



RSM Hong Kong 中瑞岳華(香港)會計師事務所

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The Board of Directors

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China Fire Safety Enterprise Group Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Fire Safety Enterprise Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors (the “Directors”) of the Company for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of financial position as at 30 September 2017, the pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016, the pro forma consolidated statement of cash flows for the year ended 31 December 2016 and related notes as set out in Appendix IV(A) of the circular dated 15 March 2018 issued by the Company (the “Circular”). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Appendix IV(A) on pages IV-1 to IV-29 to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 99.41% equity interest in Pteris Global Limited (the “Target Company”) and its subsidiaries (collectively referred to as the “Target Group”) on the Group’s financial position as at 30 September 2017 as if the transaction had taken place at 30 September 2017, and on the Group’s financial performance and cash flows for the year ended 31 December 2016 as if the transaction had been taken place at 1 January 2016. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s consolidated financial statements as included in the financial information for the nine months ended 30 September 2017 as set out in Appendix II to this circular, on which an audit report has been issued. Information about the Group’s financial performance and cash flows has been extracted by the Directors from the Group’s consolidated financial statements as included in the annual report for the year ended 31 December 2016, on which an audit report has been published.

Directors’ Responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of the pro forma financial information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 1 January 2016 and 30 September 2017 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,



RSM Hong Kong
Certified Public Accountants
Hong Kong

Introduction

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, RSM Hong Kong, Certified Public Accountants, Hong Kong.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction to the Unaudited Pro Forma Financial Information of the Enlarged Group

On 4 December 2017, China Fire Safety Enterprise Group Limited (“CFE” or the “Company”) and its wholly owned subsidiary (collectively referred to as the “Group”), entered into sale and purchase agreement with Sharp Vision Holdings Limited (“Sharp Vision”), an indirect wholly-owned subsidiary of China International Marine Containers (Group) Co., Ltd. (“CIMC”) and Fengqiang Holdings Limited (“Fengqiang”), pursuant to which CFE has conditionally agreed to acquire and Sharp Vision and Fengqiang (the “Pteris Vendors”) have conditionally agreed to sell, approximately 99.41% of the issued share capital of Pteris Global Limited (“Pteris”) (the “Proposed Pteris Acquisition”). The Group immediately after the completion of the Proposed Pteris Acquisition is referred to as the “Enlarged Group”. Pteris Global Limited and its subsidiaries are collectively referred to as the “Target Group”.

On 4 December 2017, the Group, entered into sale and purchase agreement with Lucky Rich Holdings Limited (“Lucky Rich” or the “TianDa Vendor”), pursuant to which CFE has conditionally agreed to acquire and Lucky Rich has conditionally agreed to sell, 30% of the equity interest of Shenzhen CIMC-TianDa Airport Support Ltd. (“TianDa”), a 70% subsidiary of Pteris (the “Proposed TianDa Acquisition”).

Upon satisfaction or waiver (as applicable) of the conditions precedents for the Proposed Pteris Acquisition and the Proposed TianDa Acquisition, it is expected that the completions of the Proposed Pteris Acquisition and the Proposed TianDa Acquisition will take place on or around the same time. If the conditions precedents for Proposed Pteris Acquisition are satisfied (or waived, as applicable) but the conditions precedent for the Proposed TianDa Acquisition are not satisfied (or waived, as applicable), the Proposed Pteris Acquisition will proceed and the Proposed TianDa Acquisition will not proceed.

The Proposed Pteris Acquisition and Proposed TianDa Acquisition are considered as two independent transactions and are not linked on the basis that (i) the aggregate considerations to be paid to the Pteris Vendors are the same as illustrated in the scenarios below, and (ii) the Proposed Pteris Acquisition will proceed irrespective of whether the Proposed TianDa Acquisition will proceed.

On the basis that the Proposed Pteris Acquisition (but not the Proposed TianDa Acquisition) had taken place on 30 September 2017 (“Scenario I”), CFE shall issue 7,470,108,040 consideration shares and convertible bonds in the aggregate principal amount of RMB1,482,580,105 to the Pteris Vendors to settle consideration of RMB3,806,530,716 for the Proposed Pteris Acquisition, or on the basis that the Proposed Pteris Acquisition and the Proposed TianDa Acquisition had taken place (“Scenario II”), CFE shall issue 6,455,428,570 consideration shares and convertible bonds in the aggregate principal amount of RMB1,798,246,888 to the Pteris Vendors and 1,014,679,470 consideration shares and convertible bonds in the principal amount of RMB294,886,806 to the TianDa Vendors to settle the consideration of RMB3,806,530,716 and RMB610,553,589 for the Proposed Pteris Acquisition and the Proposed TianDa Acquisition respectively. Consequently, in Scenario I, Sharp Vision will hold 59% equity interest of CFE on 30 September 2017 upon completion of the Proposed Pteris Acquisition, or in Scenario II Sharp Vision will hold 52.6% equity interest of CFE on 30 September 2017 after the Proposed Pteris Acquisition and the Proposed TianDa Acquisition had taken place, assuming all the convertible bonds have been fully converted.

The reverse acquisition accounting method is adopted for the preparation of the unaudited pro forma financial information under which Pteris is regarded as the acquirer and CFE is regarded as the acquiree, as Sharp Vision will become in Scenario I 59% shareholder of CFE after the Proposed Pteris Acquisition, or in Scenario II Sharp Vision will become 52.6% shareholder of CFE after the Proposed Pteris Acquisition and the Proposed TianDa Acquisition. The directors of the Company consider that such basis is appropriate and reflects the accounting treatment to be adopted upon completion of the Proposed Pteris Acquisition and the Proposed TianDa Acquisition while providing the most relevant information to the shareholders of the Company.

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

The accompanying unaudited pro forma financial information of the Enlarged Group (the “Unaudited Pro Forma Financial Information”) has been prepared to illustrate the effect of, in Scenario I, the Proposed Pteris Acquisition and the Subscription, or in Scenario II the Proposed Pteris Acquisition, the Proposed TianDa Acquisition and the Subscription might have affected the financial information of the Group.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 September 2017 is prepared based on the audited consolidated statement of financial position of the Group as at 30 September 2017 as extracted from the financial information of the Company as at 30 September 2017 set out in Appendix II to this circular, and the audited consolidated statement of financial position of Pteris and its subsidiaries (the “Pteris Group”) as at 30 September 2017 as extracted from the accountants’ report set out in Appendix III(A) to this circular as if, in Scenario I the Pteris Acquisition and the Subscription had been completed on 30 September 2017, and in Scenario II the Proposed Pteris Acquisition, the Proposed TianDa Acquisition and the Subscription had been completed on 30 September 2017.

