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**If you have sold or transferred** all your shares in China Fire Safety Enterprise Group Holdings Limited, you should at once hand this circular to the purchasers or the transferees or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchasers or the transferees.

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**CHINA FIRE SAFETY ENTERPRISE GROUP HOLDINGS LIMITED**

**中國消防企業集團控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 8201)**

## **DISCLOSEABLE TRANSACTION**

**Acquisition of 51% of the total issued ordinary shares  
and 100% of the total issued non-voting deferred shares of  
Tung Shing Trade Development Company Limited**

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This circular will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page for at least 7 days from the date of its posting.

## CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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## DEFINITIONS

*In this circular, unless the context otherwise requires, the following words and expressions have the following meanings:*

“Acquisition”	the acquisition of 51% of the total issued ordinary shares and 100% of the total issued non-voting deferred shares by Allied Best from the Vendors pursuant to the Agreement
“Agreement”	the agreement dated 8th September, 2004 entered into between Allied Best and the Vendors in relation to the Acquisition
“Allied Best”	Allied Best Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and is an indirect wholly owned subsidiary of the Company
“Board”	the board of Directors
“Company”	China Fire Safety Enterprise Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Growth Enterprise Market of the Stock Exchange
“Completion”	completion of the Acquisition
“Completion date”	1st November, 2004 or other dates as agreed by Allied Best and the Vendors
“Consideration”	consideration for the Acquisition
“Director(s)”	the director(s) of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region
“HKD”	Hong Kong Dollar, the lawful currency of Hong Kong

## DEFINITIONS

“Independent Third Party(ies)”	independent third party(ies), who is/are not connected with any of the directors, chief executives, substantial shareholders or management shareholders (as such term is defined in the GEM Listing Rules) of China Fire Safety or their respective associates (as such term is defined in the GEM Listing Rules) and are not connected persons of the Company
“Last Trading Day”	7th September, 2004, the last trading day of the Shares on GEM prior to the date of the Company’s announcement dated 10th September, 2004
“Latest Practicable Date”	30th September, 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“PRC”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Tung Shing”	Tung Shing Trade Development Company Limited, a company incorporated in Hong Kong with limited liability
“Shares”	shares of HKD0.01 each in the capital of the Company
“Shareholders”	the shareholders of the Company
“Stage 1 Consideration Shares”	20,000,000 new Shares of HKD0.01 each, to be allotted and issued by the Company in the name of Vendor 1 at HKD0.8 per Share
“Stage 2 Consideration Shares”	10,000,000 new Shares of HKD0.01 each, to be allotted and issued by the Company in the name of Vendor 1 or such number of new shares adjusted pursuant to the Agreement at HKD0.8 per Share or at such price adjusted pursuant to the Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor 1”	Mr. Chan Chun Wo, an Independent Third Party
“Vendor 2”	Ms. Wong Oi Kam, an Independent Third Party and wife of Vendor 1

## DEFINITIONS

“Vendor 3”

Emperor Group Holdings Limited, an Independent Third Party and a company incorporated in the British Virgin Islands with limited liability, whose shares are indirectly owned as to 95% by Vendor 1 and as to 5% by Vendor 2

“%”

per cent.

LETTER FROM THE BOARD



CHINA FIRE SAFETY ENTERPRISE GROUP HOLDINGS LIMITED

中國消防企業集團控股有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8201)

*Executive Directors:*

Jiang Xiong (Chairman)  
Jiang Qing  
Chen Shu Quan  
Chan Siu Tat

*Non-executive Directors:*

Richard Owen Pyvis  
Josephine Price

*Independent non-executive Directors:*

Liu Shi Pu  
Heng Kwoo Seng  
Mr. Xiang Yu Fu

*Registered Office:*

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681GT  
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Grand Cayman  
British West Indies

*Head office and principal place  
of business in PRC*

8th Floor  
Gaojing Trade Centre  
No.158 Wu Yi Bei Road  
Fuzhou City  
Fujian Province, PRC.

