993**	419,532

The change in balance of goodwill represents the exchange difference arising from the translation of the goodwill, which is denominated in the functional currency of Ziegler, into RMB at the closing rate at 31 December 2016.

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

	For the year ended 31 December 2016 RMB'000	For the period from 10 July to 31 December 2015 RMB'000
Revenue	**1,620,019**	790,785
Profit from continuing operations	**7,201**	38,092
Other comprehensive income	**408**	–
Total comprehensive income	**7,609**	38,092
The Group's 40% share of profit	**2,881**	15,236
The Group's 40% share of other comprehensive income	**164**	–

At 31 December 2015 and 2016, Ziegler has no bank and cash balances in the PRC denominated in RMB.

The following table shows, in aggregate the Group's share of the amounts of all individually immaterial associates that are accounted for using the equity method for the year ended 31 December 2015.

	2015 RMB'000
At 31 December 2015	
Carrying amounts of interests	–
Year ended 31 December 2015 (up to the date of disposal)	
Loss from continuing operations	99
Total comprehensive income	99

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

The Group disposed of the following investments in associates during the year ended 31 December 2015.

Name/type of legal entity	Percentage of ownership interest	Principal activities
北京特威特國際環保科技有限公司 Beijing TWT International Technical Co., Ltd./limited liability enterprise	45%	Production and sale of fire suppression foam
四川神劍消防科技有限公司 Sichuan Shenjian Fire Fighting Science & Technology Co., Ltd./limited liability enterprise	40%	Production and sale of fire prevention and fighting equipment

The disposal of the associates during the year ended 31 December 2015 did not generate any gain or loss.

24. INVENTORIES

Inventories represent fire engines and fire prevention and fighting equipment.

	2016 **RMB'000**	2015 RMB'000
Raw materials	**25,895**	34,312
Work in progress	**32,117**	32,423
Finished goods	**80,220**	69,980
	138,232	136,715

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

25. TRADE AND BILLS RECEIVABLES

	2016 **RMB'000**	2015 RMB'000
Trade and bills receivables	**224,238**	289,802
Less: Impairment loss for bad and doubtful debts	**(16,705)**	(17,571)
	207,533	272,231

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.

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

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:

	2016	2015
	RMB'000	RMB'000
0 – 90 days	**91,292**	124,305
91 – 180 days	**42,095**	85,583
181 – 360 days	**35,705**	18,990
Over 360 days	**38,441**	43,353
	207,533	272,231

The carrying amount of the Group's trade and bills receivables at 31 December 2015 and 2016 were all denominated in RMB.

As at 31 December 2016, trade and bills receivables of RMB74,146,000 (2015: RMB62,343,000) 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:

	2016	2015
	RMB'000	RMB'000
181 – 360 days	**35,705**	18,990
Over 360 days	**38,441**	43,353
	74,146	62,343

Reconciliation of impairment loss for bad and doubtful debts:

	2016	2015
	RMB'000	RMB'000
At 1 January	**17,571**	17,588
Impairment loss for the year	**339**	153
Amounts written off	**(1,205)**	(168)
Disposal of subsidiaries	**–**	(2)
At 31 December	**16,705**	17,571

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

The management closely monitors the credit quality of the trade receivables and considers the trade receivables that were neither past due nor 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 2015 and 2016 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.

26. AMOUNT DUE FROM AN ASSOCIATE

	2016	2015
	RMB'000	RMB'000
Loan	**–**	74,584
Interest	**2,151**	705
	2,151	75,289

The loan due from Ziegler at 31 December 2015 was unsecured and interest bearing as follows:

At 31 December 2015			
In original currency	**Equivalent to**	**Interest rate**	**Repayment**
EUR'000	RMB'000		
596	4,292	1.7451% p.a.	On demand
9,760	70,292	3 months Euribor + 2%	5 December 2016
10,356	74,584		

The loan represented the shareholders loan advanced to Ziegler. During the year, the Group and CIMC Top Gear resolved to waive the shareholders loans and approved Ziegler to convert the loans into capital reserves on 1 December 2016. The interest due was fully settled by Ziegler in January 2017.

27. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

Bank balances carry interest ranging from Nil to 0.35% (2015: Nil to 1.025%) per annum.

The pledged bank deposits are mainly for securing banking facilities granted to the Group and carry interest at 0.35% (2015: 0.35%) per annum.