The unaudited pro forma consolidated profit or loss and other comprehensive income and consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2016 are prepared based on the audited consolidated profit or loss and other comprehensive income and consolidated statement of cash flows of the Group for the year ended 31 December 2016 as extracted from the annual report of the Company for the year ended 31 December 2016 and the audited consolidated profit or loss and other comprehensive income and consolidated statement of cash flows of Pteris Group for the year ended 31 December 2016 as extracted from the accountants' report set out in Appendix III(A) to this circular as if in Scenario I the Proposed Pteris Acquisition and the Subscription had been completed on 1 January 2016, and in Scenario II the Proposed Pteris Acquisition, the Proposed TianDa Acquisition and the Subscription had been completed on 1 January 2016. The Subscription has no effect on the unaudited pro forma consolidated profit or loss and other comprehensive income of the Enlarged Group for the year ended 31 December 2016.

The Unaudited Pro Forma Financial Information of the Enlarged Group is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Unaudited Pro Forma Financial Information of the Enlarged Group, it may not give a true picture of the actual financial position, results of operation or cash flows of the Enlarged Group that would have been attained had the Proposed Pteris Acquisition and the Subscription in Scenario I or the Proposed Pteris Acquisition, the Proposed TianDa Acquisition and the Subscription in Scenario II had actually occurred on the dates indicated herein. Furthermore, the Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results of operation or cash flows.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group and the financial information of Pteris as set out in Appendix II and Appendix III(A) respectively to this circular and other financial information included elsewhere in this circular.

**THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
OF THE ENLARGED GROUP AS AT 30 SEPTEMBER 2017**

SCENARIO I: The Proposed Pteris Acquisition and the Subscription had taken place

	The Group RMB'000 (Note 1)	The Target Group RMB'000 (Note 3)	Sub-total RMB'000 (Note 4, 4(a))		Pro forma adjustments RMB'000 (Note 5)		RMB'000 (Note 6)	RMB'000 (Note 7)	The Enlarged Group (before the Subscription) RMB'000	Pro forma adjustment RMB'000 (Note 9)	The Enlarged Group (after the Subscription) RMB'000
Non-current assets											
Property, plant and equipment	177,079	537,093	714,172	7,060					721,232		721,232
Prepaid land lease payments	31,959	67,676	99,635	12,018					111,653		111,653
Goodwill	7,630	-	7,630	(7,630)					27,667		27,667
				27,667							
Investment properties	-	246,249	246,249						246,249		246,249
Intangible assets (Note 8)	-	230,394	230,394	25,577					255,971		255,971
Investment in an associate	568,182	-	568,182						568,182		568,182
Deferred income tax assets	-	31,054	31,054						31,054		31,054
	784,850	1,112,466	1,897,316						1,962,008		1,962,008
Current assets											
Inventories	146,111	630,109	776,220	20,431					796,651		796,651
Amounts due from contract customers	-	117,217	117,217						117,217		117,217
Trade and bills receivables	247,167	678,721	925,888						925,888		925,888
Prepayments, deposits and other receivables	92,474	275,175	367,649						367,649		367,649
Prepaid land lease payments	794	-	794	299					1,093		1,093
Other current asset	8,500	-	8,500						8,500		8,500
Pledged bank deposits	6,675	543	7,218						7,218		7,218
Bank and cash balances	65,497	311,278	376,775						376,775	207,282	584,057
	567,218	2,013,043	2,580,261						2,600,991		2,808,273

	The Group RMB'000 (Note 1)	The Target Group RMB'000 (Note 3)	Sub-total RMB'000 (Note 4, 4(a))		Pro forma adjustments RMB'000 (Note 5)		RMB'000 (Note 7)	The Enlarged Group (before the Subscription) RMB'000	Pro forma adjustment RMB'000 (Note 9)	The Enlarged Group (after the Subscription) RMB'000
Current liabilities										
Amounts due to contract customers	-	46,723	46,723					46,723		46,723
Trade and other payables	224,199	1,338,070	1,562,269				19,000	1,581,269		1,581,269
Bank borrowings	-	102,350	102,350					102,350		102,350
Provisions	16,224	85,889	102,113					102,113		102,113
Current tax liabilities	500	2,529	3,029					3,029		3,029
	240,923	1,575,561	1,816,484					1,835,484		1,835,484
Net current assets	<u>326,295</u>	<u>437,482</u>	<u>763,777</u>					<u>765,507</u>		<u>972,789</u>
Total assets less current liabilities	<u>1,111,145</u>	<u>1,549,948</u>	<u>2,661,093</u>					<u>2,727,515</u>		<u>2,934,797</u>
Non-current liabilities										
Trade and other payables	-	80,478	80,478					80,478		80,478
Interest-bearing bank and other borrowings	-	47,222	47,222					47,222		47,222
Convertible bonds	-	-	-			83,330		83,330		83,330
Deferred tax liabilities	-	8,316	8,316	16,346				24,662		24,662
Deferred revenue	-	73,933	73,933					73,933		73,933
	-	209,949	209,949					309,625		309,625
NET ASSETS	<u>1,111,145</u>	<u>1,339,999</u>	<u>2,451,144</u>					<u>2,417,890</u>		<u>2,625,172</u>

	The Group RMB'000 (Note 1)	The Target Group RMB'000 (Note 3)	Sub-total RMB'000 (Note 4, 4(a))		Pro forma adjustments RMB'000 (Note 5)			The Enlarged Group (before the Subscription) RMB'000 (Note 7)	Pro forma adjustment RMB'000 (Note 9)	The Enlarged Group (after the Subscription) RMB'000
				RMB'000	RMB'000	RMB'000				
Equity attributable to equity holders of the Company										
Issued capital	39,977	502,896	542,873	(39,977)		(3,017)		499,879	5,726	505,605
Issued capital – Reverse acquisition	–	–	–	1,180,221				1,180,221		1,180,221
Share premium	1,037,907	–	1,037,907	(1,037,907)				–	201,556	201,556
Convertible bonds	–	–	–		1,842,859			1,842,859		1,842,859
Distribution reserve – convertible bonds	–	–	–		(1,926,189)			(1,926,189)		(1,926,189)
Other reserves	153,806	134,593	288,399	(153,806)				134,593		134,593
Reverse acquisition reserve	–	–	–			(3,540)		(3,540)		(3,540)
(Accumulated losses)/ retained profits	(120,545)	455,464	334,919	120,545			(19,000)	436,464		436,464
Non-controlling interest	–	247,046	247,046			6,557		253,603		253,603
TOTAL EQUITY	1,111,145	1,339,999	2,451,144					2,417,890		2,625,172