*Principal place of business  
in Hong Kong*

Suite 907, 9th Floor  
Asia Pacific Finance Tower  
3 Garden Road  
Hong Kong

5th October, 2004

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION**

**Acquisition of 51% of the total issued ordinary shares and 100% of the total issued  
non-voting deferred shares of  
Tung Shing Trade Development Company Limited**

**1. INTRODUCTION**

On 8th September, 2004 Allied Best entered into the Agreement with the Vendors (which are Independent Third Parties) in relation to the acquisition 51% of the total issued ordinary shares and 100% of the total issued non-voting deferred shares of Tung Shing

\* for identification purpose only

## LETTER FROM THE BOARD

held by the Vendors at a consideration of HKD40,800,000, of which HKD16,800,000 will be satisfied in cash and the remaining HKD24,000,000 will be satisfied by Stage 1 Consideration Shares and Stage 2 Consideration Shares. Stage 1 Consideration Shares will be allotted and issued at HKD0.8 per Share. Based on HKD0.8 per Share, the value of the 20,000,000 Stage 1 Consideration Shares is HKD16,000,000. Based on the closing price per Share of HKD0.460 at the Last Trading Day, the market value of the 20,000,000 Stage 1 Consideration Shares is HKD9,200,000. Stage 2 Consideration Shares will be allotted and issued at HKD0.8 per Share or at such price adjusted pursuant to the Agreement, whichever is higher. Based on HKD0.8 per Share, the value of the 10,000,000 Stage 2 Consideration Shares is HKD8,000,000. Based on the closing price per Share of HKD0.460 at the Last Trading Day, the market value of the 10,000,000 Stage 2 Consideration Shares is HKD4,600,000. The price of HKD0.8 per Share also represents a premium of approximately 73.91%, 70.58% and 79.78% to the average closing price of the Shares of HKD0.460, HKD0.469 and HKD0.445 per Share respectively of the Last Trading Day, 5 dealing-day and 30 dealing-day period ended on and including 7th September, 2004. The Vendors agree to procure a Profit Guarantee Adjustment of HKD16,000,000 for the two years between 2005 and 2006. Application will be made to the Stock Exchange for the listing of and permission to deal in the Shares to be issued.

The Consideration is arrived at after arm's length negotiation and is based on the unaudited net assets value (which amounted to approximately HKD1,709,000) of Tung Shing as at 30th June, 2004, the Profit Guarantee Adjustment and the Directors' view of its future prospects.

The Directors consider that the terms and conditions of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders taken as a whole.

The Acquisition constitutes a discloseable transaction under Chapter 19 of the GEM Listing Rules. This circular is to provide you with, among others, additional information relating to the Acquisition.

## 2. AGREEMENT DATED 8TH SEPTEMBER, 2004

### Parties

- Vendor 1 : Chan Chun Wo, who to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, is an Independent Third Party
- Vendor 2 : Wong Oi Kam, who to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, is an Independent Third Party
- Vendor 3 : Emperor Group Holdings Limited, who and whose ultimate beneficial owners are to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, are Independent Third Parties

(Vendor 1, Vendor 2 and Vendor 3 are collectively referred to as the "Vendors")



## LETTER FROM THE BOARD

Purchaser : Allied Best Holdings Limited, an indirect wholly owned subsidiary of the Company

### **Assets to be acquired**

Vendor 1 and Vendor 2 hold 5,099 and 1 ordinary share of Tung Shing respectively (approximately 50.99% and 0.01% respectively of the total issued ordinary shares of Tung Shing).

Vendor 3 holds 10,000 non-voting deferred shares of Tung Shing (100% of the total issued non-voting deferred shares).

Pursuant to the Agreement, Allied Best has agreed to acquire from Vendor 1 and Vendor 2 an aggregate of 51% of the total issued ordinary shares (5,100 ordinary shares out of total of 10,000 ordinary shares) and from Vendor 3 10,000 non-voting deferred shares (100% the total issued non-voting deferred shares) of Tung Shing. Apart from the ordinary and non-voting deferred shares, there is no other class of shares in Tung Shing.

The remaining 49% of the total issued ordinary shares (4,900 shares) of Tung Shing will continue to be held by Vendor 1 (of which 1 ordinary share is held by Vendor 1 on trust for Vendor 3). The Company currently has no intention to acquire the remaining interest in Tung Shing.

Tung Shing was founded by Vendor 1 and Vendor 2 in April, 1992 in Hong Kong. It is principally engaged in the sale and distribution of fire engines, fire fighting and rescue tools in the PRC, Hong Kong, Macau and Taiwan.

Tung Shing will become a subsidiary of the Company upon Completion.

