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China Fire Safety Enterprise Group Holdings Limited

中國消防企業集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8201)

**PROPOSED ISSUE OF SHARES TO PROPOSED STRATEGIC
INVESTOR, OPTION AGREEMENT BETWEEN PROPOSED
STRATEGIC INVESTOR AND A CONTROLLING SHAREHOLDER,
APPLICATION FOR THE GRANT OF THE WHITEWASH WAIVER,
CONNECTED TRANSACTION
AND
RESUMPTION OF TRADING**

** For identification purpose only*

The Board wishes to announce that on 1 February 2005 the Company has entered into the Subscription Agreement with UTFE, and Mr. Jiang has entered into the Option Agreement with UTFE.

By virtue of the arrangements contemplated under the Option Agreement and the Subscription Agreement, UTFE, Mr. Jiang and Mr. Jiang's brother, Mr. Jiang Qing are parties acting in concert (within the meaning of the Takeovers Code). As at the date of this announcement, Mr. Jiang and Mr. Jiang Qing are interested in an aggregate of 989,100,000 Shares, representing approximately 48.96% of the issued share capital of the Company. Upon completion of the First Tranche Subscription, UTFE, Mr. Jiang and Mr. Jiang Qing will be interested in an aggregate of 1,345,100,000 Shares, representing approximately 56.61% of the issued share capital of the Company as enlarged by the issue of the new Shares under the First Tranche Subscription.

Under Rule 26 of the Takeovers Code, in the absence of the Whitewash Waiver, either or both of UTFE and Mr. Jiang would be obliged to make a mandatory general offer to acquire all the Shares other than those already owned by itself or himself (as the case maybe) and parties acting in concert with it or him upon completion of the First Tranche Subscription.

An application will be made by either or both of UTFE and Mr. Jiang to the Executive for the Whitewash Waiver. If the Whitewash Waiver is not obtained, the Subscription Agreement and the Option Agreement will lapse.

By virtue of the entry into of the Option Agreement between Mr. Jiang and UTFE, UTFE is considered to be a deemed connected person of the Company under Rule 20.11(4)(a) of the GEM Listing Rules with respect to the Proposed Share Subscription. Therefore, the Proposed Transaction constitute a connected transaction of the Company.

An independent Board committee will be established to advise the Independent Shareholders in relation to the Proposed Transaction. An independent financial adviser will be appointed to advise the independent Board committee and the Independent Shareholders. An announcement will be made as soon as the independent financial adviser is appointed.

At the request of the Company, trading in Shares on GEM was suspended with effect from 9:35 a.m. on 17 January 2005, pending release of this announcement. Application has been made by the Company for the resumption of trading in the Shares with effect from 9:30 a.m. on 3 February 2005.

A circular containing further details of the Proposed Transaction will be despatched to the shareholders of the Company as soon as practicable.

The announcement appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities in the Company.

Shareholders and investors should note that subject to the First Tranche Conditions, the Second Tranche Conditions and the conditions to the Option Agreement being fulfilled or waived (as the case may be), completion of the Subscription Agreement and the Option Agreement may or may not proceed. Shareholders and investors are advised to exercise caution when dealing with the Shares.

THE SUBSCRIPTION AGREEMENT

Subscription of new Shares

The Board wishes to announce that the Company has on 1 February 2005 entered into an agreement (the **Subscription Agreement**) with UTFE (which cancels and supersedes the agreement entered into on 27 January 2005), under which, *inter alia*:

- (1) UTFE agrees to subscribe for, and the Company agrees to issue:
 - (i) on the seventh business day after all First Tranche Conditions (as defined below) are fulfilled or waived (as the case may be) in accordance with the Subscription Agreement, such number of new Shares, as represents approximately 15% of the issued share capital of the Company as enlarged by the issue of the new Shares under the First Tranche Subscription, at a subscription price of HK\$0.577 per new Share (**First Tranche Subscription**); and
 - (ii) subject to the Second Tranche Conditions (as defined below) being fulfilled or waived (as the case may be) in accordance with the Subscription Agreement, on the earlier of (a) the seventh business day after a Second Tranche Completion Notice (as defined in the section headed "Completion of Second Tranche Subscription" below) has been served by the Company and (b) the first anniversary of the First Tranche Completion Date (as defined below), such number of new Shares as represents approximately 16.49% of the issued share capital of the Company as enlarged by the issue of the new Shares under the Proposed Share Subscription, at a subscription price of HK\$0.577 per new Share (**Second Tranche Subscription**),

the First Tranche Subscription and Second Tranche Subscription shall be collectively known as the **Proposed Share Subscription**.

