THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Fire Safety Enterprise Group Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

CFE

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)

CONNECTED TRANSACTION

PROPOSED ISSUE OF NEW SHARES

OPTION AGREEMENT BETWEEN SUBSCRIBER AND CONTROLLING SHAREHOLDER AND APPLICATION FOR WHITEWASH WAIVER BY SUBSCRIBER AND CONTROLLING SHAREHOLDER

Joint independent financial advisers to the independent board committee of China Fire Safety Enterprise Group Holdings Limited

VINCO 域高

Grand Vinco Capital Limited

KINGSTON CORPORATE FINANCE LIMITED

A letter from the board of directors of China Fire Safety Enterprise Group Holdings Limited is set out on pages 10 to 29 of this document. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) in connection with Proposed Transaction (as defined herein) is set out on page 30 of this document. A letter from the Joint Independent Financial Advisers (as defined herein) to the Independent Board Committee and Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the Proposed Transaction is set out on pages 31 to 50 of this document.

A notice convening the EGM (as defined herein) to be held on 29 March, 2005 are set out on pages 91 to 93 of this document. Whether or not you are able to attend the EGM, you are strongly urged to complete and sign the enclosed form of proxy, in accordance with the instructions printed thereon, and to lodge them with the branch share registrar of China Fire Safety Enterprise Group Holdings Limited in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor Hopewell Centre, 183, Queen's Road East, Hong Kong, as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM of China Fire Safety Enterprise Group Holdings Limited or any adjourned meeting should you so wish.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting.

* *for identification purpose only*

10 March, 2005

CHARACTERISTICS OF GEM

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

CONTENTS

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

"Adjusted EBIT"	in relation to the Option Agreement, with respect to a particular financial period, the consolidated profit before taxation and financial expenses of the relevant company or group of companies, which shall: (i) exclude minority interests before taxation and financial expenses; and (ii) exclude income arising from disposal of real properties, businesses and land use rights for that period
"Audited 1-Year Adjusted EBIT"	in relation to the Option Agreement, the Adjusted EBIT 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 2-Year Adjusted EBIT"	in relation to the Option Agreement, the average of the Adjusted EBIT 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
"Audited Adjusted Net Debt"	in relation to the Option Agreement, the amount of Net Debt, 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 appendix of the Options Agreement
"associate"	has the meaning ascribed to it under the GEM Listing Rules

"Announcement"	the announcement dated 2 February, 2005 issued by the Company containing, *inter alia*, details of the Proposed Share Subscription, the Option Agreement and the proposed application for the Whitewash Waiver
"Board"	the board of Directors
"Business Day"	a day on which licensed banks in Hong Kong are required to be and are generally open for business (other than any Saturday, Sunday or gazetted public holiday in Hong Kong)
"Company"	China Fire Safety Enterprise Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on GEM
"Company's Undertakings"	the undertakings by the Company with UTFE as set out in the section headed "Undertakings by the Company" of this circular
"Concert Parties"	has the meaning ascribed to the term "persons acting in concert" under the Takeovers Code
"Director(s)"	the director(s) of the Company
"EBIT Deterioration Event"	in relation to the Option Agreement, the situation where, for a period of three consecutive calendar months: (i) on at least two of such calendar months, the Monthly Adjusted EBIT is less than 50% of the Monthly Adjusted EBIT for the same months in the immediately preceding calendar year; and (ii) the Quarterly Adjusted EBIT for such three-month period, is less than 50% of the Quarterly Adjusted EBIT for the same period in the immediately preceding calendar year
"EBIT Deterioration Period"	the three month period during which the EBIT Deterioration Event occurs

"Executive"	the executive directors of the Corporate Finance Division of the SFC from time to time and any delegate of such executive director
"EGM"	the extraordinary general meeting of the Company to be held to consider and, if thought fit, approve, among other things, the transactions contemplated under the Subscription Agreement and the Option Agreement including the Whitewash Waiver and the issue and allotment of the new Shares under the Proposed Share Subscription
"First Tranche Completion"	the completion of the issue and allotment of the new Shares under the First Tranche Subscription by the Company to UTFE in accordance to the terms and conditions of the Subscription Agreement
"First Tranche Completion Date"	the seventh Business Day after all 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
"First Tranche Conditions"	the conditions precedent specified in the paragraph headed "Conditions precedent" under the section headed "First Tranche Subscription" in this circular
"First Tranche Long Stop Date"	31 March, 2005 (or such later date as the Company and UTFE may agree)
"First Tranche Subscription"	the subscription by UTFE for the such number of new Shares, as represents approximately 15% of the issued share capital of the Company as enlarged by the issue of new Shares under the First Tranche Subscription

"Force Majeure Event"	in relation to the Option Agreement, any event or series of events, matters or circumstances occurring or having effect on the PRC, Hong Kong, Taiwan and/or Macau and concerning or relating to the following circumstances acts of government, strikes, locks outs, fire explosion, severe flooding, civil commotion, acts of war, acts of God, terrorism or outbreak of contagious diseases such as Severe Acute Respiratory Syndrome, or any event(s) of similar nature, which event must have occurred or commenced within the four months immediately prior to the commencement of the EBIT Deterioration Period
"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
"HK$"	Hong Kong Dollar, the lawful currency of Hong Kong
"Independent Board Committee"	an independent board committee of the Board comprising Mr. Liu Shi Pu, Mr. Heng Kwoo Seng and Mr. Xiang Yu Fu appointed to advise the Independent Shareholders in respect of the Proposed Transaction
"Independent Shareholders"	means holders of Shares who are not involved in or interested in the Proposed Transactions (being shareholders other than Mr. Jiang, Mr. Jiang Qing and UTFE and their respective Concert Parties and associates)
"Independent Third Party(ies)"	independent third party(ies), who is/are not connected with the Company and its connected persons (as defined in the GEM Listing Rules), and is not a connected person

"Joint Independent Financial Advisers"	Grand Vinco Capital Limited, a corporation licensed to carry out types 1 and 6 regulated activities under the SFO, and Kingston Corporate Finance Limited, a corporation licensed to carry out type 6 regulated activities under the SFO, the joint independent financial advisers to the Independent Board Committee and Independent Shareholders
"Latest Practicable Date"	8 March, 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Monthly Adjusted EBIT"	in relation to the Option Agreement, for the relevant month, the Adjusted EBIT of the Group for that month, as reflected in the monthly management accounts of the Company for that period
"Net Debt"	in relation to the Option Agreement, as at the relevant reference date, the amount of long-term borrowing plus short-term borrowing (which, for the avoidance of doubt, excludes bills payable), minus the cash and cash equivalent, of the Group to be determined in accordance with Hong Kong generally accepted accounting principles
"Mr. Jiang"	Mr. Jiang Xiong, the controlling shareholder of the Company, an executive Director and chairman of the Board
"Option"	the option granted by Mr. Jiang to UTFE to purchase the Option Shares
"Option Agreement"	the conditional option agreement dated 1 February, 2005 and entered into between the Mr. Jiang and UTFE
"Option Exercise Period"	the period referred to in the paragraph headed "Option Exercise Period" under the section headed "Option Agreement" in this circular
"Option Exercise Price"	the price to be paid for each Option Share calculated in accordance to the mechanism set out in the paragraph headed "Option Exercise Price" under the section headed "Option Agreement" in this circular

"Option Notice"	the notice in writing served by UTFE on Mr. Jiang to exercise the Option
"Option Shares"	the lower of (a) 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 the voting rights of the Company immediately following completion of the exercise of the Option under the Option Agreement; and (b) all of the shares held by Mr. Jiang at the time of service by UTFE of the Option Notice
"Quarterly Adjusted EBIT"	in relation to the Option Agreement, for a relevant period of three consecutive calendar months, the consolidated Adjusted EBIT of the Group for that period as reflected in the management accounts of the Company for that period
"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 including the Whitewash Waiver and the issue and allotment of new Shares under the Proposed Share Subscription
"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

"Second Tranche Completion"	the completion of the issue and allotment of the new Shares under the Second Tranche Subscription by the Company to UTFE in accordance to the terms and conditions of the Subscription Agreement
"Second Tranche Completion Date"	the earlier of (a) the seventh Business Day after the date of service of the Second Tranche Completion Notice and (b) the first anniversary of the First Tranche Completion Date
"Second Tranche Completion Notice"	the notice in writing served by UTFE on the Company to require the Second Tranche Completion to proceed
"Second Tranche Conditions"	the conditions precedent specified in the paragraph headed "Conditions precedent" under the section headed "Second Tranche Subscription" in this circular
"Second Tranche Long Stop Date"	the seventh Business Day immediately prior to (and not including) the first anniversary of the First Tranche Completion Date (or such later date as the Company and UTFE may agree)
"Second Tranche Subscription"	the subscription by UTFE for the Second Tranche Subscription Shares pursuant to and in accordance with the terms of the Subscription Agreement
"Second Tranche Subscription Shares"	the lower of: (a) such number of new Shares to be subscribed for in cash by UTFE pursuant to and in accordance with the Subscription Agreement as will, together with any Shares already held by UTFE as at the Second Tranche Completion, enable UTFE to hold approximately 29% (but in any event less than 30%) of the voting rights at general meetings of the Company immediately after the Second Tranche Completion; and

	(b) such number of new Shares (rounded down to the nearest whole number), the total subscription consideration for which, when aggregate with the consideration for the First Tranche Subscription, will be equal to HK$476,025,000
"SFC"	the Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shares"	the ordinary shares of HK$0.01 each in the capital of the Company
"Shareholders"	registered holders of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Subscription Agreement"	the conditional subscription agreement dated 1 February, 2005 and entered into between the Company and UTFE in relation to the Proposed Share Subscription
"US$"	United States dollar, the lawful currency of the United States of America
"USA"	United States of America
"UTC"	United Technologies Corporation, a corporation organized under the laws of the State of Delaware, USA, the shares of which are listed on The New York Stock Exchange
"UTC Group"	the group of companies comprising United Technologies Corporation and its subsidiaries
"UTFE"	United Technologies Far East Limited, a company incorporated under the laws of Hong Kong, and wholly-owned by UTC through various entities

"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations either or both of UTFE or Mr. Jiang (together with parties acting in concert with any of them) to make a general mandatory offer for all the issued Shares (other than those already owned by them) which would be triggered upon the issuance of Shares under the First Tranche Subscription and (if relevant) upon the issuance of Shares under the Second Tranche Subscription
"%"	per cent.

For the purpose of this Circular, unless otherwise specified, conversions of Renminbi and United States dollars are based on the approximate exchange rates of RMB1.06 to HK$1.00 and US$1.00 to HK$7.80 respectively.

CHINA FIRE SAFETY ENTERPRISE GROUP HOLDINGS LIMITED
中國消防企業集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 8201)

Executive Directors:
Jiang Xiong *(Chairman)*
Jiang Qing
Chen Shu Quan
Chan Siu Tat

Non-executive Directors:
Richard Owen Pyvis
Josephine Price

Independent non-executive Directors:
Liu Shi Pu
Heng Kwoo Seng
Xiang Yu Fu

Registered Office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

Head office and principal place of business in PRC:
8th Floor
Gaojing Trade Centre
No.158 Wu Yi Bei Road
Fuzhou City
Fujian Province, PRC.

Principal place of business in Hong Kong:
Suite 907, 9th Floor
ICBC Tower
3 Garden Road
Hong Kong

10 March 2005

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION

PROPOSED ISSUE OF NEW SHARES

OPTION AGREEMENT BETWEEN SUBSCRIBER AND CONTROLLING SHAREHOLDER

AND

APPLICATION FOR WHITEWASH WAIVER BY SUBSCRIBER AND CONTROLLING SHAREHOLDER

INTRODUCTION

On 2 February, 2005, the Company announced that it has entered into the Subscription Agreement with UTFE, and Mr. Jiang has entered into the Option Agreement with UTFE.

* *for identification purpose only*

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 Concert Parties. As at the Latest Practicable Date, 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.

By virtue of the entry into 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 constitutes a connected transaction of the Company.

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 securities of the Company other than those already owned by itself or himself (as the case may be) and its or his Concert Parties upon completion of the First Tranche Subscription.

An application has been made jointly by UTFE and Mr. Jiang to the Executive for the Whitewash Waiver subject to the approval of the Independent Shareholders on a vote by way of poll at the EGM. The Executive may or may not grant the Whitewash Waiver. If the Whitewash Waiver is not obtained, the Subscription Agreement and the Option Agreement will lapse.

In view of UTFE's and Mr. Jiang's interests in the Proposed Transaction, UTFE and Mr. Jiang and their respective Concert Parties together with their respective associates and any other Shareholders who are interested or involved in the Proposed Transaction will abstain from voting at the EGM in respect of the Proposed Transaction.

Mr. Jiang is an executive Director and the chairman of the Company. As he is a party to the Option Agreement and an applicant for the Whitewash Waiver, he is considered to be interested or involved in the Proposed Transaction and is not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders in respect of the Proposed Transaction. Mr. Jiang Qing is an executive Director and he is also the brother of Mr. Jiang. As such, he is a Concert Party with Mr. Jiang and considered interested in the Proposed Transaction and is not considered sufficiently independent under the Takeovers Code for purpose of advising the Independent Shareholders in respect of the Proposed Transaction. Mr. Chen Shu Quan and Mr. Chan Siu Tat have been employees of the Company in the past eight years and three years respectively and accordingly, they are not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders in respect of the Proposed Transaction. Ms. Josephine Price and Mr. Richard Pyvis are both non-executive Directors of the Company and are also directors of CLSA Private Equity Management Limited, a company which is indirectly interested in 6.57% of the total issued share capital of the Company (details of which are set out in paragraph 4(a) of appendix II to this circular) and accordingly, they are not considered to be sufficiently independent under the Takeovers Code. As such, the Independent Board Committee comprising of Mr. Liu Shi Pu, Mr. Heng Kwoo Seng, Mr. Xiang Yu Fu, all whom are independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Proposed Transaction. The Joint Independent Financial Advisers have been appointed as the joint independent financial advisers to advise the Independent Board Committee and the Independent Shareholders on whether approving the Proposed Transaction is in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned.