### **Consideration and terms of payment:**

The Consideration payable by Allied Best is HKD40,800,000, of which HKD16,800,000 will be satisfied in cash and payable to Vendor 1 and the remaining HKD24,000,000 will be satisfied by Stage 1 Consideration Shares and Stage 2 Consideration Shares to be issued to Vendor 1 (Vendor 2 and Vendor 3 have agreed in the Agreement that the Consideration should be paid and issued to Vendor 1). The HKD16,800,000 will be funded by internal resources of the Company. The HKD16,800,000 and Stage 1 Consideration Shares are payable on the Completion Date. Stage 1 Consideration Shares will be issued at a fixed price of HKD0.8 per Share (based on HKD0.8 per Share, the value of the 20,000,000 Stage 1 Consideration Shares is HKD16,000,000. Based on the closing price per Share of HKD0.460 at the Last Trading Day, the market value of the 20,000,000 Stage 1 Consideration Shares is HKD9,200,000) and will not be subjected to price adjustment. Stage 2 Consideration Shares to be allotted and issued at HKD0.8 per Share or at such price adjusted pursuant to the Agreement, whichever is higher. Based on HKD0.8 per Share, the value of the 10,000,000 Stage 2 Consideration Shares is HKD8,000,000. Based on the

## LETTER FROM THE BOARD

closing price per Share of HKD0.460 at the Last Trading Day, the market value of the 10,000,000 Stage 2 Consideration Shares is HKD4,600,000. Stage 2 Consideration Shares are to be allotted and issued to Vendor 1 within one month of the issuance of the audited account of Tung Shing for the year 2006 subject to the Profit Guarantee Adjustment.

The Consideration is arrived at after arm's length negotiation and is based on the unaudited net assets value of Tung Shing as at 30th June, 2004, which amounted to approximately HKD1,709,000, the Profit Guarantee Adjustment and the Directors' view of the future prospects of Tung Shing. The strong sales network established by the Company plus the distribution rights of some world renowned products obtained by Tung Shing creates a synergistic effect to the whole group and hence the Directors believe will help to increase the Group's profits. As at the date of the Agreement, Tung Shing has entered into sales contracts with customers amounted to approximately HKD64 million, including contracts with China Petrochemical International Co., Ltd worth approximately HKD45 million. Further, Tung Shing has business relationship with a number of large and reputable overseas suppliers, which will help the Company to wider its product range.

Based on the synergistic effect that the Acquisition will bring to the Group, the sales contracts already entered into by Tung Shing and the profit guarantee of HKD16,000,000, the Directors believe that it is in the Group's interest to acquire Tung Shing.

The number of Stage 2 Consideration Shares will be adjusted in the following manners ("**Profit Guarantee Adjustment**"):

1. If the audited account of Tung Shing for the year 2006 shows that the net profit of Tung Shing for the period from 1st January, 2005 to 31st December, 2006 (two years cumulatively) is HKD16,000,000 or more, the number of Stage 2 Consideration Shares will be 10,000,000 Shares. The account for the period from 1st January, 2005 to 31st December, 2006 will be prepared in accordance with accounting principles generally accepted in Hong Kong.
2. If the audited account of Tung Shing for the year 2006 shows that the net profit of Tung Shing for the period from 1st January, 2005 to 31st December, 2006 is less than HKD16,000,000, the difference between the amount of HKD16,000,000 and the amount of net profit/loss will be calculated to deduct the number of Stage 2 Consideration Shares. Stage 2 Consideration Shares will be issued at a price of either HKD0.8 per Share or the average closing price per Share for the last 5 trading days prior to 31st December, 2006 (being the financial year-end date) (whichever is higher). Therefore, for example, if the difference between the amount of HKD16,000,000 and the amount of net profit for the two years ended 31st December, 2006 is HKD2,000,000, and the average closing price per Share for the last 5 trading days prior to 31st December,

## LETTER FROM THE BOARD

2006 is lower than HKD0.8 per Share, the number of Stage 2 Consideration Shares to be deducted will be 2,500,000 shares (2,500,000 x HKD0.8 = HKD2,000,000). Or, for example, if the difference between the amount of HKD16,000,000 and the amount of net profit is HKD12,000,000, and the average closing price per Share for the last 5 trading days prior to 31st December, 2006 is HKD1 per Share, the number of Stage 2 Consideration Shares to be deducted will be 10,000,000 Shares ((10,000,000 x HKD1 = HKD10,000,000) (this sum is lower than HKD12,000,000) (as the maximum number of Stage 2 Consideration Shares are 10,000,000 Shares, the maximum number of Stage 2 Consideration Shares to be deducted are also 10,000,000 Shares). In this situation, Vendor 1 will not be allotted and issued any Stage 2 Consideration Shares and the Purchaser has the right to require Vendor 1 to pay the Purchaser the HKD2,000,000 difference (HKD12,000,000 – HKD10,000,000).

