
LETTER FROM THE BOARD



China Fire Safety Enterprise Group Limited

中國消防企業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 445)

Non-executive Directors:

Li Yin Hui (*Chairman*)

Yu Yu Qun

Robert Johnson

Executive Directors:

Jiang Xiong (*Honorary Chairman*)

Zheng Zu Hua

Luan You Jun

Independent non-executive Directors:

Loke Yu

Heng Ja Wei

Ho Man

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Head office and principal place
of business in Hong Kong:*

Units A-B, 16th Floor

China Overseas Building

139 Hennessy Road

Wan Chai, Hong Kong

Principal place of business in the PRC:

No. 8, Section I, Xin Hua Road

Chengdu Cross-Straits Technological

Industry Park

Wenjiang District

Chengdu City

Sichuan Province, PRC

15 March 2018

To the Shareholders

Dear Sir or Madam,

- (1) VERY SUBSTANTIAL ACQUISITION,
CONNECTED TRANSACTION AND SPECIAL DEAL
(2) PROPOSED ISSUE OF CONSIDERATION SHARES,
CONVERTIBLE BONDS AND SUBSCRIPTION SHARES
UNDER SPECIFIC MANDATE
(3) PROPOSED INCREASE OF AUTHORIZED CAPITAL
(4) APPLICATION FOR WHITEWASH WAIVER
AND
(5) PROPOSED CHANGE OF COMPANY NAME**

LETTER FROM THE BOARD

PART A: VERY SUBSTANTIAL ACQUISITION, CONNECTED TRANSACTION AND SPECIAL DEAL

(1) The Pteris Sale and Purchase Agreement

The principal terms of the Pteris Sale and Purchase Agreement are set forth below:

Date

4 December 2017

Parties

- (i) Wang Sing (as the purchaser of the Pteris Sale Shares);
- (ii) CFE (as the issuer of the Consideration Shares and Convertible Bonds);
- (iii) Sharp Vision (as one of the vendors of the Pteris Sale Shares); and
- (iv) Fengqiang (as one of the vendors of the Pteris Sale Shares).

Subject Matter

Wang Sing has conditionally agreed to acquire, and Sharp Vision and Fengqiang have conditionally agreed to sell 301,153,690 Pteris Shares and 81,910,701 Pteris Shares, representing approximately 78.15% and 21.26% of the issued share capital of Pteris, respectively.

Consideration

The aggregate consideration for the Proposed Pteris Acquisition is RMB3,806,530,716, of which RMB2,992,459,264 shall be payable to Sharp Vision and RMB814,071,452 shall be payable to Fengqiang, in the following manner:

If the TianDa Completion does not take place on or prior to the Pteris Completion:

- (i) RMB2,992,459,264 payable to Sharp Vision shall be satisfied by the issuance of 4,664,472,279 Consideration Shares by CFE at the issue price of HK\$0.366 per CFE Share and Convertible Bonds in the principal amount of RMB1,024,307,336 to Sharp Vision (or its nominee(s)) on the date of the Pteris Completion; and
 - (a) if the TianDa Conditions are not satisfied (or waived, as the case may be) on or before the Long Stop Date, an additional of 1,661,956,291 Consideration Shares shall be issued by CFE within ten business days after the Long Stop

LETTER FROM THE BOARD

Date. In such case, a total of 6,326,428,570 Consideration Shares and Convertible Bonds in the principal amount of RMB1,024,307,336 will be allotted and issued to Sharp Vision (or its nominee(s)); or

- (b) if the TianDa Conditions are satisfied (or waived, as the case may be) on or before the Long Stop Date, additional Convertible Bonds in the principal amount of RMB517,034,602 shall be issued by CFE within ten business days after the date of the TianDa Completion. In such case, a total of 4,664,472,279 Consideration Shares and Convertible Bonds in the principal amount of RMB1,541,341,938 will be allotted and issued to Sharp Vision (or its nominee(s)); and
- (ii) RMB814,071,452 payable to Fengqiang shall be satisfied by the issuance of 956,000,000 Consideration Shares by CFE at the issue price of HK\$0.366 per CFE Share and Convertible Bonds in the principal amount of RMB256,904,950 to Fengqiang (or its nominee(s)) on the date of the Pteris Completion, and:
 - (a) if the TianDa Conditions are not satisfied (or waived, as the case may be) on or before the Long Stop Date, an additional of 187,679,470 Consideration Shares and additional Convertible Bonds in the principal amount of RMB201,367,819 shall be issued by CFE within ten business days after the Long Stop Date. In such case, a total of 1,143,679,470 Consideration Shares and Convertible Bonds in the principal amount of RMB458,272,769 will be allotted and issued to Fengqiang (or its nominee(s)); or
 - (b) if the TianDa Conditions are satisfied (or waived, as the case may be) on or before the Long Stop Date, an additional of 834,956,291 Consideration Shares shall to be issued by CFE within ten business days after the date of the TianDa Completion. In such case, a total of 1,790,956,291 Consideration Shares and Convertible Bonds in the principal amount of RMB256,904,950 will be allotted and issued to Fengqiang (or its nominee(s)).

If the TianDa Completion takes place on or prior to the Pteris Completion:

- (i) RMB2,992,459,264 payable to Sharp Vision shall be satisfied by the issuance of 4,664,472,279 Consideration Shares by CFE at the issue price of HK\$0.366 per CFE Share and Convertible Bonds in the principal amount of RMB1,541,341,938 to Sharp Vision (or its nominee(s)); and
- (ii) RMB814,071,452 payable to Fengqiang shall be satisfied by the issuance of 1,790,956,291 Consideration Shares by CFE at the issue price of HK\$0.366 per CFE Share and Convertible Bonds in the principal amount of RMB256,904,950 by CFE to Fengqiang (or its nominee(s)).

LETTER FROM THE BOARD

The number of Consideration Shares and the principal amount of Convertible Bonds to be issued by CFE to Sharp Vision and Fengqiang (or their respective nominees) are different depending on whether and when the TianDa Completion takes place. In the event that the TianDa Completion takes place, it may take place either prior to or concurrently with or after the Pteris Completion. In the event that the TianDa Completion does not take place on or prior to the Pteris Completion, the consideration for the Proposed Pteris Acquisition will be fully settled on the Deferred Settlement Date, which will be within ten business days after the Long Stop Date as further explained above. The above payment mechanism is to ensure that CFE would be able to satisfy the minimum public float requirement under Rule 8.08(1)(a) of the Listing Rules in all scenarios, since in the case of the TianDa Completion, additional Consideration Shares would need to be issued to Lucky Rich as vendor of the TianDa Sale Interest, which would reduce the public float of CFE. The TianDa Completion is subject to the satisfaction (or waiver thereof) of the conditions precedents for the Proposed Pteris Acquisition.

Please refer to the section headed “Part B: Proposed Issue of Consideration Shares, Convertible Bonds, Conversion Shares and Subscription Shares under Specific Mandate by CFE: (3) Effect of the Proposed Issue of the Consideration Shares and the Convertible Bonds on the Shareholding Structure of CFE” below for further illustration.

Conditions Precedent

The Pteris Completion shall be conditional upon the following conditions being fulfilled (or waived by Wang Sing, as the case may be):

- (a) the passing of all necessary resolutions by the Independent CFE Shareholders at a general meeting approving, among other things, the Proposed Pteris Acquisition, the issue of Consideration Shares and Convertible Bonds in respect of the Proposed Pteris Acquisition, the proposed increase in authorized capital of CFE and the Whitewash Waiver pursuant to the requirements of the Takeovers Code and the Listing Rules;
- (b) the passing of all resolutions by the independent CIMC Shareholders (or minority CIMC Shareholders, as the case may be) at a general meeting approving, among other things, the Proposed Restructuring (including the approval of the waiver of assured entitlement) pursuant to the requirements of the Shenzhen Listing Rules and the Listing Rules;
- (c) the obtaining of the Whitewash Waiver by CIMC (or its wholly-owned subsidiary) from the Executive;
- (d) the obtaining of the approval of the spin-off proposal by CIMC from the Stock Exchange pursuant to Practice Note 15 of the Listing Rules;
- (e) the listing of, and the permission to deal in, all the Consideration Shares and Conversion Shares to be issued upon full conversion of the Convertible Bonds under the Proposed Pteris Acquisition being granted by the Stock Exchange and not having been revoked;

LETTER FROM THE BOARD

- (f) the representations and warranties given by each of the Pteris Vendors under the Pteris Sale and Purchase Agreement having remained true, accurate and not misleading in all material respects throughout the period from the date of the Pteris Sale and Purchase Agreement to the Pteris Completion;
- (g) no events having occurred which caused, causes or may cause material adverse effect on (i) the assets, business, operation or financial condition of the Pteris Group as a whole; or (ii) the ability of the Pteris Vendors to perform or comply with their respective material obligations, undertakings or covenants under the Pteris Sale and Purchase Agreement; and
- (h) there being no applicable laws, rules, regulations, decrees of any court or decisions of any regulator (such as the Stock Exchange) which shall, or which shall reasonably be expected to, forbid, restrict or impose conditions or restrictions on completion of the transactions contemplated under the Pteris Sale and Purchase Agreement.

No party can waive any of the abovementioned conditions, except Wang Sing may waive condition (f) at its absolute discretion at or before 12:00 noon (Hong Kong time) on the Long Stop Date.

The representations and warranties given by each of the Pteris Vendors under the Pteris Sale and Purchase Agreement as referred to in condition (f) above are primarily related to, among other things, due incorporation of Pteris, ownership of the Pteris Sale Shares, financial position of the Pteris Group and other representations and warranties customary to similar transactions. In the event that any representation or warranty given by either of the Pteris Vendors is untrue, inaccurate or misleading in any material respect throughout the date of the Pteris Sale and Purchase Agreement to the Pteris Completion, Wang Sing will, subject to the review of its board of directors and the CFE Board at the relevant time, consider to waive such condition if it is of the view that (i) the potential benefits to the CFE Group by proceeding to the Pteris Completion outweighs the risk resulted from such condition not being fulfilled; and (ii) the consummation of the Proposed Pteris Acquisition remains fair and reasonable and in the interest of CFE and the CFE Shareholders as a whole, taking into account various factors such as the long-term business strategies of the CFE Group and the operational and financial condition of the Pteris Group at the time.

In any event, such exercise of Wang Sing's right to waive condition (f) pursuant to the Pteris Sale and Purchase Agreement is not expected to affect the substance of the Proposed Pteris Acquisition.

As at the Latest Practicable Date, none of the conditions to the Pteris Completion had been fulfilled or waived.

Wang Sing shall not be obliged to complete the sale and purchase of any of the Pteris Sale Shares unless the sale and purchase of all the Pteris Sale Shares are completed simultaneously.

LETTER FROM THE BOARD

Termination

The Pteris Sale and Purchase Agreement shall terminate by agreement in writing between the parties to the Pteris Sale and Purchase Agreement or in the event the conditions precedent for the Proposed Pteris Acquisition are not fulfilled (or waived by Wang Sing, as the case may be) on or before 12:00 noon on the Long Stop Date.

(2) **The TianDa Equity Transfer Agreement**

The principal terms of the TianDa Equity Transfer Agreement are set forth below:

Date

4 December 2017

Parties

- (i) Wang Sing (as the purchaser of the TianDa Sale Interest); and
- (ii) Lucky Rich (as the vendor of the TianDa Sale Interest).

Subject Matter

Wang Sing has conditionally agreed to acquire and Lucky Rich has conditionally agreed to sell, the TianDa Sale Interest, representing 30% of the equity interest of TianDa.

Consideration

The consideration for the Proposed TianDa Acquisition is RMB610,553,589, which shall be satisfied by the issuance of 1,014,679,470 Consideration Shares at the issue price of HK\$0.366 per CFE Share and Convertible Bonds in the principal amount of RMB294,886,806 by CFE to Lucky Rich (or its nominee(s)).

Conditions Precedent

The TianDa Completion shall be conditional upon the following conditions being fulfilled (or waived by the parties thereto, as the case may be):

- (a) all conditions precedents for the Proposed Pteris Acquisition having been satisfied (or waived by Wang Sing pursuant to the terms thereof);
- (b) the passing of all necessary resolutions by the Independent CFE Shareholders at a general meeting approving, among other things, the Proposed TianDa Acquisition, the issue of the Consideration Shares and Convertible Bonds in respect of the Proposed TianDa Acquisition, the proposed increase in authorized capital of CFE and the Special Deal pursuant to the requirements of the Listing Rules and the Takeovers Code;

LETTER FROM THE BOARD

- (c) the representations and warranties given by Wang Sing under the TianDa Equity Transfer Agreement having remained true, accurate and not misleading in all material respects throughout the period from the date of the TianDa Equity Transfer Agreement to the TianDa Completion;
- (d) the representations and warranties given by Lucky Rich under the TianDa Equity Transfer Agreement having remained true, accurate and not misleading in all material respects throughout the period from the date of the TianDa Equity Transfer Agreement to the TianDa Completion;
- (e) no events having occurred which caused, causes or may cause material adverse effect on the assets, business, operation or financial condition of the TianDa Group as a whole;
- (f) there being no applicable laws which shall, or which shall reasonably be expected to, forbid, restrict or impose conditions or restrictions on completion of the transactions contemplated under the TianDa Equity Transfer Agreement;
- (g) the consent of the Executive in relation to the TianDa Equity Transfer Agreement and the transactions contemplated thereunder as a “special deal” under Rule 25 of the Takeovers Code having been obtained and not having been revoked prior to the TianDa Completion;
- (h) the listing of, and the permission to deal in, all the Consideration Shares and Conversion Shares to be issued upon full conversion of the Convertible Bonds under the Proposed TianDa Acquisition being granted by the Stock Exchange and not having been revoked;
- (i) all necessary approvals and filings in respect of the Proposed TianDa Acquisition at the relevant commission of economy having been obtained and/or completed; and
- (j) (if required) the passing of resolutions by the shareholders of TianDa by written resolutions or at a general meeting approving the Proposed TianDa Acquisition and the transactions contemplated thereunder.

The TianDa Completion is subject to, amongst other things, the conditions precedents for the Proposed Pteris Acquisition having been satisfied (or waived by Wang Sing pursuant to the terms of the Pteris Sale and Purchase Agreement). In the event that the TianDa Completion takes place, it may take place either prior to or concurrently with or after the Pteris Completion. If the conditions precedents for the 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.

No party can waive any of the abovementioned conditions, except Lucky Rich may waive condition (c) and Wang Sing may waive condition (d) and (e), respectively, at their absolute discretions on or before the Long Stop Date.

LETTER FROM THE BOARD

In any event such exercise of Lucky Rich's right to waive condition (c) or Wang Sing's right to waive condition (d) and (e) pursuant to the TianDa Equity Transfer Agreement is not expected to affect the substance of the Proposed TianDa Acquisition for the following reasons:

- (i) The representations and warranties given by Wang Sing under the TianDa Equity Transfer Agreement as referred to in condition (c) above are primarily related to, among other things, (a) Wang Sing being duly incorporated and existing in line with all laws and regulations, passing of all necessary resolutions and obtaining of all necessary authorizations for the performance of its obligations under TianDa Equity Transfer Agreement, (b) no violation of or no conflict with (1) any judgment, order or any applicable law or requirement applicable thereto; or (2) any document or agreement that it is engaged in binding on itself and/or its assets, (c) performance of its obligations under TianDa Equity Transfer Agreement strictly.

- (ii) The representations and warranties given by Lucky Rich under the TianDa Equity Transfer Agreement as referred to in condition (d) above are primarily related to, among other things, (a) the passing of all necessary resolutions and obtaining of all necessary authorizations for the performance of its obligations under the TianDa Equity Transfer Agreement, (b) no violation of or no conflict with (1) the articles of association of TianDa or any of its organizational documents; or (2) any judgment, order or any applicable law or requirement applicable thereto; or (3) any document or agreement that it is engaged in binding on itself and on its assets, (c) Lucky Rich lawfully owns the entire equity interest in the TianDa Sale Interest and, on the TianDa Completion, there is no pledge, seizure, freezing and other restrictions on the rights and obligations of any third party on the TianDa Sale Interest held by Lucky Rich, and Pteris waives in writing the right of pre-emption of the TianDa Sale Interest, and (d) performance of its obligations under TianDa Equity Transfer Agreement strictly. The condition (e) under the TianDa Equity Transfer Agreement relates primarily to certain events which may adversely affect the TianDa Group.