The purpose of this circular is (i) to provide you with, among other things, further details relating to the Proposed Transaction; (ii) to set out the letter of recommendation from the Independent Board Committee and the advice of the Joint Independent Financial Advisers in relation to the Proposed Transaction; and (iii) to give you notice of the EGM at which resolutions approving the Proposed Transaction will be sought.

THE SUBSCRIPTION AGREEMENT

Subscription of new Shares

On 1 February, 2005, the Company entered into the Subscription Agreement with UTFE 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 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; and

(ii) subject to the Second Tranche Conditions 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 has been served by the Company and (b) the first anniversary of the First Tranche Completion Date, 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.

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 circular, 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 together with all rights attaching thereto on and after the date of their allotment including all dividends declared or payable or distributions made or proposed to be made at any time by reference to a record date falling on or after the date of allotment. Application has been 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 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. Further announcement will be made by the Company when the Company appoints the non-executive Directors.

First Tranche Subscription

Conditions precedent

The First Tranche Subscription is conditional upon:

(a) the granting of the Whitewash Waiver by the Executive pursuant to the Takeovers Code;

(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 temporary suspension(s) not exceeding three trading days in aggregate, or any public announcement by the Company in relation to a transaction(s) to which UTFE has given its consent, 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 (either unconditionally, or subject to conditions which are acceptable to UTFE in its reasonable opinion);

(d) passing of the appropriate resolutions by the Independent Shareholders in connection with the Proposed Transaction at the EGM;

(e) the granting of any other waivers, consents, authorisations, clearances and approvals which are required from the Shareholders, 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 warranties provided by the Company under the Subscription Agreement remaining true and accurate in all material respects, and not misleading in any material respect, as given on the date of the Subscription Agreement and at the First Tranche Completion Date;

(g) the Company having complied fully with its obligations under the Company's Undertakings (as defined below) and having performed all of the covenants and agreements required to be performed by it under the Subscription Agreement on or prior to the First Tranche Completion Date save and except any non-compliance arising due to the sole default of UTFE or any member of the UTC Group;

(h) the entering into by UTFE and Mr. Jiang of the Option Agreement;

(i) the receipt by UTFE of the relevant approval in relation to the First Tranche Subscription and the Second Tranche Subscription and the entering into the Option Agreement pursuant to its internal approval requirements; and

(j) where required, UTFE having received clearance in terms satisfactory to it from the relevant anti-trust or anti-competition or any other similar authorities in Europe, the United States of America and any other relevant jurisdictions in respect of the transactions contemplated by the Subscription Agreement and the documents referred to therein.

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 the First Tranche Long Stop Date, the obligations of the parties under the Subscription Agreement shall forthwith cease to have effect. Therefore, the Option Agreement and consequently, the Proposed Transaction, shall lapse. If the Whitewash Waiver is granted by the Executive and upon 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.

The voting by Independent Shareholders on the proposed resolution to approve the Whitewash Waiver shall be conducted by way of a poll. The Proposed Transaction constitutes a connected transaction under the GEM Listing Rules and is subject to Independent Shareholders' vote by way of a poll.

Second Tranche Subscription

Conditions precedent

The Second Tranche Subscription is conditional upon:

(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 (either unconditionally, or subject to conditions which are acceptable to UTFE in its reasonable opinion) 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, the Stock Exchange and/or the SFC, which are necessary for the completion of the Second Tranche Subscription;

(d) the warranties provided by the Company under the Subscription Agreement remaining true and accurate in all material respects, and not misleading in any material respect, as given at the Second Tranche Completion Date save and except for any breach of warranty arising from a matter in respect of which UTFE had given its consent;

(e) the Company having complied with the Company's Undertakings and having performed all of the covenants and agreements required to be performed by it under the Subscription Agreement on or prior to the Second Tranche Completion Date save and except any non-compliance arising due to the sole default of UTFE or any other member of the UTC Group;

(f) 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;

(g) the First Tranche Completion having occurred;

(h) 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;

(i) 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;

(j) 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; and

(k) where required, UTFE having received clearance in terms satisfactory to it from the relevant anti-trust or anti-competition or any other similar authorities in Europe, the United States of America and any other relevant jurisdictions in respect of the transactions contemplated by the Subscription Agreement and the documents referred to therein.

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 in respect of the Second Tranche Subscription under the Subscription Agreement shall forthwith cease. The Option Agreement shall not lapse if the Second Tranche Conditions are not fulfilled or, as the case may be, waived.

Completion of First Tranche Subscription

Completion of the First Tranche Subscription will take place on the First Tranche Completion Date. If any of 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 Second Tranche Completion Date. If any of 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 (without prejudice to any other rights UTFE may have under the Subscription Agreement).

If the Company extends 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 any of 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.

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 the Option Agreement. 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 the Option to UTFE which when exercised by UTFE would require Mr. Jiang to sell to UTFE the Option Shares at the 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:

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

where:

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

Upon the occurrence of a Force Majeure Event and an EBIT Deterioration Event , 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 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, the Option Exercise Price shall be calculated on the Audited 2-Year Adjusted EBIT using the above formula.

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 as reviewed by the auditors for the time being 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 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 any member of 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, 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, or agree to do any of the foregoing, either directly or indirectly, 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 of the sale and purchase of the Option Shares or the lapse of the Option, except where permitted under the Option Agreement, he or it shall not, and shall procure his or its Concert Parties 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, 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 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 exercise of Option

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, provided that UTFE shall extend any such offer to Mr. Jiang and his Concert Parties 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 Latest Practicable Date, 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, 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	As at the Latest Practicable Date		Upon completion of First Tranche Subscription (but before completion of Second Tranche Subscription and sale and purchase of the Option Shares) *(Note 3)*		Upon completion of First Tranche Subscription and Second Tranche Subscription (but before completion of sale and purchase of the Option Shares) *(Note 3)*		Upon completion of First Tranche Subscription, Second Tranche Subscription and sale and purchase of the Option Shares *(Note 3)*	
	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
Sub-total *(Note 2)*	989,100,000	48.96	1,345,100,000	56.61	1,814,100,000	63.76	1,814,100,000	63.76
Public	1,030,900,000	51.04	1,030,900,000	43.39	1,030,900,000	36.24	1,030,900,000	36.24
	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) 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. In the event that UTFE exercises the Option and acquires the Option Shares from Mr. Jiang, it will at the time of such acquisition make a general offer for the Shares in compliance with the Takeovers Code.

Immediately before the signing of the Option Agreement, Mr. Jiang and Mr. Jiang Qing are Concert Parties. 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 Concert Parties. 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 become the new single largest Shareholder.

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 THE GROUP

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. 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.

INFORMATION ON UTFE

UTFE is a company incorporated in Hong Kong. It is an investment holding company wholly-owned through various entities by 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, AND BENEFITS OF, 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 industries 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, Chubb has extensive experience in rolling out the central fire monitoring stations which the Group has been devoted to develop in the mainland China. 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 of which the Group, with the 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 Joint Independent Financial Advisers, consider that the Proposed Transaction is in the interests of the Company.

FUTURE INTENTIONS

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.

The board of directors of UTFE and the Board intend to maintain the existing businesses of the Group upon successful completion of the Proposed Share Subscription. Apart from the UTFE's right to nominate up to two persons as non-executive Directors, they do not intend to introduce any major changes to the existing operation and management structure of the Group, or to discontinue the employment of any employees of the Group, or to redeploy any fixed assets of the Group, as a result of the completion of the First Tranche Subscription or the Second Tranche Subscription. Accordingly, the board of directors of UTFE and the Board believe that there will be no material change to the existing businesses and employment of the existing employees of the Group as a result of the completion of the Proposed Share Subscription.

CONNECTED TRANSACTION

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 constitutes a connected transaction of the Company and is subject to Independent Shareholders' vote by way of a poll.

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 Concert Parties. As at the Latest Practicable Date, 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 its or his Concert Parties upon completion of the First Tranche Subscription.

An application has been made jointly by UTFE and Mr. Jiang to the Executive for the Whitewash Waiver and the Executive has agreed that it will grant the Whitewash Waiver, subject to the Independent Shareholders approving it by way of a poll at the EGM. If the Whitewash Waiver is not obtained, the Subscription Agreement and the Option Agreement will lapse.

Neither UTFE, Mr. Jiang nor Mr. Jiang Qing and their respective Concert Parties has acquired any Shares during the six-month period prior to the date of the Announcement and has not acquired or disposed of any Shares since the date of the Announcement. Each of them undertakes that they will not acquire or dispose of any Shares during the period from the date of the Announcement to the date of EGM.

The maximum potential shareholdings of UTFE, Mr. Jiang, Mr. Jiang Qing and their respective Concert Parties in the Company will, as a result of the Proposed Transaction, in aggregate exceed 52% of the voting rights in the Company and UTFE, Mr. Jiang, Mr. Jiang Qing and their respective Concert Parties may increase their shareholdings without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer. In this connection, 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.

PROCEDURE FOR DEMANDING A POLL

The vote of the Independent Shareholders on all proposed resolutions at the EGM shall be taken by a poll.

As required by the GEM Listing Rules, set out below is an extract of the proceeding for demanding a poll as provided under Article 66 of the Company's Articles of Association:

"At any general meeting, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on withdrawal of any other demand for a poll) a poll is demanded by:

(a) by the chairman of such meeting; or

(b) by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(c) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(d) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

Unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the facts without proof of the number or proportion of the votes recorded for or against the resolution."

EGM

There is set out on pages 91 to 93 of this circular a notice convening the EGM to be held at Chater Room II, Chater Room Level, The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong on 29 March, 2005 at 2:30 p.m., at which resolutions will be proposed to the Independent Shareholders to approve, among other things (i) the Subscription Agreement and the issue of new Shares; (ii) the Option Agreement; and (iii) the Whitewash Waiver. The vote of the Independent Shareholders at the EGM shall be taken by a poll. In accordance to the GEM Listing Rules and the Takeovers Code, Mr. Jiang and UTFE and their respective Concert Parties together with their respective associates, who together hold a total of 989,100,000 Shares (representing approximately 48.96% of the issued share capital of the Company), will abstain from voting in respect of the above resolutions because of their interest in the Proposed Transaction.

A form of proxy for use at the EGM is also enclosed. Whether or not you are able to attend the EGM, you are strongly urged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon, and to lodge it with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183, Queen's Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

FINANCIAL EFFECT OF PROPOSED TRANSACTION TO THE GROUP

The Directors confirm that the Proposed Transaction will not have any material adverse changes in the financial or trading position of the Group subsequent to the last published audited accounts of the Company.

Except for the transactions referred to in paragraphs 9(a), (b), (c), (d) and (e) of appendix II to this circular (details of which were publicly announced and the Proposed Share Subscription), the Directors confirm that there are no material changes in the financial or trading position or prospects of the Group subsequent to the last published audited accounts.

RECOMMENDATION

The Independent Board Committee has been appointed to consider the terms of the Subscription Agreement, Option Agreement and the Whitewash Waiver. The Joint Independent Financial Advisers have been appointed to advise the Independent Board Committee regarding the terms of the Subscription Agreement, Option Agreement and the Whitewash Waiver. Independent Shareholders are strongly urged to read the letters from the Independent Board Committee and Joint Independent Financial Advisers set out on page 30 and pages 31 to 50 of this circular respectively before deciding how to vote at the EGM.

FURTHER INFORMATION

Independent Shareholders are also urged to read carefully the further information set out in appendices to this circular.

Yours faithfully,
For and on behalf of the Board
China Fire Safety Enterprise Group Holdings Limited
Jiang Xiong
Chairman

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)

10 March, 2005

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular dated 10 March, 2005 issued by the Company of which this letter forms part of. Terms defined in the circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider and advise the Independent Shareholders in respect of the terms of the Subscription Agreement, Option Agreement and the Whitewash Waiver, details of which are set out in the letter from the Board contained in this document. Grand Vinco Capital Limited and Kingston Corporate Finance Limited have been appointed as the joint independent financial advisers to advise the Independent Board Committee in this respect.

Having considered the terms of the Subscription Agreement, Option Agreement, the Whitewash Waiver and the advice of the independent financial adviser, in particular, the factors, reasons and recommendation as set out on pages 31 to 50, we consider that the Proposed Share Subscription, the Option Agreement (to the extent which it affects the Company) and the granting of the Whitewash Waiver by Executive are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Proposed Share Subscription, the Option Agreement and the granting of the Whitewash Waiver by the Executive.

Yours faithfully,
Liu Shi Pu **Heng Kwoo Seng**
Xiang Yu Fu
Independent Board Committee

* *for identification purpose only*

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from Kingston Corporate Finance Limited and Grand Vinco Capital Limited, the joint independent financial advisers, dated 10 March, 2005 prepared for the purpose of incorporation in this circular:

KINGSTON CORPORATE FINANCE LIMITED
Suit 2801-2807, 28th Floor
One International Finance Centre
1 Harbour View Street, Central, Hong Kong

Grand Vinco Capital Limited
Unit 4909-4910, 49/F., The Center
99 Queen's Road Central, Hong Kong

10 March, 2005

The Independent Board Committee and
the Independent Shareholders
China Fire Safety Enterprise Group Limited
Suite 907, 9th Floor
ICBC Tower
3 Garden Road, Central
Hong Kong

Dear Sirs

CONNECTED TRANSACTION

PROPOSED ISSUE OF NEW SHARES

OPTION AGREEMENT BETWEEN SUBSCRIBER AND CONTROLLING SHAREHOLDER AND APPLICATION FOR WHITEWASH WAIVER BY SUBSCRIBER AND CONTROLLING SHAREHOLDER

INTRODUCTION

We refer to our engagement as the joint independent financial advisers to the Independent Board Committee and Independent Shareholders in connection with the 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 and connected transaction, details of which are set out in the "Letter from the Board" in the circular (the "Circular") issued by the Company to the Shareholders dated 10 March 2005 of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

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 Concert Parties. As at the date of the Circular, 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.

Pursuant to the Takeovers Code, 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 any of its or his Concert Party upon completion of the First Tranche Subscription. UTFE and Mr. Jiang have jointly applied for the Whitewash Waiver to waive such obligation.

Pursuant to the terms of the Subscription Agreement, the Proposed Share Subscription is conditional upon, amongst other things, the fulfillment of the following two principal conditions:

- the approval of the Proposed Transaction by way of a poll by the Independent Shareholders at the EGM; and

- the granting of the Whitewash Waiver by the Executive.