On the basis that there is no alteration in the Company's issued share capital other than the Proposed Share Subscription, it is assumed, for illustration purpose in this announcement, that:

- (i) 356,000,000 new Shares are to be issued under the First Tranche Subscription; and
 - (ii) 469,000,000 new Shares are to be issued under the Second Tranche Subscription.
- (2) The subscription price for the First Tranche Subscription and the Second Tranche Subscription was negotiated and agreed between the parties on an arm's length basis and with reference to the average closing prices of the Shares for 5, 10 and 20 trading days prior to and including 13 January 2005 (being the last full trading day before the suspension of trading of the Shares on GEM), which represents a discount of approximately 2.53 %, 1.37% and 0.69% respectively. As at 13 January 2005, the subscription price represents a discount of 6.94 % to the closing price of HK\$0.62.
 - (3) The total consideration for the First Tranche Subscription will be approximately HK\$205,412,000 (assuming 356,000,000 new Shares are to be issued and there is no alteration in the Company's issued share capital other than for the purpose of the Proposed Share Subscription) and will be satisfied by UTFE in cash. The total consideration for the Second Tranche Subscription will be approximately HK\$270,613,000 (assuming 469,000,000 new Shares are to be issued and there is no alteration in the Company's issued share capital other than for the purpose of the Proposed Share Subscription) and will be satisfied by UTFE in cash.

- (4) The new Shares issued under the Proposed Share Subscription, when fully paid, will rank equally in all respects with the existing Shares of the Company. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal, in the new Shares.
- (5) Based on the assumption that 356,000,000 new Shares are to be issued under the First Tranche Subscription and 469,000,000 new Shares are to be issued under the Second Tranche Subscription, the net proceeds of HK\$476,025,000 from the Proposed Share Subscription will be used by the Company for business development, including the development of central fire monitoring stations in the PRC and/or investing and carrying out acquisitions in connection with the core business of the Group. As at the date of this announcement, the Company has not made any firm decision on the projects in which it will invest or acquire using the proceeds of the Proposed Subscription.
- (6) On or after the completion of the First Tranche Subscription, UTFE is entitled to nominate up to two persons as non-executive Directors. UTFE is also entitled under the Subscription Agreement to appoint up to two persons (who may also be the non-executive directors) to any committee of the Board, one person as deputy general manager of the Company and one other person as financial analyst of the Company.

First Tranche Subscription

Conditions precedent

The First Tranche Subscription is conditional upon, *inter alia*:

- (a) the granting of the waiver by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations of either or both of UTFE and Mr. Jiang to make a mandatory general offer for all the issued shares in the capital of the Company which would be triggered upon the issuance of new Shares under the First Tranche Subscription and (if relevant) upon the issuance of new Shares under the Second Tranche Subscription (the **Whitewash Waiver**);
- (b) the Shares remaining listed and traded on the Stock Exchange at all times from the date of the Subscription Agreement to the First Tranche Completion Date, save for any agreed temporary suspensions and no indication being received on or before the First Tranche Completion Date from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange will or may be withdrawn or objected to (or conditions will or may be attached thereto) as a result of First Tranche Completion or in connection with the terms of the Subscription Agreement;
- (c) listing of and permission to deal in all of the new Shares to be issued under the Proposed Share Subscription being granted by the GEM Listing Committee of the Stock Exchange;
- (d) passing of the appropriate resolutions by the shareholders of the Company, other than shareholders abstaining from voting as may be required by law, the GEM Listing Rules, the Takeovers Code, the Stock Exchange and/or the SFC, in connection with the Proposed Transaction at the Extraordinary General Meeting;

- (e) the granting of any other waivers, consents, authorisations, clearances and approvals which are required from the shareholders of the Company, the Stock Exchange and/or the SFC, which are necessary for the completion of the First Tranche Subscription and the implementation of the other matters contemplated under the Subscription Agreement and the Option Agreement;
- (f) the entering into by UTFE and Mr. Jiang of the Option Agreement,

collectively, the **First Tranche Conditions**.

The First Tranche Condition referred to in sub-paragraph (a) above may not be waived by UTFE. If the Whitewash Waiver is not obtained on or before 31 March 2005 (or such later date as the Company and UTFE may agree) (the **First Tranche Long Stop Date**), the obligations of the parties under the Subscription Agreement shall forthwith cease. Therefore, the Option Agreement shall lapse. If the Whitewash Waiver is granted by the Executive and with the fulfilment or waiver (as the case may be) of all other First Tranche Conditions, UTFE shall subscribe for such number of new Shares under the First Tranche Subscription as will enable it to exercise or control the exercise of approximately 15% of the voting rights at general meetings of the Company.

Second Tranche Subscription

Conditions precedent

The Second Tranche Subscription is conditional upon, *inter alia*:

- (a) the grant of the listing of and permission to deal in all of the new Shares to be issued under the Proposed Share Subscription by the GEM Listing Committee of the Stock Exchange continuing to be in full force and effect as at the Second Tranche Completion;
- (b) the Whitewash Waiver given by the Executive as referred to in sub-paragraph (a) of the First Tranche Conditions above, remaining valid and not having been withdrawn, terminated, lapsed or otherwise invalidated, or materially modified;
- (c) the granting of any other waivers, consents, authorisations, clearances and approvals which are required from the shareholders of the Company, the Stock Exchange and/or the SFC, which are necessary for the completion of the First Tranche Subscription and the implementation of the other matters contemplated under the Subscription Agreement and the Option Agreement;
- (d) the Company having developed its central fire monitoring stations in the PRC and the delivery of such documents or evidence to UTFE as UTFE may require, reporting on the development progress of the central fire monitoring stations in the PRC and UTFE being reasonably satisfied with such development progress;
- (e) the Company having complied with the Company's Undertakings (as defined below);
- (f) the First Tranche Completion having occurred;