As at 31 December 2016, pledged bank deposit and bank and cash balances of the Group in PRC denominated in RMB amount to RMB127,554,000 (2015: RMB101,024,000). 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.

28. TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	RMB'000
Trade payables	**106,397**	95,757
Accrued charges	**61,312**	69,459
Receipts in advance	**44,001**	80,706
Value added tax, sales tax and other levies	**14,555**	19,131
	226,265	265,053

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

	2016	2015
	RMB'000	RMB'000
0 – 30 days	**50,480**	44,865
31 – 60 days	**12,292**	15,424
61 – 90 days	**7,892**	12,818
Over 90 days	**35,733**	22,650
	106,397	95,757

Except for the part of the accrued charges and trade payables as disclosed in note 6(a) to the consolidated financial statements which were denominated in HKD and USD respectively, the carrying amount of the Group's trade and other payables at 31 December 2015 and 2016 were all denominated in RMB.

29. BANK BORROWINGS

	2016 RMB'000	2015 RMB'000
Bank loans, unsecured	**10,000**	40,000

The Group's bank borrowings at 31 December 2015 and 2016, were all denominated in RMB and were due for settlement within 12 months (shown under current liabilities).

The bank loans were guaranteed by subsidiaries of the Company.

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

	2016	2015
Bank loans	**5.315%**	6.06%

The interest rates for the bank loans outstanding at 31 December 2016 were arranged at 110% to 118% (2015: 110% to 118%) of the benchmark interest rate as stipulated by the People's Bank of China and expose the Group to cash flow interest rate risk.

30. PROVISION

	RMB'000
At 1 January 2016	–
Addition	**16,224**
At 31 December 2016	**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 is made based on the court written judgement and the management estimation.

31. DEFERRED TAX

At 31 December 2016, the Group has unused tax losses of RMB143,300,000 (2015: RMB93,500,000) 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 2015 and 2016, 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 RMB192,682,000 (2015: RMB160,828,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

32. SHARE CAPITAL

	Number of shares	**Amount**
		HKD'000
Authorised:		
Shares of HKD0.01 (2015: HKD0.01) each		
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	10,000,000,000	100,000
Issued and fully paid:		
Shares of HKD0.01 (2015: HKD0.01) each		
At 1 January 2015	2,855,000,000	28,550
Shares issued for acquisition of an associate (note 23)	1,223,571,430	12,236
At 31 December 2015, 1 January 2016 and 31 December 2016	4,078,571,430	40,786

	2016	2015
	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.

32. SHARE CAPITAL *(cont'd)*

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).

During 2016, the Group's strategy, which was unchanged from 2015, was to maintain the debt-to-adjusted capital ratio at reasonable level. The debt-to-adjusted capital ratios at 31 December 2015 and at 31 December 2016 were as follows:

	2016 **RMB'000**	2015 RMB'000
Total debt	**10,000**	40,000
Adjusted capital	**1,052,999**	1,006,587
Debt-to-adjusted capital ratio	**1%**	4%

The decrease in the debt-to-adjusted capital ratio during 2016 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 restricted 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.

33. 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.

33. 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 is determined by the directors of the Company and will not be less than the highest of the closing price of the Company's shares on the date of grant, the average closing prices of the Company's shares for the five business days immediately preceding the date of grant and the nominal value of the Company's shares.

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

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

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

33. 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:

	2016		2015	
	No. of share options	Exercise price HKD	No. of share options	Exercise price HKD
Outstanding at 1 January	115,625,000	0.42	–	–
Granted during the year	–	–	115,625,000	0.42
Expired during the year	–	–	–	–
Outstanding at 31 December	115,625,000	0.42	115,625,000	0.42
Exercisable at end of the year	–	–	–	–

The share options outstanding at 31 December 2015 and 2016 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) but cannot be exercised until they are vested which shall be on the earliest of the following dates:

(i) the first business day after the second anniversary of 10 July 2015, being the date on which CIMC first becoming a controlling shareholder (as defined in the Listing Rules) of the Company;

(ii) the first business day after the day on which CIMC disposed of any number of shares it held such that its shareholdings in the Company will decrease to below 30%; and

(iii) the first business day after the day on which CIMC's shareholdings in the Company increased to an extent that exercise of all the share options that were granted on 26 August 2015 will not dilute its shareholdings in the Company to below 30%.

All of the share options outstanding at 31 December 2016 have not yet been vested and therefore not exercisable.