Pursuant to the terms of the Option Agreement, the Option Agreement is conditional upon the completion of the First Tranche Subscription taking place and the grant of the Whitewash Waiver. Therefore, the Subscription Agreement and the Option Agreement are interconditional.

The Independent Board Committee will make a recommendation to the Independent Shareholders on, *inter alia*, the Proposed Transaction and we have been appointed as the joint independent financial advisers to advise the Independent Board Committee and the Independent Shareholders in relation thereto.

Mr. Jiang is an executive Director and the chairman of the Company. As he is a party to the Option Agreement and an applicant for the Whitewash Waiver, he is considered to be interested or involved in the Proposed Transaction and is not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders in respect of the Proposed Transaction. Mr. Jiang Qing is an executive Director and he is also the brother of Mr. Jiang. As such, he is a Concert Party with Mr. Jiang and considered interested in the Proposed Transaction and is not considered sufficiently independent under the Takeovers Code for purpose of advising the Independent Shareholders in respect of the Proposed Transaction. Mr. Chen Shu Quan and Mr. Chan Siu Tat had been employees of the Company in the past eight years and three years respectively and accordingly, they are not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders in respect of the Proposed Transaction. Ms. Josephine Price and Mr. Richard Pyvis are both non-executive Directors of the Company and are also directors of CLSA Private Equity Management Limited, a company which is indirectly interested in 6.57% of the total issued share capital of the Company (details of which are set out in paragraph 4(a) of appendix II to this circular) and accordingly, they are not considered to be sufficiently independent under the Takeovers Code. As such, the Independent Board Committee, comprising Mr. Liu Shi Pu, Mr. Heng Kwoo Seng and Mr. Xiang Yu Fu, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to the Proposed Transaction is fair and reasonable so far as the Independent Shareholders are concerned and whether the Proposed Transaction is in the interest of the Company and the Independent Shareholders as a whole.

In formulating our view and recommendation to the Independent Board Committee and Independent Shareholders in relation to the Proposed Transaction, we have relied on the accuracy of the information and representations contained in the Circular and the relevant agreements which have been provided to us by the Directors and which the Directors consider to be complete and relevant. We are not aware that any statements, information and representations made or referred to in the Circular, for which the Directors and the directors of UTFE (as the case may be) are responsible, were untrue and incorrect in all respects at the time when they were made and continued to be so as at the date of the Circular. We are also not aware that any statements of belief, opinion and intention made by the Directors in the Circular were not reasonably made after due and careful enquiry and are not based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and we have been advised by the Directors that no material facts have been omitted from the information and representations provided in and referred to in the Circular.

We consider that we have received sufficient information to enable us to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the Circular and the relevant agreements and to provide a reasonable basis for our view and recommendation. We have no reason to suspect that any material information has been withheld by the Company or by the Directors. We have not, however, carried out any independent in-depth investigation into the business and affairs of the Group.

BACKGROUND

Subscription Agreement

On 1 February, 2005, the Company has entered into the Subscription Agreement with UTFE, under which, *inter alia*:

Subject to the First Tranche Conditions and Second Tranche Conditions (details of which are stated in the "Letter from the Board"), UTFE agrees to subscribe for, and the Company agrees to issue:

(i) 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; and

(ii) 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.

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 letter, that:

(i) 356,000,000 new Shares are to be issued under the First Tranche Subscription and will be satisfied by UTFE by cash; and

(ii) 469,000,000 new Shares are to be issued under the Second Tranche Subscription and will be satisfied by UTFE by cash.

Pursuant to the terms of the Subscription Agreement, the Proposed Share Subscription is conditional upon, amongst other things, the fulfillment of the following two principal conditions:

- the approval of the Proposed Transaction by way of a poll by the Independent Shareholders at the EGM; and

- the granting of the Whitewash Waiver by the Executive.

Option Agreement

On 1 February, 2005, Mr. Jiang together with his Concert Parties own approximately 48.96% of the Company's issued ordinary shares and UTFE entered into the Option Agreement. The Option provides that, *inter alia*:

In consideration of UTFE paying him a nominal sum of HK$1.00, Mr. Jiang agrees to grant an Option to UTFE which when exercised by UTFE would require Mr. Jiang to sell to UTFE 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 at the option exercise price.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and Independent Shareholders in relation to the Proposed Transaction, we have considered the principal factors and reasons set out below:

Reasons for entering into the Subscription Agreement and the granting of Option by Mr. Jiang

The market outlook

According to the article "中國消防產品行業如何應對加入WTO" of "消防技術與產品信息" as published in June 2002, the development of the PRC fire safety enterprises lagged behind the Western countries. In the early 1980's, there were only about 100 enterprises engaged in the fire prevention and fighting products manufacturing sector. In the mid-1980s numerous small-scale production operators entered into the industry and around 100 types of products under 7 to 8 categories were domestically produced in late 1980s. In 1990s, the fire prevention and fighting product market experienced a significant growth. In 1995, there were more than 1,800 fire prevention and fighting product production enterprises in the PRC which are capable of producing more than 300 types of fire prevention and fighting products under 20 categories, with over 3,000 specifications. As at the date of the article published, the products ranged from fire alarm equipments, fire extinguish equipments, fire safety equipments and fire safety communications product.

An extract from the article "當前我國消防產品行業的形勢與發展" extracted from "Fire Science and Technology" (消防科學與技術) published in October 2003 states that the PRC fire prevention and fighting industry in the PRC will continue to grow in the next five years. By the time when the article published, there were approximate 3,000 fire safety related manufacturers, approximate 1 million total labour involved and over RMB20 billion a year in terms of the total production value.

However, according to the article "中國消防產品行業如何應對加入WTO" of "消防技術與產品信息" as published in June 2002, the technology adopted in the PRC fire safety industry was still lagging behind the international standard and cannot cater the modernization needs in the PRC. It was mainly due to the inadequate investment in the fire safety foundation research, the small sizes of the PRC enterprises and the lower fire safety standard in the PRC.

Furthermore, according to the article "當前我國消防產品行業的形勢與發展" extracted from "Fire Science and Technology" (消防科學與技術) published in October 2003 expected that with the PRC entered into the WTO, foreign fire safety products will flow rapidly into the PRC market and the competition would become more intense. The fire safety products would move from the past competition on quantity and number of categories via nowadays competition on price to competition on quality, services and brandname in the future. The article expected that competition stimulates consolidation among market participants and speeds up the modification and reform of the structure of the PRC fire safety products and enterprises. This will enhance the PRC safety products and facilitate the growth of the PRC market.

The regulations

With reference to the article "Developing Trend Fire Service in New Era" (新時期消防工作發展思路) extracted from "China Safety Science Journal" (中國安全科學學報) in April 2003, the fire service industry in the PRC is facing new situation as the market economy develops and the social management system change. The fire department would undertake the supervision of fire affairs in the following aspects: to perfect the relevant legislation, to reinforce basic foundation of fire safety, to spread among the people an elementary knowledge of fire protection and control, to develop intermediary organization, and to set scientific evaluation system.

The promulgation of "The Fire Services Law of the PRC" (中華人民共和國消防法) in 1998 has set a proper legal framework to enhance fire safety. Section 8 of the Fire Services Law requires governments of different cities to include the implementation of fire prevention and fighting equipment as part of the city planning. In addition, it also promotes the governments to put more funds on the development of fire prevention and fighting technology and the application of advanced fire prevention and fighting equipment.

According to the article "中國消防產品行業如何應對加入WTO" of "消防技術與產品信息" as published in June 2002, the fire service departments at all levels of government in the PRC purchase fire prevention and fighting equipments and supplies of approximately RMB3 billion each year. In particular, an approximate budget of RMB200 billion will be spent in building facilities for the 2008 Olympic Games in Beijing and projects for fire services installation will account for 6% to 11% of the total budget which is equivalent to about RMB12 to 22 billion based on industrial estimate. The Group has set up its business in Beijing in April 2004 and the Directors confirm that the Company intends to capture the business opportunities which may arise from the Olympic Games.

The reason

We note that 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 above businesses, it has expanded into the establishment and operation of central fire monitoring stations in the PRC. 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 global provider of security and fire protection services to businesses and industry worldwide, Chubb, a business unit of UTC, has considerable experience and technology in the fire safety industry. According to the 2004 annual report of UTC , UTFE is a wholly-owned subsidiary of UTC. UTC's involvement (through UTFE) 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.

Based on the market outlook of the PRC market, the Company believes that the PRC's continuing economic 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 will be placed to supply. We consider that (i) a growth of construction and redevelopment of different types of building and infrastructure in the PRC; (ii) the enhancement of the rules and regulations relating to fire safety; (iii) the rising concern of personal safety will lead to a growing demand of high quality and advance technology fire safety products. Furthermore, the competition in the PRC market would become more intense with the influx of the foreign competitors, after entering into the WTO. This will also induce consolidation of the market participants. Therefore, we consider that the Group will be able to maintain and expand its market presence in the PRC 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. With the additional funding, we also consider the Company will continue to seek to identify acquisition targets in the fire safety industry in the PRC 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.

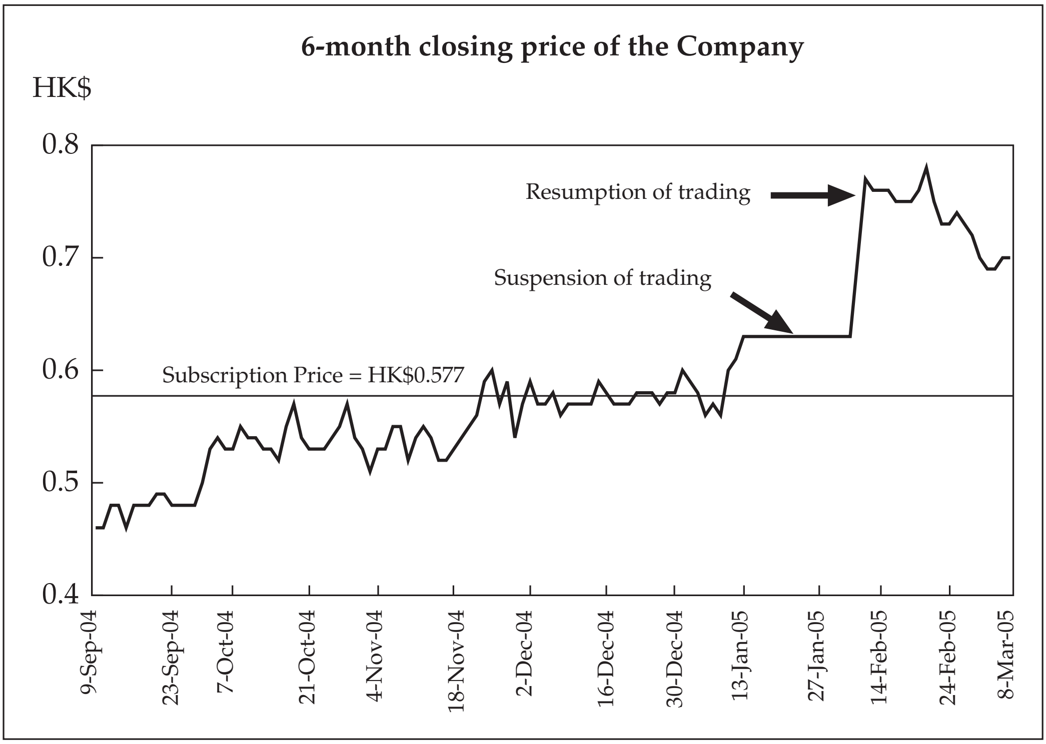
As at the Latest Practicable Date, as advised by the Directors, there has not been any substantial discussion, agreement or commitment regarding any of the future cooperation between the Group and UTFE. However, it is an intention between the Group and UTFE to explore possible synergy and co-operation amongst the fire safety business in the PRC.

With reference to UTC website (www.utc.com), UTC is a company whose products include Carrier heating and cooling, Chubb security systems, Hamilton Sundstrand aerospace systems and industrial products, Otis elevators and escalators, Pratt & Whitney aircraft engines, Sikorsky helicopters and UTC Power fuel cells. According to the 2004 Annual Report of UTC, in July 2003, UTC acquired Chubb plc, a global provider of security and fire protection products and services. In the electronic security industry, Chubb provides system integration, installation and service of intruder alarms, access control systems and video surveillance systems. In the fire protection industry, Chubb provides system integration, installation and service of portable and fixed suppression systems and fire detection systems. Chubb also provides monitoring, response and security personnel services, including cash-in-transit security, to complement both the electronic security and fire protection businesses. Chubb's operations are predominantly outside the U.S. Chubb is a leading provider of products and services in the United Kingdom, France, Hong Kong, Australia, Canada and South Africa. Chubb products and services are used by architects, building owners and developers, security and fire consultants and other end-users requiring a high level of security and fire protection for their businesses and residences and dealers. In 2004, Chubb earned a revenue of approximately US$2.9 billion for UTC. Approximately 80% of the reported revenues in 2004 were contributed by fire and security services in Australia, the United Kingdom and Continental Europe.

Although Chubb and the Group are running similar businesses, Chubb has strong presence in United Kingdom, France, Hong Kong, Australia, Canada and South Africa while the Group concentrates in the PRC market. Therefore, Chubb could increase its geographical reach to the PRC through the entering of the Subscription Agreement and the Option Agreement and the Group could also advance its technology through future co-operation with UTFE. Therefore, we consider that the business of Chubb and the Group could complement each other which will benefit both parties. In this regard, we are of the view that the Proposed Transaction in the interest of the Company and the Independent Shareholders as a whole.

Subscription Price

The following chart and table set out the closing prices of the Shares from the prior six months on the Stock Exchange up to and including the Latest Practicable Date:



As shown above, the closing Share price from 6 months prior to and including the Latest Practicable Date ranged from HK$0.43 to HK$0.78.