SCENARIO II: The Proposed Pteris Acquisition, the Proposed TianDa Acquisition and the Subscription had taken place

	The Group RMB'000 (Note 1)	The Target Group RMB'000 (Note 3)	Sub-total RMB'000 (Note 4, 4(a))		Pro forma adjustments RMB'000 (Note 5)	RMB'000 (Note 6)	RMB'000 (Note 7)	The Enlarged Group (before the Subscription) RMB'000 (Note 9)	Pro forma adjustment RMB'000 (Note 9)	The Enlarged Group (after the Subscription) RMB'000
Non-current assets										
Property, plant and equipment	177,079	537,093	714,172	7,060				721,232		721,232
Prepaid land lease payments	31,959	67,676	99,635	12,018				111,653		111,653
Goodwill	7,630	–	7,630	(7,630)				27,667		27,667
				27,667						
Investment properties	–	246,249	246,249					246,249		246,249
Intangible assets (Note 8)	–	230,394	230,394	25,577				255,971		255,971
Investment in an associate	568,182	–	568,182					568,182		568,182
Deferred income tax assets	–	31,054	31,054					31,054		31,054
	<u>784,850</u>	<u>1,112,466</u>	<u>1,897,316</u>					<u>1,962,008</u>		<u>1,962,008</u>
Current assets										
Inventories	146,111	630,109	776,220	20,431				796,651		796,651
Amounts due from contract customers	–	117,217	117,217					117,217		117,217
Trade and bills receivables	247,167	678,721	925,888					925,888		925,888
Prepayments, deposits and other receivables	92,474	275,175	367,649					367,649		367,649
Prepaid land lease payments	794	–	794	299				1,093		1,093
Other current asset	8,500	–	8,500					8,500		8,500
Pledged bank deposits	6,675	543	7,218					7,218		7,218
Bank and cash balances	<u>65,497</u>	<u>311,278</u>	<u>376,775</u>					<u>376,775</u>	<u>207,282</u>	<u>584,057</u>
	<u>567,218</u>	<u>2,013,043</u>	<u>2,580,261</u>					<u>2,600,991</u>		<u>2,808,273</u>

	The Group RMB'000 (Note 1)	The Target Group RMB'000 (Note 3)	Sub-total RMB'000 (Note 4, 4(a))		Pro forma adjustments RMB'000 (Note 5) RMB'000 (Note 6)		RMB'000 (Note 7)	The Enlarged Group (before the Subscription) RMB'000	Pro forma adjustment RMB'000 (Note 9)	The Enlarged Group (after the Subscription) RMB'000
Current liabilities										
Amounts due to contract customers	-	46,723	46,723					46,723		46,723
Trade and other payables	224,199	1,338,070	1,562,269				19,000	1,581,269		1,581,269
Bank borrowings	-	102,350	102,350					102,350		102,350
Provisions	16,224	85,889	102,113					102,113		102,113
Current tax liabilities	500	2,529	3,029					3,029		3,029
	240,923	1,575,561	1,816,484					1,835,484		1,835,484
Net current assets	<u>326,295</u>	<u>437,482</u>	<u>763,777</u>					<u>765,507</u>		<u>972,789</u>
Total assets less current liabilities	<u>1,111,145</u>	<u>1,549,948</u>	<u>2,661,093</u>					<u>2,727,515</u>		<u>2,934,797</u>
Non-current liabilities										
Trade and other payables	-	80,478	80,478					80,478		80,478
Interest-bearing bank and other borrowings	-	47,222	47,222					47,222		47,222
Convertible bonds	-	-	-			117,647		117,647		117,647
Deferred tax liabilities	-	8,316	8,316	16,346				24,662		24,662
Deferred revenue	-	73,933	73,933					73,933		73,933
	-	209,949	209,949					343,942		343,942
NET ASSETS	<u>1,111,145</u>	<u>1,339,999</u>	<u>2,451,144</u>					<u>2,383,573</u>		<u>2,590,855</u>

	The Group RMB'000 (Note 1)	The Target Group RMB'000 (Note 3)	Sub-total RMB'000 (Note 4, 4(a))	Pro forma adjustments RMB'000 (Note 5) RMB'000 (Note 6)		RMB'000 (Note 7)	The Enlarged Group (before the Subscription) RMB'000	Pro forma adjustment RMB'000 (Note 9)	The Enlarged Group (after the Subscription) RMB'000
Equity attributable to equity holders of the Company									
Issued capital	39,977	502,896	542,873	(39,977)		(3,017)	499,879	5,726	505,605
Issued capital – Reverse acquisition	–	–	–	1,180,221			1,180,221		1,180,221
Share premium	1,037,907	–	1,037,907	(1,037,907)			–	201,556	201,556
Convertible bonds	–	–	–		2,601,783		2,601,783		2,601,783
Distribution reserve – convertible bonds	–	–	–		(2,719,430)		(2,719,430)		(2,719,430)
Other reserves	153,806	134,593	288,399	(153,806)			134,593		134,593
Reverse acquisition reserve	–	–	–			(3,540)	(3,540)		(3,540)
(Accumulated losses)/ retained profits	(120,545)	455,464	334,919	120,545	247,046	(19,000)	683,510		683,510
Non-controlling interest	–	247,046	247,046		(247,046)		6,557		6,557
					6,557				
TOTAL EQUITY	<u>1,111,145</u>	<u>1,339,999</u>	<u>2,451,144</u>				<u>2,383,573</u>		<u>2,590,855</u>

**THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME OF THE ENLARGED GROUP FOR THE YEAR ENDED
31 DECEMBER 2016**

SCENARIO I: The Proposed Pteris Acquisition and the Subscription had taken place

	The Group	The Target Group	Sub-total		Pro forma adjustments			The Enlarged Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 2)</i>	<i>(Note 3)</i>		<i>(Note 4)</i>	<i>(Note 5)</i>	<i>(Note 6)</i>	<i>(Note 7)</i>	
Revenue	471,252	1,526,759	1,998,011					1,998,011
Cost of sales	<u>(363,991)</u>	<u>(1,171,195)</u>	<u>(1,535,186)</u>					<u>(1,535,186)</u>
Gross profit	107,261	355,564	462,825					462,825
Other income	6,047	91,351	97,398					97,398
Selling and distribution costs	(14,779)	(59,712)	(74,491)					(74,491)
Administrative expenses	<u>(58,914)</u>	<u>(248,170)</u>	<u>(307,084)</u>	(12,789)			(19,000)	<u>(338,873)</u>
Profit from operations	39,615	139,033	178,648					146,859
Finance costs	(1,400)	(7,117)	(8,517)		(8,921)			(17,438)
Other expenses	(16,224)	-	(16,224)					(16,224)
Share of profit of an associate	<u>2,881</u>	<u>-</u>	<u>2,881</u>					<u>2,881</u>
Profit before tax	24,872	131,916	156,788					116,078
Income tax expenses	<u>(7,586)</u>	<u>(19,835)</u>	<u>(27,421)</u>	3,197				<u>(24,224)</u>
Profit for the year	<u><u>17,286</u></u>	<u><u>112,081</u></u>	<u><u>129,367</u></u>					<u><u>91,854</u></u>