- (g) the cash balance of the Group as at the last day of the month immediately preceding the Second Tranche Completion Date (the **Reference Date**) shall be not more than the equivalent of US\$25 million or such other amount as UTFE may agree;
- (h) the net asset value of the Group as at the Reference Date as shown in the management accounts of the Group for the month ended on the Reference Date shall not be less than the equivalent of US\$60 million;
- (i) no material adverse change in the business, financial, economic or legal position of the Group or the business prospects of the Group has occurred since the First Tranche Completion Date.

collectively, the **Second Tranche Conditions**.

The Second Tranche Condition referred to in sub-paragraph (b) above may not be waived by UTFE. If such Second Tranche Condition is not fulfilled on or before the Second Tranche Long Stop Date, the obligations of the parties under the Subscription Agreement shall forthwith cease.

Completion of First Tranche Subscription

Completion of the First Tranche Subscription will take place on the seventh business day after the date upon which the last of the First Tranche Conditions to be satisfied under the Subscription Agreement has been fulfilled or waived, or such later date as the parties may agree in writing (the **First Tranche Completion Date**). If the First Tranche Conditions are not fulfilled or, as the case may be, waived, on or before the First Tranche Long Stop Date, the Subscription Agreement will cease to have effect and no party thereto shall be bound to carry out its obligations thereunder (except for certain provisions which shall continue to remain in force including provisions on notices, governing law and submission to jurisdiction).

Completion of Second Tranche Subscription

Completion of the Second Tranche Subscription will take place on the earlier of (a) the seventh business day after a notice (the “Second Tranche Completion Notice”) has, subject to and following fulfilment or waiver (as the case may be) of all of the Second Tranche Conditions, been served by the Company on UTFE during the period commencing from the date falling six months after the First Tranche Completion Date and ending on the Second Tranche Long Stop Date (as defined below), requiring UTFE to proceed with the completion of the Second Tranche Subscription; and (b) the first anniversary of the First Tranche Completion Date provided that the Second Tranche Conditions have been fulfilled or waived (as the case may be) in accordance with the Subscription Agreement. If the Second Tranche Conditions are not fulfilled or, as the case may be, waived, on or before the seventh business day immediately prior to (and not including) the first anniversary of the First Tranche Completion Date, or such other date as the parties may agree in writing (the **Second Tranche Long Stop Date**), the obligation to subscribe for new Shares under the Second Tranche Subscription will cease to have effect (without prejudice to any other rights UTFE may have under the Subscription Agreement).

If the Company extend or agrees to extend the First Tranche Long Stop Date or the Second Tranche Long Stop Date, it shall issue an announcement explaining the reasons for doing so. The Company will not unreasonably extend or agree to

extend the First Tranche Long Stop Date or the Second Tranche Long Stop Date.

Undertakings by the Company:

The Company undertakes with UTFE that at any time subsequent to the execution of the Subscription Agreement and prior to the Second Tranche Completion (which shall take place by the first anniversary of the First Tranche Completion Date, unless otherwise agreed between the parties), except with the prior written consent of UTFE:

- (a) the business of the Group will be carried on in the ordinary and normal course;
- (b) no Shares shall be issued or repurchased by the Company; no other alteration will be made to the authorized or issued share capital of any member of the Group; no Reorganisation shall be carried out; and no member of the Group shall grant any options or rights in respect of, or create, enter into, issue or grant any securities or other instruments or rights convertible into or exchangeable for, all or any part of its share capital, save as otherwise excluded in the Subscription Agreement;
- (c) no proposal for the winding up or liquidation of any member of the Group will be made;
- (d) no member of the Group will carry on or enter into any agreement or arrangement to carry on, whether directly or indirectly, any business, or acquire or agree to acquire any business, other than the core business of the Group.

If completion of the First Tranche Subscription does not take place, the above undertakings by the Company will cease to have effect.

If the Second Tranche Conditions are not fulfilled or, as the case may be, waived, on or before the Second Tranche Long Stop Date, the obligation to subscribe for new Shares under the Second Tranche Subscription will cease to have effect and the above undertakings will also cease to have effect.

The Company also undertakes with UTFE that the Company shall:

- (a) at all times subsequent to the execution of this Agreement use the proceeds from the First Tranche Subscription and the Second Tranche Subscription for the purposes of:
 - (i) developing the central fire monitoring stations in the PRC and the Company shall submit to UTFE reports in relation to the progress in the development of the central fire monitoring stations of the Company in the PRC; and/or
 - (ii) investing and carrying out acquisitions in connection with the core business;
- (b) up to the earlier of the completion of the exercise of the Option or lapse of the Option pursuant to the Option Agreement, ensure that the Company will not alter its core business;

- (c) take out, at its own expense, directors and officers liability insurance in respect of the two non-executive directors to be nominated by UTFE to the Board,

the above undertakings by the Company with UTFE shall be collectively known as **Company's Undertakings**.