As disclosed in the "Letter from the Board", the subscription price for the First Tranche Subscription and the Second Tranche Subscription of HK$0.577 per new Share 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:

(i) a discount of approximately 2.53% to the average closing prices of 0.592 per Share as quoted on the Stock Exchange for 5 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);

(ii) a discount of approximately 1.37% to the average closing prices of 0.585 per Share as quoted on the Stock Exchange for 10 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);

(iii) a discount of approximately 0.69% to the average closing prices of 0.581 per Share as quoted on the Stock Exchange for 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);

(iv) a discount of approximately 6.94% to the closing price of HK$0.62 per Share as quoted on the Stock Exchange on 13 January, 2005 (being the last full trading day before the suspension of trading of the Shares on GEM);

(v) a discount of approximately 17.57% to the closing price of HK$0.70 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(vi) a premium of approximately 176% to the audited net asset value of approximately HK$0.2087 per Share as at 31 December, 2003; and

(vii) a premium of approximately 156% to the unaudited net asset value of approximately HK$0.2257 per Share as at 30 June, 2004.

To consider the fairness and reasonableness of the Subscription Price, we have also identified, to the best of our knowledge, 6 fund raising exercises of companies by way of issue of new shares through placings since January 2005 (the "Comparables") to 2 February 2005 (the date before resumption of trading of the Shares) excluding all top-up placings, H shares placings and placing exercise of some investment companies (Chapter 21) of which we considered their nature was different from that of the Company. In particular, investment companies (Chapter 21) are excluded because we consider that the regulatory framework of those companies is quite different with the other companies. Set out below is a summary of such fund raising exercises for the purposes of comparison in terms of the premium/discount of the issue price to the closing price and the latest published audited consolidated net asset value per Share as at the last trading day before the date of the announcement:

Company	Date of announcement	Issue price	Closing price as at the last trading day before the date of the announcement	Discount	Latest published audited consolidated net asset value per share before date of announcement	Premium/the (Discount)
		(HK$)	*(HK$)*	*(%)*	*(HK$)*	*(%)*
139 Holdings Limited (139)	27 Jan 05	0.032	0.036	11.11	0.0245	30.61
EVI Education Asia Limited (8090)	26 Jan 05	0.025	0.06	58.33	0.0047	432
Chi Cheung Investment Company, Limited (112)	24 Jan 05	0.95	1.09	12.84	2.2244	(57.29)
B.A.L. Holdings Limited (8079)	20 Jan 05	0.0216	0.027	20.00	0.0015	134
Emperor (China Concept) Investments Limited (296)	6 Jan 05	2.88	3.275	12.06	0.9472	204
Premium Land Limited (164)	6 Jan 05	0.03	0.042	28.57	0.0645	(53.49)
The Company	**1 Feb 05**	**0.577**	**0.62**	**6.94**	**0.2087**	**176**

As shown above, the discount levels of the closing price as at the last trading day before the date of the announcement of the Comparables ranged from approximately 11.11% to 58.33%. The Subscription Price of HK$0.577 in the case of the Company, which represents a discount of approximately 6.94% to the closing price as at the last trading day before the date of the Announcement below the range and below the average discount of the Comparables.

By comparing the latest audited published consolidated net asset value per share as at the trading day before the date of the announcement of the Comparables, the premium/ discount levels ranged from approximately discount of 57.29% to premium of 432%. The approximate premium based on latest audited published consolidated net asset value per share of the Company of 176% lies within the range of the Comparables. Based on the above, we are of the view that the discount on closing prices and the premium on the latest audited published consolidated net asset value per share are fair and reasonable as far as the latest fund raising market is concerned.

We have identified another company listed on the Stock Exchange with principal business in fire safety in the PRC. For the purpose of comparison, we have made reference to its price to earnings ratio as at 13 January 2005, being the last trading day before the date of the announcement. Details of which are set out below:

Company	**Stock code**	**Closing price per share as at the trading day before the date of the announcement**	**Latest published audited full year earnings per share**	**Price to earnings ratio**
		HK$	*HK$*	*(X)*
Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. ("Shanghai Qingpu")	8115	0.75	0.046	16.30
The Company	**8201**	**0.577** *(Note 1)*	**0.0522** *(Note 2)*	**11.05**

Notes:

1. The amount represents the Subscription Price of HK$0.577.

2. The amount was calculated based on 2,020,000,000 Shares were issued as at 13 January 2005.

As shown in the above table, the price to earnings ratio of the Company is below the figure of the comparable company. We consider that the Shanghai Qingpu would have a higher price to earnings ratio because:

(i) according to the prospectus of Shanghai Qingpu dated 18 June 2004, approximately 49% of the turnover was related to sales outside the PRC which according to the 2003 annual report of the Company, all the Group's turnover was derived from the PRC; and

(ii) according to the prospectus of Shanghai Qingpu dated 18 June 2004, it had an established customer base in Shanghai while the Group's sales were concentrated in the Fujian Province.

We consider that Shanghai Qingpu has a wider customer base than the Group and even in PRC, Shanghai Qingpu's clients are mainly in Shanghai which is a more developed city than those in the Fujian Province. In our opinion, this supports a higher price to earnings ratio of Shanghai Qingpu.

We also like to draw your attention that although these two companies are grouped in the fire safety industry, their products are quite distinct. Shanghai Qingpu mainly produces (i) fire extinguishers; (ii) fire extinguisher cylinders and (iii) fire fighting accessory equipments. The Group is strong in system design, development, installation and maintenance of fire prevention and fighting system. We consider that the technological content of products of Shanghai Qingpu is more visualize to the investors which would support Shanghai Qingpu to have a higher price to earnings ratio.

In view of the foregoing, we consider that the price to earnings ratio of the Company based on the Subscription Price is not unreasonably lower than that of Shanghai Qingpu and consider together with the discount on price and the premium on the net asset value per Share, is fair and reasonable to the Independent Shareholders.

Other terms of the Subscription Agreement

Proposed Share Subscription

The Proposed Share Subscription would be conditional upon, among other things, the entering into by UTFE and Mr. Jiang of the Option Agreement. The Option Agreement provides a right to UTFE to purchase the controlling stake (to a total of 51%) of the Group from Mr. Jiang at the Option Exercise Price. In our opinion, this reflects UTFE's intention to play a more and more important role in the business of the Group and to establish a long term relationship with the Group. As we have mentioned before, UTC is an international giant of which its division, Chubb, carries out similar businesses with the Group. With its strong financial and advance technological background, it is very likely that the Group could benefit from UTFE. Therefore, we are of the opinion that this condition is fair and reasonable so far as the Independent Shareholders are concerned.

The Second Tranche Subscription

The Second Tranche Subscription would be conditional upon, among other conditions:

(1) 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;

(2) the First Tranche Completion having occurred;

(3) the cash balance of the Group as at the last day of the month immediately preceding the Second Tranche Completion Date shall be not more than the equivalent of US$25 million or such other amount as UTFE may agree; and

(4) the net asset value of the Group as at the Second Tranche Completion Date as shown in the management accounts of the Group for the month ended on that date should not be less than the equivalent of US$60 million.

As described in the "Letter from the Board", the Second Tranche Completion shall take place by the first anniversary of the First Tranche Completion Date unless otherwise agreed between the parties. In other words, the Group has approximately one year to fulfill the above specific conditions of the Second Tranche Subscription. These conditions would require the Group to inject their cash into the central fire monitoring stations projects in order to generate sufficient net assets before the Group could receive the proceeds from the Second Tranche Subscription. As at 30 June, 2004, the cash and bank balances and net assets value of the Group was approximately RMB234,405,000 (approximately US$28.4 million) or approximately RMB0.116 per Share and RMB483,351,000 (approximately US$58.5 million) or approximately RMB0.239 per Share respectively. In addition, the Company's undertaking with UTFE that the Company will use the proceeds from the First Tranche Subscription and Second Tranche Subscription for the purposes of developing the central fire monitoring stations in the PRC and the investing and carrying out acquisitions in connection with the core business provides a further protection that the proceeds from the Proposed Share Subscription would properly be injected into the central fire monitoring stations in the PRC. We are of the view that these conditions act as an additional monitoring system to the management of the Group to ensure them to use their fund in the Group's current business and are in the interests of the Company and the Independent Shareholders as a whole.

Furthermore, a cash balance of US$25 million approximately equivalent to approximately RMB206.7 million. Based on the audited and unaudited accounts published by the Company, the cash and bank balances of the Group amounted to RMB204.9 million, RMB185.4 million and RMB234.4 million for the two years ended 31 December 2003 and period ended 30 June 2004 respectively. Therefore, we consider that the maximum cash balances condition imposed for the Second Tranche Subscription would not materially affect the working capital position of the Group.

Option Exercise Price

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 as required by the GEM Listing Rules, the Option Exercise Price is based on the following formula:

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

Upon the occurrence of Force Majeure Event as specified under the Option Agreement including an event of the EBIT Deterioration Event, 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 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, the Option Exercise Price shall be calculated on the Audited 2-Year Adjusted EBIT using the above formula.

EBIT Multiplier and the Adjusted Net Debt

The Directors confirm that the abovementioned pricing mechanism is arrived after arm's length negotiations between the Mr. Jiang and UTFE. The pricing mechanism links the Option Exercise Price (i.e. the valuation of the Shares in a future date) with the price to EBIT ratio (i.e. the EBIT multiplier) subsisted around the time of entering into the Proposed Transaction and the future performance of the Company (in terms of EBIT). The inclusion of the Audited Adjusted Net Debt will protect UTFE in paying less Option Exercise Price in case the Group has raised serious debt after the completion of the Subscription Agreement.

Based on the audited accounts for the year ended 31 December 2003, the EBIT and the minority interest are approximately RMB132,106,000 and RMB401,000 respectively. As Audited 1-year Adjusted EBIT is defined as the difference between the EBIT and the minority interest of the relevant year, the Audited 1-year Adjusted EBIT for 2003 would be approximately RMB131,705,000.

The Net Debt is defined as the long term borrowing plus short term borrowing minus the cash and cash equivalent. Based on the unaudited accounts as at 30 June 2004, the short term borrowing and the cash and bank balances of the Group amounted to approximately RMB2,870,000 and RMB234,405,000 respectively and there was no long term borrowing.

Therefore, the Net Debt as at 30 June 2004 is approximately RMB231,535,000. Based on the definition, the Adjusted Net Debt is equal to the Net Debt as at 30 June 2004.

The Reference Shares subsisted at 13 January 2005 (the last full trading day before suspension) was approximately 2,020,000,000 shares.

Based on the above latest published figures and by applying the Option Exercise Price formula as if UTFE could exercise the Options as on 13 January 2005, the Option Exercise Price would be approximately

$$\frac{8.5 \text{ x } 131.71 \text{ million} - (-231.54 \text{ million})}{2{,}020 \text{ million}} = \text{RMB0.6688 or HK\$0.6310 per share}$$

which was higher than the latest market price of HK$0.62 per Share. This implies that Mr. Jiang Xiong was not offering UTFE a discount in relation to the potential sale of shares under the Option Agreement based on the most current valuation of the Shares. Our concern is that should a substantial discount is really set inherent in the Option Exercise Price formula by means of a low EBIT multiplier, it is the same as telling the market that in the future the existing controlling Shareholders will sell their Shares at a substantial discount. Then, it is very likely that this substantial discount be interpreted as a bad news in the market. It may adversely affect the market price of the Shares of the Company and be detriment to the other Shareholders including the Independent Shareholders. Therefore, we are of the view that the EBIT multiplier concluded by the parties is fair and reasonable as to the Independent Shareholders are concerned.

EBIT, the Option Exercise Period and the adjustment on the EBIT

As stated in the "Letter from the Board", the Option may be exercisable at any time during 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. As advised and confirmed by the Directors, the Option Exercise Period will commence on the third anniversary of the First Tranche Completion Date because some of the major projects of the Company are currently in the inception stage and the current earnings would not fully and truly reflect the potential value of the Group, a three-year growing period for the Group is considered to be a suitable time for reflecting the earning ability of the existing investment. We are of the view that the linkage between the future EBIT and the Option Exercise Price ensures the most current criteria be used in the future to avoid the Option Exercise Price be determined by using the historical data which may be obsolete and does not reflect the market situation when the Option is exercised. This is beneficial both to Mr. Jiang Xiong and the Independent Shareholders.

In addition, in case when the Force Majeure Event happens which would adversely affect the Group's EBIT, the Option Agreement also provides that Mr. Jiang could initiate to spread this adverse effect with EBIT of the former year. Therefore, the setting of the Option Exercise Price, the use of the EBIT and the possible adoption of the Audited 2-year Adjusted EBIT prevent UTFE to purchase Mr. Jiang's stock at a lower price which may at the same time adversely affect the interests of the Independent Shareholders. In view of the above, we are of the view that the existing formula can assure the Option Exercise Price will be determined in a fair and reasonable basis to Mr. Jiang Xiong so that the Independent Shareholders would not be adversely affected by the exercise of Options.

The General offer undertaking

We also draw your attention that in the event that UTFE 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 Takeover Code. We consider that the Shareholders would be offered a chance to sell their shares to UTFE at a price not less than the Option Exercise Price sometime in the future if UTFE exercises the Option.

By that time, both Mr. Jiang and the other shareholders including the Independent Shareholders would be equally treated.

Other terms relating to the Option Agreement

Parties' intention for Mr. Jiang to enter into a service agreement

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. 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.

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.

These terms will ensure that even if there will be a change in control upon the exercise of the Option, Mr. Jiang would be retained to ensure the continuity of the management so that the operation of the Group would not be materially and adversely affected. We are of the view that such term is in the interest of the Company and the Independent Shareholders as a whole.

Right of first refusal in respect of balance shares after exercise of Option

Mr. Jiang agreed and undertook with UTFE to first make an offer to sell any of the Shares held by him to UTFE prior 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. We consider this term to be a commercial arrangement between Mr. Jiang and UTFE and would not affect the interests of the Independent Shareholders.

Anti-dilution provision

Each of Mr. Jiang and UTFE undertakes to the other that, among other things, solely in his or its capacity as a shareholder, 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. Such anti-dilution provision prevents the Company to dilute UTFE's shareholding by issuing shares to other parties. As all fund raising exercise and such transaction with UTFE will still have to comply with the requirement of the GEM Listing Rules, such anti-dilution provision could only be executed within the ambit of the GEM Listing Rules which safeguard the right of other Shareholders including the Independent Shareholders.