In the event that any representation or warranty given by Lucky Rich is untrue, inaccurate or misleading in any material respect throughout the date of the TianDa Equity Transfer Agreement to the Long Stop Date or any of the events that adversely affect the TianDa Group takes place, Wang Sing will, subject to the review of its board of directors at the relevant time, consider to waive such condition if it is of the view that (i) the potential benefits to the CFE Group by proceeding to the TianDa Completion outweighs the risk resulted from such condition not being fulfilled; and (ii) the consummation of the Proposed TianDa Acquisition remains fair and reasonable and in the interest of the CFE Group and the CFE Shareholders, taking into account various factors such as the long-term business strategies of the CFE Group and the operational and financial condition of the TianDa at the time.

LETTER FROM THE BOARD

To the best of the knowledge and belief of the Company, as at the Latest Practicable Date, there is no circumstance that a waiver is expected to be required.

As at the Latest Practicable Date, none of the conditions to the TianDa Completion had been fulfilled or waived.

Termination

The TianDa Equity Transfer Agreement shall terminate by agreement in writing between the parties to the TianDa Equity Transfer Agreement or in the event the conditions precedent for the Proposed TianDa Acquisition are not fulfilled (or waived by the parties thereto, as the case may be) on or before 12:00 noon on the Long Stop Date.

Undertaking by CFE

In connection with the TianDa Equity Transfer Agreement and as consideration for the Proposed TianDa Acquisition, CFE has undertaken to Lucky Rich that it will issue 1,014,679,470 Consideration Shares and Convertible Bonds in the principal amount of RMB294,886,806 to Lucky Rich (or its nominee(s)) on the next business day after the date of the TianDa Completion in accordance with the relevant terms of the TianDa Equity Transfer Agreement.

(3) Basis of Consideration for the Proposed Acquisitions

The aggregate consideration for the Proposed Acquisitions is RMB4,417,084,305. The considerations for the Proposed Pteris Acquisition and Proposed TianDa Acquisition were arrived at after arm's length negotiations between Wang Sing, CFE and the Vendors with reference to, among other things, the following factors:

(i) The track record and business prospects of the Pteris Group

Pteris Group (including TianDa Group) is one of the world's largest suppliers of passenger boarding bridges and a leading integrated solutions provider of airport facility equipment in the PRC including airport logistic systems and airport apron buses. According to Frost & Sullivan, in 2016, Pteris Group (including TianDa Group) was the second largest supplier of passenger boarding bridges in the world in terms of revenue and the fifth largest supplier of airport logistic systems in the PRC in terms of contract value and the largest supplier of airport apron buses in the PRC in terms of revenue. It is expected that the market demand for the products and services of Pteris Group can increase significantly in the next few years in light of the fast growing civil aviation transportation industry and the expected large number of new civilian airports in the PRC and overseas, as well as the promising prospects of the materials handling systems business. The amount of the order book for the year ended 31 December 2016 and the nine months ended 30 September 2017 is RMB2,539.7 million and RMB1,852.9 million, respectively.

LETTER FROM THE BOARD

Customers and users of the Pteris Group's PBB and GSE products include, among others, Beijing International Airport, Guangzhou Baiyun Airport, Shanghai Pudong Airport, Shanghai Hongqiao Airport, Paris-Charles de Gaulle Airport, Frankfurt Airport, Phoenix Sky Harbor International Airport, Mumbai Airport, Hong Kong International Airport and other airports in over 69 countries and regions including Australia, Europe, Africa and Latin America.

Moreover, major customers of the MHS business include express delivery, logistics, production and distribution companies such as FedEx, DHL, SF Express, Jingdong, and China Post, as well as other well-known companies such as Sinopec, and BYD; major customers of the APS business include well-known real estate companies such as Vanke Real Estate, China Merchants Real Estate and Wanda Group.

(ii) The financial conditions of the CFE Group and the Pteris Group, in particular, their respective profitability

The revenue resulting from continuing operations of CFE Group decreased by 16.6% from RMB565.2 million for the year ended 31 December 2015 to RMB471.3 million for the year ended 31 December 2016 per the audited consolidated financial statements of the Company as disclosed in its annual reports for the relevant years. The revenue of CFE Group decreased by 3.5% from RMB335.6 million (unaudited) for the nine months ended 30 September 2016 to RMB324.0 million per the audited consolidated financial statements of the Company for the nine months ended 30 September 2017. For the year ended 31 December 2014, CFE Group incurred a net loss of RMB502 million resulting from its continuing and discontinued operations. The net profit of CFE Group resulting from its continuing and discontinued operations decreased by 43.2% from RMB30.4 million for the year ended 31 December 2015 to RMB17.3 million for the year ended 31 December 2016 per the audited consolidated financial statements of the Company as disclosed in its annual reports for the relevant years. The net profit of CFE Group increased by 741.6% from RMB2.2 million (unaudited) for the nine months ended 30 September 2016 to RMB18.2 million per the audited consolidated financial statements of the Company for the nine months ended 30 September 2017.

In contrast, the revenue of the Pteris Group increased from RMB1,116.2 million (based on the exchange rate of SGD:RMB=1:4.6396) for the year ended 31 December 2014 to RMB1,522.8 million (based on the exchange rate of SGD:RMB=1:4.7995) for the year ended 31 December 2016 per the audited consolidated financial statements of Pteris prepared in accordance with HKFRS for the relevant years, representing a CAGR of 14.8% during the three years ended 31 December 2016. The revenue of the Pteris Group increased by 7.5% from RMB643.4 million (unaudited, based on the exchange rate of SGD: RMB = 1:4.8894) for the nine months ended 30 September 2016 to RMB691.6 million (based on the exchange rate of SGD: RMB = 1:4.8920) for the nine months ended 30 September 2017 per the audited consolidated financial statements of Pteris prepared in accordance with HKFRS. The net profit of the Pteris Group increased from RMB61.9 million (based on the exchange rate of SGD:RMB=1:4.6396) for the year ended 31 December 2014 to RMB111.8 million (based on the exchange rate of SGD:RMB=1:4.7995) for the year ended 31 December 2016 per the audited consolidated financial statements of Pteris prepared in accordance with HKFRS for the relevant years, representing a CAGR of 32.1% for the three years ended 31 December 2016. For the nine months ended 30 September 2016 and the nine months ended 30 September 2017, the Pteris Group incurred a net loss of RMB37.8 million (unaudited, based on the exchange rate of SGD: RMB = 1:4.8894) and RMB7.6 million (based on the exchange rate of SGD: RMB = 1:4.8920) respectively per the audited consolidated financial statements of Pteris prepared in accordance with HKFRS.

LETTER FROM THE BOARD

(iii) The expected synergies to be achieved between the CFE Group and the Pteris Group after completion of the Proposed Acquisitions

In light of the similarity of the Pteris Group's operations and target customers with those of the CFE Group, the Proposed Acquisitions would allow the CFE Group to realize potential synergies through the sharing of the technical know-how, suppliers base, research & development resources, marketing channels and sales network, which would facilitate the CFE Group's market coverage and reduce operation costs. In addition, leveraging the close relationship between the Pteris Group and the large number of airport operators in the PRC and worldwide, the CFE Group will be able to expand its business operations in the PRC as well as such suitable overseas markets in the long term. As at the Latest Practicable Date, approximately 50 airport operators with which the Group currently does not have business relationship are customers or have close business relationships with the Pteris Group.

Further, after completion of the Proposed Acquisitions, members of the CFE Group, as subsidiaries of CIMC, will be able to utilize the centralized financing management platform of the CIMC Group and obtain intra-group financings at lower financing costs.

The CFE Group's earnings per share for the year ended 31 December 2016 was approximately HK\$0.499 cent. Assuming both the Pteris Completion and TianDa Completion had taken place on 1 January 2016, based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, the unaudited pro forma consolidated net profit attributable to the owners of the Enlarged Group for the year ended 31 December 2016 would have been approximately RMB87.8 million. Assuming that all Consideration Shares had been issued and all Convertible Bonds had been converted as at 1 January 2016, CFE Group would have had approximately 18,277 million Shares in issue, the earnings per share of the Enlarged Group would have been approximately HK\$0.565 cent (assuming the exchange rate HK\$1:RMB0.85).

(iv) The financial information (e.g. net profits and net assets value) of a number of comparable companies listed on the PRC and overseas stock exchanges

In determining the consideration for the Proposed Acquisitions, comparison was also made between the financial information (e.g. net profits and net assets value) and financial ratios of the Pteris Group and other comparable companies, including major passenger boarding bridge suppliers, logistics integration suppliers, airport ground supporting equipment suppliers, automated warehouses and materials handling systems suppliers and airport maintenance services providers which are listed on the PRC or overseas stock exchanges, such as John Bean Technologies Corporation. According to Frost & Sullivan, John Bean Technologies Corporation is one of Pteris Group's main competitors in the passenger boarding bridges market, which is also engaged in the passenger boarding bridges business and has a market capitalization of approximately US\$3.7 billion (equivalent to approximately HK\$29 billion) as at 1 December 2017 with net profit before tax of approximately US\$93,600,000 (equivalent to approximately HK\$730,080,000) for the year ended 31 December 2016 and net assets value of approximately US\$430,300,000 (equivalent to approximately HK\$3,356,340,000) as at 30 September 2017, whereas the net profit before tax of Pteris for the year ended 31 December 2016 was approximately RMB131,574,000 (equivalent to approximately HK\$154,792,941) and its net assets value was approximately RMB1,340,000,000 (equivalent to approximately HK\$1,576,470,588) as at 30 September 2017.

Note: Based on the exchange rate of US\$1.00:HK\$7.8 and RMB0.85:HK\$1.00.

LETTER FROM THE BOARD

(v) **The earnings multiples of precedent transactions, including P/E ratio, relating to the acquisition of companies engaging in similar businesses to that of the businesses engaged by the Pteris Group**

Reference was also made to the earnings multiples, including price-earnings ratios and enterprise value to EBITDA ratios, of precedent transactions in international markets involving the acquisitions of companies engaging in the supply of materials handling automation system, supplier chain technology systems and package and baggage handling systems during the period from 2012 to 2017. For example, the Company has reviewed the acquisition of Vanderlande Industries by Toyota Industries and the acquisition of Kuka AG by Midea which have an average price-earnings ratio of 39.4, whereas the price-earnings ratio of Pteris is 53.4 in the Proposed Pteris Acquisition. Assuming the completion of the Proposed Acquisitions, the price-earnings ratio of the Proposed Acquisitions is approximately 39.6. According to Frost & Sullivan, Vanderlande Industries and Kuka AG are Pteris Group's main competitors in the materials handling system market.

The original cost for acquiring approximately 78.15% of the issued share capital of Pteris incurred by Sharp Vision was approximately RMB955 million, mainly involving the following steps:

Date of Transaction	% of Interest Held in Pteris after the Transaction	Consideration	RMB equivalent	Description of Transaction
August 2012	14.99%	SGD15,000,000	RMB73,012,500	Capital increase in Pteris settled in cash
August 2014	51.32% (increase of 36.33%)	SGD96,303,000	RMB486,331,000	Consideration for the capital increase in Pteris was settled by Sharp Vision through the disposal of 70% interest in TianDa by China International Marine Containers (Hong Kong) Limited, the parent company of Sharp Vision and a wholly-owned subsidiary of CIMC
September 2016	78.15% (increase of 26.83%)	HK\$472,720,265	RMB395,666,861	Consideration mainly attributable to the voluntary general offer by Sharp Vision for all the issued shares of Pteris (other than those held by TGM) settled in cash
Total			RMB955,010,361	

LETTER FROM THE BOARD

The original cost incurred by Sharp Vision for acquisition of 78.15% of the issued share capital of Pteris represents an approximately 68% discount to the consideration under the Proposed Pteris Acquisition to the original cost incurred by Sharp Vision. The significant difference between the consideration of the Proposed Pteris Acquisition and the original cost of acquisition is justified because of the transformation of Pteris after the original acquisition by Sharp Vision as further described below:

- (i) In 2012, before CIMC first made its investment in Pteris, Pteris was in dire financial conditions, as it was operating at substantial losses with limited capital inflows. In particular, for the year ended 31 December 2012, the revenue of Pteris was only SGD65.67 million and the net loss amounted to SGD29.59 million per the audited consolidated financial statements of Pteris prepared in accordance with Singapore Financial Reporting Standard for the relevant years. The loss was expected to increase substantially for 2013-2014. Such major losses resulted in the Pteris Group being unable to obtain additional trade financing and bank facilities to support its overseas projects and ongoing working capital requirements. Through CIMC's investment in 2012 and 2013, and leveraging CIMC's close relationship with financial institutions, Pteris was gradually able to obtain financing and improve its financial conditions and operating performance. By 2016, Pteris has become a multinational corporation with solid financial conditions and strong operating performance in various geographical regions. For the year ended 31 December 2016, Pteris achieved revenue of approximately RMB1,522.8 million and net profit after tax of approximately RMB111.8 million per the audited consolidated financial statements of Pteris prepared in accordance with HKFRS for the relevant years.
- (ii) Significant synergic effects and cost savings were realized after the acquisition of TianDa by Pteris in 2014, which also facilitated Pteris' expansion of sales and operations in the PRC market.
- (iii) Leveraging the financial support and global network of CIMC, Pteris has conducted major acquisitions of quality overseas assets since 2012, which further expanded its scale of operations and improved its development potential.
- (iv) Since 2012, with substantial investments made by CIMC and leveraging CIMC's expertise, marketing and distribution channels and technological know-how, Pteris expanded its product and services offerings from baggage handling system to passenger boarding bridges, ground support equipment, materials handling system, platform vehicles, catering trolleys and various other core airport facilities and components.

Therefore, the CFE Directors (including the non-executive directors and independent non-executive directors of CFE who have given their opinion in the sections headed "Letter from the Independent Board Committee" and "Letter from the Whitewash Waiver Board Committee" of this circular after taking into consideration the advice of the CFE Independent Financial Adviser) are of the view that the consideration for the Proposed Acquisitions is fair and reasonable.

The issue price of the Consideration Shares and the initial Conversion Price of the Convertible Bonds shall be HK\$0.366 per Share. For more details, please refer to the sub-sections headed "(1) Proposed Issuance of Consideration Shares" and "(2) Proposed Issuance of Convertible Bonds" in the section headed "Part B: Proposed Issuance of Consideration Shares, Convertible Bonds, Conversion Shares and Subscription Shares" of "Letter from the Board" in this circular.

LETTER FROM THE BOARD

(4) Information on the Relevant Parties

Wang Sing

Wang Sing is a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of CFE. Wang Sing is an investment holding company.

CFE

CFE is a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange. The CFE Group is principally engaged in the production and sale of fire engines, and production and sale of fire prevention and fighting equipment.

As at the Latest Practicable Date, (i) Top Gear (a wholly-owned subsidiary of CIMC) is the controlling shareholder of CFE which holds approximately 30.0% of the total issued share capital of CFE; and (ii) Mr. Jiang Xiong is a substantial shareholder of CFE who holds approximately 24.07% of the total issued share capital of CFE. Pursuant to a ruling of the Executive dated 19 May 2015, the class (1) presumption in the definition of “acting in concert” that arises between Top Gear on the one hand and Mr. Jiang Xiong and Mr. Jiang Qing (the elder brother of Mr. Jiang Xiong) on the other hand was rebutted. Accordingly, Mr. Jiang Xiong is not a member of the CIMC Concert Group.

Upon completion of the Proposed Pteris Acquisition and/or the Proposed TianDa Acquisition, CIMC will remain as the indirect controlling shareholder of CFE (as defined under the Listing Rules) and no change of control of CFE will be resulted therefrom.

Sharp Vision

Sharp Vision, a company incorporated in Hong Kong with limited liability, is an investment holding company and an indirect wholly-owned subsidiary of CIMC.