The Company will make appropriate announcement on the results of the Profit Guarantee Adjustment and the final number of Stage 2 Consideration Shares to be issued.

The issuance of Stage 1 Consideration Shares and Stage 2 Consideration Shares are subject to the approval for listing of and permission to deal in the Stage 1 Consideration Shares and Stage 2 Consideration Shares being granted by the Stock Exchange.

The price of HKD0.8 per Stage 1 Consideration Share and Stage 2 Consideration Share (subject to adjustment) represents:

Date/Period	Price per Share	Approximate % of Premium/(discount)
As at 7th September, 2004, being the Last Trading Date	HKD0.460	73.91%
5-days average (prior to and including the Last Trading Date)	HKD0.469	70.58%
30-days average (prior to and including the Last Trading Date)	HKD0.445	79.78%
90 days average (prior to and including the Last Trading Date)	HKD0.445	79.78%
The Latest Practicable Date	HKD0.495	61.62%

## LETTER FROM THE BOARD

Date/Period	Price per Share	Approximate % of Premium/(discount)
5-days average (prior to and including the Latest Practicable Date)	HKD0.487	64.27%
10- days average (prior to and including the Latest Practicable Date)	HKD0.4815	66.15%

The shareholding structures of Tung Shing before and after Completion are as follows:

### **Before Completion**

Ordinary shares (10,000 total issued shares)

Vendor 1 holds 9,999 shares (99.99% of total issued ordinary shares) (of which 9,998 shares are beneficially owned by Vendor 1 and 1 share is held on trust for Vendor 3).

Vendor 2 beneficially owns 1 share (0.01% of total issued ordinary shares).

Non-voting deferred shares (10,000 total issued shares)

Vendor 3 beneficially owns 10,000 shares (100% of total issued non-voting deferred shares)

### **After Completion**

Ordinary shares (10,000 total issued shares)

Allied Best beneficially owns 5,100 shares (51% of total issued ordinary shares)

Vendor 1 beneficially owns 4,900 shares (49% total issued ordinary shares) (Vendor 3 has agreed in the Agreement to transfer its one share (which is currently held by Vendor 1 on trust for Vendor 3) to Vendor 1 on Completion)

Non-voting deferred shares (10,000 total issued shares)

Allied Best beneficially owns 10,000 shares (100% of total issued non-voting deferred shares)

## LETTER FROM THE BOARD

The shareholding structures of the Company before and after Completion and after the issuance of Stage 2 Consideration Shares are as follows:

### Existing Shareholding Structure

Jiang Xiong	–	49.08%
Jiang Qing	–	5.00%
Strategic Investors	–	19.30%
Public	–	26.62%
Total	–	100.00%

### Shareholding Structure after Completion (after issuance of Stage 1 Consideration Share)

Jiang Xiong	–	48.59%
Jiang Qing	–	4.95%
Strategic Investors	–	19.11%
Public	–	26.36%
Vendor 1	–	0.99%
Total	–	100.00%

### Shareholding Structure after Completion and issuance of Stage 2 Consideration Share (assuming 10,000,000 Shares are issued to Vendor 1)

Jiang Xiong	–	48.35%
Jiang Qing	–	4.93%
Strategic Investors	–	19.02%
Public	–	26.22%
Vendor 1	–	1.48%
Total	–	100.00%

As a term of the Agreement, Vendor 1 agreed to lend after Completion half of the cash consideration received (i.e.HKD8,400,000) without security to Tung Shing for operational use for at least one year with no interest and with no fixed repayment term. The Purchaser has also agreed that the Group will advance interest bearing loan of not more than HKD15,000,000 without security to Tung Shing for operational use after the Acquisition, depending on its needs. The needs depend on Tung Shing's future expansion and working capital required (or the financial positions). The HKD15,000,000 will be funded by internal resources of the Company.

After Completion, Vendor 1 as a substantial shareholder of Tung Shing (which will be a non-wholly owned subsidiary of the Company) will be a connected person of the Company. The loan of HKD8,400,000 will amount to a financial assistance to the Company and a connected transaction of the Company. This connected transaction falls under Rule 20.65(4) of the GEM Listing Rules and is exempt from the reporting, announcement and independent shareholders' approval requirements of the GEM Listing Rules.