	The Group RMB'000 (Note 2)	The Target Group RMB'000 (Note 3)	Sub-total RMB'000	RMB'000 (Note 4)	Pro forma adjustments			The Enlarged Group RMB'000
					RMB'000 (Note 5)	RMB'000 (Note 6)	RMB'000 (Note 7)	
Other comprehensive income, net of tax								
<i>Items that may be reclassified to profit or loss:</i>								
Exchange differences on translating foreign operations	20,403	(31,706)	(11,303)					(11,303)
Share of other comprehensive income of an associate	<u>164</u>	<u>-</u>	<u>164</u>					<u>164</u>
Other comprehensive income for the year, net of tax	<u>20,567</u>	<u>(31,706)</u>	<u>(11,139)</u>					<u>(11,139)</u>
Total comprehensive income	<u><u>37,853</u></u>	<u><u>80,375</u></u>	<u><u>118,228</u></u>					<u><u>80,715</u></u>
Profit for the year attributable to:								
Owners of the Company	17,286	71,703	88,989	(9,592)	(8,921)	(430)	(19,000)	51,046
Non-controlling interests	<u>-</u>	<u>40,378</u>	<u>40,378</u>			430		<u>40,808</u>
	<u><u>17,286</u></u>	<u><u>112,081</u></u>	<u><u>129,367</u></u>					<u><u>91,854</u></u>
Total comprehensive income for the year attributable to:								
Owners of the Company	37,853	47,442	85,295	(9,592)	(8,921)	(285)	(19,000)	47,497
Non-controlling interests	<u>-</u>	<u>32,933</u>	<u>32,933</u>			285		<u>33,218</u>
	<u><u>37,853</u></u>	<u><u>80,375</u></u>	<u><u>118,228</u></u>					<u><u>80,715</u></u>

SCENARIO II: The Proposed Pteris Acquisition, the Proposed TianDa Acquisition and the Subscription had taken place

	The	The	Sub-total		Pro forma adjustments			The
	Group	Target			RMB'000	RMB'000	RMB'000	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 2)	(Note 3)		(Note 4)	(Note 5)	(Note 6)	(Note 7)	
Revenue	471,252	1,526,759	1,998,011					1,998,011
Cost of sales	<u>(363,991)</u>	<u>(1,171,195)</u>	<u>(1,535,186)</u>					<u>(1,535,186)</u>
Gross profit	107,261	355,564	462,825					462,825
Other income	6,047	91,351	97,398					97,398
Selling and distribution costs	(14,779)	(59,712)	(74,491)					(74,491)
Administrative expenses	<u>(58,914)</u>	<u>(248,170)</u>	<u>(307,084)</u>	(12,789)			(19,000)	<u>(338,873)</u>
Profit from operations	39,615	139,033	178,648					146,859
Finance costs	(1,400)	(7,117)	(8,517)		(12,595)			(21,112)
Other expenses	(16,224)	-	(16,224)					(16,224)
Share of profit of an associate	<u>2,881</u>	<u>-</u>	<u>2,881</u>					<u>2,881</u>
Profit before tax	24,872	131,916	156,788					112,404
Income tax expenses	<u>(7,586)</u>	<u>(19,835)</u>	<u>(27,421)</u>	3,197				<u>(24,224)</u>
Profit for the year	<u>17,286</u>	<u>112,081</u>	<u>129,367</u>					<u>88,180</u>

	The Group RMB'000 (Note 2)	The Target Group RMB'000 (Note 3)	Sub-total RMB'000	RMB'000 (Note 4)	Pro forma adjustments			RMB'000 (Note 7)	The Enlarged Group RMB'000
					RMB'000 (Note 5)	RMB'000 (Note 6)			
Other comprehensive income, net of tax									
<i>Items that may be reclassified to profit or loss:</i>									
Exchange differences on translating foreign operations	20,403	(31,706)	(11,303)					(11,303)	
Share of other comprehensive income of an associate	164	–	164					164	
Other comprehensive income for the year, net of tax	<u>20,567</u>	<u>(31,706)</u>	<u>(11,139)</u>					<u>(11,139)</u>	
Total comprehensive income	<u><u>37,853</u></u>	<u><u>80,375</u></u>	<u><u>118,228</u></u>					<u><u>77,041</u></u>	
Profit for the year attributable to:									
Owners of the Company	17,286	71,703	88,989	(9,592)	(12,595)	40,379	(19,000)	87,751	
						(430)			
Non-controlling interests	–	40,378	40,378			(40,379)		429	
						430			
	<u>17,286</u>	<u>112,081</u>	<u>129,367</u>					<u>88,180</u>	
Total comprehensive income for the year attributable to:									
Owners of the Company	37,853	47,442	85,295	(9,592)	(12,595)	32,934	(19,000)	76,757	
						(285)			
Non-controlling interests	–	32,933	32,933			(32,934)		284	
						285			
	<u>37,853</u>	<u>80,375</u>	<u>118,228</u>					<u>77,041</u>	

THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2016

SCENARIO I: The Proposed Pteris Acquisition and the Subscription had taken place

	The Group RMB'000 (Note 2)	The Target Group RMB'000 (Note 3)	Sub-total RMB'000	RMB'000 (Note 4)	Pro forma adjustments RMB'000 (Note 5) RMB'000 (Note 6)		RMB'000 (Note 7)	The Enlarged Group (before the Subscription) RMB'000	Pro forma adjustment RMB'000 (Note 9)	The Enlarged Group (after the Subscription) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES										
Profit before tax	24,872	131,916	156,788	(12,789)	(8,921)		(19,000)	116,078		116,078
Adjustments for:										
Amortisation of prepaid land lease payments	794	-	794					794		794
Amortisation of intangible assets	-	-	-	12,789				12,789		12,789
Depreciation of property, plant and equipment	10,804	37,365	48,169					48,169		48,169
Dividend income	-	(38)	(38)					(38)		(38)
Impairment loss for bad and doubtful debts	339	-	339					339		339
Provision for a legal claim	16,224	-	16,224					16,224		16,224
Finance costs	1,400	7,045	8,445		8,921			17,366		17,366
Interest income	(2,752)	(1,521)	(4,273)					(4,273)		(4,273)
Gain on disposal of asset held for sales	-	(15,788)	(15,788)					(15,788)		(15,788)
Gain on disposal of other non-current assets	-	(7,892)	(7,892)					(7,892)		(7,892)
Gain on fair value of investment properties	-	(4,836)	(4,836)					(4,836)		(4,836)
Loss on change in fair value of other financial assets	-	1,150	1,150					1,150		1,150
Loss/(gain) on disposal of property, plant and equipment	50	(438)	(388)					(388)		(388)
Loss on issuance of deferred shares	-	33,501	33,501					33,501		33,501
Share-based payments	8,559	-	8,559					8,559		8,559
Share of profit of an associate	(2,881)	-	(2,881)					(2,881)		(2,881)