Fengqiang

Fengqiang, a company incorporated in the British Virgin Island with limited liability, is wholly-owned by TGM, a company established in the PRC which is in turn owned by the employees of the Pteris Group. Fengqiang is an investment holding company. As at the Latest Practicable Date, Mr. Zheng Zu Hua and Mr. Luan You Jun, each being an executive director of CFE, hold approximately 7.2% and 4.5% of the equity interest in TGM, respectively.

Other than Mr. Zheng Zu Hua and Mr. Luan You Jun, as at the Latest Practicable Date, other shareholders of TGM comprise the labour union of TianDa (who holds the shares on trust for the benefit of employees of Pteris) and approximately 40 other individuals who are the key management personnel or technical personnel of Pteris Group. None of the other individual shareholders of TGM hold more than 5% of the total issued share capital of TGM.

LETTER FROM THE BOARD

As Fengqiang owns over 20% of Pteris which is a subsidiary of CIMC, Fengqiang is presumed to be acting in concert with CIMC as at the Latest Practicable Date. After the Pteris Completion, Fengqiang no longer controls 20% or more of the voting rights of any associated company (as defined in the Takeovers Code) of CIMC. Therefore, Fengqiang will no longer be a member of the CIMC Concert Group.

Lucky Rich

Lucky Rich, a company incorporated in Samoa with limited liability, is an investment holding company.

As Lucky Rich owns over 20% of TianDa which is a subsidiary of CIMC, Lucky Rich is presumed to be acting in concert with CIMC as at the Latest Practicable Date. After the TianDa Completion, Lucky Rich no longer controls 20% or more of the voting rights of any associated company (as defined in the Takeovers Code) of CIMC. Therefore, Lucky Rich will no longer be a member of the CIMC Concert Group.

Save for Mr. Zheng Zu Hua and Mr. Luan You Jun (each being an executive director of CFE and who holds minority interest in TGM as described above), each of Fengqiang, TGM, Lucky Rich and their respective ultimate beneficial owners is a third party independent of CFE and its connected persons. As at the Latest Practicable Date, each of Mr. Zheng Zu Hua and Mr. Luan You Jun does not hold shares in CFE.

(5) Reasons for and Benefits of the Proposed Acquisitions for CFE

The directors of CFE are of the view that the Proposed Acquisitions are in the interests of CFE and the CFE Shareholders as a whole for the following reasons:

- (a) The Proposed Acquisitions would allow the CFE Group to realize potential synergies through the sharing of technical know-how, supplier base, research and development resources and marketing channels with the Pteris Group, which would reduce the overall operation costs of the CFE Group.
 - ***Reduction of costs of labor, manufacturing and management.*** The Company expects that after completion of the Proposed Acquisitions, the operation costs of the Enlarged Group in respect of labor, manufacturing and management can be reduced, after taking into account various factors such as the expected order size of the Pteris Group in Western China, the estimated reduction in distribution costs, expenses on employee salaries and welfare and management and manufacturing expenses as a result of the higher manufacturing and management efficiency as further explained below:
 - the Pteris Group could utilize the factories of the Group in Sichuan Province for the manufacturing of its products ordered by customers in Western China, which is a populous region with lower labor costs compared to many other regions in the PRC, and thereby reducing the labour costs of the Enlarged Group;

LETTER FROM THE BOARD

- the Group could share the after-sale networks of the Pteris Group, which has more than 50 service stations in the PRC and 18 services stations overseas, and thereby reducing its storage costs, assembly costs, transportation costs, management costs and labor costs;
 - the Group and the Pteris Group can share logistic services providers, being the major distribution channel of both the Group and the Pteris Group, thereby further reducing the operation costs; and
 - after the proposed introduction of advanced management systems of the Pteris Group (as further explained below), the manufacturing and management efficiency of the Group is expected to be improved, which may in turn reduce its operation costs.
- ***Sharing of supplier base.*** Although the Group and the Pteris Group had no overlapping suppliers historically, the raw materials and product components required by the Group and the Pteris Group are similar. For example, the main raw materials of both the Group and the Pteris Group are steel and aluminum alloy, and both the Group and the Pteris Group are in demand for product components such as vehicle chassis, hydraulic pressure system, power-generating machines, oil paint and glasses.

Therefore, the Group and the Pteris Group could potentially share their supplier base. After completion of the Proposed Acquisitions, the Group and the Pteris Group intend to fully explore the possibility of bulk purchase and leverage the strong bargaining power of the Pteris Group to negotiate lower purchase price, and thereby reduce the procurement costs of the Enlarged Group.

- ***Sharing of marketing resources.*** The Group and the Pteris Group could share marketing channels (e.g. by jointly organizing exhibitions, launching advertisements and other marketing events) and marketing personnel to further reduce marketing costs of the Enlarged Group after completion of the Proposed Acquisitions.
- ***Sharing of technical know-how and R&D resources.*** The Proposed Acquisitions would allow the Group to realize potential synergies through sharing of the technical know-how of the Pteris Group. In particular, the Pteris Group could license the Group to use the patents owned by the Pteris Group in respect of, among other things, the hydraulic pressure systems and components, electric generating systems, safety control systems and telescopic technology, all of which are important to the design and manufacture of fire engines. For example, the Group could utilize the abovementioned patents owned by the Pteris Group to improve the quality and safety of, among other things, the slewing bearing, revolving stage, cable hydraulic transmission system, elevated platforms and electric generating systems of its fire engines, thereby improving the overall quality and sales of its products. It is expected that the Group's production efficiency and product quality can be substantially increased, which will in turn result in an increase in market share of the Group.

LETTER FROM THE BOARD

In addition, as many components required for the products of the Group and the Pteris Group are similar, the Group could also utilize the laboratory, research and development equipment and staff of the Pteris Group in developing various components of fire engines, such as mechanical drive systems, electrical sensing system, control mechanism, pressure transmission system and liquid flow system. Therefore, the Company expects that the research & development costs of the Enlarged Group can be reduced significantly after completion of the Proposed Acquisitions.

- ***Introduction of advanced and systematic management system to the Group to enhance operational efficiency.*** The Pteris Group has adopted advanced and systematic management systems, including the “ONE” management system (which stands for optimization never ends), which are a series of management methodologies that aim to improve overall operational efficiency through, among other things, talent development, clear work allocation, standardization of manufacturing process and stringent quality control; and (ii) the modular management model (模块化管理模式), which aims to improve manufacturing efficiency and product quality by reorganizing the work flow of product design, raw materials, procurement, product manufacturing and assembling in a systematic way.

The management team of the Pteris Group has developed unique expertise and extensive experience during the Pteris Group’s implementation of the abovementioned management systems, which has enabled the Pteris Group to significantly improve the key performance indicators for operational efficiency such as product design cycle, assembly efficiency and defective products rate. Accordingly, with a view to improving the overall operational efficiency of the Enlarged Group, after completion of the Proposed Acquisitions, it is proposed that the management team of the Pteris Group will guide the Group’s management personnel in the implementation of the abovementioned management systems.

- (b) Leveraging the close relationship between the Pteris Group and a large number of airport operators worldwide and the Pteris Group’s wide service network and storage of product components, the CFE Group will be able to potentially expand its customer base in the PRC and new geographical regions, and obtain strong support in marketing and distribution of the CFE Group’s advanced firefighting vehicles in the PRC and new geographical regions.
- ***Development of the Group’s PRC airport fire engine business.*** Airport fire engine has been one of the most profitable products of the Group during the Period Under Review, and the Company expects that the market demand for airport fire engines in the PRC will increase steadily in the next few years in light of the fast growing civil aviation transportation industry in the PRC and the expected large number of new civilian airports. Therefore, it is the Group’s strategy to expand its production and sale of airport fire engine business, which is expected to improve the overall profitability of the Group in the long term.

LETTER FROM THE BOARD

The Pteris Group is one of the leading airport logistics solution providers and integrators in the world with a strong market presence in the PRC. As at the Latest Practicable Date, the Pteris Group had business relationship with approximately 52 PRC airport operators, 50 of which are not existing customers of the Group but could potentially become customers of the Group. The close relationship between the Pteris Group and such PRC airport operators will facilitate the expansion of the Group's customer base and development of its airport fire engine business.

- ***Expansion of the Group's airport fire engine business into suitable overseas markets.*** As at the Latest Practicable Date, the Pteris Group had business relationships with 51, 29 and 16 airport operators in developing countries or regions in Asia (excluding the PRC), Africa and South America, respectively, all of which have demand for less expensive airport fire engines and could therefore become potential target markets of the Group. By leveraging the business relationship between the Pteris Group and such overseas airport operators, the Group may be able to expand its business operations into such suitable overseas markets in the long term.
- (c) As CFE will become a non-wholly owned subsidiary of CIMC after completion of the Proposed Acquisitions, the CFE Group will further benefit from the extensive marketing and sales networks of the CIMC Group, which will facilitate the CFE Group's further expansion of its market coverage.
- ***Sharing of marketing channels.*** As stated above, the Group and the Pteris Group could share marketing channels (e.g. by jointly organizing exhibitions, launching advertisements and other marketing events) and marketing personnel to further reduce marketing costs of the Enlarged Group after completion of the Proposed Acquisitions.
 - ***Sharing of sales network.*** The Pteris Group (especially through the TianDa Group) has significant market share, strong customer base and extensive sales network in the PRC, which will facilitate the Group's further expansion of its business in the PRC. In addition, as stated above, the Group could share the after-sales networks of the Pteris Group, which has more than 50 service stations in the PRC and 18 service stations overseas, and thereby reducing its storage costs, assembly costs, transportation costs, management costs and labor costs.
- (d) After completion of the Proposed Acquisitions, the CFE Group will also be able to utilize the centralized financing management platform of the CIMC Group and obtain intra-group financings at lower costs.
- After completion of the Proposed Acquisitions, the Group will become a subsidiary of CIMC. Accordingly, despite the Group's record of fundraising without credit support from members of the CIMC Group (including the Pteris Group) and its ability to finance its operations through internally generated working capital and external borrowings, after completion of the Proposed Acquisitions, the Group can benefit from the financing resources of the CIMC Group by utilizing its centralized financing

LETTER FROM THE BOARD

management platform and obtaining intra-group financings and financings from major commercial banks by leveraging the CIMC Group's strong market standing, creditworthiness and financial position.

- In particular, CIMC Finance, a wholly-owned subsidiary of CIMC, is a finance company established for the provision of financial services to members of the CIMC Group pursuant to applicable PRC laws, including, among other things, providing loans to and receiving deposits from members of the CIMC Group. CIMC Finance generally offers interest rate on borrowings that is 20% to 30% lower than market interest rate and interest rates on deposits in Renminbi and US dollars that are 50% to 100% higher than market interest rate to subsidiaries of CIMC. However, being an internal finance company and the treasury centre of the CIMC Group, CIMC Finance is only allowed to provide financial services to subsidiaries of CIMC pursuant to the relevant PRC laws. Accordingly, after completion of the Proposed Acquisitions, the Group will be able to obtain intra-group financings from CIMC Group at lower costs.

(6) Confirmations of the Directors of CFE

Each of Dr. Li Yin Hui, Mr. Luan You Jun, Mr. Zheng Zu Hua and Mr. Yu Yu Qun is a director of CFE nominated by CIMC, the indirect controlling shareholder of CFE. Mr. Zheng Zu Hua and Mr. Luan You Jun also holds a minority equity interest in TGM as at the Latest Practicable Date as stated above. Accordingly, Dr. Li Yin Hui, Mr. Luan You Jun, Mr. Zheng Zu Hua and Mr. Yu Yu Qun have abstained from voting on the relevant resolutions of the CFE Board approving the Proposed Acquisitions, the proposed increase in authorized capital of CFE, the Subscription, the Specific Mandate, the Whitewash Waiver and the Special Deal. Save as aforementioned, none of the other directors of CFE has a material interest in the Proposed Acquisitions, the proposed increase in authorized capital of CFE, the Subscription, the Specific Mandate, the Whitewash Waiver and the Special Deal and hence no other director of CFE has abstained from voting on the relevant board resolutions.

(7) Implications under the Listing Rules for CFE

As the highest applicable percentage ratio in respect of the Proposed Acquisitions, on an aggregated basis, exceeds 100%, the transactions contemplated under the Sale and Purchase Agreements constitute a very substantial acquisition for CFE under Chapter 14 of the Listing Rules, which is subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Sharp Vision is a wholly-owned subsidiary of CIMC (the indirect controlling shareholder of CFE) and is therefore a connected person of CFE, and the Proposed Pteris Acquisition constitutes a connected transaction for CFE. As the highest applicable percentage ratio in respect of the Proposed Pteris Acquisition exceeds 5%, the Proposed Pteris Acquisition is subject to the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

(8) Information on the Target Companies

Pteris

Pteris is a company incorporated in Singapore with limited liability and an indirect non-wholly owned subsidiary of CIMC. Pteris Group (including TianDa Group) is one of the world's largest suppliers of passenger boarding bridges and a leading integrated solutions provider of airport facility equipment in the PRC including airport logistic systems and airport apron buses. The principal assets of the Pteris Group include: (i) its 70% equity interest in TianDa, which is the principal operating subsidiary of Pteris in the business of passenger boarding bridges (including bridges related business); and (ii) its baggage and material handling business and ground support equipment business. The Pteris Group's ground support equipment business includes design and manufacture of airport shuttle bus, catering truck, airport platform vehicle.

As at the Latest Practicable Date, Pteris is directly owned by Sharp Vision and Fengqiang as to approximately 78.15% and 21.26%, respectively. The remaining 0.59% is held by approximately 450 individuals and companies who had not accepted the voluntary general offer for the issued shares of Pteris (which was then listed on the Singapore Exchange Securities Trading Limited) made by Sharp Vision upon close of the offer in September 2016.

A summary of certain audited financial information of the Pteris Group for the two financial years ended 31 December 2016 and the nine months ended 30 September 2017 prepared in accordance with HKFRS is set out below:

Pteris Group:

	For the financial year ended		For the nine months ended	
	31 December		30 September	
	2015	2016	2016	2017
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	<i>(Note 4)</i>
			(unaudited)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,565,874	1,522,790	643,381	691,611
Net profit/(loss) before tax	100,246	131,574	(37,731)	(6,286)
Net profit/(loss) after tax	84,075	111,790	(37,839)	(7,553)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	As at 31 December		As at 30 September	
	2015	2016	2016	2017
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	<i>(Note 4)</i>
			(unaudited)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net asset value	1,158,486	1,307,105	1,169,843	1,339,997
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

LETTER FROM THE BOARD

Notes:

- (1) Based on the exchange rate of SGD:RMB: 1:4.5875 published by the People's Bank of China on 31 December 2015.
- (2) Based on the exchange rate of SGD:RMB: 1:4.7995 published by the People's Bank of China on 30 December 2016.
- (3) Based on the exchange rate of SGD:RMB: 1:4.8894 published by the People's Bank of China on 30 September 2016.
- (4) Based on the exchange rate of SGD:RMB: 1:4.8920 published by the People's Bank of China on 29 September 2017.

TianDa

TianDa is a company established in the PRC with limited liability and a non-wholly owned subsidiary of Pteris. TianDa Group is principally engaged in the design and manufacture of passenger boarding bridges, ground support equipment. The TianDa Group's ground support equipment business includes design and manufacture of apron bus.

As at the Latest Practicable Date, TianDa was directly owned by Pteris and Lucky Rich as to 70% and 30%, respectively.