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

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

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 2016, employee's share-based payment of approximately HKD9,983,000 (equivalent to approximately RMB8,559,000) (2015: HKD4,989,000 (equivalent to approximately RMB4,111,000)) has been charged to the Group's profit for the year with a corresponding credit to the share-based payment reserve.

34. 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.

34. RESERVES *(cont'd)*

(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) Statutory surplus reserve

Pursuant to the articles of association of the group entities established in the PRC, the relevant group entities are required to appropriate 10% or an amount to be determined by the directors of their respective profits after tax in accordance with the relevant PRC accounting rules and financial regulations before any distribution of dividends to equity holders each year to the statutory surplus reserve until their balances reach 50% of their respective registered capital. In normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into capital and expansion of their respective production facilities and operations.

(iv) Statutory public welfare fund

Pursuant to the articles of association of the group entities established in the PRC, the relevant group entities are required to appropriate from their respective profits after tax at the rate of 5% to 10% or an amount to be determined by the directors to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees' collective welfare. The statutory public welfare fund forms part of the equity and is non-distributable other than upon liquidation.

34. RESERVES *(cont'd)*

(b) Nature and purpose of reserves *(cont'd)*

(v) 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(u) to the consolidated financial statements.

(vi) 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.

(vii) Other reserve

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

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

(a) Statement of financial position of the Company

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Non-current assets		
Investments in subsidiaries	**187,567**	187,567
Current assets		
Prepayments, deposits and other receivables	**44**	40
Amounts due from subsidiaries	**801,567**	798,594
Bank and cash balances	**4,743**	13,760
	806,354	812,394
Current liabilities		
Accrued charges	**1,793**	2,843
Net current assets	**804,561**	809,551
NET ASSETS	**992,128**	997,118
Capital and reserves		
Share capital	**39,977**	39,977
Reserves	**952,151**	957,141
	992,128	997,118

Approved by the Board of Directors on 27 March 2017 and are signed on its behalf by:

Li Yin Hui
Director

Jiang Xiong
Director

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

(b) Reserve movement of the Company

	Share premium RMB'000	Capital reserve RMB'000	Share-based payment reserve RMB'000	Exchange reserve RMB'000 (Note 34(b)(vi))	Accumulated losses RMB'000	Total RMB'000
At 1 January 2015	646,363	170,607	–	(3,342)	(146,676)	666,952
Total comprehensive income for the year	–	–	–	–	(105,466)	(105,466)
Issue of shares for acquisition of an associate (note 23)	461,040	–	–	–	–	461,040
Payment of interim dividend out of share premium account (note 17)	(69,496)	–	–	–	–	(69,496)
Share-based payments	–	–	4,111	–	–	4,111
At 31 December 2015 and 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	1,037,907	170,607	12,670	(3,342)	(265,691)	952,151

36. ACQUISITION OF NON-CONTROLLING INTERESTS

The Group acquired an additional 25% equity interest in Sichuan Chuanxiao in December 2015 for a cash consideration of RMB37,000,000, increasing its ownership from 75% to 100%. The carrying amount of the non-controlling interests at the date of acquisition was approximately RMB65,869,000.

37. DISPOSAL OF SUBSIDIARIES

In 2015, the Group disposed of all the equity interests held in the following subsidiaries:

Name of subsidiary/type of legal entity	Percentage of ownership interests held by the Group	Principal activities
萃聯（上海）貿易有限公司Allied Best (Shanghai) Trading Co., Ltd./limited liability enterprise	100%	Trading of fire prevention and fighting equipment
CFE Investment Limited/limited liability company	100%	Investment holding
川消消防工程有限公司Chuanxiao Fire Engineering Company Limited/limited liability enterprise	100%	Provision of fire prevention and fighting system installation services and maintenance services
福州市萬友消防設備有限公司Fuzhou Wanyou Fire Equipment Co., Ltd./wholly foreign-owned enterprise	100%	Production and sale of fire prevention and fighting equipment
金格邏博網絡技術有限公司Jinge Luobo Network Technologies Co., Ltd./limited liability enterprise	100%	Provision on on-line advertising services
Loyal Asset Investment Holdings Limited/limited liability company	100%	Investment holding
四川萬山福特種消防裝備制造有限公司Sichuan Wan Shan Fu Special Fire Equipment Manufacturing Co., Ltd./limited liability enterprise	100%	Production and sale of fire prevention and fighting equipment
萬友消防工程集團有限公司Wanyou Fire Engineering Group Company Limited/limited liability enterprise	100%	Provision of fire prevention and fighting system installation services and maintenance services