	The Group	The Target Group	Sub-total	Pro forma adjustments			The Enlarged Group (before the Subscription)	Pro forma adjustment	The Enlarged Group (after the Subscription)	
	RMB'000 (Note 2)	RMB'000 (Note 3)	RMB'000	RMB'000 (Note 4)	RMB'000 (Note 5)	RMB'000 (Note 6)	RMB'000 (Note 7)	RMB'000 (Note 9)	RMB'000	
Operating profit before working capital changes	57,409	180,464	237,873					218,873	218,873	
Increase in inventories	(1,517)	(114,367)	(115,884)					(115,884)	(115,884)	
Decrease/(increase) in trade and bills receivables	64,359	(93,310)	(28,951)					(28,951)	(28,951)	
Increase in prepayments, deposits and other receivables	(19,911)	-	(19,911)					(19,911)	(19,911)	
(Decrease)/increase in trade and other payables	(38,788)	277,109	238,321				19,000	257,321	257,321	
Cash generated from operations	61,552	249,896	311,448					311,448	311,448	
Interest paid	(1,400)	(7,512)	(8,912)					(8,912)	(8,912)	
Income tax paid	(8,001)	(20,408)	(28,409)					(28,409)	(28,409)	
Net cash generated from operating activities	52,151	221,976	274,127					274,127	274,127	
CASH FLOWS FROM INVESTING ACTIVITIES										
Purchases of property, plant and equipment	(2,045)	(80,298)	(82,343)					(82,343)	(82,343)	
Decrease in pledged bank deposits	7,456	-	7,456					7,456	7,456	
Interest received	2,752	2,286	5,038					5,038	5,038	
Dividend received	-	38	38					38	38	
Advance to an associate	(2,875)	-	(2,875)					(2,875)	(2,875)	
Proceeds from disposal of property, plant and equipment	78	746	824					824	824	
Proceeds from sale of other non-current assets	-	7,940	7,940					7,940	7,940	
Proceeds from sales of assets held for sale	-	31,273	31,273					31,273	31,273	
Net cash generated from/ (used in) investing activities	5,366	(38,015)	(32,649)					(32,649)	(32,649)	

	The Group	The Target Group	Sub-total	Pro forma adjustments			The Enlarged Group (before the Subscription)	Pro forma adjustment	The Enlarged Group (after the Subscription)	
	RMB'000 (Note 2)	RMB'000 (Note 3)	RMB'000	RMB'000 (Note 4)	RMB'000 (Note 5)	RMB'000 (Note 6)	RMB'000 (Note 7)	RMB'000 (Note 9)	RMB'000	
CASH FLOWS FROM FINANCING ACTIVITIES										
Decrease in cash pledged for financing	-	10,644	10,644				10,644		10,644	
Dividend paid	-	(18,545)	(18,545)				(18,545)		(18,545)	
New bank loans raised	20,000	67,498	87,498				87,498		87,498	
Repayment of bank loans	(50,000)	(48,673)	(98,673)				(98,673)		(98,673)	
Proceeds of borrowings from related companies	-	186,494	186,494				186,494		186,494	
Repayment of borrowings to related companies	-	(267,832)	(267,832)				(267,832)		(267,832)	
Proceeds from issue of shares	-	-	-				-	207,282	207,282	
Net cash (used in)/generated from financing activities	(30,000)	(70,414)	(100,414)				(100,414)		106,868	
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>27,517</u>	<u>113,547</u>	<u>141,064</u>				<u>141,064</u>		<u>348,346</u>	
Effect of foreign exchange rate changes	-	5,409	5,409				5,409		5,409	
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>105,059</u>	<u>144,162</u>	<u>249,221</u>				<u>249,221</u>		<u>249,221</u>	
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u><u>132,576</u></u>	<u><u>263,118</u></u>	<u><u>395,694</u></u>				<u><u>395,694</u></u>		<u><u>602,976</u></u>	
ANALYSIS OF CASH AND CASH EQUIVALENTS										
Bank and cash balances	<u><u>132,576</u></u>	<u><u>263,118</u></u>	<u><u>395,694</u></u>				<u><u>395,694</u></u>		<u><u>602,976</u></u>	

SCENARIO II: The Proposed Pteris Acquisition, the Proposed TianDa Acquisition and the Subscription had taken place

	The Group RMB'000 (Note 2)	The Target Group RMB'000 (Note 3)	Sub-total RMB'000	RMB'000 (Note 4)	Pro forma adjustments RMB'000 RMB'000 (Note 5) (Note 6)		RMB'000 (Note 7)	The Enlarged Group (before the Subscription) RMB'000	Pro forma adjustment RMB'000 (Note 9)	The Enlarged Group (after the Subscription) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES										
Profit before tax	24,872	131,916	156,788	(12,789)	(12,595)		(19,000)	112,404		112,404
Adjustments for:										
Amortisation of prepaid land lease payments	794	-	794					794		794
Amortisation of intangible assets	-	-	-	12,789				12,789		12,789
Depreciation of property, plant and equipment	10,804	37,365	48,169					48,169		48,169
Dividend income	-	(38)	(38)					(38)		(38)
Impairment loss for bad and doubtful debts	339	-	339					339		339
Provision for a legal claim	16,224	-	16,224					16,224		16,224
Finance costs	1,400	7,045	8,445		12,595			21,040		21,040
Interest income	(2,752)	(1,521)	(4,273)					(4,273)		(4,273)
Gain on disposal of asset held for sales	-	(15,788)	(15,788)					(15,788)		(15,788)
Gain on disposal of other non-current assets	-	(7,892)	(7,892)					(7,892)		(7,892)
Gain on fair value of investment properties	-	(4,836)	(4,836)					(4,836)		(4,836)
Loss on change in fair value of other financial assets	-	1,150	1,150					1,150		1,150
Loss/(gain) on disposal of property, plant and equipment	50	(438)	(388)					(388)		(388)
Loss on issuance of deferred shares	-	33,501	33,501					33,501		33,501
Share-based payments	8,559	-	8,559					8,559		8,559
Share of profit of an associate	(2,881)	-	(2,881)					(2,881)		(2,881)