Potential impact to shareholding of the Independent Shareholders

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:

	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 3)*		Upon completion of First Tranche Subscription and Second Tranche Subscription (but before completion of sale and purchase of the Option Shares) *(Note 3)*		Upon completion of First Tranche Subscription, Second Tranche Subscription and sale and purchase of the Option Shares *(Note 3)*	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*	*Shares*	*%*
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
Sub-total *(Note 2)*	989,100,000	48.96	1,345,100,000	56.61	1,814,100,000	63.76	1,814,100,000	63.76
Public	1,030,900,000	51.04	1,030,900,000	43.39	1,030,900,000	36.24	1,030,900,000	36.24
Total	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) 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 Concert Parties. 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 Concert Parties. 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 become the new single largest Shareholder of the Company. As we have been mentioned, even if there will be a change in control upon the exercise of the Option, Mr. Jiang would be retained to ensure the continuity of the management so that the operation of the Group would not be materially and adversely affected.

The aggregate shareholding of the existing public Shareholders will decrease from approximately 51.03% to approximately 36.24% after the completion of the First Tranche Subscription, the Second Tranche Subscription and the sale and purchase of the Option Shares. Furthermore, as we have mentioned before, there is considerable room for creating synergy effect among the parties which include, in our opinion, (i) a substantial fund was raised through the Proposed Share Subscription for future expansion, and (ii) with more and more involvement of UTFE, the Group would benefit from the advance technology that UTC's Group possesses. The Group would also gain international insight from the co-operation with UTFE. Nevertheless, the Group would also gain publicity through the Proposed Share Subscription. Having considered that, we are of the view that such dilution to shareholding of the Independent Shareholders is acceptable.

Impact on the financial position of the Group

Net asset value

The unaudited net asset value was approximately HK$456 million as at 30 June, 2004, according to the 2004 interim report and the estimated net proceeds from the Proposed Share Subscription of approximately HK$476 million. Therefore, the net asset value of the Group would not be materially affected by the Proposed Transaction.

Working capital

Based on the unaudited consolidated balance sheet of the Group as at 30 June, 2004, the Group had cash and bank deposits of approximately HK$221 million and net current assets of approximately of HK$311 million. According to the statement of indebtedness of the Group contained in Appendix I of the Circular, the Group had secured bank loans of approximately RMB12.4 million and unsecured non-interest bearing borrowings of approximately RMB9 million outstanding as at 31 December, 2004. Therefore, we consider that the Group's cash and bank deposits are adequate to cover the bank loans and other non-interest bearing borrowing. As the Proposed Share Subscription would increase the cash balances of the Group, the working capital position of the Group would further be enhanced.

Gearing

As noted from the 2004 interim report of the Group, the Group had only short term borrowing of approximately RMB2.9 million and no long term interest bearing liabilities as at 30 June, 2004, which represents a debt to asset ratio of zero. As the Proposed Share Subscription does not include a long term loan element, the gearing of the Company would not be changed after the completion of the Subscription Agreement.

Whitewash waiver

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 letter, 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 securities of the Company other than those already owned by itself or himself (as the case may be) and its or his Concert Parties upon completion of the First Tranche Subscription.

An application has been made jointly by 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 by poll. The Executive may or may not grant the Whitewash Waiver. Based on our analysis of the terms and conditions of the Subscription Agreement and the Option Agreement, we consider that the Proposed Transaction is in the interest of the Company and the shareholders as a whole.

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 and the Company will lose all the benefits that are expected to be brought by the successful completion of the Subscription Agreement and the Option Agreement.

The Whitewash Waiver requires the approval of Independent Shareholders. UTFE, Mr. Jiang and their associates will be required to abstain from voting on the resolutions approving the Whitewash Waiver.

The maximum potential shareholdings of UTFE, Mr. Jiang, Mr. Jiang Qing and their respective Concert Parties in the Company will, as a result of the Proposed Transaction, in aggregate exceed 52% of the voting rights in the Company and UTFE, Mr. Jiang, Mr. Jiang Qing and their respective Concert Parties may increase their shareholdings without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer. In this connection, in the event that UTFE 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.

If the Whitewash Waiver is not available for any reason, the Proposed Share Subscription and the grant of the Option by Mr. Jiang will not become unconditional and will not proceed. In the circumstances, a mandatory offer will not be made by UTFE.

CONNECTED TRANSACTION

By virtue of the entry into 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 constitutes a connected transaction of the Company and should be approved by the Independent Shareholders. UTFE, Mr. Jiang and their associates will be required to abstain from voting on the resolutions approving the Proposed Share Subscription.

If the Proposed Share Subscription is not approved by the Independent Shareholders, the grant of Option will not become unconditional and will not proceed.

CONCLUSION

In view of the terms of the Subscription Agreement, Options Agreement, the Subscription Price, the Option Exercise Price, the potential impact to the shareholding of the Independent Shareholders and the impact to the financial position of the Group, we are of the view that the Proposed Transaction and the Whitewash Waiver is fair and reasonable, so far as the Independent Shareholders are concerned and that the Proposed Transaction is in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee and the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Proposed Transaction.

Yours faithfully,

For and on behalf of
Kingston Corporate Finance Limited
Elton Cheung
Director

For and on behalf of
Grand Vinco Capital Limited
Alister Chung
Managing Director

1. SUMMARY OF FINANCIAL INFORMATION

A summary of the audited consolidated income statement of the Group for the last three financial years extracted from the annual reports of the Company for year ended 31 December, 2002 and 2003 and for the nine months ended 30 September, 2004 extracted from the third quarterly report 2004 of the Company is set out below:

Consolidated Income Statement

	(Unaudited) For the nine months ended 30 September,	(Audited) For the year ended 31 December,		
	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	355,558	282,475	259,519	193,988
Cost of sales	(202,863)	(133,759)	(99,814)	(76,716)
Gross profit	152,695	148,716	159,705	117,272
Other operating income	956	4,169	959	31
Distribution costs	(3,322)	(1,842)	(1,706)	(162)
Administrative expenses	(21,991)	(18,937)	(16,348)	(10,386)
Profit from operations	128,338	132,106	142,610	106,755
Finance costs	(20)	(229)	(338)	(243)
Profit before taxation	128,318	131,877	142,272	106,512
Taxation	(24,065)	(19,761)	(16,100)	(7,728)
Profit before minority interests	104,253	112,116	126,172	98,784
Minority interests	(1,900)	(401)	(295)	(4,941)
Net profit for the year	102,353	111,715	125,877	93,843
Dividends	21,200	42,400	10,600	88,216
Dividend per share (HK cents)	1	2	0.5	N/A
Earnings per share				
Basic (RMB cents)	5.12	5.6	7.5	6.8

Note 1: Dividends shown for 2001 represent dividends declared and/or paid by the subsidiaries of the Company to their then equity participants.

Note 2: There were no exceptional or extraordinary gain or loss for the periods presented.

2. SUMMARY OF UNAUDITED CONSOLIDATED RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER, 2004

Set out below are the unaudited consolidated income statement and relevant notes to it of the Group extracted from the third quarterly report of the Company for the nine months ended 30 September, 2004.

		(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
		2004	2003	2004	2003
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	*1*	355,558	197,813	133,195	86,899
Cost of sales		(202,863)	(89,846)	(76,326)	(39,646)
Gross Profit		152,695	107,967	56,869	47,253
Other operating income		956	1,108	379	386
Distribution costs		(3,322)	(1,119)	(1,559)	(330)
Administrative expenses		(21,991)	(11,886)	(6,515)	(4,103)
Profit from operations		128,338	96,070	49,174	43,206
Finance costs		(20)	(176)	(1)	(62)
		128,318	95,894	49,173	43,144
Taxation	*2*	(24,065)	(8,137)	(8,505)	(3,527)
Profit after taxation		104,253	87,757	40,668	39,617
Minority interests		(1,900)	(247)	(373)	(138)
Net profit for the period		102,353	87,510	40,295	39,479
Interim dividend declared	*3*	21,200	21,200	–	–
Earnings per share – Basic and diluted (RMB cents)	*4*	5.12	4.38	2.01	1.97

Notes:

1. Turnover

Turnover represents the aggregate of the value of installation contract work carried out, the sale proceeds of goods sold and income from provision of maintenance services during the period, and is analyzed as follows:

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2004	**2003**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Sale of goods	129,436	116,806	45,566	54,951
Revenue from installation contracts	196,304	56,504	72,667	19,641
Provision of maintenance services	36,821	26,863	18,267	13,188
	362,561	200,173	136,500	87,780
Less: Sales tax	(7,003)	(2,360)	(3,305)	(881)
	355,558	197,813	133,195	86,899

Sales tax represents various local taxes levied on the invoiced value of goods sold and services rendered.

An analysis of the Group's turnover by geographical regions of the People's Republic of China (the "PRC") is as follows:

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2004	**2003**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Sale of goods				
– Fujian Province	73,749	67,415	24,334	28,662
– Other Provinces	55,687	49,391	21,232	26,289
	129,436	116,806	45,566	54,951
Revenue from installation contracts				
– Fujian Province	161,675	55,458	65,153	19,641
– Other Provinces	34,629	1,046	7,514	–
	196,304	56,504	72,667	19,641
Provision of maintenance services				
– Fujian Province	32,241	26,863	13,687	13,188
– Other Provinces	4,580	–	4,580	–
	36,821	26,863	18,267	13,188
	362,561	200,173	136,500	87,780
Less: Sales tax	(7,003)	(2,360)	(3,305)	(881)
	355,558	197,813	133,195	86,899

Sales tax represents various local taxes levied on the invoiced value of goods sold and services rendered.

2. Taxation

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2004	**2003**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The charge comprises:				
Current tax				
The PRC – income tax	26,827	8,137	13,090	3,527
Deferred tax	(2,762)	–	(4,585)	–
	24,065	8,137	8,505	3,527

No provision for Hong Kong profits tax has been made as the Group's income neither arises in, nor is derived from Hong Kong. Income tax on profits arising from the PRC has been provided at the prevailing tax rates applicable to the respective companies comprising the Group.

With effect from year 2002, one of the subsidiaries of the Company, Fujian Wanyou Fire Fighting Science and Technology Co., Ltd., is entitled to the two year's exemption from income tax followed by three years of 50% tax reduction.

The Group's deferred tax liability mainly relates to the accounting difference between Hong Kong general accepted accounting principles and the PRC the general accepted accounting principles on profit recognition of installation contracts.

3. Dividends

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2004	**2003**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interim dividend, declared, of HK1 cent per share (2003: HK1 cent)	21,200	21,200	–	–

The Board does not recommend the payment of an interim dividend for the three months ended 30 September 2004.

4. Earnings per share

The calculation of basic earnings per share for the nine months and three months ended 30 September 2004 were based on the unaudited consolidated net profit of RMB102,353,000 and RMB40,295,000 respectively (unaudited consolidated net profit for the nine months and three months ended 30 September 2003: RMB87,510,000 and RMB39,479,000 respectively) and the 2,000,000,000 shares in issue.

The share options outstanding did not have a material dilutive effect on the basic earnings per share.

5. Movement in reserves

	Share premium	Special reserve	Capital reserves	Statutory surplus reserve	Statutory Public Welfare fund	Statutory reserve fund	Accu-mulated Profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)			
At 1 January 2003	139,920	(6,692)	57,840	10,086	8,995	12,159	119,070	341,378
Net profit for the period	–	–	–	–	–	–	87,510	87,510
Dividend paid	–	–	–	–	–	–	(10,600)	(10,600)
At 30 September 2003	139,920	(6,692)	57,840	10,086	8,995	12,159	195,980	418,288
At 1 January 2004	139,920	(6,692)	57,840	13,267	10,586	20,684	185,688	421,293
Net profit for the period	–	–	–	–	–	–	102,353	102,353
Dividend paid	–	–	–	–	–	–	(21,200)	(21,200)
At 30 September 2004	139,920	(6,692)	57,840	13,267	10,586	20,684	266,841	502,446

3. SUMMARY OF AUDITED FINANCIAL STATEMENTS

Set out below are the audited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash flow statement and notes to financial statements of the Group extracted from the annual report of the Company for the year ended 31 December, 2003.

Consolidated Income Statement
For the year ended 31 December, 2003

	Notes	2003 RMB'000	2002 RMB'000
Turnover	3	282,475	259,519
Cost of sales		(133,759)	(99,814)
Gross profit		148,716	159,705
Other operating income	5	4,169	959
Distribution costs		(1,842)	(1,706)
Administrative expenses		(18,937)	(16,348)
Profit from operations	6	132,106	142,610
Finance costs	7	(229)	(338)
Profit before taxation		131,877	142,272
Taxation	10	(19,761)	(16,100)
Profit before minority interests		112,116	126,172
Minority interests		(401)	(295)
Net profit for the year		111,715	125,877
Dividends	11	42,400	10,600
Earnings per share	12		
Basic (RMB cents)		5.6	7.5

Consolidated Balance Sheet
At 31 December, 2003

	NOTES	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	13	154,474	115,856
Retention receivables	14	269	1,331
Goodwill	15	6,998	9,962
Development costs	16	1,445	–
		163,186	127,149
Current assets			
Inventories	17	4,228	3,457
Retention receivables	14	2,008	1,862
Amounts due from contract customers	18	30,523	1,109
Trade debtors	19	80,831	45,994
Prepayments and other receivables	20	14,382	16,482
Bank balances and cash		185,444	204,913
		317,416	273,817
Current liabilities			
Trade and other payables	21	21,727	26,161
Amounts due to contract customers	18	–	56
Tax liabilities	22	8,457	7,160
Mortgage loan – due within one year	23	731	731
		30,915	34,108
Net current assets		286,501	239,709
Total assets less current liabilities		449,687	366,858
Non-current liabilities			
Mortgage loan – due after one year	23	2,987	3,718
Deferred tax liabilities	24	3,490	–
Minority interests		717	562
		442,493	362,578
Capital and reserves			
Share capital	25	21,200	21,200
Reserves	26	421,293	341,378
		442,493	362,578