## LETTER FROM THE BOARD

In addition, the Shares received as Consideration are subject to lock up requirements. After one year from the date of receipt of Stage 1 Consideration Shares, the lock up requirement of first 10,000,000 Shares will expire. After 2 years from the date of receipt of Stage 1 Consideration Shares, the lock up requirement of the remaining 10,000,000 Shares will expire. Finally, after one year from the date of receipt of Stage 2 Consideration Shares, lock up requirement of those Stage 2 Consideration Shares will expire. Vendor 1 has undertaken to keep clean title of the Shares during the lock up periods.

It is agreed in the Agreement that the composition of the board of directors of Tung Shing after Completion will consist of Vendor 1 and two directors nominated by Allied Best.

Stage 1 Consideration Shares and Stage 2 Consideration Shares (the Shares to be issued under Stage 2 Consideration Shares will not exceed 10,000,000 Shares) are to be issued under the general mandate (which has not been utilised) granted to the Directors pursuant to the resolutions of the shareholders of the Company passed in the annual general meeting of the Company on 21st April, 2004. The maximum number of Stage 1 Consideration Shares and Stage 2 Consideration Shares of 30,000,000 Shares (amount to 1.5% of the total existing issued Shares of the Company and approximately 1.48% of the enlarged total issued Shares of the Company after issuance of the 30,000,000 Shares) to be issued will not exceed the above granted mandate. The issuance of Stage 1 Consideration Shares and Stage 2 Consideration Shares will not result in a change of control of the Company.

Application will be made to the Stock Exchange for the listing of and permission to deal in the Shares to be issued for Stage 1 Consideration Shares and Stage 2 Consideration Shares.

As at 30th June, 2004, the unaudited total asset and net assets of Tung Shing amounted to approximately HKD14,266,000 and HKD1,709,000 respectively. For the year ended 31st March, 2004, Tung Shing's unaudited profits before and after tax were approximately HKD66,000 and HKD46,000 respectively. For the year ended 31st March, 2003, the respective audited profits before and after tax were approximately HKD2,502,000 and HKD2,108,000. The above accounts were prepared in accordance with accounting principles generally accepted in Hong Kong.

The Group has been informed by Tung Shing that the decrease in profits for the year ended 2004 was due to weakening marketing ability of Tung Shing. With the Group's strong marketing network established, the Group believes that profits for future years could be greatly improved. Based on the synergistic effect that the Acquisition will bring to the Group, the sales contracts already entered into by Tung Shing and the profit guarantee of HKD16,000,000, the Directors believe that it is in the Group's interest to acquire Tung Shing.

## LETTER FROM THE BOARD

### Conditions Precedent

If any of the followings are not fulfilled on or before 1st November, 2004 as such other date to be agreed by the parties, the Agreement will be terminated automatically:

1. Allied Best is satisfied with the results of the due diligence exercise performed including and not limited to legal, financial and other business running respect of Tung Shing.
2. Allied Best does not discover any material breach of a material warranty during performance of the due diligence exercise.
3. The board of directors and shareholders meetings of Tung Shing approving the Acquisition.
4. The approval for listing of and permission to deal in Stage 1 Consideration Shares being granted by the Stock Exchange.

As at the Latest Practicable Date, none of the above conditions precedent has been fulfilled.

It is agreed in the Agreement that if the Vendors fail to perform their obligations in the Agreement resulting in the non-completion of the Acquisition, Allied Best has the right to require the Vendors to compensate its loss and expense in connection with the Acquisition.

### 3. BUSINESS OF THE COMPANY

The Group is a total solution provider of fire prevention and fighting systems in the PRC, specialising in system design, development, manufacturing, sales, installation and maintenance.