A summary of certain audited financial information of the TianDa Group for the two financial years ended 31 December 2016 and the nine months ended 30 September 2017 prepared in accordance with HKFRS is set out below:

TianDa Group:

	For the financial year ended		For the nine months ended	
	31 December		30 September	
	2015	2016	2016	2017
			(unaudited)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,125,928	1,134,165	385,410	409,728
Net profit/(loss) before tax	111,181	147,827	8,510	(14,302)
Net profit/(loss) after tax	<u>96,824</u>	<u>130,146</u>	<u>10,129</u>	<u>(11,296)</u>
	As at 31 December		As at 30 September	
	2015	2016	2016	2017
			(unaudited)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net asset value	<u>600,642</u>	<u>730,788</u>	<u>610,771</u>	<u>745,005</u>

LETTER FROM THE BOARD

(9) Financial Information of the CFE Group

A summary of certain audited financial information of the CFE Group for the two financial years ended 31 December 2016 and nine months ended 30 September 2017 prepared in accordance with HKFRS is set out below:

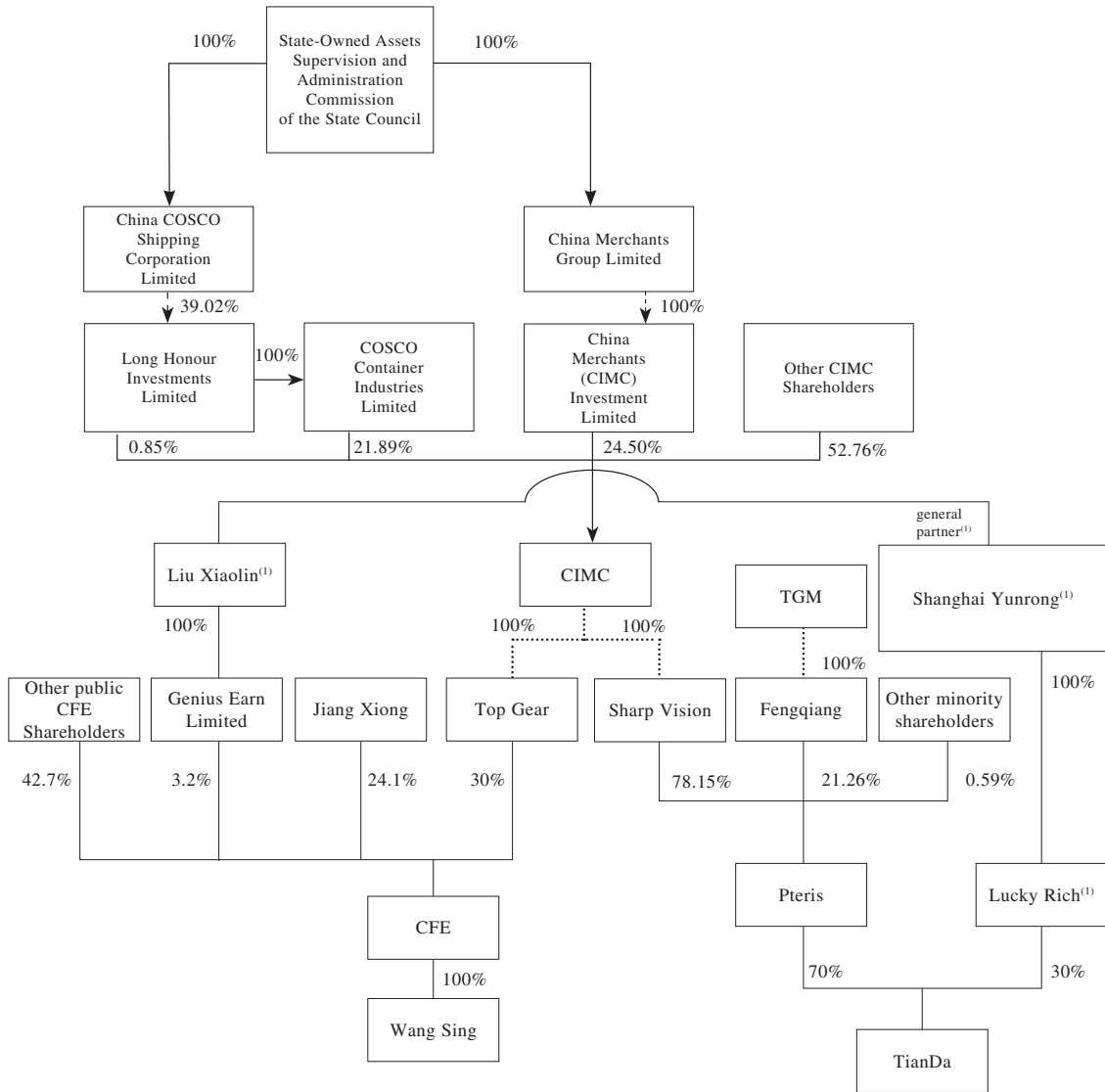
CFE Group:

	For the financial year ended 31 December		For the nine months ended 30 September	
	2015	2016	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	
Revenue	565,178	471,252	335,621	323,997
Net profit before tax	51,165	24,872	8,301	24,119
Net profit after tax	30,444	17,286	2,159	18,170
	<u><u>1,006,587</u></u>	<u><u>1,052,999</u></u>	<u><u>1,020,244</u></u>	<u><u>1,111,145</u></u>
	As at 31 December		As at 30 September	
	2015	2016	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	
Net asset value	1,006,587	1,052,999	1,020,244	1,111,145
	<u><u>1,006,587</u></u>	<u><u>1,052,999</u></u>	<u><u>1,020,244</u></u>	<u><u>1,111,145</u></u>

LETTER FROM THE BOARD

(10) Shareholding Structure of CFE, Pteris and TianDa

(a) Simplified Shareholding Structure of the CFE Group and CIMC Group as at the Latest Practicable Date

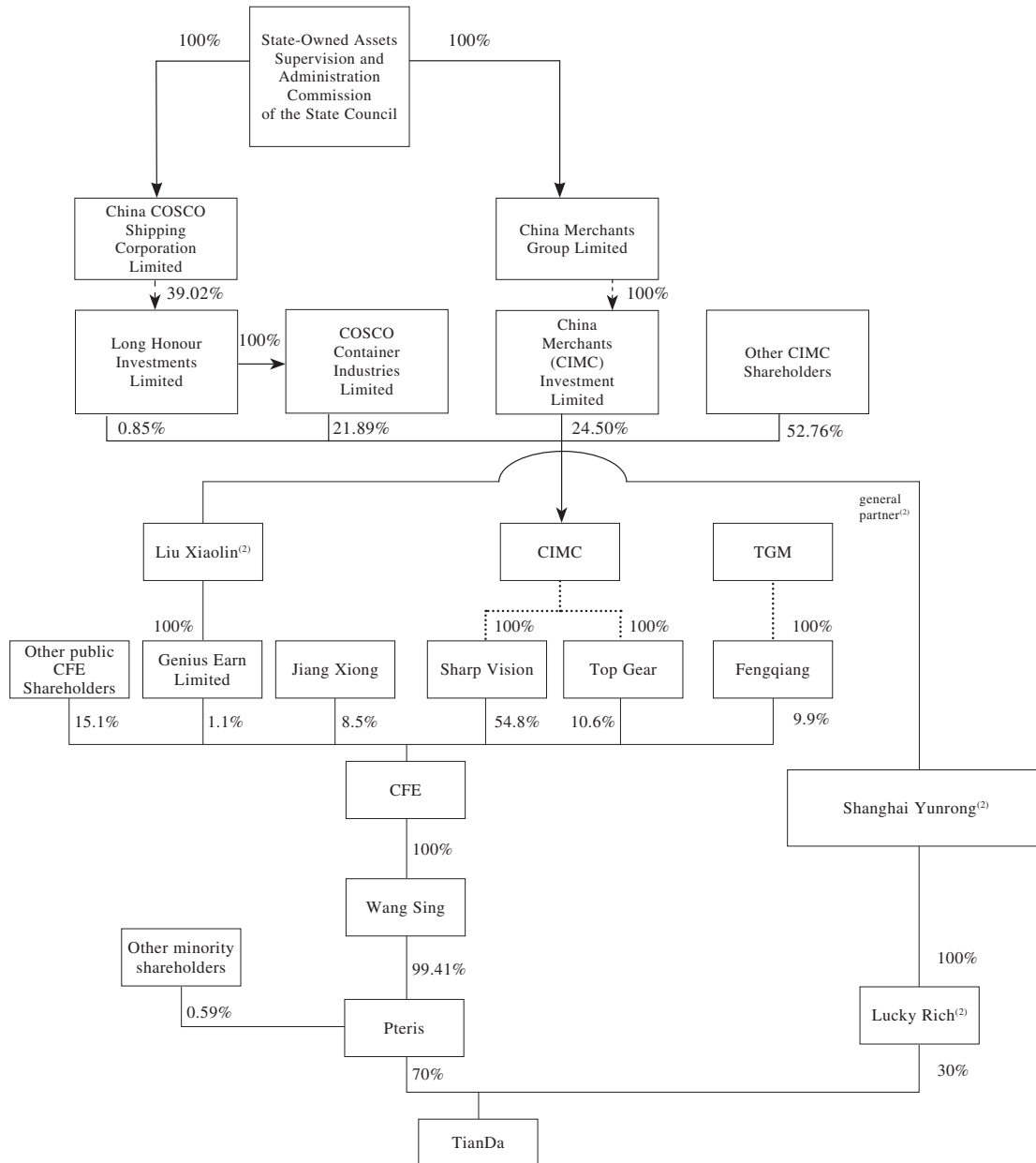


Notes:

- (1) Mr. Liu Xiaolin is the sole shareholder of one of the two general partners of Shanghai Yunrong, a limited partnership which holds the entire equity interest in Lucky Rich.
- (2) Dotted line denotes indirect shareholding.

LETTER FROM THE BOARD

(b) Simplified Shareholding Structure of the CFE Group and CIMC Group upon the Pteris Completion (assuming no TianDa Completion)⁽¹⁾

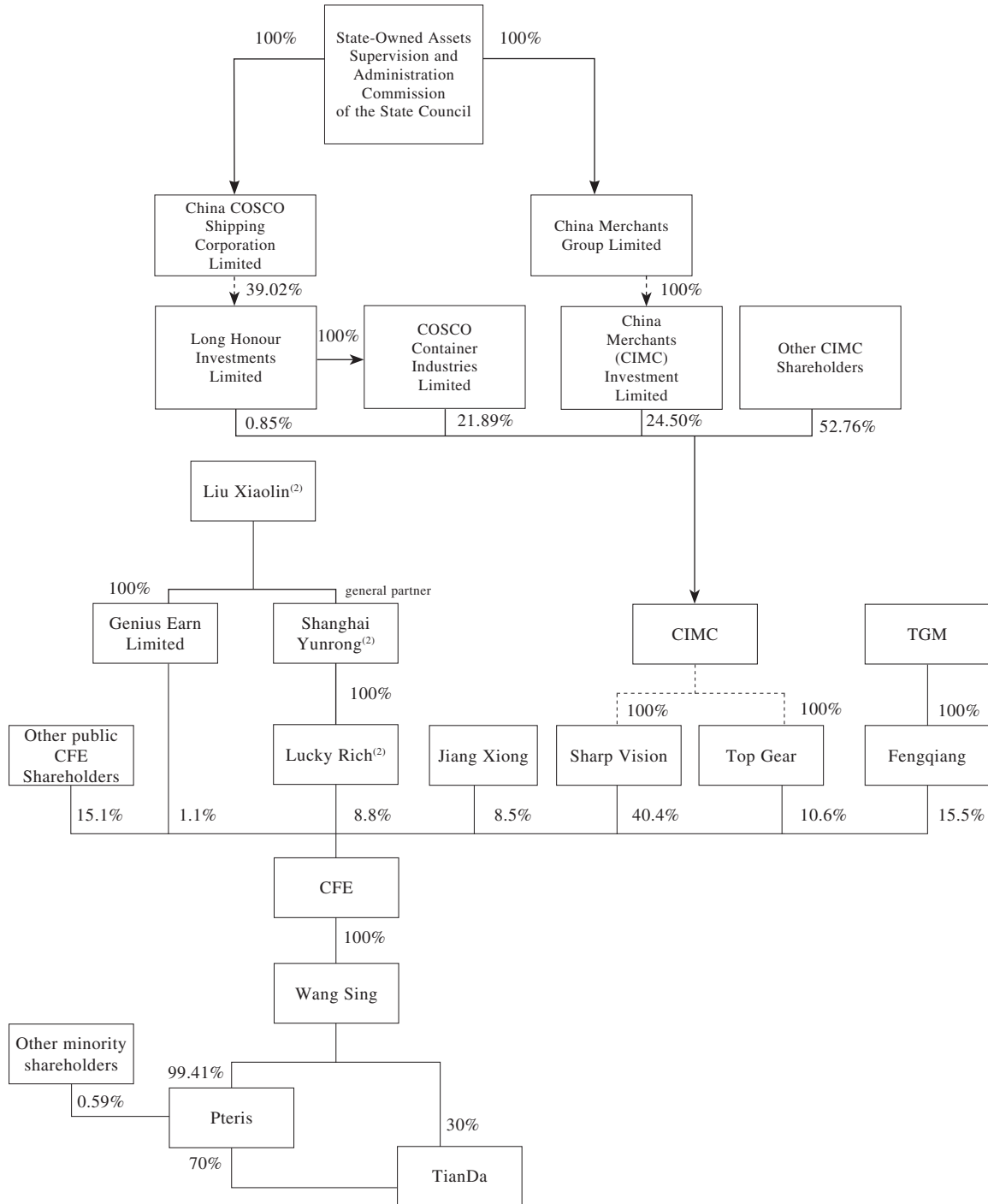


Notes:

- (1) The above shareholding structure is based on the assumption that none of the Convertible Bonds to be issued under the Proposed Pteris Acquisition are converted and none of the outstanding CFE Share Options are exercised.
- (2) Mr. Liu Xiaolin is the sole shareholder of one of the two general partners of Shanghai Yunrong, a limited partnership which holds the entire equity interest in Lucky Rich.
- (3) Dotted line denotes indirect shareholding.

LETTER FROM THE BOARD

(c) Simplified Shareholding Structure of the CFE Group and CIMC Group upon the Pteris Completion and the TianDa Completion⁽¹⁾



Notes:

- (1) The above shareholding structure is based on the assumption that none of the Convertible Bonds to be issued under the Proposed Pteris Acquisition and the Proposed TianDa Acquisition are converted and none of the outstanding CFE Share Options are exercised.
- (2) Mr. Liu Xiaolin is the sole shareholder of one of the two general partners of Shanghai Yunrong, a limited partnership which holds the entire equity interest in Lucky Rich.
- (3) Dotted line denotes indirect shareholding.

LETTER FROM THE BOARD

PART B: PROPOSED ISSUE OF CONSIDERATION SHARES, CONVERTIBLE BONDS, CONVERSION SHARES AND SUBSCRIPTION SHARES UNDER SPECIFIC MANDATE

Pursuant to the Sale and Purchase Agreements (assuming both the Pteris Completion and the TianDa Completion take place), CFE will issue up to a total of 7,470,108,040 Consideration Shares and Convertible Bonds in the aggregate principal amount of up to RMB2,093,133,694 to the Vendors (or their respective nominee(s)). Under this scenario, the maximum number of Conversion Shares to be issued under the Convertible Bonds are 6,728,170,020 Shares, including the Proposed Conversion Shares of 1,500,000,000 to be issued to Sharp Vision under the Proposed Conversion.

Pursuant to the Pteris Sale and Purchase Agreement (assuming the TianDa Completion does not take place and only the Pteris Completion takes place), CFE will issue up to 7,470,108,040 Consideration Shares and Convertible Bonds in the principal amount of up to RMB1,482,580,105 to the Pteris Vendors (or their respective nominee(s)). Under this scenario, the maximum number of Conversion Shares to be issued under the Convertible Bonds are 4,765,606,250 Shares.

Sharp Vision proposes to conduct the Proposed Conversion immediately or shortly after the Pteris Completion and convert the Convertible Bonds in the principal amount of RMB466,650,000 in accordance with the terms of the Convertible Bonds. Under the Proposed Conversion, 1,500,000,000 Conversion Shares will be issued to Sharp Vision at the same time as or immediately after the Subscription Completion.

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, 673,225,000 Subscription Shares at the Subscription Price of HK\$0.366 per Subscription Share.

CFE will seek the Specific Mandate from the Independent CFE Shareholders to issue the Consideration Shares, the Convertible Bonds, the Conversion Shares and the Subscription Shares. Application will be made by CFE to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares, the Convertible Bonds, the Conversion Shares and the Subscription Shares.