Consolidated Statement of Changes in Equity
For the year ended 31 December, 2003

	Share capital	Share capital of subsidiaries comprising the Group	Share premium	Special reserve	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Statutory reserve fund	Accumulated profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January, 2002	–	10,185	–	–	–	7,080	7,493	1,888	7,972	34,618
Increase in share capital in accordance with the group reorganisation in preparation for listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("Group Reorganisation")	–	83	–	–	–	–	–	–	–	83
Shares swap in accordance with the Group Reorganisation	16,960	(10,268)	–	(6,692)	–	–	–	–	–	–
Issue of shares for cash by a subsidiary	–	–	–	–	57,840	–	–	–	–	57,840
Issue of shares for cash by means of placing	4,240	–	165,360	–	–	–	–	–	–	169,600
Expenses incurred in connection with the issue of shares	–	–	(25,440)	–	–	–	–	–	–	(25,440)
Net profit for the year	–	–	–	–	–	–	–	–	125,877	125,877
Transfer	–	–	–	–	–	3,006	1,502	10,271	(14,779)	–
At 31 December, 2002	21,200	–	139,920	(6,692)	57,840	10,086	8,995	12,159	119,070	362,578
Net profit for the year	–	–	–	–	–	–	–	–	111,715	111,715
Transfer	–	–	–	–	–	3,181	1,591	8,525	(13,297)	–
Dividends paid	–	–	–	–	–	–	–	–	(31,800)	(31,800)
At 31 December, 2003	21,200	–	139,920	(6,692)	57,840	13,267	10,586	20,684	185,688	442,493

Consolidated Cash Flow Statement
For the year ended 31 December, 2003

	2003	2002
	RMB'000	*RMB'000*
Cash flows from operating activities		
Profit before taxation	131,877	142,272
Adjustments for:		
Depreciation	9,564	3,428
Loss on disposal of property, plant and equipment	734	–
Amortisation of goodwill	2,964	2,965
Amortisation of development costs	255	–
Interest income	(1,355)	(956)
Interest expenses	229	338
Operating cash flows before movements in working capital	144,268	148,047
Increase in inventories	(771)	(507)
Decrease (increase) in retention receivables	916	(546)
(Increase) decrease in amounts due from contract customers	(29,414)	2,002
Increase in trade debtors	(34,837)	(42,378)
(Increase) decrease in prepayments and other receivables	(7,390)	637
Decrease in amounts due from related parties	–	502
Increase (decrease) in trade and other payables	6,792	(5,188)
Decrease in amounts due to contract customers	(56)	(3,138)
Decrease in amounts due to related parties	–	(51,474)
Cash generated from operations	79,508	47,957
Interest paid	(229)	(338)
Income tax paid	(15,500)	(17,231)
Net cash from operating activities	63,779	30,388
Investing activities		
Purchase of property, plant and equipment	(44,766)	(71,743)
Deposits for acquisition of property, plant and equipment paid	–	(14,850)
Deposit for acquisition of technical know-how paid	(5,360)	–
Additions of development costs	(1,700)	–
Payments for acquisition of additional interests in a subsidiary	–	(1,272)
Proceeds from disposal of other investments	–	920
Interest received	1,355	956
Net cash used in investing activities	(50,471)	(85,989)

	2003	2002
	RMB'000	*RMB'000*
Financing activities		
Repayment of bank loans	(731)	(4,671)
Dividends paid	(31,800)	–
Dividends paid to minority shareholders	(246)	(83)
Proceeds from issue of shares less issue expenses	–	144,160
Capital contributions from minority shareholders	–	229
New bank loans raised	–	5,120
Proceeds from issue of shares in a subsidiary pursuant to Group Reorganisation	–	57,923
Net cash (used in) from financing activities	(32,777)	202,678
Net (decrease) increase in cash and cash equivalents	(19,469)	147,077
Cash and cash equivalents at the beginning of the year	204,913	57,836
Cash and cash equivalents at the end of the year, representing bank balances and cash	185,444	204,913

Notes to Financial Statements

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company and the principal activities of the Group are the production and sale of fire prevention and fighting equipment and the provision of installation and maintenance services for fire prevention and fighting systems.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The principal accounting policies which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Revenue recognition

Revenue on installation contracts is recognised using the percentage of completion method by reference to the value of work carried out during the year.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from bank deposits is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and impairment losses.

Property, plant and equipment in the course of construction/renovation for production, rental or administrative purpose, or for purposes not yet determined, are classified as construction in progress and carried at cost, less any identified impairment loss. Cost includes construction/renovation expenditure, professional fees and, for qualifying assets, borrowing costs capitalised and other relevant expenses directly attributable to such projects. No provision for depreciation is made on construction in progress until such time when construction/renovation work is completed and costs of construction/renovation are transferred to the appropriate category of property, plant and equipment.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress, using the straight line method, over their estimated useful lives which are as follows:

Leasehold land	Over the unexpired term of the relevant lease
Leasehold buildings	20 – 30 years
Other assets	5 – 10 years

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its estimated useful life.

When no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Installation contracts

When the outcome of an installation contract can be estimated reliably, revenue and costs are recognised in the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Variations in contract works, claims and incentive payments are included to the extent that they have been agreed with the customers.

When the outcome of an installation contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

Rentals under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

Retirement benefit schemes

The retirement benefit costs charged to the income statement represent the contributions payable in respect of the current year to the Group's Mandatory Provident Fund Scheme and state – sponsored retirement plan for its employees in Hong Kong and the People's Republic of China ("PRC"), respectively.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Foreign currencies

Transactions in currencies other than Renminbi are initially recorded at the rates of exchange ruling on dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the rates ruling on the balance sheet date. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

3. TURNOVER

Turnover represents the aggregate of the value of installation contract work carried out, the sales proceeds of goods sold and income from provision of maintenance services during the year, and is analysed as follows:

	2003	**2002**
	RMB'000	*RMB'000*
Revenue from installation contracts	60,269	87,358
Sale of goods	181,785	161,407
Provision of maintenance services	44,005	13,996
	286,059	262,761
Less: Sales tax	(3,584)	(3,242)
	282,475	259,519

Sales tax represents various local taxes levied on the invoiced value of goods sold and services rendered.

4. SEGMENT INFORMATION

(a) Business segments

For management purposes, the Group is currently organised into the following operating divisions – installation of fire prevention and fighting systems, sale of fire prevention and fighting equipment and provision of maintenance services. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses are as follows:

	Installation of fire prevention and fighting systems RMB'000	Sale of fire prevention and fighting equipment RMB'000	Provision of maintenance services RMB'000	Elimination RMB'000	Consolidated RMB'000
For the year ended 31 December, 2003					
TURNOVER					
External sales	58,308	181,584	42,583	–	282,475
Inter-segment sales	–	13,669	–	(13,669)	–
Total	58,308	195,253	42,583	(13,669)	282,475

Inter-segment sales are charged at prevailing market rates.

	Installation of fire prevention and fighting systems RMB'000	Sale of fire prevention and fighting equipment RMB'000	Provision of maintenance services RMB'000	Elimination RMB'000	Consolidated RMB'000
RESULTS					
Segment results	26,507	73,997	38,758	–	139,262
Finance costs					(229)
Unallocated corporate expenses					(7,156)
Profit before taxation					131,877
Taxation					(19,761)
Profit before minority interests					112,116
Minority interests					(401)
Net profit for the year					111,715

	Installation of fire prevention and fighting systems RMB'000	Sale of fire prevention and fighting equipment RMB'000	Provision of maintenance services RMB'000	Elimination RMB'000	Consolidated RMB'000
At 31 December, 2003					
ASSETS					
Segment assets	69,853	331,998	14,437	–	416,288
Unallocated corporate assets					64,314
					480,602
LIABILITIES					
Segment liabilities	6,013	13,855	–	–	19,868
Unallocated corporate liabilities					17,524
					37,392
OTHER INFORMATION					
Additions of property, plant and equipment	16	48,429	–		
Depreciation and amortisation	3,430	9,246	–		
Loss on disposal of property, plant and equipment	–	734	–		

	Installation of fire prevention and fighting systems	Sale of fire prevention and fighting equipment	Provision of maintenance services	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December, 2002					
TURNOVER					
External sales	84,645	161,313	13,561	–	259,519
Inter-segment sales	–	19,040	–	(19,040)	–
Total	84,645	180,353	13,561	(19,040)	259,519

Inter-segment sales are charged at prevailing market rates.

RESULTS					
Segment results	38,652	95,370	11,306	–	145,328
Finance costs					(338)
Unallocated corporate expenses					(2,718)
Profit before taxation					142,272
Taxation					(16,100)
Profit before minority interests					126,172
Minority interests					(295)
Net profit for the year					125,877

	Installation of fire prevention and fighting systems	Sale of fire prevention and fighting equipment	Provision of maintenance services	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December, 2002					
ASSETS					
Segment assets	96,047	216,146	1,185	–	313,378
Unallocated corporate assets					87,588
					400,966
LIABILITIES					
Segment liabilities	5,312	15,043	3,220	–	23,575
Unallocated corporate liabilities					14,251
					37,826
OTHER INFORMATION					
Additions of property, plant and equipment	2,623	79,707	–		
Depreciation and amortisation	2,974	3,401	–		

(b) Geographical segments

No geographical segment information in respect of the Group's operations has been presented as all the Group's turnover was derived from the PRC.

The analysis of the carrying amount of segment assets and additions to property, plant and equipment and intangible assets analysed by the geographical area in which the assets are located are as follows:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2003	**2002**	**2003**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
PRC	416,401	313,378	50,145	82,330
Hong Kong	56,840	87,588	21	113
United States of America	7,361	–	450	–
	480,602	400,966	50,616	82,443

5. OTHER OPERATING INCOME

	2003	**2002**
	RMB'000	*RMB'000*
Interest income	1,355	956
Others	2,814	3
	4,169	959

6. PROFIT FROM OPERATIONS

	2003	**2002**
	RMB'000	*RMB'000*
Profit from operations has been arrived at after charging:		
Depreciation:		
Property, plant and equipment	9,564	3,428
Loss on disposal of property, plant and equipment	734	–
Auditors' remuneration	697	670
Amortisation of goodwill included in administrative expenses	2,964	2,965
Allowance for doubtful debts	–	168
Amortisation of development costs included in cost of sales	255	–
Operating lease rentals in respect of rented premises	642	475
Research and development expenditure *(Note)*	557	1,112
Cost of inventories charged as expense	108,316	67,948
Staff costs, including directors' remuneration	23,062	23,566
Retirement benefit scheme contributions, including those included in directors' remuneration	1,236	1,421
Total staff costs	24,298	24,987
and crediting:		
Allowance for doubtful debts written back	–	418

Note: The amount included staff cost of RMB244,000 (2002: Nil) and depreciation on property, plant and equipment of RMB73,000 (2002: Nil). These amounts are also included in the respective disclosure items under this note 6.

7. FINANCE COSTS

	2003	2002
	RMB'000	*RMB'000*
Interest on bank borrowings wholly repayable within five years	1	129
Interest on bank borrowings not wholly repayable within five years	228	209
	229	338

8. DIRECTORS' EMOLUMENTS

	2003	2002
	RMB'000	*RMB'000*
Fees		
Executive	–	–
Non-executive	–	–
Independent non-executive	212	212
	212	212
Other emoluments (executive directors):		
Salaries and other benefits	1,398	390
Retirement benefit scheme contributions	5	16
	1,403	406
	1,615	618

Emoluments of the directors were as follows:

Executive		
Director A	413	139
Director B	413	128
Director C	413	139
Director D	164	–
Non-executive		
Director E	–	–
Director F	–	–
Independent non-executive		
Director G	106	106
Director H	106	106

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included four (2002: three) directors and one (2002: two) employee of the Company. The emoluments of the five highest paid individuals of the Company were as follows:

	2003	2002
	RMB'000	*RMB'000*
Salaries and other benefits	2,333	1,254
Retirement benefit scheme contributions	52	51
	2,385	1,305

No emoluments were paid by the Group to the directors and the highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office and no director waived any emoluments.

The emoluments of each of the five highest paid individuals are below HK$1 million.

10. TAXATION

	2003	2002
	RMB'000	*RMB'000*
The charge comprises:		
Current tax		
The PRC – income tax	16,271	16,100
Deferred tax	3,490	–
	19,761	16,100

The charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2003		2002	
	RMB'000	%	*RMB'000*	%
Profit before taxation	131,877		142,272	
Tax at the domestic income tax rate of 33% (2002: 33%)	43,519	33.0	46,950	33.0
Tax effect attributable to exempted profit	(27,293)	(20.7)	(33,778)	(23.7)
Tax effect of expenses that are not deductible in determining taxable profit	3,659	2.8	3,023	2.1
Tax effect of income that are not taxable in determining taxable profit	(124)	(0.1)	(95)	(0.1)
Tax expense and effective tax rate for the year	19,761	15.0	16,100	11.3

No provision for Hong Kong Profits Tax has been made as the Group's taxable income neither arises in, nor is derived from Hong Kong.

Income tax on profits arising from the PRC has been provided based on the prevailing tax rates applicable to the respective companies.

With effective from the year 2002, one of the subsidiary, Fujian Wanyou Fire Fighting Science and Technology Co., Ltd., is entitled to the two year's exemption from income tax followed by three years of 50% tax reduction.

Details of deferred taxation are set out in note 24.

11. DIVIDENDS

	2003	**2002**
	RMB'000	*RMB'000*
Interim dividend of 1 HK cent (2002: nil) per share paid	21,200	–
Final dividend of 1 HK cent (2002: 0.5 HK cent) per share proposed	21,200	10,600
	42,400	10,600

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of RMB111,715,000 (2002: RMB125,877,000) and on the 2,000,000,000 (2002: weighted average of 1,667,811,506) shares in issue.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Tooling and moulds	Furniture and fixtures	Computers	Motor vehicles	Leasehold improve-ments	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST									
At 1 January, 2003	10,142	22,312	36,360	8,133	774	4,051	–	39,545	121,317
Additions	–	26,599	–	166	79	277	688	21,107	48,916
Disposals	–	–	–	(1,140)	–	–	–	–	(1,140)
Transferred from construction in progress	56,493	2,879	–	–	–	–	1,280	(60,652)	–
At 31 December, 2003	66,635	51,790	36,360	7,159	853	4,328	1,968	–	169,093
DEPRECIATION									
At 1 January, 2003	302	3,182	174	723	115	965	–	–	5,461
Provided for the year	632	5,856	1,630	560	95	611	180	–	9,564
Disposals	–	–	–	(406)	–	–	–	–	(406)
At 31 December, 2003	934	9,038	1,804	877	210	1,576	180	–	14,619
NET BOOK VALUES									
At 31 December, 2003	65,701	42,752	34,556	6,282	643	2,752	1,788	–	154,474
At 31 December, 2002	9,840	19,130	36,186	7,410	659	3,086	–	39,545	115,856

The land and buildings are held in the PRC under medium term leases.