Assuming there is no alteration of the issued share capital of the Company other for the purpose of issuing and allotting new Shares under the Proposed Share Subscription, UTFE will be interested in 825,000,000 Shares, representing approximately 29.0% of the issued share capital of the Company as enlarged by the issue of the new Shares upon completion of the Proposed Share Subscription.

OPTION AGREEMENT

The Company has also been advised by Mr. Jiang, who owns approximately 48.59% of the Company's issued ordinary shares, that on 1 February 2005, Mr. Jiang and UTFE entered into an agreement (the **Option Agreement**), which cancels and supersedes the agreement entered into between the parties on 27 January 2005. The Company has been provided with a copy of the executed Option Agreement from Mr. Jiang and understands that the Option Agreement provides that, *inter alia*:

- (1) In consideration of UTFE paying him a nominal sum of HK\$1.00, Mr. Jiang agrees to grant an option (the **Option**) to UTFE which when exercised by UTFE would require Mr. Jiang to sell to UTFE the option shares (the **Option Shares**) being the lower of (i) such number of Shares as are required to be sold by Mr. Jiang to UTFE to enable UTFE to beneficially hold, in addition to any other Shares held by UTFE at the relevant time, in aggregate, 51% of voting rights of the Company immediately following the completion of the exercise of the Option; and (ii) all of the Shares then held by Mr. Jiang at the time of service by UTFE of the notice to exercise the Option (the **Option Notice**) at the option exercise price (**Option Exercise Price**).
- (2) **Option Exercise Price**

The Option Exercise Price shall be calculated as follows:

The total consideration payable by UTFE for the Option Shares shall be the amount equal to the Option Exercise Price multiplied by the number of Option Shares.

Subject to the terms and adjustments provided under the Option Agreement, if the Option Notice is served within one month following the date of preliminary announcement of the audited consolidated final annual results of the Company, the Option Exercise Price is based on the following formula:

$$\frac{(8.5 \times \text{Audited 1-Year Adjusted EBIT}) - \text{Audited Adjusted Net Debt}}{\text{Reference Shares}}$$

where:

Audited 1-Year Adjusted EBIT refers to the consolidated profit before taxation and financial expenses (excluding minority interests before taxation and financial expenses and income arising from disposal of properties, businesses and land use rights) of the Group for the financial year ended on the date which is the financial year-end date of the Company immediately preceding the date of the Option Notice, determined based on the audited consolidated final annual results of the Company for that financial year;

Audited Adjusted Net Debt means the amount of net debt (as defined in the Option Agreement), as at the financial year-end date of the Company immediately preceding the date of the Option Notice, determined based on the audited consolidated final annual results of the Company for that financial year, after adjustment (if any) as provided for in the Option Agreement;

Reference Shares means the total number of issued Shares as at the date of the Option Notice.

Upon the occurrence of certain events specified under the Option Agreement including an event of force majeure, Mr. Jiang shall be entitled, within three months after the occurrence of the event, to serve a notice to UTFE of the occurrence of such event. The purpose of such notice is to replace the Audited 1-year Adjusted EBIT with the Audited 2-year Adjusted EBIT (as defined below) for the purpose of the Option Exercise Price calculation formula. Such notice may only be served on one occasion. As from the date of service of the said notice and for the remainder of the Option Exercise Period (as defined below), the Option Exercise Price shall be calculated on the Audited 2-Year Adjusted EBIT using the above formula.

where:

Audited 2-Year Adjusted EBIT means the average of the consolidated profit before taxation and financial expenses (excluding minority interests before taxation and financial expenses and income arising from disposal of properties, businesses and land use rights) of the Group for the two financial years ended on the date which is the financial year-end date of the Company immediately preceding the date of the Option Notice, determined based on the audited consolidated final annual results of the Company for those two financial years;

In any case, if the Option Notice is served otherwise than in the one-month period following the date of preliminary announcement of the audited consolidated final annual results of the Company, the Option Exercise Price shall be calculated based on the management accounts of the Company, applying a formula similar to those stated above.

(3) **Option Exercise Period**

The Option may be exercisable at any time during the period (the **Option Exercise Period**) commencing from (and including) the third anniversary of the First Tranche Completion Date and ending on and including the eighth anniversary of the First Tranche Completion Date. The Option may be exercised by UTFE (i) in respect of all, but not part only, of the Option Shares and (ii) on one occasion only. The Company will issue an announcement if and when the Option is exercised.