	The Group RMB'000 (Note 2)	The Target Group RMB'000 (Note 3)	Sub-total RMB'000	RMB'000 (Note 4)	Pro forma adjustments RMB'000 (Note 5) RMB'000 (Note 6)		RMB'000 (Note 7)	The Enlarged Group (before the Subscription) RMB'000	Pro forma adjustment RMB'000 (Note 9)	The Enlarged Group (after the Subscription) RMB'000
Operating profit before working capital changes	57,409	180,464	237,873					218,873		218,873
Increase in inventories	(1,517)	(114,367)	(115,884)					(115,884)		(115,884)
Decrease/(increase) in trade and bills receivables	64,359	(93,310)	(28,951)					(28,951)		(28,951)
Increase in prepayments, deposits and other receivables	(19,911)	-	(19,911)					(19,911)		(19,911)
(Decrease)/increase in trade and other payables	(38,788)	277,109	238,321				19,000	257,321		257,321
Cash generated from operations	61,552	249,896	311,448					311,448		311,448
Interest paid	(1,400)	(7,512)	(8,912)					(8,912)		(8,912)
Income tax paid	(8,001)	(20,408)	(28,409)					(28,409)		(28,409)
Net cash generated from operating activities	52,151	221,976	274,127					274,127		274,127
CASH FLOWS FROM INVESTING ACTIVITIES										
Purchases of property, plant and equipment	(2,045)	(80,298)	(82,343)					(82,343)		(82,343)
Decrease in pledged bank deposits	7,456	-	7,456					7,456		7,456
Interest received	2,752	2,286	5,038					5,038		5,038
Dividend received	-	38	38					38		38
Advance to an associate	(2,875)	-	(2,875)					(2,875)		(2,875)
Proceeds from disposal of property, plant and equipment	78	746	824					824		824
Proceeds from sale of other non-current assets	-	7,940	7,940					7,940		7,940
Proceeds from sales of assets held for sale	-	31,273	31,273					31,273		31,273
Net cash generated from/ (used in) investing activities	5,366	(38,015)	(32,649)					(32,649)		(32,649)

	The Group RMB'000 (Note 2)	The Target Group RMB'000 (Note 3)	Sub-total RMB'000	RMB'000 (Note 4)	Pro forma adjustments RMB'000 (Note 5) RMB'000 (Note 6)		RMB'000 (Note 7)	The Enlarged Group (before the Subscription) RMB'000	Pro forma adjustment RMB'000 (Note 9)	The Enlarged Group (after the Subscription) RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES										
Decrease in cash pledged for financing	-	10,644	10,644					10,644		10,644
Dividend paid	-	(18,545)	(18,545)					(18,545)		(18,545)
New bank loans raised	20,000	67,498	87,498					87,498		87,498
Repayment of bank loans	(50,000)	(48,673)	(98,673)					(98,673)		(98,673)
Proceeds of borrowings from related companies	-	186,494	186,494					186,494		186,494
Repayment of borrowings to related companies	-	(267,832)	(267,832)					(267,832)		(267,832)
Proceeds from issue of shares	-	-	-					-	207,282	207,282
Net cash (used in)/generated from financing activities	(30,000)	(70,414)	(100,414)					(100,414)		106,868
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>27,517</u>	<u>113,547</u>	<u>141,064</u>					<u>141,064</u>		<u>348,346</u>
Effect of foreign exchange rate changes	-	5,409	5,409					5,409		5,409
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>105,059</u>	<u>144,162</u>	<u>249,221</u>					<u>249,221</u>		<u>249,221</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u><u>132,576</u></u>	<u><u>263,118</u></u>	<u><u>395,694</u></u>					<u><u>395,694</u></u>		<u><u>602,976</u></u>
ANALYSIS OF CASH AND CASH EQUIVALENTS										
Bank and cash balances	<u><u>132,576</u></u>	<u><u>263,118</u></u>	<u><u>395,694</u></u>					<u><u>395,694</u></u>		<u><u>602,976</u></u>

Notes:

1. The amounts are extracted from the audited consolidated statement of financial position of the Group as at 30 September 2017, without adjustment, as set out in the financial information of the Company as at 30 September 2017 in Appendix II to this circular.
2. The amounts are extracted from the audited financial statements of the Group for year ended 31 December 2016 as set out in the annual report of the Company.
3. The amounts are extracted from the Accountant's Report on Pteris Group as set out in Appendix III(A) to this circular. For the purpose of presenting the unaudited pro forma financial information, the exchange rate of SGD1 to RMB4.892 has been used to translate the amounts in the consolidated statement of financial position of the Pteris Group as at 30 September 2017 into RMB, and the average exchange rate of SGD1 to RMB4.812 has been used to translate the results and cash flows of the Pteris Group for the year ended 31 December 2016 into RMB, respectively.
4. The pro forma adjustments represent:
 - (i) fair value adjustments on identifiable assets and liabilities of the Group as at 30 September 2017;
 - (ii) recognition of goodwill arising from the reverse acquisition;
 - (iii) the elimination of the issued share capital of the Company such that the resultant issued share capital of the Enlarged Group amounting to RMB499,879,000 represents the issued capital of Pteris less share capital of 0.6% non-controlling interest upon completion of Scenario I or Scenario II;
 - (iv) adjustments to eliminate reserves of the Company upon reverse acquisition;
 - (v) deferred taxation arising from the fair value adjustments.
 - (vi) amortisation of intangible assets – customer relationships for statement of profit or loss, the adjustment has a continuing effect to the Enlarged Group.

As described earlier in the introductory paragraphs, the reverse acquisition accounting method is adopted for the preparation of the unaudited pro forma financial information in accordance with the requirements of Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations", under which Pteris is regarded as the acquirer and CFE is regarded as the acquiree as a result of the Proposed Pteris Acquisition.

The acquisition-date fair value of the consideration transferred by Pteris, the accounting acquirer, for its interest in CFE, the accounting acquiree, is based on the number of equity interests Pteris, the legal subsidiary, would have had to issue to give the owners of CFE, the legal parent, the same percentage equity interest in the combined entity that results from the reverse acquisition. Pteris is deemed to issue shares to give CFE's existing shareholders the same percentage of ownership in the Enlarged Group, which is calculated to be equivalent to 25% interest in Pteris upon completion of the Proposed Pteris Acquisition, assuming the full conversion of the convertible bonds.