At 31 December, 2003, the net book value of land and buildings under mortgage amounts to approximately RMB8,072,000 (2002: RMB8,328,000).

14. RETENTION RECEIVABLES

The amount of the Group represents retention money in respect of the progress payments receivable on the contract works and are normally receivable one year after completion of the relevant contract. Retention receivables within twelve months is classified as current assets.

15. GOODWILL

	RMB'000
AT COST	
At 1 January, 2002 and 31 December, 2003	14,823
AMORTISATION	
At 1 January, 2003	4,861
Provided for the year	2,964
At 31 December, 2003	7,825
NET BOOK VALUES	
At 31 December, 2003	6,998
At 31 December, 2002	9,962

The goodwill is amortised over 5 years.

16. DEVELOPMENT COSTS

	RMB'000
AT COST	
Incurred during the year and at 31 December, 2003	1,700
AMORTISATION	
Provided for the year and at 31 December, 2003	255
NET BOOK VALUE	
At 31 December, 2003	1,445

The development costs are amortised on a straight-line basis over 5 years.

17. INVENTORIES

Inventories represent fire prevention and fighting equipment and are carried at cost.

	2003	**2002**
	RMB'000	*RMB'000*
Raw materials	842	1,086
Work-in-progress	1,125	347
Finished goods	2,261	2,024
	4,228	3,457

18. AMOUNTS DUE FROM (TO) CONTRACT CUSTOMERS

	2003	2002
	RMB'000	*RMB'000*
Contract costs incurred plus net profits recognised less recognised losses	63,333	88,965
Less: Progress billings	(32,810)	(87,912)
	30,523	1,053
Comprising:		
Amounts due from contract customers	30,523	1,109
Amounts due to contract customers	–	(56)
	30,523	1,053

19. TRADE DEBTORS

The credit period allowed by the Group to its customers is normally 30 – 90 days.

The aged analysis of trade debtors is as follows:

	2003	2002
	RMB'000	*RMB'000*
0 – 90 days	57,384	45,257
91 – 180 days	13,336	57
181 – 360 days	4,479	680
Over 360 days	5,632	–
	80,831	45,994

20. PREPAYMENTS AND OTHER RECEIVABLES

	2003	2002
	RMB'000	*RMB'000*
Deposits paid for purchase of property, plant and equipment	–	14,850
Deposit for acquisition of technical know-how	5,360	–
Prepayments and other receivables	11,326	3,936
Less: Allowance for doubtful debts	(2,304)	(2,304)
	14,382	16,482

21. TRADE AND OTHER PAYABLES

	2003	2002
	RMB'000	*RMB'000*
Trade creditors	5,289	625
Amount payable on acquisition of property, plant and equipment	–	10,700
Accrued costs and charges	15,185	11,617
Receipts in advance	1,253	3,219
	21,727	26,161

The aged analysis of trade creditors included in trade and other payables is as follows:

	2003	2002
	RMB'000	*RMB'000*
Within 30 days	4,933	326
31 – 60 days	59	139
61 – 90 days	285	–
Over 90 days	12	160
	5,289	625

22. TAX LIABILITIES

	2003	2002
	RMB'000	*RMB'000*
Value added tax	3,287	2,851
Sales tax and other levies	1,303	1,213
Income tax	3,867	3,096
	8,457	7,160

23. MORTGAGE LOAN

	2003	2002
	RMB'000	*RMB'000*
Mortgage loan, secured	3,718	4,449

The maturity of the above secured mortgage loan is as follows:

Within one year	731	731
More than one year, but not exceeding two years	731	731
More than two years, but not exceeding five years	2,194	2,194
More than five years	62	793
	3,718	4,449
Less: Amount due within one year shown under current liabilities	(731)	(731)
Amount due after one year	2,987	3,718

24. DEFERRED TAX LIABILITIES

The Group's deferred tax liability mainly relates to the accounting difference between Hong Kong general accepted accounting principles and the PRC general accepted accounting principles on profit recognition of installation contracts.

25. SHARE CAPITAL

Authorised

	No. of shares	*HK$'000*
Shares of HK$0.01 each on incorporation	38,000,000	380
Shares of HK$0.10 each		
Consolidation *(Note a below)*	3,800,000	380
Shares of HK$0.01 each		
Subdivision *(Note b below)*	38,000,000	380
Increase of share capital *(Note c below)*	9,962,000,000	99,620
Balance as at 31 December, 2002 and 31 December, 2003	10,000,000,000	100,000

Notes:

(a) On 3 January, 2002, pursuant to a resolution in writing passed by the subscriber of the Company, the nominal value of every share of the Company was changed from HK$0.01 to HK$0.10 each.

(b) Pursuant to the resolution in writing passed on 11 March, 2002 by the sole shareholder of the Company, each of the authorised, existing issued and unissued shares of HK$0.10 of the Company was sub-divided into 10 shares of HK$0.01 each.

(c) Pursuant to the written resolution passed on 12 July, 2002 by the sole shareholder of the Company, the authorised share capital of the Company was increased from HK$380,000 to HK$100,000,000 by the creation of 9,962,000,000 additional shares of HK$0.01 each.

Issued and fully paid

	No. of shares	*HK$'000*
Shares of HK$0.10 each		
Issued on 19 February, 2002	1	–
Shares of HK$0.01 each		
Subdivision *(Note b above)*	10	–
Issue of shares in accordance with the Group Reorganisation on 20 September, 2002	1,599,999,990	16,000
Placing of new shares on 27 September, 2002	400,000,000	4,000
Balance as at 31 December, 2002 and 31 December, 2003	2,000,000,000	20,000

Shown in the financial statements as

	RMB'000
Balance as at 31 December, 2002 and 31 December, 2003	21,200

Notes:

(a) The Company was incorporated on 3 January, 2002 with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On 19 February, 2002, one share of HK$0.10 was issued fully paid and allotted to the subscriber of the Company.

(b) On 20 September, 2002, the Company issued a total number of 1,599,999,990 new shares of HK$0.01 each for shares in a subsidiary, Wang Sing Technology Limited, pursuant to the Group Reorganisation.

(c) On 27 September, 2002, the Company issued a total of 400,000,000 new shares of HK$0.01 each at a price of HK$0.40 per share by way of placing.

All the shares which were issued during the period rank pari passu in all respects.

26. RESERVES

	Share premium	Special reserve	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Statutory reserve fund	Accumu-lated profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January, 2002	–	–	–	7,080	7,493	1,888	7,972	24,433
Shares swap in accordance with the Group Reorganisation	–	(6,692)	–	–	–	–	–	(6,692)
Arising from issue of shares of a subsidiary	–	–	57,840	–	–	–	–	57,840
Premium arising from issue of shares for cash by means of placing	165,360	–	–	–	–	–	–	165,360
Expenses incurred in connection with the issue of shares	(25,440)	–	–	–	–	–	–	(25,440)
Net profit for the year	–	–	–	–	–	–	125,877	125,877
Transfer	–	–	–	3,006	1,502	10,271	(14,779)	–
At 31 December, 2002	139,920	(6,692)	57,840	10,086	8,995	12,159	119,070	341,378
Net profit for the year	–	–	–	–	–	–	111,715	111,715
Transfer	–	–	–	3,181	1,591	8,525	(13,297)	–
Dividends paid	–	–	–	–	–	–	(31,800)	(31,800)
At 31 December, 2003	139,920	(6,692)	57,840	13,267	10,586	20,684	185,688	421,293

(a) Statutory surplus reserve

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

(b) Statutory public welfare fund

Pursuant to the articles of association of the group companies established in the PRC, these companies are required to appropriate from their respective aforesaid profits after taxation at the rate of 5% to 10% or an amount to be determined by the directors to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees collective welfare. Individual employees only have the right to use these facilities, the titles to which will remain with the group companies. The statutory public welfare fund forms part of the equity and is non-distributable other than in liquidation.

(c) Statutory reserve fund

In accordance with the Law of the PRC on foreign enterprises, wholly foreign-owned enterprises are required to transfer an amount of not less than 10% of its profit after tax to the statutory reserve fund, which may be used for making up losses and capitalisation into capital.

(d) Special reserve

The special reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition under the Group Reorganisation.

(e) Capital reserve

The capital reserve represents the share premium arising from the issue of shares of a subsidiary to three investors in accordance with the Group Reorganisation.

3. INDEBTEDNESS

At the close of business on 31 December, 2004, being the latest practicable date for the purpose of ascertaining the information contained in this indebtedness prior to the printing of this circular, the Group had outstanding secured bank loans of approximately RMB12.4 million in aggregate and unsecured, non-interest bearing borrowings of approximately RMB9 million in aggregate.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the GEM Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those expressed by UTFE or its affiliates) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those relating to UTFE or its affiliates) have been arrived at after due and careful consideration and there are no other facts (other than those relating to UTFE or its affiliates) not contained in this circular the omission of which would make any statement contained herein misleading and belief.

The directors of UTFE accept full responsibility for the accuracy of the information contained in this circular (other than that relating to the Company or its subsidiaries) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Company or in relation to its subsidiaries) have been arrived at after due and careful consideration and there are no other facts (other than those relating to the Company or its subsidiaries) not contained in this circular, the omission which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

		Par Value per Share *(HK$)*	*HK$*
Authorised:			
10,000,000,000	Shares authorised as at the Latest Practicable Date	0.01	100,000,000
Issued and fully paid:			
2,020,000,000	Shares issued as at the Latest Practicable Date	0.01	20,200,000

All issued Shares rank pari passu with each other in terms of capital, dividend and voting. Apart from the 20,000,000 Shares issued in November 2004 as part of the consideration to acquire Tung Shing Trade Development Company Limited (details of which are contained in the Company's circular dated 5 October, 2004), no Shares have been issued by the Company between 31 December, 2003 to the Latest Practicable Date.

Save for the 30,000,000 outstanding share options to subscribe for Shares in the Company, as at the Latest Practicable Date, the Company has no convertible securities, derivatives or warrants outstanding and had not entered into any agreement for the issue of any convertible securities, options, warrants or derivatives of the Company.

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

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

Short positions in ordinary shares of the Company

Name of Director	Number of Shares	Nature of interests/ holding capacity	Approximate percentage of interest
Jiang Xiong	total number of Option Shares	Personal/beneficiary	cannot be determined at this stage

Long positions in ordinary shares of the Company

Name of Director	Number of Shares	Number of Shares interested under the Proposed Share Subscription	Nature of interests/ holding capacity	Approximate percentage of interests *(%)*
Jiang Xiong	981,600,000 *(Note)*		Personal/beneficiary	48.59%
Jiang Xiong		825,000,000	Personal/beneficiary	40.84%
Jiang Qing	7,500,000		Personal/beneficiary	0.37%

Note: Mr. Jiang is also deemed to have a long position in the Option Shares.

Options to subscribe for ordinary shares in the Company

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

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

(ii) As at the Latest Practicable Date and save as disclosed in paragraphs 3(i) and 4(a)(i) in this appendix, neither UTFE, Mr. Jiang nor any of the respective directors of UTFE or its affiliates had any interests in the Shares, convertible securities, warrants, options and derivatives of the Company.

(iii) As at the Latest Practicable Date, none of the Company or its subsidiaries or any of their pension funds or an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code had any interest in any shares, convertible securities, warrants, options and derivatives of the Company.

(iv) None of the persons as referred to in paragraph 10 in this appendix below has any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(v) As at the Latest Practicable Date, none of the Shares was owned or controlled by a person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

(vi) As at the Latest Practicable Date, none of the Shares was owned or controlled by a person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with UTFE or Mr. Jiang or any of their Concert Parties.

(vii) As at the Latest Practicable Date, none of the Shares was owned by discretionary fund managers connected with the Company.

4. INTEREST UNDER SFO AND SUBSTANTIAL SHAREHOLDERS AND DEALINGS

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

(a) Long positions in ordinary shares

Name of shareholder	Number of issued share of HKD0.01 each of the Company held	Capacity and type of interest	Number of Shares interested under the Proposed Share Subscription and the Option Agreement	Percentage of issued capital of the Company
United Far East Technologies Limited *(Note 1)*			1,806,600,000	89.44%
United Technologies Corporation *(Notes 1 and 2)*			1,806,600,000	89.44%
Otis Elevator Company *(Notes 1 and 3)*			1,806,600,000	89.44%
Carrier Corporation *(Notes 1 and 4)*			1,806,600,000	89.44%
Cantus Limited	132,650,000	Beneficial owner *(Note 5)*		6.57%
Aria Investment Partners L.P.	132,650,000	Interest of a controlled corporation *(Note 6)*		6.57%
CLSA Funds Limited	132,650,000	Interest of a controlled corporation *(Note 7)*		6.57%

Name of shareholder	Number of issued share of HKD0.01 each of the Company held	Capacity and type of interest	Number of Shares interested under the Proposed Share Subscription and the Option Agreement	Percentage of issued capital of the Company
CLSA B.V.	132,650,000	Interest of a controlled corporation *(Note 8)*		6.57%
Calyon Capital Markets Asia B.V.	132,650,000	Interest of a controlled corporation *(Note 9)*		6.57%
Credit Lyonnais Capital Markets International SASU	132,650,000	Interest of a controlled corporation *(Note 10)*		6.57%
Credit Agricola Indosuez	132,650,000	Interest of a controlled corporation *(Note 11)*		6.57%
Credit Agricola S.A.	132,650,000	Interest of a controlled corporation *(Note 12)*		6.57%
SAS Rue Ia Boetie	132,650,000	Interest of a controlled corporation *(Note 13)*		6.57%

Notes:

1. They are Concert Parties of Mr. Jiang Xiong.

2. United Technologies Corporation is beneficially interested in the entire issued share capital of United Technologies Far East Limited and is deemed or taken to be interested in 1,806,600,000 shares in which United Technologies Far East Limited has declared an interest for the purpose of the SFO.

3. Otis Elevator Company is beneficially interested in 50.9% of the entire issued share capital of United Technologies Far East Limited and is deemed or taken to be interested in 1,806,600,000 shares in which United Technologies Far East Limited has declared an interest for the purpose of the SFO.