(4) **Lapse of the Option**

The Option shall lapse on the first occurrence of:

- (i) the completion of the sale and purchase of the Option Shares between Mr. Jiang and UTFE;
- (ii) the expiry of the Option Exercise Period;
- (iii) the disposal of any Shares by UTFE prior to completion of the Second Tranche Subscription or, following the completion of the Second Tranche Subscription, the disposal by UTFE of Shares representing an aggregate of more than 5% of the issued share capital of the Company (except, in each case, for (a) disposal of Shares by UTFE to United Technologies Corporation or any of its subsidiaries (collectively, the **UTC Group**) which has total net assets of not less than HK\$500 million or its equivalent; and (b) disposal of Shares by UTFE following a material breach by Mr. Jiang of any of his material obligations under the Option Agreement or following a material breach by the Company of any of its material obligations under the Subscription Agreement);
- (iv) the Second Tranche Completion does not take place by the first anniversary of the First Tranche Completion Date due to the material default of UTFE and where there is no material default on the part of the Company (under the Subscription Agreement) or Mr. Jiang (under the Option Agreement);
- (v) a material breach by UTFE of any of its material obligations under the Option Agreement; or
- (vi) upon the becoming unconditional, and closing, of a general offer in respect of the Shares made by UTFE to the shareholders of the Company, but only if Mr. Jiang accepts such general offer in respect of all of the Shares held by him.

(5) **Conditional agreement**

The Option Agreement is conditional upon the completion of the First Tranche Subscription taking place and following the granting of the Whitewash Waiver.

(6) **Lock-up of Shares**

From the date of the Option Agreement until the earlier of the date for completion of the sale and purchase of the Option Shares or the lapse of the Option, Mr. Jiang shall not (save as otherwise contemplated under the Option Agreement) sell, transfer, pledge, charge, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, such number of Shares held by him legally or beneficially as would result

in his holding less than the higher of:

- (i) 22% of the issued share capital of the Company as at the date of the Option Notice, or all the Shares held by him at such date, whichever is lower; and
- (ii) the aggregate number of Shares legally or beneficially held by UTFE at the relevant time.

(7) **Undertakings**

Each of Mr. Jiang and UTFE undertakes to the other that, among other things:

- (a) until the earlier of the Completion or the lapse of the Option, except where permitted under the Option Agreement, he or it shall not, and shall procure any parties acting in concert with him or it (within the meaning of the Takeovers Code) not to, acquire or agree or offer to acquire any Shares, or any options or rights in respect of or any securities or other instruments or rights convertible into or exchangeable for any Shares, without the prior written consent of the other party, save and except, but subject to paragraph (8) below, any Shares which may be issued and allotted to Mr. Jiang Qing pursuant to the exercise by Mr. Jiang Qing of any of his outstanding share options as at the date of the Option Agreement which were granted to him in his capacity as an employee by the Company under the Company's employee share option scheme existing as at the date of the Option Agreement;
- (b) he or it will each in his or its capacity as a shareholder of the Company ensure that, except with the prior written consent of both Parties, each member of the Group shall fully observe and comply with the restrictions set out in the Company's Undertakings until the agreed period stipulated in the Option Agreement;
- (c) solely in his or its capacity as a shareholder of the Company, he or it will each ensure that, if the Company proposes to raise any equity capital funding, UTFE shall have the right of first refusal to provide a pro rata share (based on UTFE's shareholding at the relevant time) of such equity capital funding, or to provide or procure an alternative form of funding mutually acceptable to the Company and UTFE.

In relation to the above, the Company will comply with the requirements of the GEM Listing Rules for such fund raising exercise and any such transaction with UTFE.

(8) **Mr. Jiang Qing's outstanding share options**

Mr. Jiang also undertakes to UTFE that he will procure that Mr. Jiang Qing, being the his brother, shall not exercise any of his outstanding share options (for up to 20,000,000 Shares) (**Mr. Jiang Qing's Entitlement**) as at the date of the Option Agreement which were granted to him by the Company under the Company's employee share option scheme, if the exercise of such options would constitute or result in a disqualifying transaction (within the meaning of the Takeovers Code) in respect of the Whitewash Waiver.

(9) **Right of first refusal in respect of balance shares after Option exercise**

In addition, Mr. Jiang also agrees and undertakes with UTFE to first make an offer to sell any of the Shares held by him to UTFE prior to transfer or disposal of (or agreeing to transfer or disposal of) all or any part of the Shares or any interest therein to a bona fide third party after the date of completion of the sale and purchase of the Option Shares.

(10) **UTFE has no control**

UTFE will not have any control or influence over the exercise of the voting rights or have the benefit of any other rights attached to the Option Shares until the sale and purchase of the Option Shares are completed in accordance with the Option Agreement.

(11) **UTFE's entitlement to make a voluntary general offer**

UTFE shall be entitled, at any time after the third anniversary of the First Tranche Completion Date, to make a voluntary general offer under the Takeovers Code in respect of the Shares of the Company, provided that UTFE shall extend any such offer to Mr. Jiang and parties acting in concert with him within the meaning of the Takeovers Code in respect of all the Shares then held by them, at the same price and on the same terms as the aforesaid voluntary general offer.

(12) **Parties' intention for Mr. Jiang to enter into a service agreement**

Under the Option Agreement, it is acknowledged between the parties that it is their intention that at or shortly after the completion of the sale and purchase of the Option Shares, Mr. Jiang will enter into an agreement with the Company, under which Mr. Jiang will be appointed by, and will provide services to, the Company as the Company's chairman (or a senior executive position to be agreed), on such terms as the Company, Mr. Jiang and UTFE may agree.