### 4. TUNG SHING TRADE DEVELOPMENT

Tung Shing is principally engaged in the distribution and sale of fire engines and fire fighting and rescue tools in the PRC, Hong Kong, Macau and Taiwan. Since 1992, Tung Shing has started its sales and distribution in the PRC. It has also been registered as a registered supplier to the Government of Hong Kong for certain categories of fire fighting and rescue tools since October, 1994. Tung Shing has obtained 16 exclusive distribution rights and 16 non-exclusive distribution rights of fire fighting and rescue equipment from manufacturers in Europe, the US and Asia, such as Vema of Finland; Ziegler, Lukas and Schorling Brock GmbH of Germany; Sabre of UK; Partner of Sweden; Bullard and Search Systems of US and Morita of Japan. These distribution rights apply to the PRC, Hong Kong and/or Macau. The length of these distribution rights vary from 1 year, 2 years, 3 years to 5 years. Some of them do not have any specified time period. Tung Shing is confident that they can have the rights renewed upon expiration based on its operating results and good relationship with the suppliers and some of these rights are renewable automatically. Tung Shing offered over 80 models of fire engines and more than 4,700

## LETTER FROM THE BOARD

types of fire fighting and rescue tools as various as real fire simulation training system, radiation measuring instruments, thermal image cameras, cutting machines, pneumatic line thrower, life detector system, breathing apparatus and lifting bags etc.

Tung Shing was founded in April, 1992 by Vendor 1 and Vendor 2 in Hong Kong. It is principally engaged in the sale and distribution of fire engines, fire fighting and rescue tools in the PRC, Hong Kong, Macau and Taiwan.

### 5. REASONS FOR THE ACQUISITION

The Directors believe that the Acquisition would not only enrich the Group's product variety with many different kinds of fire fighting and rescue equipment the Group previously not involved in, but also promote its product standard with technologically advanced equipment from those world renowned manufacturers. Besides, the Acquisition allowed the Group to make debuts in the Hong Kong and Taiwan markets and thus readily enlarged its market coverage to the entire Greater China Region.

In view of the above, the Directors consider that the terms and conditions of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders taken as a whole.

### 6. FINANCIAL EFFECT OF THE ACQUISITION TO THE GROUP

The Directors confirm that the Acquisition will not have any material adverse effect on the working capital position of the Group or have any negative impact on the assets and liabilities of the Group.

### 7. SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company as at the Latest Practicable Date and upon completion of the Acquisition and issuance of Stage 1 Consideration Shares and Stage 2 Consideration Shares were/will be as follow:

*Authorised:*

<b>Number of Shares</b>	<i>Amount HK\$</i>
10,000,000,000 Ordinary shares of HK\$0.01 each as at the Latest Practicable Date	100,000,000

*Issued and to be issued, fully paid or credited as fully paid:*

<b>Number of Shares</b>	<i>Amount HK\$</i>
2,000,000,000 Ordinary shares of HK\$0.01 each in issue as at the Latest Practicable Date	20,000,000

*Maximum number of shares to be issued pursuant to*

<u>30,000,000</u>	The Acquisition	<u>300,000</u>
<u><u>2,030,000,000</u></u>		<u><u>20,300,000</u></u>



## LETTER FROM THE BOARD

As at the Latest Practicable Date, all existing Shares ranked pari passu in all respects including as to dividends, voting and interests in capital. The new Shares to be issued pursuant to the Acquisition, when allotted and issued, will rank pari passu in all respects with the Shares in issue on the date of such allotment and issue, including as to dividends, voting and interests in capital. The Stage 1 Consideration Shares and Stage 2 Consideration Shares, when allotted and issued, will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Stage 1 Consideration Shares and Stage 2 Consideration Shares, including as to dividends, voting and interests in capital.

### 8. GENERAL

The Acquisition constitutes a discloseable transaction under Chapter 19 of the GEM Listing Rules. On 8th September, 2004, the Board announced the entering into of the Agreement in relation to the Acquisition. This circular is to provide additional information relating to the Acquisition.

### 9. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

By Order of the Board  
**China Fire Safety Enterprise Group Holdings Limited**  
**Jiang Xiong**  
*Chairman*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm having made all reasonable enquiries, that to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

## 2. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interest or short position of each of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance the "SFO") as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which are required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, were as follows:

### (A) The Company

*Long positions in ordinary shares and the underlying shares of equity derivatives*

Name of Directors	Name of Shares	Nature of interests/holding capacity	Approximate percentage of interests (%)
Jiang Xiong	981,600,000	Personal/beneficiary	49.08%
Jiang Qing	100,000,000	Personal/beneficiary	5.00%

*Options to subscribe for ordinary shares in the Company*

Name of Directors	Date of grant	Exercise Period	Exercise Price HKD	Number of share options outstanding as at the Latest Practicable Date	Approximate percentage of shares of the Company (%)
Jiang Qing	25th May, 2004	25th May 2004 – 24th May, 2014	0.44 (Note)	20,000,000	1%
Chen Shu Quan	25th May, 2004	25th May 2004 – 24th May, 2014	0.44 (Note)	5,000,000	0.25%
Chan Siu Tat	25th May, 2004	25th May 2004 – 24th May, 2014	0.44 (Note)	5,000,000	0.25%

*Note:* The closing price of shares of the Company immediately before the date on which the option was granted was HKD0.465.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executive of the Company or their respective associates has any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance the “SFO”) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which are required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

### 3. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation, arbitration or claim of material important known by the Directors to be pending or threatened against any member of the Group.