(1) Proposed Issuance of Consideration Shares

The Consideration Shares will be issued fully paid and will rank *pari passu* in all respects with the CFE Shares in issue at the date of completion of the Proposed Acquisitions, save in respect of any distribution or other corporate action the record date for which falls before the date of completion of the Proposed Acquisitions.

The issue price per Consideration Share and Conversion Price of HK\$0.366 represents:

- (i) a discount of approximately 20.4% to HK\$0.46, the closing price of the CFE Shares on the Stock Exchange on 1 December 2017, being the last trading day prior to the Joint Announcement;
- (ii) a discount of approximately 6.2% to HK\$0.39, the closing price of the CFE Shares on the Stock Exchange on the Latest Practicable Date;

LETTER FROM THE BOARD

- (iii) a discount of approximately 16.8% to HK\$0.44, the average closing price of the CFE Shares on the Stock Exchange for the last five trading days prior to the date of the Joint Announcement;
- (iv) a discount of approximately 16.8% to HK\$0.44, the average closing price of the CFE Shares on the Stock Exchange for the last ten trading days prior to the date of the Joint Announcement;
- (v) a discount of approximately 14.9% to HK\$0.43, the average closing price of the CFE Shares on the Stock Exchange for the last 30 trading days prior to the date of the Joint Announcement;
- (vi) a discount of approximately 16.8% to HK\$0.44, the average closing price of the CFE Shares on the Stock Exchange for the last 60 trading days prior to the date of the Joint Announcement;
- (vii) a premium of approximately 20.39% over the audited net assets value per Share of approximately HK\$0.304, calculated based on the audited equity attributable to the owners of the Company of approximately RMB1,053 million as at 31 December 2016; and
- (viii) a premium of approximately 14.19% over the audited net asset value per Share of approximately HK\$0.321, calculated based on the equity attributable to the owners of the Company approximately RMB1,111.1 million as at 30 September 2017.

The price at which the Consideration Shares are to be issued and the initial Conversion Price were determined based on arm's length negotiation among CFE, the Pteris Vendors and Lucky Rich with reference to, among other things, (i) the historical market price of the CFE Shares and fluctuation thereof since early 2017 when the negotiation on terms of the Sale and Purchase Agreements first started; (ii) acquisitions of business or assets by other listed companies that involve the issuance of consideration shares, which often involve a discount to the recent trading prices; (iii) the relatively high price-earnings ratio of the Consideration Shares as compared to the identifiable comparable companies listed on other stock exchanges that are engaged in comparable business of CFE which provides justification for the discount of the issue price to the market price of the CFE Shares. For example, the Company has identified comparable companies such as Rosenbauer International, Oshkosh Corporation, Spartan Motors, Morita Holdings, Nohimi Bosai and Hochiki Corporation, which have an average historical price-earnings ratio of 29.83 for the year 2016 (which was calculated with reference to the market capitalization of such listed companies as at 1 December 2017 and their respective earnings as stated in the audited financial information for the year ended 31 December 2016), whereas the historical price-earnings ratio of the Consideration Shares for the year ended 31 December 2016 (which was calculated with reference to the issue price of the Consideration Shares and the earnings of the Company as stated in the audited financial information of the Company for the year ended 31 December 2016, is approximately 73.3.

In light of the above, the CFE Directors consider the issue price of the Consideration Shares and the initial Conversion Price are fair and reasonable.

LETTER FROM THE BOARD

(2) Proposed Issuance of Convertible Bonds

A summary of the principal terms and conditions of the Convertible Bonds is set out below:

Issuer	:	CFE
Principal Amount	:	Up to RMB2,093,133,694, details of which are set out below: <ul style="list-style-type: none">(i) RMB1,482,580,105 as part of the consideration for the Proposed Pteris Acquisition (assuming the TianDa Completion does not take place); or RMB1,798,246,888 as part of the consideration for the Proposed Pteris Acquisition (assuming the TianDa Completion takes place); and(ii) RMB294,886,806 as part of the consideration for the Proposed TianDa Acquisition
Maturity Date	:	30th anniversary of the issue date
Interest	:	The Convertible Bonds bear interest from and including the issue date at the rate of 0.1% per annum, payable annually in arrear on each anniversary from the issue date. After the conversion rights of the Convertible Bonds have been exercised or such Convertible Bond is redeemed pursuant to the terms and conditions of the Convertible Bonds, each Convertible Bond will not bear any interest.
Status	:	The Convertible Bonds constitute direct, unsubordinated, unconditional and unsecured obligations of the CFE and shall at all times rank <i>pari passu</i> and without any preference or priority among themselves.
Transferability	:	All Convertible Bonds are transferable, except where any Convertible Bonds is intended to be transferred to a connected person of CFE, such transfer shall be subject to the written consent of CFE and comply with the requirements of the Listing Rules.
Conversion Period	:	Subject to certain conditions, each Bondholder has the right to convert all or part of the Convertible Bonds held by it (if in part, the principal amount of Convertible Bonds to be converted shall be in the minimum amount of RMB10,000,000 or the whole outstanding principal amount of the Convertible Bonds) into CFE Shares credited as fully paid at any time during the period from the issue date to the maturity date.

LETTER FROM THE BOARD

Conversion Price : The initial Conversion Price is HK\$0.366, which is subject to adjustment upon the occurrence of consolidation, subdivision or reclassification of CFE Shares.

If and whenever there shall be an alteration to the nominal value of the CFE Shares as a result of consolidation, subdivision or reclassification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one CFE Share immediately after such alteration; and

B is the nominal amount of one CFE Share immediately before such alteration.

Such adjustment shall become effective on the date when the alteration takes effect.

The number of CFE Shares to be issued on conversion of a Convertible Bond will be determined by dividing the HK\$ equivalent of the RMB principal amount of the Convertible Bond to be converted (at the agreed fixed exchange rate of HK\$1: RMB0.85) by the Conversion Price in effect on the conversion date.

Restriction on Conversion Rights : No conversion shall take place if (i) immediately after such conversion, the public float of CFE Shares will fall below the minimum public float of stipulated under the Listing Rules or as required by the Stock Exchange; or (ii) (unless otherwise agreed in writing by CFE) if, as result of such conversion, a mandatory offer obligation under Rule 26.1 of the Takeovers Code will be triggered.

Redemption at Maturity : Unless otherwise converted, purchased or cancelled in accordance with the terms and conditions of the Convertible Bonds, CFE will redeem each Convertible Bond at the HK\$ dollar equivalent of the RMB principal amount (at the agreed fixed exchange rate of HK\$1: RMB0.85), at the maturity date

Listing : No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange.

LETTER FROM THE BOARD

In the event that both the Pteris Completion and the TianDa Completion take place:

- (i) the maximum number of Conversion Shares to be issued under the Convertible Bonds are 6,728,170,020 Shares, representing approximately 165.0% and 36.8%, respectively, of the issued share capital of the Company as at the Latest Practicable Date and the enlarged issued share capital of the Company (assuming no exercise of the CFE Share Options); and
- (ii) the Consideration Shares represent approximately 183.2% and 64.7%, respectively, of the issued share capital of the Company as at the Latest Practicable Date and the enlarged issued share capital of the Company (assuming no conversion of Convertible Bonds and no exercise of CFE Share Options).

In the event only the Pteris Completion takes place and the TianDa Completion does not take place:

- (i) the maximum number of Conversion Shares to be issued under the Convertible Bonds are 4,765,606,250 Shares, representing approximately 116.8% and 29.2%, respectively, of the issued share capital of the Company as at the Latest Practicable Date and the enlarged issued share capital of the Company; and
- (ii) the Consideration Shares represent approximately 183.2% and 64.7%, respectively, of the issued share capital of the Company as at the Latest Practicable Date and the enlarged issued share capital of the Company (assuming no conversion of the Convertible Bonds).

LETTER FROM THE BOARD

(3) Effect of the Proposed Issue of the Consideration Shares and the Convertible Bonds on the Shareholding Structure of CFE

- (a) The following table sets out the shareholding structure of CFE as at the Latest Practicable Date:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	30.0
Sharp Vision [#]	–	–
2. Jiang Xiong ⁽⁵⁾	981,600,000	24.1
Subtotal of non-public CFE Shareholders	2,205,171,430	54.1
<i>Public CFE Shareholders</i>		
3. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ^{(1)#}	129,000,000	3.2
Lucky Rich (or its nominees) ^{(1)#}	–	–
4. Fengqiang ^{(2)#}	–	–
5. Other public CFE Shareholders	1,744,400,000	42.7
Subtotal of public CFE Shareholders	1,873,400,000	45.9
Total	4,078,571,430	100.0

As at the Latest Practicable Date, members of the CIMC Concert Group (namely Top Gear, Sharp Vision, Genius Earn Limited, Lucky Rich and Fengqiang) held an aggregate of 1,352,571,430 Shares, representing approximately 33.2% of the issued share capital of CFE.

LETTER FROM THE BOARD

- (b) The following table sets out the shareholding structure of CFE immediately after the Pteris Completion, assuming (i) the TianDa Completion does not take place; (ii) none of the Convertible Bonds has been converted; and (iii) none of the CFE Share Options has been exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	10.6
Sharp Vision [#]	6,326,428,570	54.8
2. Jiang Xiong	981,600,000	8.5
3. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ^{(1)#}	129,000,000	1.1
Lucky Rich (or its nominees) ^{(1)#}	—	—
Subtotal of non-public CFE Shareholders	8,660,600,000	75.0
<i>Public CFE Shareholders</i>		
4. Fengqiang ⁽²⁾	1,143,679,470	9.9
5. Other public CFE Shareholders	1,744,400,000	15.1
Subtotal of public CFE Shareholders	2,888,079,470	25.0
Total	11,548,679,470	100.0

[#] Members of the CIMC Concert Group at the relevant time (namely Top Gear, Sharp Vision, Genius Earn Limited and Lucky Rich) will hold an aggregate of 7,679,000,000 Shares, representing approximately 66.5% of the then issued share capital of CFE.

LETTER FROM THE BOARD

- (c) The following table sets out the shareholding structure of CFE immediately after the Pteris Completion, assuming (i) the TianDa Completion does not take place, (ii) none of the Convertible Bonds has been converted; and (iii) the CFE Share Options have been fully exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	10.5
Sharp Vision [#]	6,326,428,570	54.2
2. Jiang Xiong	985,600,000	8.5
3. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ^{(1)#}	129,000,000	1.1
Lucky Rich (or its nominees) ^{(1)#}	–	–
4. Directors of the CFE Group (other than Jiang Xiong)	65,625,000	0.6
Subtotal of non-public CFE Shareholders	8,730,225,000	74.9
<i>Public CFE Shareholders</i>		
4. Fengqiang ⁽²⁾	1,143,679,470	9.8
5. Other public CFE Shareholders	1,790,400,000	15.3
Subtotal of public CFE Shareholders	2,934,079,470	25.1
Total	11,664,304,470	100.0

[#] Members of the CIMC Concert Group at the relevant time (namely Top Gear, Sharp Vision, Genius Earn Limited and Lucky Rich) will hold an aggregate of 7,679,000,000 Shares, representing approximately 65.8% of the then issued share capital of CFE.

LETTER FROM THE BOARD

- (d) The following table sets out the shareholding structure of CFE immediately after the Pteris Completion, assuming (i) the TianDa Completion does not take place; (ii) all the Convertible Bonds have been fully converted; and (iii) none of the CFE Share Options has been exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	7.5
Sharp Vision [#]	9,618,962,597	59.0
2. Jiang Xiong	981,600,000	6.0
3. Fengqiang ⁽²⁾	2,616,751,693	16.0
4. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ^{(1)#}	129,000,000	0.8
Lucky Rich (or its nominees) ^{(1)#}	—	—
Subtotal of non-public CFE Shareholders	14,569,885,720	89.3
<i>Public CFE Shareholders</i>		
5. Other public CFE Shareholders	1,744,400,000	10.7
Subtotal of public CFE Shareholders	1,744,400,000	10.7
Total	16,314,285,720	100.0

Members of the CIMC Concert Group at the relevant time (namely Top Gear, Sharp Vision, Genius Earn Limited and Lucky Rich) will hold an aggregate of 10,971,534,027 Shares, representing approximately 67.3% of the then issued share capital of CFE.

LETTER FROM THE BOARD

- (e) The following table sets out the shareholding structure of CFE immediately after the Pteris Completion, assuming (i) the TianDa Completion does not take place; (ii) all the Convertible Bonds have been fully converted; and (iii) all the CFE Share Options have been exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	7.4
Sharp Vision [#]	9,618,962,597	58.5
2. Jiang Xiong	985,600,000	6.0
3. Fengqiang ⁽²⁾	2,616,751,693	16.0
4. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ^{(1)#}	129,000,000	0.8
Lucky Rich (or its nominees) ^{(1)#}	–	–
5. Directors of the CFE Group (other than Jiang Xiong)	65,625,000	0.4
Subtotal of non-public CFE Shareholders	14,639,510,720	89.1
<i>Public CFE Shareholders</i>		
5. Other public CFE Shareholders	1,790,400,000	10.9
Subtotal of public CFE Shareholders	1,790,400,000	10.9
Total	16,429,910,720	100.0

Members of the CIMC Concert Group at the relevant time (namely Top Gear, Sharp Vision, Genius Earn Limited and Lucky Rich) will hold an aggregate of 10,971,534,027 Shares, representing approximately 66.7% of the then issued share capital of CFE.

LETTER FROM THE BOARD

- (f) The following table sets out the shareholding structure of CFE immediately after the Pteris Completion and the TianDa Completion, assuming (i) none of the Convertible Bonds has been converted; and (ii) none of the CFE Share Options has been exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	10.6
Sharp Vision [#]	4,664,472,279	40.4
2. Fengqiang ⁽²⁾	1,790,956,291	15.5
3. Jiang Xiong	981,600,000	8.5
Subtotal of non-public CFE Shareholders	8,660,600,000	75.0
<i>Public CFE Shareholders</i>		
4. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ⁽¹⁾	129,000,000	1.1
Lucky Rich (or its nominees) ⁽¹⁾	1,014,679,470	8.8
5. Other public CFE Shareholders	1,744,400,000	15.1
Subtotal of public CFE Shareholders	2,888,079,470	25.0
Total	11,548,679,470	100.0

[#] Members of the CIMC Concert Group at the relevant time (namely Top Gear and Sharp Vision) will hold an aggregate of 5,888,043,709 Shares, representing approximately 51% of the then issued share capital of CFE.

LETTER FROM THE BOARD

- (g) The following table sets out the shareholding structure of CFE immediately after the Pteris Completion and the TianDa Completion, assuming (i) none of the Convertible Bonds have converted; and (ii) the CFE Share Options have been fully exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	10.5
Sharp Vision [#]	4,664,472,279	40.0
2. Fengqiang ⁽²⁾	1,790,956,291	15.4
3. Jiang Xiong	985,600,000	8.4
4. Directors of the CFE Group (other than Jiang Xiong)	65,625,000	0.6
Subtotal of non-public CFE Shareholders	8,730,225,000	74.9
<i>Public CFE Shareholders</i>		
5. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ⁽¹⁾	129,000,000	1.1
Lucky Rich (or its nominees) ⁽¹⁾	1,014,679,470	8.7
6. Other public CFE Shareholders	1,790,400,000	15.3
Subtotal of public CFE Shareholders	2,934,079,470	25.1
Total	11,664,304,470	100.0

Members of the CIMC Concert Group at the relevant time (namely Top Gear and Sharp Vision) will hold an aggregate of 5,888,043,709 Shares, representing approximately 50.5% of the then issued share capital of CFE.