The fair value of Pteris Shares was estimated at approximately RMB1,180,221,000 being 127,688,130 Pteris shares at a fair value of RMB9.24 each as at 30 September 2017.

	<i>RMB'000</i>
Fair value of total purchase consideration	1,180,221
Fair value of net identifiable assets and liabilities of the Group (<i>note (b)</i>)	<u>(1,152,554)</u>
Goodwill	<u><u>27,667</u></u>

(a) Impairment tests of goodwill

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 30 September 2017 is allocated as follows:

	<i>RMB'000</i>
Production and sale of fire engines and fire equipments	<u><u>27,667</u></u>

The recoverable amount of the above CGU has been determined on the basis of its value in use calculation using discounted cash flow method. The cash flow projection was based on financial budget approved by the directors of CFE covering a five-year period, and pre-tax discount rate at 12.3%. The cash flows beyond that five-year period have been extrapolated using a steady annual growth rate at 2%. 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 the directors of CFE’s expectation of the market development. The directors of CFE believe that any reasonably possible change in any of these assumptions would not cause the recoverable amount of CGU to fall below its carrying amount.

As the recoverable amount of the CGU was determined to be higher than its carrying amount, no impairment loss was recognised.

- (b) The directors of CFE have determined the fair values of the identifiable assets and liabilities of CFE as at 30 September 2017, after referring to the valuation report prepared by an independent valuer, Vigers Appraisal & Consulting Limited.

The carrying amounts and fair values of identifiable assets and liabilities of the Group at 30 September 2017 are as follows:

	Carrying amounts of the identifiable assets and liabilities of the Group as at 30 September 2017	Fair value adjustments	Fair values of the identifiable assets and liabilities of the Group as at 30 September 2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	177,079	7,060	184,139
Prepaid land lease payments	31,959	12,018	43,977
Investment in an associate	568,182	–	568,182
Customer relationship	–	25,577	25,577
Inventories	146,111	20,431	166,542
Trade and bills receivables	247,167	–	247,167
Prepayments, deposits and other receivables	92,474	–	92,474
Prepaid land lease payments (in current assets)	794	299	1,093
Other current asset	8,500	–	8,500
Pledged bank deposits	6,675	–	6,675
Bank and cash balances	65,497	–	65,497
Trade and other payables	(224,199)	–	(224,199)
Provision	(16,224)	–	(16,224)
Current tax liabilities	(500)	–	(500)
Deferred tax liabilities	–	(16,346)	(16,346)
	<u>–</u>	<u>(16,346)</u>	<u>(16,346)</u>
Assets identified and liabilities assumed	<u>1,103,515</u>	<u>49,039</u>	<u>1,152,554</u>

In determining the fair value of the identifiable assets and liabilities of the Group, the following valuation methodologies were used:

Prepaid land lease payments, buildings, plant and equipment (included in property, plant and equipment)

In determining the fair value of prepaid land lease payments, market approach and direct comparison approach were adopted. The basis for selecting these approaches was on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interest.

In determining the fair value of buildings, as the fair value of the buildings cannot be valued on the basis of market value, they have therefore been valued using depreciated replacement costs to consider the current cost of replacement of the buildings.

In determining the fair value of equipment, cost approach was used as this approach generally furnishes the most reliable indication of value for equipment in the absence of known market based on comparable sales.

Customer relationship

In determining the fair value of customer relationship, income approach was adopted as it assumes the purchaser of an intangible asset will not pay more than the economic benefit that can be generated by such intangible assets.

Inventories

In determining the fair value of inventories, the estimated selling price of each item of inventories was adopted to reflect the fair value of the inventories.

For the purpose of this unaudited pro forma financial information, the Group has performed an impairment assessment of property, plant and equipment, intangible assets and goodwill in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" ("HKAS 36") which is consistent with the accounting policy of the Group. On the basis of such assessment, the directors concluded that there is no impairment in the value of property, plant and equipment, intangible assets and goodwill.

5. Issuance of Convertible Bonds

The pro forma adjustments represent:

- (i) recognition of liability and equity components of convertible bonds, and
- (ii) recognition of the issuance of convertible bonds as distribution of the Company to the Pteris Vendors, and

- (iii) recognition of interest of the liability component of convertible bonds calculated as effective interest rate. The adjustment has a continuing effect to the Enlarged Group.

Except adjustment (iii) relating to convertible bonds interest, these adjustments are not expected to have a continuing effect on the Enlarged Group's unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows.

The issuance of the convertible bonds (the "Convertible Bonds") by the Company to the Pteris Vendors and the TianDa Vendor, which can be converted at initial conversion price of HK\$0.366 (and at a fixed exchange rate of HK\$1: RMB0.85, equivalent to RMB0.311) per Conversion Share. The fair values of the liability component and equity component in Scenario I were approximately RMB83,330,000 and RMB1,842,859,000 respectively, and in Scenario II approximately RMB117,647,000 and RMB2,601,783,000 respectively were valued by Vigers Appraisal & Consulting Limited as if the Proposed Pteris Acquisition and/or the Proposed TianDa Acquisition had taken place on 30 September 2017. The fair value of the liability component of the Convertible Bonds is estimated by using discount cash flow method, at the discount rate of 10.706%. The equity component of the Convertible Bonds is estimated using Binominal Model. The key assumptions used are as follows:

Conversion period start date	30 September 2017
Conversion period end date	30 September 2047
Maturity date	30 September 2047
Time to maturity	30 years
Underlying stock price	RMB0.4038
Conversion price	RMB0.311
Expected volatility	52%
Expected dividend yield	0%
Risk-free rate	4.23%
Percentage of principal amount to be repaid at redemption	100%

Expected volatility

The expected volatility has made reference to the historical stock price of the CFE and a set of comparable companies with duration similar to the life of the convertible bonds.

Expected dividend yield

The expected dividend yield has made by reference to the historical stock price and dividend of CFE and the policy of CFE in respect of future dividend.

Risk-free rate

The risk-free rate was approximated by the yield of PRC government bond with duration similar to the life of the convertible bonds.

Percentage of principal amount to be repaid at redemption

The percentage of principal amount to be repaid at redemption has made by reference to the terms and conditions of the convertible bonds.

Upon completion of the Proposed Pteris Acquisition, or in the case may be and the Proposed TianDa Acquisition, the fair value of the Convertible Bonds will be re-assessed and may be different from the estimated amounts as presented above.