### 4. SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were, directly or indirectly, interested in 10%

or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

(i) Long positions in ordinary shares

Name of shareholder	Capacity and type of interest	Number of issued share of HKD0.01 each of the Company held	Percentage of issued capital of the Company
Cantus Limited	Beneficial owner	262,650,000	13.13%
Aria Investment Partners L.P.	Interest of a controlled corporation (Note 1)	262,650,000	13.13%
CLSA Private Equity Management Limited	Investment Manager (Note 2)	262,650,000	13.13%
CLSA Funds Limited	Interest of a controlled corporation (Note 3)	262,650,000	13.13%
CLSA B.V.	Interest of a controlled corporation (Note 4)	262,650,000	13.13%
Calyon Capital Markets Asia B.V.	Interest of a controlled corporation (Note 5)	262,650,000	13.13%
Credit Lyonnais Capital Markets International SASU	Interest of a controlled corporation (Note 6)	262,650,000	13.13%
Credit Agricola Indosuez.	Interest of a controlled corporation (Note 7)	262,650,000	13.13%
Credit Agricola S.A.	Interest of a controlled corporation (Note 8)	262,650,000	13.13%
SAS Rue Ia Boetie	Interest of a controlled corporation (Note 9)	262,650,000	13.13%

Name of shareholder	Capacity and type of interest	Number of issued share of HKD0.01 each of the Company held	Percentage of issued capital of the Company
The Hong Kong Beijing Finance and Investment Limited (“Beijing Finance”)	Beneficial owner	100,000,000	5.00%
The Capital Group	Interest of a controlled corporation (Note 10)	100,000,000	5.00%
The People’s Government of Beijing Municipality	Interest of a controlled entity (Note 11)	100,000,000	5.00%

## Notes:

1. Aria Investment Partners, L.P. is beneficially interested in the entire issued share capital of Cantus Limited and is deemed or taken to be interested in the 262,650,000 shares in which Cantus Limited has declared an interest for the purpose of the SFO.
2. CLSA Private Equity Management Limited is the investment manager of Aria Investment Partners, L.P.
3. CLSA Funds Limited is beneficially interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 262,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.
4. CLSA B.V. (formerly known as Credit Lyonnais Securities Asia B.V.) is beneficially interested in the entire issued share capital of CLSA Fund Limited and is deemed or taken to be interested in the 262,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.
5. Calyon Capital Markets Asia B.V. (formerly known as Credit Lyonnais Capital Markets Asia BV) is beneficially interested in 65% of the share capital of CLSA B.V. (formerly known as Credit Lyonnais Securities Asia B.V.) and is deemed or taken to be interested in the 262,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.
6. Credit Lyonnais Capital Markets International SASU is beneficially interested in the entire issued share capital of Calyon Capital Markets Asia B.V. (formerly known as Credit Lyonnais Capital Markets Asia BV) and is deemed or taken to be interested in the 262,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFC, as mentioned in Note 2 above.
7. Credit Agricola Indosuez is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets International SASU and is deemed or taken to be interested in the 262,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.

8. Credit Agricola S.A. is beneficially interested in the entire issued share capital of Credit Agricola Inclosuez and is deemed or taken to be interested in the 262,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.
9. SAS Rue La Boetie is beneficially interested In 51.5% of the Issued share capital of Credit Agricola S.A. and is deemed or taken to be interested in the 262,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 2 above.
10. The Capital Group is beneficially interested in the entire issued share capital of Beijing Finance and is deemed or taken to be interested in the 100,000,000 shares in which Beijing Finance has declared an interest for the purpose of the SFO.
11. The People's Government of Beijing Municipality is beneficially interested in the entire registered capital at The Capital Group and is deemed or taken to be Interested in the 100,000,000 shares in which The Capital Group has declared an interest for the purpose of the SFO as mentioned in Note 10 above.