LETTER FROM THE BOARD

- (h) The following table sets out the shareholding structure of CFE immediately after the Pteris Completion and the TianDa Completion, assuming (i) all the Convertible Bonds have been fully converted; and (ii) none of the CFE Share Options has been exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	6.7
Sharp Vision [#]	9,618,962,597	52.6
2. Jiang Xiong	981,600,000	5.4
3. Fengqiang ⁽²⁾	2,616,751,693	14.3
4. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ⁽¹⁾	129,000,000	0.7
Lucky Rich (or its nominees) ⁽¹⁾	1,962,563,770	10.7
Subtotal of non-public CFE Shareholders	16,532,449,490	90.4
<i>Public CFE Shareholders</i>		
5. Other public CFE Shareholders	1,744,400,000	9.6
Subtotal of public CFE Shareholders	1,744,400,000	9.6
Total	18,276,849,490	100.0

[#] Members of the CIMC Concert Group at the relevant time (namely Top Gear and Sharp Vision) will hold an aggregate of 10,842,534,027 Shares, representing approximately 59.3% of the then issued share capital of CFE.

LETTER FROM THE BOARD

- (i) The following table sets out the shareholding structure of CFE immediately after the Pteris Completion and the TianDa Completion, assuming (i) all the Convertible Bonds have been fully converted; and (ii) all the CFE Share Options have been exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	6.7
Sharp Vision [#]	9,618,962,597	52.3
2. Jiang Xiong	985,600,000	5.4
3. Fengqiang ⁽²⁾	2,616,751,693	14.2
4. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ⁽¹⁾	129,000,000	0.7
Lucky Rich (or its nominees) ⁽¹⁾	1,962,563,770	10.7
5. Directors of the CFE Group (other than Jiang Xiong)	65,625,000	0.3
Subtotal of non-public CFE Shareholders	16,602,074,490	90.3
<i>Public CFE Shareholders</i>		
6. Other public CFE Shareholders	1,790,400,000	9.7
Subtotal of public CFE Shareholders	1,790,400,000	9.7
Total	18,392,474,490	100.0

Members of the CIMC Concert Group at the relevant time (namely Top Gear and Sharp Vision) will hold an aggregate of 10,842,534,027 Shares, representing approximately 59.0% of the then issued share capital of CFE.

LETTER FROM THE BOARD

- (j) The following table sets out the shareholding structure of CFE immediately after the Pteris Completion, assuming (i) the TianDa Completion does not take place; (ii) only the Convertible Bonds held by CIMC Group have been fully converted; and (iii) none of the CFE Share Options has been exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	8.2
Sharp Vision [#]	9,618,962,597	64.8
2. Jiang Xiong	981,600,000	6.6
3. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ^{(1)#}	129,000,000	0.9
Lucky Rich (or its nominees) ^{(1)#}	—	—
Subtotal of non-public CFE Shareholders	11,953,134,027	80.5
<i>Public CFE Shareholders</i>		
4. Fengqiang ⁽²⁾	1,143,679,470	7.7
5. Other public CFE Shareholders	1,744,400,000	11.8
Subtotal of public CFE Shareholders	2,888,079,470	19.5
Total	14,841,213,497	100.0

[#] Members of the CIMC Concert Group at the relevant time (namely Top Gear, Sharp Vision, Genius Earn Limited and Lucky Rich) will hold an aggregate of 10,971,534,027 Shares, representing approximately 73.9% of the then issued share capital of CFE.

LETTER FROM THE BOARD

- (k) The following table sets out the shareholding structure of CFE immediately after the Pteris Completion and the TianDa Completion, assuming (i) only the Convertible Bonds held by CIMC Group have been fully converted; and (ii) none of the CFE Share Options have been exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	7.4
Sharp Vision [#]	9,618,962,597	58.3
2. Jiang Xiong	981,600,000	5.9
3. Fengqiang ⁽²⁾	1,790,956,291	10.9
Subtotal of non-public CFE Shareholders	13,615,090,318	82.5
<i>Public CFE Shareholders</i>		
4. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ⁽¹⁾	129,000,000	0.8
Lucky Rich (or its nominees) ⁽¹⁾	1,014,679,470	6.1
5. Other public CFE Shareholders	1,744,400,000	10.6
Subtotal of public CFE Shareholders	2,888,079,470	17.5
Total	16,503,169,788	100.0

Members of the CIMC Concert Group at the relevant time (namely Top Gear and Sharp Vision) will hold an aggregate of 10,842,534,027 Shares, representing approximately 65.7% of the then issued share capital of CFE.

Notes:

- (1) As at the Latest Practicable Date, Mr. Liu Xiaolin holds the CFE Shares through Genius Earn Limited, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Liu Xiaolin. Mr. Liu Xiaolin is also the sole shareholder of one of the two general partners of a limited partnership directly holding the entire issued share capital of Lucky Rich, which is in turn interested in 30% of the equity interest in TianDa as at the Latest Practicable Date. In the event that only the Pteris Completion takes place, TianDa will become a non-wholly owned subsidiary of CFE, and Mr. Liu Xiaolin (a substantial shareholder of TianDa) will become a core connected person of CFE (as defined under the Listing Rules). Accordingly, the CFE Shares directly held by Genius Earn Limited (a close associate of Mr. Liu Xiaolin as defined under the Listing Rules) should not be counted towards the public float of CFE. In addition, each of Mr. Liu Xiaolin, Genius Earn Limited, Lucky Rich and its nominees is presumed to be acting in concert with CIMC as at the Latest Practicable Date. After the TianDa Completion, Lucky Rich no longer controls 20% or more of the voting rights of any associated company (as defined in the Takeovers Code) of CIMC; therefore, they will no longer be members of the CIMC Concert Group.

LETTER FROM THE BOARD

- (2) As at the Latest Practicable Date, Fengqiang is presumed to be acting in concert with CIMC. After the Pteris Completion, Fengqiang no longer controls 20% or more of the voting rights of any associated company (as defined in the Takeovers Code) of CIMC. Therefore, Fengqiang will no longer be a member of the CIMC Concert Group.
- (3) CFE adopted the CFE Share Option Scheme on 29 May 2009. As at the Latest Practicable Date, there are 115,625,000 outstanding CFE Share Options.
- (4) Scenarios (d), (e), (h) and (i) are based on the assumption that the Convertible Bonds have been fully converted and scenarios (j) and (k) are based on the assumption that only the Convertible Bonds held by CIMC Group have been fully converted. The minimum public float requirement under the Listing Rules would not be complied with under these scenarios. According to the terms of the Convertible Bonds, the summary of which are set out in the sub-section headed “(2) Proposed Issuance of Convertible Bonds” above no conversion of the Convertible Bonds shall take place if immediately after such conversion, the public float of the CFE Shares will fall below the minimum public float as stipulated under the Listing Rules or as required by the Stock Exchange. Therefore, scenarios (d), (e), (h), (i), (j) and (k) are for illustration purpose only.
- (5) As at the Latest Practicable Date, Mr. Jiang Qing (the elder brother of Mr. Jiang Xiong) holds 28,000,000 CFE Share Options. Pursuant to a ruling of the Executive dated 19 May 2015, the class (1) presumption in the definition of “acting in concert” that arises between Top Gear on the one hand and Mr. Jiang Xiong and Mr. Jiang Qing on the other hand was rebutted and Mr. Jiang Xiong is not a member of the CIMC Concert Group.

(4) The Subscription Agreement

The principal terms of the Subscription Agreement are set out below:

Date

6 February 2018

Parties

- (a) the Company, as issuer; and
- (b) the Subscriber, as subscriber.

Subscription Shares

Pursuant to the terms and conditions of the Subscription Agreement, the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue 673,225,000 Subscription Shares.

LETTER FROM THE BOARD

The Subscription Shares represent (i) approximately 16.5% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 5.5% of the enlarged issued share capital of the Company (assuming (a) only the Pteris Completion takes place and the TianDa Completion does not take place; and (b) there is no change in the issued share capital of the Company between the Latest Practicable Date and the Subscription Completion Date save for the issuance of the Consideration Shares and the Subscription Shares); and (iii) approximately 5.5% of the enlarged issued share capital of the Company (assuming (a) both the Pteris Completion and the TianDa Completion take place; and (b) there is no change in the issued share capital of the Company between the Latest Practicable Date and the Completion Date save for the issuance of the Consideration Shares and the Subscription Shares). The aggregate nominal value of the Subscription Shares is HK\$6,732,250.

Ranking of the Subscription Shares

The Subscription Shares will rank *pari passu* in all respects with the Shares then in issue as at the date of the allotment, save in respect of any distribution or other corporate action the record date for which fall before the date of completion of the Subscription.

Subscription Price

The Subscription Price of HK\$0.366 per Subscription Share represents:

- (a) a discount of approximately 3.7% to the closing price of HK\$0.380 per CFE Share as quoted on the Stock Exchange on the date of the Subscription Announcement;
- (b) a discount of approximately 7.8% to the average closing price of approximately HK\$0.397 per CFE Share for the last five consecutive trading days immediately prior to the date of the Subscription Announcement; and
- (c) a discount of approximately 7.3% to the average closing price of approximately HK\$0.395 per CFE Share for the last ten consecutive trading days immediately prior to the date of the Subscription Announcement.

The gross proceeds from the Subscription are HK\$246.4 million (equivalent to approximately RMB198.6 million). The net proceeds from the Subscription, after deducting all related fees and expenses, are expected to be approximately HK\$243.7 million (equivalent to approximately RMB196.4 million). The net price per Subscription Share, after deducting all such related fees and expenses, is therefore approximately HK\$0.362.

The Subscription Price was arrived after arm's length negotiations between the Company and the Subscriber based on the issue price of the Consideration Shares and the conversion price of the Convertible Bonds pursuant to the terms of the Proposed Acquisitions, which was determined with reference to (i) the historical market price of the CFE Shares since early 2017 when the negotiation on terms of the Sale and Purchase Agreements first started; (ii) acquisitions of business or assets by other listed companies that involve the issuance of consideration shares, which often

LETTER FROM THE BOARD

involve a discount to the recent trading prices; and (iii) the relatively high price-earnings ratio of the Consideration Shares as compared to the price-earnings ratio of identifiable comparable companies listed on other stock exchanges that are engaged in comparable business of the Company, which provides justification for the discount of the issue price to the market price of the CFE Shares.

Subscription Conditions

Completion of the Subscription is conditional upon all of the following Subscription Conditions having been satisfied:

- (a) the Pteris Completion having taken place;
- (b) the Subscription Agreement and the transactions contemplated thereunder and the Specific Mandate having been approved by the Independent CFE Shareholders at the EGM;
- (c) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal, in the Subscription Shares (and such listing and permission not subsequently having been revoked prior to the delivery of definitive share certificate(s) representing the Subscription Shares);
- (d) no legislation, rule or regulation having been proposed or passed that would prohibit or materially restrict the implementation of the Subscription Agreement; and
- (e) the warranties given by the Subscriber under the Subscription Agreement remaining true, accurate, complete and correct in all respects and not misleading in any respect up to and including the Subscription Completion Date.

The Company may waive any of the Subscription Conditions (other than Subscription Conditions (a), (b) and (c) as set out above) at its absolute discretion at or before 12:00 noon (Hong Kong time) on the Subscription Long Stop Date.

Completion

Completion shall take place within three business days after (a) satisfaction (or waiver) of the last of the Subscription Conditions; and (b) the payment of the Subscription Monies by the Subscriber pursuant to the terms of the Subscription Agreement, or at such date and time as agreed by the Company and the Subscriber.

Termination

The Company may, by notice in writing to the Subscriber, terminate the Subscription Agreement at any time before the Subscription Completion Date in the event that any of the Subscription Conditions have not been fulfilled (or waived) on or before the Subscription Long Stop Date.

LETTER FROM THE BOARD

Specific Mandate

The Subscription Shares will be allotted and issued by the Company pursuant to the Specific Mandate sought to be granted to the CFE Board at the CFE EGM. Therefore, the allotment and issuance of the Subscription Shares by the Company is subject to the approval of the Independent CFE Shareholders at the EGM.

Effect on Shareholding Structure of the Company

- (a) The following table sets out the shareholding structure of the Company as at the Latest Practicable Date:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	30.0%
Sharp Vision [#]	–	–
2. Jiang Xiong	981,600,000	24.1%
Subtotal of non-public CFE Shareholders	2,205,171,430	54.1%
<i>Public CFE Shareholders</i>		
3. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ^{(1)#}	129,000,000	3.2%
Lucky Rich (or its nominees) ^{(1) #}	–	–
4. Fengqiang [#]	–	–
5. Other public CFE Shareholders	1,744,400,000	42.7%
6. Subscriber [#]	–	–
Subtotal of public CFE Shareholders	1,873,400,000	45.9%
Total	4,078,571,430	100.0%

- # As at the Latest Practicable Date, members of the CIMC Concert Group (namely Top Gear, Sharp Vision, Genius Earn Limited, Lucky Rich, Fengqiang and the Subscriber) held an aggregate of 1,352,571,430 Shares, representing approximately 33.2% of the issued share capital of the Company.

LETTER FROM THE BOARD

- (b) The following table sets out the shareholding structure of the Company immediately after the Pteris Completion and the Subscription Completion, assuming (i) the TianDa Completion does not take place; (ii) none of the Convertible Bonds is converted; and (iii) none of the CFE Share Options is exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	10.0%
Sharp Vision [#]	6,326,428,570	51.8%
2. Jiang Xiong	981,600,000	8.0%
3. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ^{(1)#}	129,000,000	1.1%
Subtotal of non-public CFE Shareholders	8,660,600,000	70.9%
<i>Public CFE Shareholders</i>		
4. Fengqiang	1,143,679,470	9.3%
5. Other public CFE Shareholders	1,744,400,000	14.3%
6. Subscriber ^{(2)#}	673,225,000	5.5%
Subtotal of public CFE Shareholders	3,561,304,470	29.1%
Total	12,221,904,470	100.0%

Members of the CIMC Concert Group at the relevant time (namely Top Gear, Sharp Vision, Genius Earn Limited, Lucky Rich and the Subscriber) will hold an aggregate of 8,352,225,000 Shares, representing approximately 68.3% of the then issued share capital of the Company.

LETTER FROM THE BOARD

- (c) The following table sets out the shareholding structure of the Company immediately after the Pteris Completion, the TianDa Completion and the Subscription Completion, assuming: (i) none of the Convertible Bonds is converted; and (ii) none of the CFE Share Options is exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	10.0%
Sharp Vision [#]	4,664,472,279	38.2%
2. Jiang Xiong	981,600,000	8.0%
3. Fengqiang	1,790,956,291	14.7%
Subtotal of non-public CFE Shareholders	8,660,600,000	70.9%
<i>Public CFE Shareholders</i>		
4. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ⁽¹⁾	129,000,000	1.0%
Lucky Rich (or its nominees) ⁽¹⁾	1,014,679,470	8.3%
5. Other public CFE Shareholders	1,744,400,000	14.3%
6. Subscriber ^{(2)#}	673,225,000	5.5%
Subtotal of public CFE Shareholders	3,561,304,470	29.1%
Total	12,221,904,470	100.0%

Members of the CIMC Concert Group at the relevant time (namely Top Gear, Sharp Vision and the Subscriber) will hold an aggregate of 6,561,268,709 Shares, representing approximately 53.7% of the then issued share capital of the Company.

LETTER FROM THE BOARD

- (d) The following table sets out the shareholding structure of the Company immediately after the Pteris Completion and the Subscription Completion, assuming (i) the TianDa Completion does not take place; (ii) all of the Convertible Bonds have been fully converted; and (iii) none of the CFE Share Options have been exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	7.2%
Sharp Vision [#]	9,618,962,597	56.6%
2. Jiang Xiong	981,600,000	5.8%
3. Fengqiang	2,616,751,693	15.4%
4. Liu Xiaolin and his controlled corporations Genius Earn Limited ^{(1)#}	129,000,000	0.8%
Subtotal of non-public CFE Shareholders	14,569,885,720	85.8%
<i>Public CFE Shareholders</i>		
5. Other public CFE Shareholders	1,744,400,000	10.2%
6. Subscriber ^{(2)#}	673,225,000	4.0%
Subtotal of public CFE Shareholders	2,417,625,000	14.2%
Total	16,987,510,720	100.0%

Members of the CIMC Concert Group at the relevant time (namely Top Gear, Sharp Vision, Genius Earn Limited and the Subscriber) will hold an aggregate of 11,644,759,027 Shares, representing approximately 68.6% of the then issued share capital of the Company.