(13) **Limitations on assignment or transfer**

Neither Mr. Jiang nor UTFE shall be entitled to assign or transfer any of its rights, benefits or obligations under the Option Agreement except that UTFE may assign or transfer such rights, benefits or obligations to any other member of the UTC Group which has total net assets of not less than HK\$500 million or its equivalent.

So far as the Company is aware, any matter arising from the Option Agreement which directly involves the Company, the Company shall comply with the requirements of the GEM Listing Rules, in particular, requirements relating to connected transaction.

SHAREHOLDING STRUCTURE

Upon completion of the Proposed Share Subscription and the sale and purchase of the Option Shares, and assuming no other change to the existing share capital structure of the Company, UTFE will hold approximately 51% of the issued share capital as enlarged by the issue of the new Shares under the Proposed Share Subscription. As at the date of this announcement, there are an aggregate of 30,000,000 Shares which may be issued pursuant to exercise of the outstanding share options granted by the Company under its existing share option scheme. On a fully diluted basis, assuming all outstanding share options (including Mr. Jiang Qing's

Entitlement) issued pursuant to the Company's share option scheme prior to the completion of the Proposed Share Subscription had been exercised, and assuming no other change to the existing share capital structure of the Company, UTFE will then hold approximately 50.47% of the enlarged issued share capital of the Company. Upon completion of the Proposed Share Subscription and the sale and purchase of the Option Shares, and assuming no other change to the existing share capital structure of the Company, Mr. Jiang will no longer be the single largest shareholder of the Company, and will then be interested in 12.5 % of the enlarged issued share capital.

The following table sets out the shareholding structure of the Company before and after the completion of the First Tranche Subscription, Second Tranche Subscription and the sale and purchase of the Option Shares:

Shareholders	Before completion of First Tranche Subscription, Second Tranche Subscription and sale and purchase of the Option Shares		Upon completion of First Tranche Subscription (but before completion of Second Tranche Subscription and sale and purchase of the Option Shares)(Note 4)		Upon completion of First Tranche Subscription and Second Tranche Subscription (but before completion of sale and purchase of the Option Shares)(Note 4)		Upon completion of First Tranche Subscription, Second Tranche Subscription and sale and purchase of the Option Shares (Note 4)	
	Shares	Percentage (%)	Shares	Percentage (%)	Shares	Percentage (%)	Shares	Percentage (%)
Mr. Jiang Xiong	981,600,000	48.59	981,600,000	41.31	981,600,000	34.5	355,650,000	12.5
Mr. Jiang Qing (Note 1)	7,500,000	0.37	7,500,000	0.32	7,500,000	0.26	7,500,000	0.26
UTFE	-	-	356,000,000	14.98	825,000,000	29.00	1,450,950,000	51
<i>Sub-total (Note 2)</i>	<i>989,100,000</i>	<i>48.96</i>	<i>1,345,100,000</i>	<i>56.61</i>	<i>1,814,100,000</i>	<i>63.76</i>	<i>1,814,100,000</i>	<i>63.76</i>
Cantus Limited (Note 3)	182,650,000	9.04	182,650,000	7.69	182,650,000	6.42	182,650,000	6.42
Public	848,250,000	42.0	848,250,000	35.70	848,250,000	29.82	848,250,000	29.82
	2,020,000,000	100%	2,376,000,000	100%	2,845,000,000	100%	2,845,000,000	100%

Notes:

- (1) Mr. Jiang Qing is the brother of Mr. Jiang Xiong.
- (2) The sub-total number of shares and shareholdings of Mr. Jiang, Mr. Jiang Qing and UTFE.
- (3) Cantus Limited is ultimately owned by SAS Rue La Boetie, a company incorporated in France.
- (4) This is based on the assumption that there is no further increase or other change in the issued share capital of the Company other than the new Shares issued pursuant to the First Tranche Subscription and the Second Tranche Subscription.

Immediately before the signing of the Option Agreement, Mr. Jiang and Mr. Jiang Qing are parties acting in concert under the Takeovers Code. Taken together, Mr. Jiang and Mr. Jiang Qing control 48.96% of the voting rights attached to the Shares.

Upon completion of the First Tranche Subscription (but before completion of the Second Tranche Subscription and the sale and purchase of the Option Shares), Mr. Jiang, Mr. Jiang Qing and, pursuant to the Option Agreement, UTFE are parties acting in concert. Taken together, Mr. Jiang, Mr. Jiang Qing and UTFE control 56.61% of the voting rights attached to the Shares.

Upon completion of the First Tranche Subscription and the Second Tranche Subscription (but before completion of the sale and purchase of the Option Shares), Mr. Jiang, Mr. Jiang Qing and UTFE, taken together, control 63.76% of the voting rights attached to the Shares.

Upon completion of the First Tranche Subscription, the Second Tranche Subscription and the sale and purchase of the Option Shares, Mr. Jiang, Mr. Jiang Qing and UTFE, taken together, control 63.76% of the voting rights attached to the Shares. Upon completion of the sale and purchase of the Option Shares, Mr. Jiang will no longer be the single largest shareholder and UTFE will be the new single largest shareholder of the Company.