6. The pro forma adjustment represents the recognition of 0.6% non-controlling interest of Pteris in both Scenario I and Scenario II, which has a continuing effect on the Enlarged Group and the derecognition of 30% TianDa non-controlling interest if the Proposed TianDa Acquisition had taken place in Scenario II, which has no continuing effect on the Enlarged Group.
7. The pro forma adjustment represents the expenditures expected to be incurred in connection with the Proposed Pteris Acquisition and the Proposed TianDa Acquisition including the financial advisor fees, legal fees, printing costs, reporting accountant's fees, and other related expenses. The adjustment has no continuing effect to the Enlarged Group.
8. The unaudited pro forma intangible assets of the Enlarged Group as at 30 September 2017 are as follows:

	The Group	The Target Group	Pro forma adjustment	The Enlarged Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Goodwill (a)	–	121,356		121,356
Software (b)	–	2,182		2,182
Operating rights for automated parking system (c)	–	47,790		47,790
Patents (d)	–	51,694		51,694
Development cost (e)	–	7,372		7,372
Customer relationship (f)	–	–	25,577	25,577
	<u>–</u>	<u>230,394</u>		<u>255,971</u>

- (a) Goodwill

Goodwill on acquisitions of subsidiaries and businesses represents the excess of (i) the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over (ii) the fair value of the identifiable net assets acquired.

- (b) Software

Software represented computer software which is not an integral part of the related hardware and is treated as an intangible asset.

- (c) Operating rights for automated parking system

Operating rights for automated parking system represented the service concession agreement entered by the Target Group in 2014 and 2015. Details of this agreement is set out in the accountants' report in Appendix III(A) note 17(b).

- (d) Patent for aircraft ground air conditioning

Patent for aircraft ground air conditioning was bought by the Target Group on 21 February 2017 from third party. Details of the patents are set out in the accountants' report in Appendix III(A) note 17 (c).

- (e) Development cost

Development costs was in relation to development expenditure of project on parking system technology.

- (f) Customer relationship

Customer relationship represented the fair value of relationship build up by the Group with its customers. A customer relationship exists between an entity and its customer if (a) the entity has information about the customer and has regular contact with the customer and (b) the customer has the ability to make direct contact with the entity.

Impairment tests on goodwill

The followings are details of impairment tests on goodwill extracted from the accountant's report in Appendix III (A) note 17(a) to this circular and translated into RMB at exchange rate SGD 1 to RMB4.892 as at 30 September 2017.

- (i) **Goodwill acquired in a business combination is allocated to the following CGU that are expected to benefit from that business combination.**

The carrying amounts of goodwill allocated to each CGU as at 30 September 2017 are as follow:

	<i>RMB'000</i>
Logistic System Business of Pteris Global Limited ("LSB-PGL")	106,064
Ground Support Equipment ("GSE")	1,663
Logistic System Business of Jinte ("LSB-Jinte")	<u>13,629</u>
	<u><u>121,356</u></u>

The recoverable amount of a CGU was determined based on its value-in-use and was determined by discounting the pre-tax future cash flows to be generated from the continuing use of the CGU.

The recoverable amount of the CGUs was determined to be higher than its carrying amount and no impairment loss was recognised.

(ii) **Key assumptions used for value-in-use calculations as at 30 September 2017:**

LSB-PGL

Budgeted revenue growth	19%
Gross profit margin	22%-27%
Terminal value growth rate	2.4%
Discount rate	13.3%

GSE

Budgeted revenue growth	14%
Terminal value growth rate	3%
Discount rate	13%

LSB-Jinte

Gross profit margin	18%
Terminal value growth rate	3%
Discount rate	16%

– Budgeted revenue growth

The anticipated annual revenue growth included in the cash flow projections for each of the respective years are projected based on past experience, actual operating results and the future budgeted orders approved by management.

– Gross profit margin

The gross profit margin are projected based on past experience, actual historical operating results and the future budgets approved by management.

– Terminal value growth rate

The discounted cash flow model uses three or five years of cash flow forecasts. A long-term growth rate of 2.4% and 3% into perpetuity based on the terminal year's cash flows has been applied for LSB-PGL and LSB-Jinte CGUs respectively.

- Discount rate

The discount rate is a pre-tax measure based on the risk-free rate for ten-year bonds issued by the government in the relevant market under the LSB-PGL and LSB-Jinte CGUs and one-year bank fixed deposit under the GSE CGU, all adjusted for risk premium to reflect both the increased risk of investing in equities and the systematic risk of the respective CGUs.

Besides the key assumptions above, management has also taken into account other assumptions including future revenue growth and staff cost inflation rate.

These assumptions are used for analysis of each CGU within the business segment.

(iii) Sensitivity analysis of the key assumptions used in LSB-PGL CGU as at 30 September 2017

If the estimated gross margin, estimated terminal growth rate and estimated discount rate used in the value-in-use calculation had been 0.69% lower, 0.7% lower and 0.59% higher than management's estimates respectively, the recoverable would have been equal to the carrying amount.

(iv) Sensitivity analysis of the key assumptions used in GSE CGU

Management is of the view that any reasonable change in key assumptions used in the value in use calculation of GSE CGU will not result in material impact to the Historical Financial Information of the Pteris Group for the nine months period ended 30 September 2017.

(v) Sensitivity analysis of the key assumptions used in LSB-Jinte CGU

Management is of the view that any reasonable change in key assumptions used in the value in use calculation of LSB-Jinte will not result in material impact to the Historical Financial Information of the Pteris Group for nine months period ended 30 September 2017.

Impairment tests on other intangible assets

Intangible assets are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired. The directors determined the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs. If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

As the recoverable amounts of the CGUs of other intangible assets were determined to be higher than their carrying amounts, no impairment loss was recognised.

- (i) Software, operating rights for automated parking system, patents and development costs are tested for impairment by the directors of Pteris.
- (ii) Customer relationship is tested for impairment by the directors of CFE.

As part of the audit procedures, the reporting accountants of Pteris has taken into account the impairment assessment made by the directors of Pteris and issued a true and fair opinion on the historical financial information of Pteris Group as at and for the years ended 31 December 2014, 2015 and 2016 and the nine months ended 30 September 2017 as a whole.

CFE's auditors agreed with the impairment assessment made by the directors of CFE. The directors of CFE will adopt the same key assumptions, accounting principal and valuation methods to assess the impairment of the relevant intangible assets in the future financial periods.

9. The Subscription

The pro forma adjustment represents the issuance of 673,225,000 shares to the Subscriber at a subscription price of HKD0.366 each and the cash consideration of approximately RMB207,282,000 received, net of related transaction costs. The amounts presented were translated from HKD into RMB at the closing rate as at 30 September 2017. The adjustment has no effect on the unaudited pro forma consolidated profit or loss and other comprehensive income of the Enlarged Group for the year ended 31 December 2016.

- 10. Other than the above, no other adjustments have been made to reflect any operating results or other transactions of the Enlarged Group entered into subsequent to 30 September 2017.