37. DISPOSAL OF SUBSIDIARIES *(cont'd)*

The net assets of the subsidiaries disposed of at the date of disposal were as follows:

	2015 Continuing operations RMB'000	2015 Discontinued operations RMB'000	2015 Total RMB'000
Property, plant and equipment	5	6	11
Retention receivables	–	329	329
Trade and bills receivables	2,675	535,214	537,889
Impairment loss for bad and doubtful debts	(2,675)	(401,484)	(404,159)
Amounts due from contract customers	–	246,659	246,659
Bank and cash balances	217	16,079	16,296
Trade and other payables	(852)	(313,345)	(314,197)
Amounts due to contract customers	–	(29,415)	(29,415)
Current tax liabilities	(1)	(509)	(510)
Deferred tax liabilities	–	(4,495)	(4,495)
Net (liabilities)/assets disposed of	(631)	49,039	48,408
Release of exchange reserve	(493)	–	(493)
	(1,124)	49,039	47,915
Gain on disposal of subsidiaries	1,134	961	2,095
Total consideration	10	50,000	50,010
Satisfied by:			
Cash consideration received	10	50,000	50,010
Net cash (outflow)/inflow arising on disposal:			
Cash consideration received	10	50,000	50,010
Bank and cash balances disposed of	(37)	(16,259)	(16,296)
	(27)	33,741	33,714

38. CAPITAL COMMITMENTS

At 31 December 2016, the Group's capital commitments are as follows:

	2016 RMB'000	2015 RMB'000
Property, plant and equipment	**14,205**	16,250

39. OPERATING LEASE COMMITMENTS

As lessee

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**1,991**	1,799
In the second to fifth year inclusive	**3,366**	3,742
	5,357	5,541

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.

As lessor

At 31 December 2016, the total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**–**	553
In the second to fifth year inclusive	**–**	569
	–	1,122

40. 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% (2015: 18% to 21%) 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 2016 amounted to RMB7,566,000 (2015: RMB8,408,000).

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 2016, the Group made to the MPF Scheme contributions amounting to RMB88,000 (2015: RMB87,000).

41. 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:

	2016	2015
	RMB'000	RMB'000
Finished goods purchased from associates	**–**	221
Finished goods sold to associates	**–**	7
Interest income receivable from an associate	**1,420**	705
Rental income received from associates	**–**	75

(b) The key management personnel are the directors. The details of the remuneration paid to them are set out in note 15 to the consolidated financial statements.

42. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 31 December 2016 (2015: RMBNil).

43. EVENT AFTER THE REPORTING PERIOD

The Group acquired the entire equity interest of 四川川消汽車服務有限公司, a company incorporated in Sichuan and engaged mainly in the provision of fire engines maintenance services, on 8 February 2017.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2012 RMB'000 (Restated)	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
RESULTS					
Revenue	969,273	836,812	846,828	662,399	**471,252**
(Loss)/profit before tax	(11,501)	(149,449)	(490,859)	39,928	**24,872**
Income tax expense	(10,635)	(12,281)	(11,180)	(9,484)	**(7,586)**
(Loss)/profit for the year	(22,136)	(161,730)	(502,039)	30,444	**17,286**
Attributable to:					
Owners of the Company	(21,414)	(152,871)	(503,854)	18,611	**17,286**
Non-controlling interests	(722)	(8,859)	1,815	11,833	**–**
	(22,136)	(161,730)	(502,039)	30,444	**17,286**
(Loss)/earnings per share (RMB cents)					
Basic	(0.75)	(5.35)	(17.65)	0.54	**0.42**
Diluted	(0.75)	(5.35)	(17.65)	0.54	**0.42**

	At 31 December				
	2012 RMB'000 (Restated)	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,789,889	1,687,623	1,324,258	1,317,226	**1,310,659**
Total liabilities	(543,023)	(602,527)	(721,099)	(310,639)	**(257,660)**
	1,246,866	1,085,096	603,159	1,006,587	**1,052,999**
Equity attributable to owners of the Company	1,210,602	1,057,464	549,123	1,006,587	**1,052,999**
Non-controlling interests	36,264	27,632	54,036	–	**–**
Total equity	1,246,866	1,085,096	603,159	1,006,587	**1,052,999**