All of the above information assumes no change in the issued share capital of the Company other than through the First Tranche Subscription and the Second Tranche Subscription.

INFORMATION ON UTFE

UTFE is a company incorporated in Hong Kong. It is an investment holding company wholly-owned through various entities by United Technologies Corporation (UTC). UTC is listed on the New York Stock Exchange. In 2003 it generated revenues of US\$31 billion. UTC is a global corporation with a long history of pioneering innovation in jet engines, helicopter design, climate control, elevator design and hydrogen fuel cells. UTC's products include Carrier heating and cooling (HVAC), Chubb fire and security systems and products, Hamilton Sundstrand aerospace systems and industrial products, Otis elevators and escalators, Pratt & Whitney aircraft engines, Sikorsky helicopters and UTC Power fuel cells. UTC has an increasingly strong presence in Asia. Otis for example has been in China since 1984 and now is a partner in over 6 joint ventures.

In July 2003, Chubb plc was acquired by UTC and became a business unit of UTC. Chubb, is a global organization which provides a wide range of security and fire protection products and services including electronic security and monitoring, fire detection and suppression, and security personnel and rapid response.

REASONS FOR THE PROPOSED SHARE SUBSCRIPTION

The Group is a total solution provider of fire prevention and fighting systems in the PRC, specialising in system design, development, manufacturing, sales, installation and maintenance of fire prevention and fighting systems and equipment (including fire engines) and other businesses related to the fire safety industry, in the PRC. Besides the traditional systems, it has expanded into the establishment and operation of remote automatic monitoring center of fire prevention and fighting system (消防遠程自動網絡監控中心). The Group is also engaged in the distribution and sale of fire engines and fire fighting and rescue tools in the PRC, Hong Kong, Macau and Taiwan.

As a leading provider of security and fire protection services to businesses and industry worldwide, Chubb, a business unit of UTC, the parent company of UTFE, has considerable experience and technology in the fire safety industry. UTFE's involvement with the Company will assist the Company considerably with its strategic planning and expansion in the fire safety industry in mainland China. For example, the central fire monitoring stations which the Group has been devoted to develop in the mainland China in which Chubb has extensive experience rolling out. The Company believes that the application of such system is a trend for development of the fire safety industry in the PRC.

The Group will be well-placed to capitalise on its existing position in the China fire safety market with input from and leverage gained from the involvement of a well-respected international group which is prominent in the fire safety industry worldwide. The Company believes that China's continuing development over the coming years will give rise to growing demand for increasingly sophisticated and high quality fire safety systems and solutions which the Group, with support from a major international company in the fire safety industry, will be uniquely placed to supply. With the additional funding, the Company will continue to seek to identify acquisition targets in the fire safety industry in China and will be in a position to maximise benefits from acquisitions by ensuring that it is in a position to offer innovative solutions for fire safety issues involving the latest technologies.

Based on the foregoing, the Directors, other than the independent non-executive Directors whose views will be subject to the advice of the independent financial adviser, consider that the Proposed Transaction and its terms are fair and reasonable and are in the interests of the Company.

CONNECTED TRANSACTION

Except for the reason set out below, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, UTFE and UTC are Independent Third Parties to the Company.

By virtue of the entry into of the Option Agreement between Mr. Jiang and UTFE, UTFE is considered to be a deemed connected person of the Company under Rule 20.11(4)(a) of the GEM Listing Rules with respect to the Proposed Share Subscription. Therefore, the Proposed Transaction constitute a connected transaction of the Company.

TAKEOVERS CODE IMPLICATIONS FOR UTFE AND MR. JIANG

By virtue of the arrangements contemplated under the Option Agreement and the Subscription Agreement, UTFE, Mr. Jiang and Mr. Jiang's brother, Mr. Jiang Qing are parties acting in concert (within the meaning of the Takeovers Code). As at the date of this announcement, Mr. Jiang and Mr. Jiang Qing are interested in an aggregate of 989,100,000 Shares, representing approximately 48.96% of the issued share capital of the Company. Upon completion of the First Tranche Subscription, UTFE, Mr. Jiang and Mr. Jiang Qing will be interested in an aggregate of 1,345,100,000 Shares, representing approximately 56.61% of the issued share capital of the Company as enlarged by the issue of the new Shares under the First Tranche Subscription.

Under Rule 26 of the Takeovers Code, in the absence of the Whitewash Waiver, either or both of UTFE and Mr. Jiang would be obliged to make a mandatory general offer to acquire all the Shares other than those already owned by itself or himself (as the case may be) and parties acting in concert with it or him upon completion of the First Tranche Subscription.

An application will be made by either or both of UTFE and Mr. Jiang to the Executive for the Whitewash Waiver which, if granted, would normally be subject to the approval of the Independent Shareholders. The Executive may or may not grant the Whitewash Waiver. Completion of the First Tranche Subscription is conditional upon, inter alia, the granting of the Whitewash Waiver by the Executive. If the Whitewash Waiver is not obtained, the Subscription Agreement and the Option Agreement will lapse.