On 30th October, 2003, Beijing Finance executed a charge (the “**Charge**”) in favour of Credit Lyonnais. The Charge was executed as security for Beijing Finance's obligations under a loan agreement dated 30th October, 2003 between Beijing Finance and Credit Lyonnais. Pursuant to the Charge, Beijing Finance charged as beneficial owner the 100,000,000 ordinary shares in the Company held by it in favour of Credit Lyonnais.

**(ii) Short positions in ordinary shares**

No person held short positions in the Shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to section 336 of the SFO.

Save as disclosed herein, the Directors are not aware of any other person who, at the Latest Practicable Date, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

## 5. SERVICE CONTRACTS

Other than Mr. Chan Siu Tat, each of the Executive Directors has entered into a service agreement with the Company for a period of three years commencing on 30th September, 2002. Mr. Chan Siu Tat has entered into a service agreement with the Company for a period of three years commencing 16th October, 2003. The emoluments received by the Executive Directors for 2002, 2003 and 2004 (up to 30 September) are as follows:

	<b>Basic salaries and retirement benefits</b>	<b>Discretionary bonus paid</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
2002	406	–
2003	1,324	–
2004 (up to 30th September)	1,570	4,283

The term of office of each of the Non-executive Directors and Independent Non-executive Directors is the period to his/her retirement by rotation in accordance with the Company's Articles of Association.

Save as above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## 6. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors are aware of, none of themselves or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest in a business which competes or may compete with the business of the Group.

## 7. GENERAL

- (a) The head office and principal place of business of the Company in the PRC is at 8th Floor, Gaojing Trade Centre, No. 158 Wu Yi Bei Road, Fuzhou City, Fujian Province, PRC. The principal place of business of the Company in Hong Kong is at Suite 907, 9/F, Asia Pacific Finance Tower, 3 Garden Road, Central, Hong Kong. The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong.
- (b) The compliance officer of the Company is Mr. Jiang Qing, an executive Director. Mr. Jiang is a qualified engineering 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.

- (c) The qualified accountant and company secretary of the Company is Ms. Li Ching Wah. Ms. Li is an associate member of the Hong Kong Society of Accountants.
- (d) The Company has established an audit committee with written terms of reference in compliance with Rules 5.23 to 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual reports and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Directors. The audit committee comprises three members – Mr. Liu Shi Pu, Mr. Heng Kwo Seng and Mr. Xiang Yu Fu, all of whom are independent Non-executive Directors of the Company.

Mr. LIU Shi Pu, aged 69, is an independent non-executive Director. Mr. Liu has over 41 years of working experience in the Ministry of Public Security and worked for the Public Security Bureau of Lou Yang City (洛陽市) and He Nan Province (河南省) during the years 1952 to 1985. During the years 1985 and 1990, he was appointed as the Vice Chancellor of Public Security Bureau of He Nan Province (河南省公安廳副廳長). From 1991 to 1993, he was promoted as the Office Supervisor of the Ministry of Public Security of the PRC (中華人民共和國公安部辦公廳主任). In 1993, Mr. Liu was appointed as the Chairman of Fire Prevention and Fighting Bureau of the Ministry of Public Security of the PRC (中華人民共和國公安部消防局局長(少將)). In February, 1996, he retired from his position. From August, 1997 to September, 2001, Mr. Liu was the Vice-chairman of General Affairs of the PRC Fire Prevention and Fighting Association (中華人民共和國消防協會常務副理事長). He was appointed as a director of the Company in May, 2002. Aside from the Company, Mr. Liu is not a director of any other listed company.

Mr. HENG Kwo Seng, aged 56, is the managing partner of Morison Heng, Chartered Accountants and Certified Public Accountants. He is a fellow member of The Institute of Chartered Accountants in England & Wales, an associate member of The Hong Kong Society of Accountants and independent non-executive directors of various public companies. Mr. Heng is also the Vice Chairman of The Hong Kong Hainan Commercial Association. He is also a director of a number of other listed companies in Hong Kong.

Mr. XIANG Yu Fu, aged 36, is the vice president and chief executive officer of China Sifang Holding Co. Ltd. (中國四方控股有限公司) and a director of Shenzhen Tongsheng Guarantee Co. Ltd. (深圳市通盛擔保有限公司). Mr. Xiang holds a Degree of Doctor of Philosophy in Economics and Finance Investment from the American World University. Aside from the Company, Mr. Xiang is not a director of any other listed company.