LETTER FROM THE BOARD

- (e) The following table sets out the shareholding structure of the Company immediately after the Pteris Completion, the TianDa Completion and the Subscription Completion, assuming: (i) all of the Convertible Bonds have been fully converted; and (ii) none of the CFE Share Options have been exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	6.4%
Sharp Vision [#]	9,618,962,597	50.7%
2. Jiang Xiong	981,600,000	5.2%
3. Fengqiang	2,616,751,693	13.8%
4. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ⁽¹⁾	129,000,000	0.7%
Lucky Rich (or its nominees) ⁽¹⁾	<u>1,962,563,770</u>	<u>10.4%</u>
Subtotal of non-public CFE Shareholders	<u>16,532,449,490</u>	<u>87.2%</u>
<i>Public CFE Shareholders</i>		
5. Other public CFE Shareholders	1,744,400,000	9.2%
6. Subscriber ^{(2)#}	<u>673,225,000</u>	<u>3.6%</u>
Subtotal of public CFE Shareholders	<u>2,417,625,000</u>	<u>12.8%</u>
Total	<u><u>18,950,074,490</u></u>	<u><u>100.0%</u></u>

Members of the CIMC Concert Group at the relevant time (namely Top Gear, Sharp Vision and the Subscriber) will hold an aggregate of 11,515,759,027 Shares, representing approximately 60.8% of the then issued share capital of the Company.

LETTER FROM THE BOARD

- (f) The following table sets out the shareholding structure of the Company immediately after the Pteris Completion and the Subscription Completion, assuming: (i) The TianDa Completion does not take place; (ii) all of the Convertible Bonds have been fully converted; and (ii) all of the CFE Share Options have been exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	7.1%
Sharp Vision [#]	9,618,962,597	56.2%
2. Jiang Xiong	985,600,000	5.8%
3. Fengqiang	2,616,751,693	15.3%
4. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ^{(1)#}	129,000,000	0.8%
Lucky Rich (or its nominees) ^{(1)#}	—	—
5. Directors of the Group (other than Jiang Xiong)	65,625,000	0.4%
Subtotal of non-public CFE Shareholders	14,639,510,720	85.6%
<i>Public CFE Shareholders</i>		
6. Other public CFE Shareholders	1,790,400,000	10.5%
7. Subscriber ^{(2)#}	673,225,000	3.9%
Subtotal of public CFE Shareholders	2,463,625,000	14.4%
Total	17,103,135,720	100.0%

[#] Members of the CIMC Concert Group at the relevant time (namely Top Gear, Sharp Vision, Genius Earn Limited and the Subscriber) will hold an aggregate of 11,644,759,027 Shares, representing approximately 68.1% of the then issued share capital of the Company.

LETTER FROM THE BOARD

- (g) The following table sets out the shareholding structure of the Company immediately after the Pteris Completion, the TianDa Completion and the Subscription Completion, assuming: (i) all of the Convertible Bonds have been fully converted; and (ii) all of the CFE Share Options have been exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	6.4%
Sharp Vision [#]	9,618,962,597	50.5%
2. Jiang Xiong	985,600,000	5.2%
3. Fengqiang	2,616,751,693	13.7%
4. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ⁽¹⁾	129,000,000	0.7%
Lucky Rich (or its nominees) ⁽¹⁾	1,962,563,770	10.3%
5. Directors of the Group (other than Jiang Xiong)	65,625,000	0.3%
Subtotal of non-public CFE Shareholders	16,602,074,490	87.1%
<i>Public CFE Shareholders</i>		
6. Other public CFE Shareholders	1,790,400,000	9.4%
7. Subscriber ^{(2)#}	673,225,000	3.5%
Subtotal of public CFE Shareholders	2,463,625,000	12.9%
Total	19,065,699,490	100.0%

Members of the CIMC Concert Group at the relevant time (namely Top Gear, Sharp Vision and the Subscriber) will hold an aggregate of 11,515,759,027 Shares, representing approximately 60.4% of the then issued share capital of the Company.

Notes:

- (1) As at the Latest Practicable Date, Mr. Liu Xiaolin holds the Shares through Genius Earn Limited, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Liu Xiaolin. Mr. Liu Xiaolin is also the sole shareholder of one of the two general partners of a limited partnership directly holding the entire issued share capital of Lucky Rich, which is in turn interested in 30% of the equity interest in TianDa as at the Latest Practicable Date. In the event that only the Pteris Completion takes place, TianDa will become a non-wholly owned subsidiary of the Company, and Mr. Liu Xiaolin (a substantial shareholder of TianDa) will become a core connected person of the Company (as defined under the Listing Rules). Accordingly, the Shares directly held by Genius Earn Limited (a close associate of Mr. Liu Xiaolin as defined under the Listing Rules) should not be counted towards the public float of the Company.
- (2) The Subscriber is presumed to be a party acting in concert with CIMC pursuant to the class (1) presumption under the Takeovers Code, as further explained in the section headed "Information on the Subscriber" below.

LETTER FROM THE BOARD

- (3) Scenarios (d), (e), (f) and (g) are based on the assumption that the Convertible Bonds have been fully converted. The public float requirement under the Listing Rules would not be complied with under such scenarios. According to the terms of the Convertible Bonds, the summary of which is set out in the sub-section headed “(2) Proposed Issuance of Convertible Bonds” above no conversion of the Convertible Bonds shall take place if immediately after such conversion, the public float of the Shares will fall below the minimum public float as stipulated under the Listing Rules or as required by the Stock Exchange. Therefore, scenarios (d), (e), (f) and (g) are for illustration purpose only.

Fund-Raising Activities by the Company in the Last 12 Months

The Company has not raised any funds by issuing equity securities during the 12 months immediately before the date of the Subscription Announcement.

Application for Listing

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares on the Stock Exchange.

Reasons for and Benefits of the Subscription

The Directors consider that the Subscription offers a good opportunity to raise additional funds to strengthen the financial position and facilitate the growth of the Enlarged Group. The Pteris Group will continue to consolidate its leadership position in domestic boarding bridges, ground support equipment, baggage handling systems, automated warehouses markets. At the same time, the Pteris Group will further expand the international market, and its resources will be especially concentrated in the U.S. market. According to Frost & Sullivan, the revenue in the global PBB market is forecast to reach approximately RMB3,332.0 million in 2021, realizing a CAGR of 5.5% from 2016 to 2021. For the GSE market, underpinned by growing upgrading and new deployment demand around the world, the global GSE market is expected to achieve 15.6% revenue growth in the coming five years from 2017 to 2021 as compared with the past five years. For the MHS market, it is forecast that the global MHS market is likely to maintain its steady revenue growth in the following five years from 2017 to 2021, reaching approximately US\$22.3 billion in 2021, representing a CAGR of 5.2%. The Directors believe that the additional funds to be raised from the Subscription could speed up the execution plan towards the Enlarged Group’s goal and help capture the growth of the market.

Furthermore, upon the Subscription Completion and upon conversion of the Conversion Bonds by the core connected persons of the Company (as defined in the Listing Rules) to a level permissible under Rule 8.08 of the Listing Rules, the finance charge and the liability component of the Convertible Bonds of the Enlarged Group can decrease.

The Directors consider that the Subscription Price and the terms of the Subscription Agreement are fair and reasonable and are in the interests of the Shareholders as a whole.

LETTER FROM THE BOARD

Use of Proceeds

The net proceeds from the Subscription are intended to be used in the following manner:

- (i) as to approximately RMB58.8 million to be used for the construction of a new PBB factory in the U.S.;
- (ii) as to approximately RMB58.8 million to be used for the expansion of the Pteris Group's PBB business into overseas markets such as the U.S., Canada, the Netherland and Dubai by, among other things, setting up services companies to upgrade aged passenger boarding bridges and providing general after-sale support services in the aforementioned regions;
- (iii) as to approximately RMB58.8 million to be used for research and development activities, including but not limited to those relating to visually intelligent docking guidance system for the PBB business, fully automated connection systems for the PBB and GSE business segments and automated guided vehicles for the MHS and APS business segments; and
- (iv) as to approximately RMB20.0 million to be used for replenishment of general working capital.

Information on the Subscriber

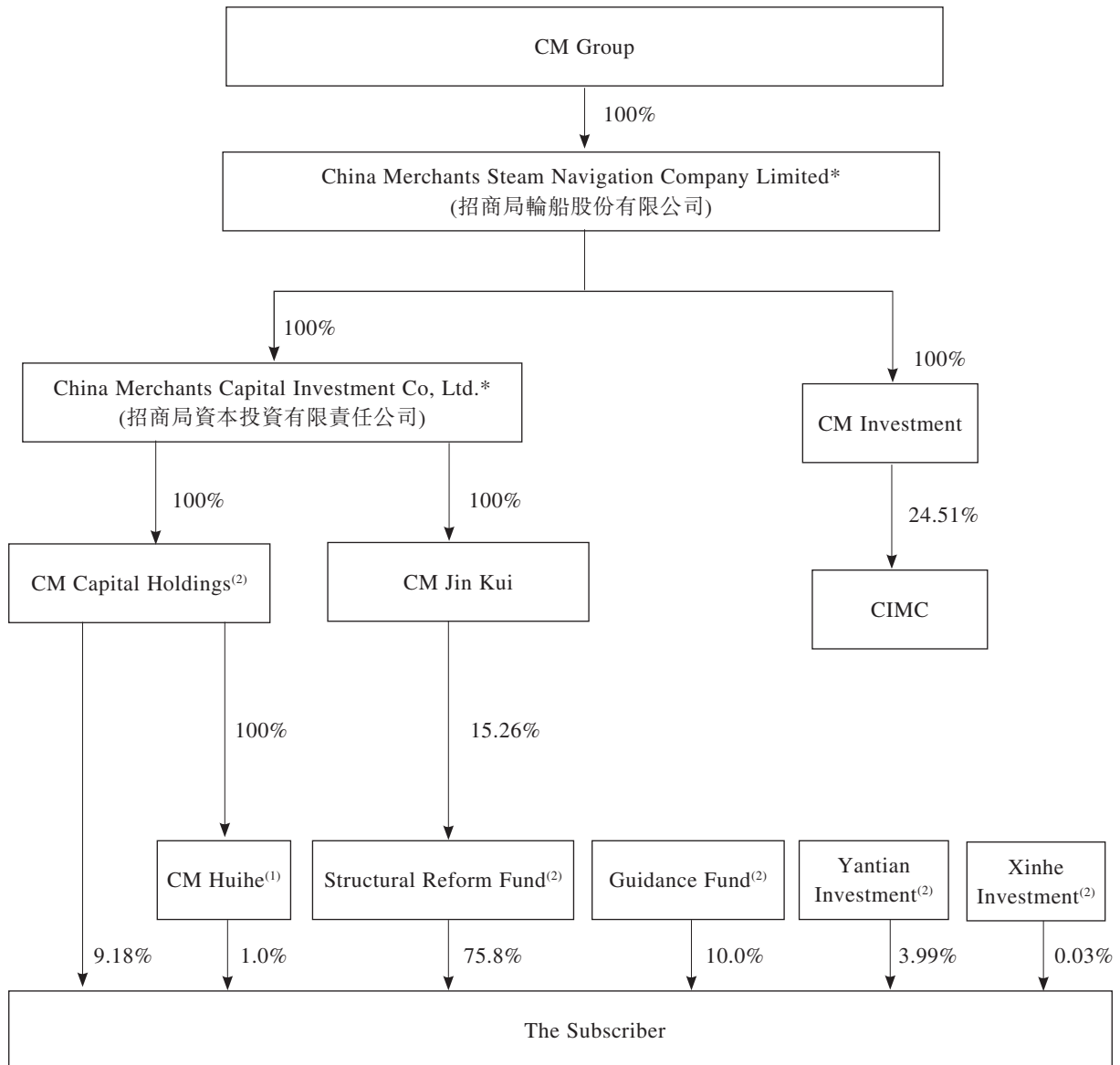
The Subscriber is a limited partnership established in the PRC, which focuses on mergers and acquisitions, restructuring, reform of state-owned enterprises in the field of cultural and entertainment, medical, logistic, financial, and environmental industry. As at the Latest Practicable Date, the Subscriber has assets under management of approximately RMB25 billion.

As at the Latest Practicable Date, the general partner of the Subscriber is CM Huihe which holds approximately 1.00% of the interest in the Subscriber. CM Capital Holdings, Guidance Fund, Structural Reform Fund, Yantian Investment and Xinhe Investment are limited partners of the Subscriber, which hold approximately 9.18%, 10.00%, 75.80%, 3.99% and 0.03%, respectively, of the limited partnership interest in the Subscriber. Each of CM Huihe, CM Capital Holdings and the Structural Reform Fund is indirectly owned by CM Group as to approximately 100%, 100% and 15.26%, respectively. CM Investment, an indirect wholly-owned subsidiary of CM Group, directly holds approximately 24.51% of the total issued share capital of CIMC and therefore, each of CM Group and CM Investment constitutes a substantial shareholder of CIMC (as defined in the Listing Rules).

The remaining three limited partners of the Subscriber (namely, Guidance Fund, Yantian Investment and Xinhe Investment) do not have any shareholding relationship with CM Group and are independent third parties of the Company.

LETTER FROM THE BOARD

The following chart sets forth the simplified shareholding relationship amongst the Subscriber, CIMC and the Company as at the Latest Practicable Date:



Notes:

- (1) CM Huihe is the general partner of the Subscriber.
- (2) Each of CM Capital Holdings, Guidance Fund, Structural Reform Fund, Yantian Investment and Xinhe Investment is a limited partner of the Subscriber.

Accordingly, the Subscriber is presumed to be a party acting in concert with CIMC pursuant to the class (1) presumption under the Takeovers Code. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save as disclosed above, the Subscriber and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

LETTER FROM THE BOARD

(5) The Proposed Conversion

As shown in table (4)(c) on page 58 of this circular, the CIMC Group will have an equity interest of 48.2% in the Company upon the Pteris Completion, the TianDa Completion and the Subscription Completion. In order for the CIMC Group to maintain an equity interest of more than 50% in the Company, Sharp Vision proposes to conduct the Proposed Conversion immediately or shortly after the Pteris Completion in accordance with the terms of the Convertible Bonds. Upon completion of the Proposed Conversion, the CIMC Group will have an equity interest of 53.8% in the Company. It is contemplated that the Proposed Conversion Shares will be issued to Sharp Vision at the same time as or shortly after the issue of the Subscription Shares in order to maintain the public float of the Company at not less than 25% in accordance with the requirements of the Listing Rules.

Effect on Shareholding Structure of the Company

- (a) The following table sets out the shareholding structure of the Company as at the Latest Practicable Date

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	30.0%
Sharp Vision [#]	–	–
2. Jiang Xiong	981,600,000	24.1%
Subtotal of non-public CFE Shareholders	2,205,171,430	54.1%
<i>Public CFE Shareholders</i>		
3. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ^{(1)#}	129,000,000	3.2%
Lucky Rich (or its nominees) ^{(1)#}	–	–
4. Fengqiang [#]	–	–
5. Other public CFE Shareholders	1,744,400,000	42.7%
6. Subscriber [#]	–	–
Subtotal of public CFE Shareholders	1,873,400,000	45.9%
Total	4,078,571,430	100.0%

[#] As at the Latest Practicable Date, members of the CIMC Concert Group (namely Top Gear, Sharp Vision, Genius Earn Limited, Lucky Rich, Fengqiang and the Subscriber) held an aggregate of 1,352,571,430 Shares, representing approximately 33.2% of the issued share capital of the Company.