Neither UTFE, Mr. Jiang nor Mr. Jiang Qing had acquired existing Shares during the six-month period prior to the date of this announcement.

UTFE has undertaken to the Executive that in the event that it exercises the Option and acquires Shares from Mr. Jiang pursuant thereto, it will at the time of such acquisition make a general offer for the Shares in compliance with the Takeovers Code on the basis that a general offer was triggered by such acquisition, regardless of whether the mandatory general offer obligation under the Takeovers Code is actually triggered by such acquisition.

CONDITIONAL DECLARATION OF SPECIAL INTERIM DIVIDEND

The board of directors of the Company has resolved that subject to the completion of the First Tranche Subscription, a special interim dividend of HK\$0.046 per Share be declared to the shareholders of the Company whose names appear on the register of members of the Company on 21 March 2005. The special interim dividend will be made from the Company's existing distributable reserves.

The register of members of the Company will be closed from 22 March 2005, Tuesday to 24 March 2005, Thursday (both dates inclusive), during which period no transfer of Shares will be effected.

If completion of the First Tranche Subscription does not take place, the special interim dividend will not be paid. In order to qualify for the special interim dividend in the event the declaration becomes unconditional, transfers of Shares accompanied by the relevant share certificate(s) must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor Hopewell Centre, 183, Queen's Road East, Hong Kong not later than 4:00 p.m. on 21 March 2005.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in Shares on GEM was suspended with effect from 9:35 a.m. on 17 January 2005, pending release of this announcement. Application has been made by the Company for the resumption of trading in the Shares with effect from 9:30 a.m. on 3 February 2005.

GENERAL

No change of principal activities of the Group

The Directors do not intend to change the principal activities of the Group following the completion of the First Tranche Subscription, the Second Tranche Subscription and sale and purchase of the Option Shares.

Composition of the Board

Pursuant to the Subscription Agreement, UTFE can nominate up to two persons as non-executive Directors on or after the completion of the First Tranche Subscription. A further announcement will be made upon the appointment of the said non-executive Directors. There is no provision under the Subscription Agreement for nomination by UTFE of additional Directors upon completion of the Second Tranche Subscription.

As at the date of this announcement, the Company's executive Directors are Mr. Jiang Xiong, Mr. Jiang Qing, Mr. Chen Shu Quan and Mr. Chan Siu Tat; the non-executive Directors are Mr. Richard Owen Pyvis and Ms. Josephine Price; and the independent non-executive Directors are Mr. Liu Shi Pu, Mr. Heng Kwo Seng and Mr. Xiang Yu Fu.

Independent Board Committee and appointment of independent financial adviser

The Proposed Transaction require the approval of Independent Shareholders. Mr. Jiang and his associates will be required to abstain from voting on the resolutions approving the Proposed Transaction. An independent Board committee will be established to advise the Independent Shareholders in relation to the Proposed Transaction. An independent financial adviser will be appointed to advise the independent Board committee and the Independent Shareholders.

Despatch of circular

A circular containing further details of the Proposed Transaction in accordance with the Takeovers Code will be despatched to the Shareholders as soon as practicable.

The announcement appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

The Company will apply to the Stock Exchange for the listing of and permission to deal in the new Shares to be issued under the Proposed Share Subscription.

DEFINITIONS

“associate”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Company”	China Fire Safety Enterprise Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on GEM of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Executive”	the executive directors of the Corporate Finance Division of the SFC from time to time and any delegate of such executive director
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong

“Independent Shareholders”	means holders of Shares who are not involved in or interested in the Proposed Transactions (being shareholders other than Mr. Jiang and UTFE and their respective concert parties (as defined under the Takeovers Code) and associates)
“Independent Third Party(ies)”	independent third party(ies), who is/are not connected with the Company and its connected person (as defined in the GEM Listing Rules) and is not a connected person
“Mr. Jiang”	Mr. Jiang Xiong, a controlling shareholder of the Company, an executive Director and chairman of the Board
“PRC”	the People’s Republic of China
“Proposed Share Subscription”	the First Tranche Subscription and the Second Tranche Subscription
“Proposed Transaction”	the transactions contemplated under the Subscription Agreement and the Option Agreement
“Reorganisation”	means any issue by way of capitalization of profits or reserves or by way of rights and any consolidation, substitution, combination exchange or sub-division or reduction of capital or capital dividend or other reconstruction, recapitalisation, reorganization, reclassification or adjustment relating to the equity share capital of the Company and any other amalgamation, consolidation, merger, binding share exchange or transfer consolidation or sale of assets or reconstruction affecting the equity share capital of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission
“Shares”	the ordinary shares of HK\$0.01 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“US\$”	United States dollar, the lawful currency of the United States of America
“UTFE”	United Technologies Far East Limited, a company incorporated under the laws of Hong Kong
“%”	per cent.

By order of the Board
China Fire Safety Enterprise Group Holdings Limited
Li Ching Wah
Company Secretary

Hong Kong, 2 February 2005

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for at least 7 days from the date of its posting.