LETTER FROM THE BOARD

- (b) The following table sets out the shareholding structure of the Company immediately after the Pteris Completion, the Proposed Conversion, the TianDa Completion and the Subscription Completion, assuming (i) none of the other Convertible Bonds is converted; and (ii) none of the CFE Share Options is exercised:

	Number of CFE Shares	Approximate %
<i>Non-Public CFE Shareholders</i>		
1. CIMC Group		
Top Gear [#]	1,223,571,430	8.9%
Sharp Vision [#]	6,164,472,279	44.9%
2. Jiang Xiong	981,600,000	7.2%
3. Fengqiang	1,790,956,291	13.1%
	10,160,600,000	74.0%
<i>Public CFE Shareholders</i>		
4. Liu Xiaolin and his controlled corporations		
Genius Earn Limited ⁽¹⁾	129,000,000	1.0%
Lucky Rich (or its nominees) ⁽¹⁾	1,014,679,470	7.4%
5. Other public CFE Shareholders	1,744,400,000	12.7%
6. Subscriber^{(2)#}	673,225,000	4.9%
	3,561,304,470	26.0%
Total	13,721,904,470	100.0%

Members of the CIMC Concert Group at the relevant time (namely Top Gear, Sharp Vision and the Subscriber) will hold an aggregate of 8,061,268,709 Shares, representing approximately 58.7% of the then issued share capital of the Company.

Notes:

- (1) As at the Latest Practicable Date, Mr. Liu Xiaolin holds the Shares through Genius Earn Limited, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Liu Xiaolin. Mr. Liu Xiaolin is also the sole shareholder of one of the two general partners of a limited partnership directly holding the entire issued share capital of Lucky Rich, which is in turn interested in 30% of the equity interest in TianDa as at the Latest Practicable Date. In the event that only the Pteris Completion takes place, TianDa will become a non-wholly owned subsidiary of the Company, and Mr. Liu Xiaolin (a substantial shareholder of TianDa) will become a core connected person of the Company (as defined under the Listing Rules). Accordingly, the Shares directly held by Genius Earn Limited (a close associate of Mr. Liu Xiaolin as defined under the Listing Rules) should not be counted towards the public float of the Company.
- (2) The Subscriber is presumed to be a party acting in concert with CIMC pursuant to the class (1) presumption under the Takeovers Code, as further explained in the section headed "Information on the Subscriber" below.

LETTER FROM THE BOARD

PART C: PROPOSED INCREASE IN AUTHORIZED CAPITAL OF CFE

The CFE Board proposes that amendments shall be made to the CFE Memorandum of Association to increase the authorized share capital of CFE to facilitate the issue of the Consideration Shares, the Conversion Shares and the Subscription Shares. The proposed increase in authorized capital of CFE is subject to the approval of the Independent CFE Shareholders by way of an ordinary resolution at the CFE EGM. For details of the proposed increase in authorized capital of CFE, please refer to section headed “2. Share Capital” in Appendix V to this circular.

PART D: IMPLICATIONS UNDER THE TAKEOVERS CODE AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, CIMC, through Top Gear (a wholly-owned subsidiary of CIMC), controls or is entitled to exercise control over the voting rights in respect of 1,223,571,430 CFE Shares, representing approximately 30% of the entire issued share capital of CFE. Further, as set out on pages 26, 52 and 65 of this circular, each of Fengqiang and Genius Earn is presumed to be acting in concert with CIMC before the Pteris Completion and TianDa Completion respectively and the Subscriber is presumed to be a party acting in concert with CIMC. As at the Latest Practicable Date, the CIMC Concert Group (through Top Gear and Genius Earn) controls or is entitled to exercise control over voting rights in respect of 1,352,571,430 CFE Shares, representing 33.2% of the entire issued share capital of CFE.

Assuming there is no other change in the issued share capital of CFE and none of the Convertible Bonds have been converted other than the Proposed Conversion (as the case may be),

- (i) immediately following the Pteris Completion (assuming the TianDa Completion, the Proposed Conversion and the Subscription Completion have not taken place), the aggregate shareholding of the CIMC Group (through Top Gear and Sharp Vision) and the CIMC Concert Group (through Top Gear, Sharp Vision and Genius Earn) will increase to approximately 65.4% and 66.5% of the then enlarged total issued share capital respectively;
- (ii) immediately following the Pteris Completion and TianDa Completion (assuming the Proposed Conversion and the Subscription Completion have not taken place), the aggregate shareholding of each of the CIMC Group and the CIMC Concert Group (both through Top Gear and Sharp Vision) will increase to approximately 51.0% of the then enlarged total issued share capital of CFE;
- (iii) immediately following the Pteris Completion and Subscription Completion (assuming the TianDa Completion and the Proposed Conversion have not taken place), the aggregate shareholding of the CIMC Group (through Top Gear and Sharp Vision) and the CIMC Concert Group (through Top Gear, Sharp Vision, Genius Earn and the Subscriber) will increase to approximately 61.8% and 68.3% of the then enlarged total issued share capital respectively;

LETTER FROM THE BOARD

- (iv) immediately following the Pteris Completion, TianDa Completion and Subscription Completion (assuming the Proposed Conversion has not taken place), the aggregate shareholding of the CIMC Group (through Top Gear and Sharp Vision) and the CIMC Concert Group (through Top Gear, Sharp Vision and the Subscriber) will increase to approximately 48.2% and 53.7% of the then enlarged total issued share capital of CFE respectively; and
- (v) immediately following the Pteris Completion, the TianDa Completion, the Proposed Conversion and the Subscription Completion, the aggregate shareholding of the CIMC Group (through Top Gear and Sharp Vision) and the CIMC Concert Group (through Top Gear, Sharp Vision and the Subscriber) will increase to approximately 53.8% and 58.7% of the then enlarged total issued share capital of CFE respectively.

Accordingly, pursuant to Rule 26.1 of the Takeovers Code, Sharp Vision will be required to make a mandatory general offer for all the issued CFE Shares and CFE Share Options not already owned or agreed to be acquired by the CIMC Concert Group, unless the Whitewash Waiver has been obtained from the Executive.

Completion of the Proposed Acquisitions is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent CFE Shareholders. An application has been made by CIMC (on behalf of Sharp Vision) to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted, will be subject to, among other things, the approval of the Independent CFE Shareholders taken by way of a poll at the CFE EGM. In the event that the Whitewash Waiver is not granted on or before 12:00 noon on the Long Stop Date, the Sale and Purchase Agreements will lapse and the Proposed Acquisitions will not proceed.

If the Whitewash Waiver is approved by the Independent CFE Shareholders, assuming there is no other change to the issued share capital of the Company, the CIMC Group's interest in the Company will exceed 50% (i) after the Pteris Completion (assuming the TianDa Completion has not taken place and whether or not the Subscription Completion has taken place) and (ii) after the Pteris Completion, the TianDa Completion, the Subscription Completion and the Proposed Conversion, and the CIMC Group may further increase its shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

As at the Latest Practicable Date:

- (a) save for the 1,223,571,430 CFE Shares held by Top Gear and the 129,000,000 CFE Shares held by Genius Earn Limited which is in turn wholly-owned by Liu Xiaolin, none of the members of the CIMC Concert Group holds, own, has control or direction over any voting rights, rights over shares, outstanding options, warrants, or any securities that are convertible into CFE Shares or any derivatives in respect of the securities of CFE, or hold any relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) in CFE;

LETTER FROM THE BOARD

- (b) other than the transactions contemplated under the Sale and Purchase Agreements, the Proposed Conversion and the Subscription Agreement, none of the members of the CIMC Concert Group has acquired or entered into any agreement or arrangement to acquire any voting rights in CFE during the Relevant Period;
- (c) none of the members of the CIMC Concert Group has received any irrevocable commitment to vote for and against the Proposed Acquisitions, the Sale and Purchase Agreements and the Whitewash Waiver;
- (d) none of the members of the CIMC Concert Group has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in CFE;
- (e) none of the members of the CIMC Concert Group has any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the CFE Shares or the shares of Sharp Vision or CIMC, which might be material to the Proposed Acquisitions, the Sale and Purchase Agreements and the Whitewash Waiver, with other persons; and
- (f) none of the members of the CIMC Concert Group has any agreement or arrangement to which it is a party which relates to the circumstances which it may or may not invoke or seek a pre-condition or a condition to the Proposed Acquisitions, the Sale and Purchase Agreements and the Whitewash Waiver.

Save for the transactions contemplated under the Sale and Purchase Agreements, the Proposed Conversion and the Subscription Agreement, (i) none of the members of the CIMC Concert Group has dealt for value in the CFE Shares within the Relevant Period; and (ii) the CIMC Concert Group has not and will not acquire or dispose of any voting rights of CFE after the date of the Joint Announcement until completion of the Proposed Acquisitions.

As at the Latest Practicable Date, each of CIMC and CFE does not believe that the Proposed Pteris Acquisition, the Subscription and the Proposed Conversion give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). CIMC and CFE note that the Executive may not grant the Whitewash Waiver if the Proposed Pteris Acquisition, the Subscription and the Proposed Conversion not comply with other applicable rules and regulations.

Save for the 115,625,000 CFE Share Options, CFE has no outstanding warrants, options or securities convertible into CFE Shares as at the Latest Practicable Date.

PART E: SPECIAL DEAL

Since the Proposed TianDa Acquisition is an arrangement made between CFE, a party acting in concert with CIMC, and Lucky Rich (which is wholly-owned by a limited partnership, one of the two general partners of which is solely owned by the ultimate beneficial owner of a CFE Shareholder) which is not capable of being extended to all CFE Shareholders, the Proposed TianDa Acquisition constitutes a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive. Such consent, if granted, will be subject to (i) the CFE Independent Financial Adviser publicly stating that in its opinion the terms of the Proposed TianDa Acquisition are fair and reasonable; and (ii) the approval of the Proposed TianDa Acquisition and the Special Deal by the Independent CFE Shareholders by way of poll at the CFE EGM.

LETTER FROM THE BOARD

PART F: PROPOSED CHANGE OF COMPANY NAME

The CFE Board proposes to change the name of the Company from “China Fire Safety Enterprise Group Limited” to “CIMC-TianDa Holdings Company Limited” and the Chinese name from 「中國消防企業集團有限公司」 to 「中集天達控股有限公司」, conditional upon the Pteris Completion.

The CFE Board believes that the new name of the Company provides a more accurate reflection of the Company’s corporate identity, its direction of future development and better reflect the relationship between the Company and CIMC, the indirect controlling shareholder of the Company. The CFE Board considers that the change of Company name is in the best interests of the Company and the CFE Shareholders as a whole.

The Proposed Change of Company Name will take effect from the date on which the new name is entered on the register by the Registrar of Companies in the Cayman Islands in place of the existing name. The Company will further carry out the necessary filing procedures with the Registrar of Companies in Hong Kong. Upon the Proposed Change of Company Name becoming effective, all existing share certificates in issue bearing the current name of “China Fire Safety Enterprise Group Limited (with the Chinese name 中國消防企業集團有限公司)” will continue to be evidence of title to shares of the Company and valid for trading, settlement and registration purposes and the rights of the CFE Shareholders will not be affected as a result of the change of Company name. Should the Proposed Change of Company Name become effective, any issue of share certificates thereafter will be in the new Company name and the securities of the Company will be traded on the Stock Exchange in the new name. There will not be any arrangement for the exchange of the existing share certificates for new shares certificates bearing the new Company name.

The Proposed Change of Company Name is subject to the passing of a special resolution by the CFE Shareholders at the EGM, the Pteris Completion and the approval of the Registrar of Companies in the Cayman Islands.

PART G: GENERAL

(1) CFE Independent Board Committee, CFE Whitewash Waiver Board Committee and CFE Independent Financial Adviser

The CFE Independent Board Committee comprising all the independent non-executive directors of CFE, namely, Dr. Loke Yu, Mr. Heng Ja Wei and Mr. Ho Man, has been formed pursuant to the requirements under the Listing Rules to advise the Independent CFE Shareholders on matters in relation to the Proposed Acquisitions, the Subscription Agreement and the Specific Mandate.

The CFE Whitewash Waiver Board Committee comprising all the non-executive directors and independent non-executive directors of CFE who have no direct or indirect interest in the Whitewash Waiver and the Special Deal, namely, Mr. Robert Johnson, Dr. Loke Yu, Mr. Heng Ja Wei and Mr. Ho Man, has been formed pursuant to the requirements under the Takeovers Code to advise the Independent CFE Shareholders on matters in relation to the Proposed Acquisitions, the Subscription, the Specific Mandate, the Whitewash Waiver, the Proposed Conversion and the Special Deal. Given that each of Dr. Li Yin Hui and Mr. Yu Yu Qun is a non-executive director of CFE nominated by CIMC, they have not been included in the CFE Whitewash Waiver Board Committee.

LETTER FROM THE BOARD

The CFE Independent Financial Adviser has been appointed by CFE pursuant to the requirements under the Listing Rules and the Takeovers Code to advise the CFE Independent Board Committee, the CFE Whitewash Waiver Board Committee and the Independent CFE Shareholders on matters in relation to the Proposed Acquisitions, the Subscription, the Specific Mandate, the Whitewash Waiver, the Proposed Conversion and the Special Deal.

(2) CFE EGM

The CFE EGM will be convened to consider and, if thought fit, approve (i) the Proposed Acquisitions; (ii) the Specific Mandate; (iii) the proposed increase in the authorized capital of CFE; (iv) the Whitewash Waiver; (v) the Special Deal; (vi) Proposed Change of Company Name; (vii) the Proposed Conversion; and (viii) the entering into of the Subscription Agreement and the transactions contemplated thereunder.

The notice of CFE EGM is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the CFE EGM is enclosed. Whether or not you propose to attend the CFE EGM, you are requested to complete the form of proxy and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting at the CFE EGM if you so wish.

The CIMC Concert Group (including Top Gear and Genius Earn Limited) and the CFE Shareholders who are involved in or interested in the Proposed Acquisitions, the proposed increase in authorized capital of CFE, the Proposed Conversion, the Subscription, the Specific Mandate, the Whitewash Waiver and/or the Special Deal will be required to abstain from voting on the resolutions to be proposed at the CFE EGM in relation to the Proposed Acquisitions, the proposed increase in authorized capital of CFE, the Proposed Conversion, the Subscription, the Specific Mandate, the Whitewash Waiver and/or the Special Deal. Save for Top Gear (an indirect non-wholly owned subsidiary of CIMC) and Genius Earn Limited (a company wholly-owned by Mr. Liu Xiaolin) which holds 1,223,571,430 CFE Shares and 129,000,000 CFE Shares, representing 30% and 3.2%, respectively, of the issued share capital of CFE as at the Latest Practicable Date, no other CFE Shareholder has a material interest in or involved in the Proposed Acquisitions, the proposed increase in authorized capital of CFE, the Proposed Change of Company Name, the Subscription, the Specific Mandate, the Whitewash Waiver or the Special Deal and therefore no other CFE Shareholder is required to abstain from voting on resolutions in relation to the abovementioned matters at the CFE EGM.

The Proposed Acquisitions and the Subscription are conditional upon the relevant conditions precedent being fulfilled (or waived, as the case may be) and may or may not proceed. In particular, the Executive may or may not grant the Whitewash Waiver. If the Whitewash Waiver is not granted by the Executive or is not approved by the Independent CFE Shareholders by way of poll, the Sale and Purchase Agreements will lapse and the Proposed Acquisitions and the Subscription will not proceed. Accordingly, the CFE Shareholders and prospective investors are reminded to exercise caution when trading in the securities of CFE.

LETTER FROM THE BOARD

PART H: RECOMMENDATIONS

Your attention is drawn to the letter from the CFE Independent Board Committee set out on pages 74 to 75 of this circular, the letter from the CFE Whitewash Waiver Board Committee on page 76 of this circular and the letter of advice from the Independent Financial Adviser to the Independent Board Committee, the CFE Independent Whitewash Waiver Board Committee and the Independent CFE Shareholders set out on pages 77 to 147 of this circular in connection with the Proposed Acquisitions, the Proposed Conversion, the Subscription, the Specific Mandate, the Whitewash Waiver, the Special Deal and the principal factors and reasons considered by the CFE Independent Financial Adviser in arriving at such advice.

The CFE Board recommends the Independent CFE Shareholders to vote in favour of the resolutions to approve the Proposed Acquisitions, the Proposed Conversion, the Subscription, the Specific Mandate, the Whitewash Waiver, the Special Deal, the Proposed Change of Company Name and the proposed increase in authorized capital of CFE at the EGM.

Yours faithfully,
By Order of the Board
China Fire Safety Enterprise Group Limited
Li Yin Hui
Chairman