4. Carrier Corporation is beneficially interested in 49.1% of the entire issued share capital of United Technologies Far East Limited and is deemed or taken to be interested in 1,806,600,000 shares in which United Technologies Far East Limited has declared an interest for the purpose of the SFO.

5. Aria Investment Partners, L.P. is beneficially interested in the entire issued share capital of Cantus Limited and is deemed or taken to be interested in the 132,650,000 shares in which Cantus Limited has declared an interest for the purpose of the SFO.

6. CLSA Private Equity Management Limited is the investment manager of Aria Investment Partners, L.P.

7. CLSA Funds Limited is beneficially interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 132,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 6 above.

8. CLSA B.V. is beneficially interested in the entire issued share capital of CLSA Funds Limited and is deemed or taken to be interested in the 132,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 6 above.

9. Calyon Capital Markets Asia B.V. is beneficially interested in 65% of the share capital of CLSA B.V. and is deemed or taken to be interested in the 132,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 6 above.

10. Credit Lyonnais Capital Markets International SASU is beneficially interested in the entire issued share capital of Calyon Capital Markets Asia B.V. and is deemed or taken to be interested in the 132,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFC as mentioned in Note 6 above.

11. Credit Agricola Indosuez is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets International SASU and is deemed or taken to be interested in the 132,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 6 above.

12. Credit Agricola S.A. is beneficially interested in the entire issued share capital of Credit Agricola Indosuez and is deemed or taken to be interested in the 132,660,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 6 above.

13. SAS Rue La Boetie is beneficially interested In 51.5% of the issued share capital of Credit Agricola S.A. and is deemed or taken to be interested in the 132,650,000 shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 6 above.

Save as disclosed above, no other person as at the Latest Practicable Date had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

(b) Short positions in ordinary shares

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

Other than as disclosed in paragraph 3(i) in this appendix, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at the Latest Practicable Date.

(c) Dealings in shares and securities

(i) Save for entering into the Subscription Agreement and the Option Agreement and the placing of 92.5 million Shares at HK$0.495 per Share by Mr. Jiang Qing on 14 October, 2004, none of the persons as referred to in paragraphs 3(ii), (iii), (v), (vi) and 4(d)(v) in this appendix has dealt for value in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company during the period beginning 2 August, 2004, the date six months prior to the date of the Announcement, and ending on the Latest Practicable Date.

(ii) Save for the placing of 92.5 million Shares at HK$0.495 per Share by Mr. Jiang Qing on 14 October, 2004, none of the Directors has dealt for value in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company during the period beginning 2 August, 2004, the date six months prior to the date of the announcement, and ending on the Latest Practicable Date.

(iii) Save for the placing of 92.5 million Shares at HK$0.495 per Share by Mr. Jiang Qing on 14 October, 2004, during the six-month period immediately preceding the Announcement and ending on the Latest Practicable Date, there were no dealings in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company by the UTFE, Mr. Jiang and their respective Concert Parties.

(iv) The Company does not have any interest in the shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of UTFE and UTC nor has the Company dealt for value in the shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of UTFE, Otis Elevator Company, Carrier Corporation and UTC during the period beginning 2 August, 2004, the date six months prior to the date of the Announcement, and ending on the Latest Practicable Date.

(d) Others

(i) Other than the Subscription Agreement and the Option Agreement, there is no agreement or arrangement exists between any of the Directors and any other person which is conditional or dependent upon the outcome of the Proposed Share Subscription and the Whitewash Waiver or otherwise connected therewith.

(ii) Other than the Subscription Agreement and the Option Agreement, there is no agreement, arrangement or understanding (including any compensation arrangement) exists between the UTFE, Mr. Jiang or any of their respective Concert Parties and any of the Directors, recent Directors, Shareholders and recent Shareholders having any connection with or dependence upon the outcome of the Proposed Share Subscription and the Whitewash Waiver or otherwise connected therewith.

(iii) None of the Directors nor any of the persons as referred to in paragraph 10 in this appendix below has or has had, since 31 December, 2003, being the date to which the latest published audited accounts of the Group have been made up, any direct or indirect interests in any assets acquired or disposed of by or leased to or proposed to be acquired or disposed of by or leased to any member of the Group.

(iv) None of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

(v) Save as disclosed in paragraph 3(i) in this appendix, as at the Latest Practicable Date, none of the Directors had any interests in any shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Company, UTFE and UTC.

(vi) None of the Directors of UTFE has any interests in any shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Company.

5. MARKET PRICES

(a) The Shares are traded on GEM. The table below shows the closing prices of the Shares on GEM on (i) the last trading day of each of the six calendar months immediately preceding 2 February, 2005, the date of the Announcement; (ii) 13 January, 2005, being the last trading day prior to the suspension of trading in the shares from 9:35 a.m. on 17 January, 2005, pending the issue of the Announcement; and (iii) the Latest Practicable Date:

Date	**Closing Price** *HK$*
31 August, 2004	0.48
30 September, 2004	0.495
29 October, 2004	0.57
30 November, 2004	0.55
31 December, 2004	0.60
13 January, 2005	0.62
31 January, 2005	suspended trading
28 February, 2005	0.73
8 March, 2005	0.71

(b) The highest and lowest closing prices of the Shares recorded on the Stock Exchange during the period between 2 August, 2004 (being the date six months prior to the date of the Announcement) and the Latest Practicable Date were HK$0.78 on 21 February, 2005 and HK$0.415 on 12 August, 2004 respectively.

6. SERVICE CONTRACTS

Other than Mr. Chan Siu Tat, each of the executive Directors has entered into a service contract with the Company for a period of three years commencing on 30 September, 2002. Mr. Chan Siu Tat has entered into a director's service contract with the Company with a fixed monthly remuneration of HK$20,000 for a period of three years commencing 16 October, 2003 and will expire on 15 October, 2006. Each of the executive Directors is entitled to the respective basic salaries which is payable in arrears at the end of each calendar month on a 13 month basis, subject to an annual increment after each completed year of service at a rate to be determined at the sole and absolute discretion of the Board, provided that such increase shall not exceed 10% of the then current annual remuneration of the relevant Director (except for Mr. Chan Siu Tat, increment for whom has no limit). In addition, the executive Directors are also entitled to a discretionary bonus as the Board may in its absolute discretion determine having regard to the performance of the executive Director and the operating results of the Group which, in respect of any financial year of the Company, shall not be more than 10% of the audited consolidated net profit after taxation and minority interests but before extraordinary and exceptional items of the Group for that financial year, which amount shall be paid within one calendar month after the announcement of the audited final results of the Group for that financial year. The discretionary bonus shall only be payable when the audited consolidated net profit after taxation and minority interests but before extraordinary and exceptional items of the

Group and before payment of the total discretionary bonuses payable to all the executive Directors shall exceed HK$8 million. The emoluments received by the executive Directors for 2002, 2003 and 2004 (up to 30 September) are as follows:

	Basic salaries and retirement benefits	**Discretionary bonus paid**
	HK$'000	*HK$'000*
2002	406	–
2003	1,324	–
2004 (up to 30 September)	1,570	4,283

The term of office of each of the non-executive Directors and independent non-executive Directors is the period to his/her retirement by rotation in accordance with the Company's articles of association.

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

Other than the service contract of Mr. Chan Siu Tat, none of the service contracts of the Directors have more than twelve months to run. Further, none of the service contracts have been entered into or amended within the six months before the date of the Announcement.

7. COMPETING INTEREST

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

8. LITIGATION

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

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into under the ordinary course of business of the Group) have been entered into by the Group within the two years immediately preceding the date of this document and are or may be material:

(a) a share transfer agreement (in Chinese)《股權轉讓協議》dated 26 February, 2004 entered into between Loyal Asset Investment Holdings Limited (**Loyal Asset**) and Mr. Su Bo (蘇波先生) and Mr. Lin Jianyong (林健永先生), pursuant to which Loyal Asset acquired 55.44% equity interest in Chongzheng Huasheng Emergency Lighting System Ltd., Co. (崇正華盛應急照明系統有限責任公司) at a consideration of RMB3,800,000.

(b) a share transfer agreement (in Chinese)《股權轉讓協議》dated 11 August, 2004 entered into between Fujian Wanyou Fire Engineering Group Company Limited (**Wanyou Engineering**) and Mr. Feng Quan Hui (馮權輝先生) and Mr. Deng Ping Tao (鄧評韜先生), pursuant to which Wanyou Engineering acquired 51.61% equity interest in Shengan City Safety at a consideration of RMB7,000,000.

(c) a sales and purchase agreement (in Chinese)《部份已發行股本買賣協議》dated 8 September, 2004 entered into between Allied Best Holdings Limited (**Allied Best**) and Mr. Chan Chun Ho (陳振和先生), Ms. Wong Oi Kam (黃愛琴女士) and Emperor Group Holdings Limited, pursuant to which Allied Best acquired 51% of the total issued ordinary shares and 100% of the total issued non-voting deferred shares of Tung Shing Trade Development Company Limited, at a consideration of HK$40,800,000.

(d) a sales and purchase agreement (in Chinese)《有關四川消防機械總廠之國有產權轉讓協議》entered into among Wanyou Engineering and Jiangxi Shengan City Safety Communications Development Company Limited (**Shengan City Safety**) and Hua Xia Fire Safety (Group) Company Limited (華夏消防(集團)有限責任公司) on 24 September, 2004, pursuant to which Wanyou Engineering and Shengan City Safety acquired 95% and 5% equity interests of Sichuan Fire Safety Appliances Factory (**Sichuan Fire Factory**) (四川消防機械總廠) respectively, at a total consideration of RMB81,000,000.

(e) an agreement for the sale and purchase of shares in Morita-CFE Investment Company Limited dated 14 January, 2005 entered into between Allied Best and Morita Corporation (**Morita**), pursuant to which the Group eventually sells 25% equity interest of Sichuan Fire Factory to Morita, at a consideration of RMB20,750,000; and

(f) the Subscription Agreement.

10. QUALIFICATION OF EXPERT

The following is the qualification of the expert who has given opinion or advice which is contained in this document:

Name	**Qualification**
Grand Vinco Capital Limited	A licensed corporation registered with the Securities and Futures Commission under the SFO
Kingston Corporate Finance Limited	A licensed corporation registered with the Securities and Futures Commission under the SFO

11. CONSENT

Each of the Joint Independent Financial Advisers has given and has not withdrawn its written consent to the issue of this document with the inclusion there a copy of their advice letter and/or references to its name, in the form and context in which they respectively appear.

12. GENERAL

The head office and principal place of business of the Company in the PRC is at 8th Floor, Gaojing Trade Centre, No. 158 Wu Yi Bei Road, Fuzhou City, Fujian Province, PRC. The principal place of business of the Company in Hong Kong is at Suite 907, 9/F, ICBC Tower, 3 Garden Road, Central, Hong Kong. The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong.

(a) The compliance officer of the Company is Mr. Jiang Qing, an executive Director. Mr. Jiang is a qualified engineering in the PRC and obtained the qualification of senior economist from the Human Resources Office of Fujian Provincial Government (福建省人事廳) in January 2004.

(b) The qualified accountant and company secretary of the Company is Ms. Li Ching Wah. Ms. Li is an associate member of the Hong Kong Institute of Certified Public Accountants.

(c) The Company has established an audit committee with written terms of reference in compliance with Rules 5.23 to 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual reports and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Directors. The audit committee comprises Mr. Liu Shi Pu, Mr. Heng Kwoo Seng and Mr. Xiang Yu Fu, all of whom are independent non-executive Directors of the Company.

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

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

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

(d) The registered office of UTFE is situated at 1401, Hutchison House, 10 Harcourt Road, Central, Hong Kong. The registered office of UTC is situated at One Financial Plaza, Hartford, Connecticut, USA.

(e) The directors of UTC are Betsy Bernard, George David, Jean-Pierre Garnier, Jamie S. Gorelick, Charles R. Lee, Richard D. McCormick, Harold McGraw III, Frank P. Popoff, H. Patrick Swygert, Andre Villeneuve, Harold A. Wagner and Christine Todd Whitman. The directors of UTFE are Christopher Herbert Kurt von Witzky, Timothy Kent Airgood, Ann Clark Bieber and Richard James Pierpont, Jr.

(f) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between UTFE and any other person for the transfer of the beneficial interests in the new Shares to be issued under the Proposed Share Subscription.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Suite 907, 9th Floor, ICBC Tower, 3 Garden Road, Hong Kong during normal business hours on any weekday (public holidays excluded) until 29 March, 2005:

(a) The memoranda and articles of association of the Company and UTFE;

(b) The letter from the Independent Board Committee, the text of which is set out on page 30 of this document;

(c) The letter from the Joint Independent Financial Advisers, the text of which is set out on pages 31 to 50 of this document;

(d) The audited consolidated financial statements of the Group for each of the three financial years ended 31 December, 2003 and the unaudited results for the nine months ended 30 September, 2004;

(e) The letters of consent as referred to in this appendix;

(f) The material contracts as referred to in this appendix;

(g) The Option Agreement; and

(h) The service contracts referred to in paragraph 6 of this appendix.

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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "Extraordinary General Meeting") of China Fire Safety Enterprise Group Holdings Limited (the "Company") will be held at Chater Room II, Chater Room Level, The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong on 29 March, 2005 at 2:30 p.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions respectively:

ORDINARY RESOLUTIONS

(1) "**THAT**

(a) the execution of the subscription agreement (the "Subscription Agreement") dated 1 February, 2005 and entered into between the Company and United Technologies Far East Limited ("UTFE") as subscriber in relation to the subscription by UTFE of the lower of (i) such number of new shares of HK$0.01 each in the share capital of the Company ("Shares") in two tranches as will enable UTFE to exercise or control the exercise of approximately 29% (but in any event less than 30%) of the voting rights at general meeting of the Company; and (ii) such number of new Shares (rounded down to the nearest whole number), the total subscription consideration for which will be equal to HK$476,025,000 (the "Subscription Shares") at a price of HK$0.577 per Subscription Share (the "Subscription"), a copy of the Subscription Agreement has been produced to the meeting marked "A" and initialed by the chairman of the meeting for identification purpose and the Subscription and the performance by the Company thereof and the transactions contemplated thereby be and are hereby confirmed, ratified and approved; and that any one or more of the directors of the Company be and are hereby authorised to sign, seal, execute, perfect, deliver or do all such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things, matters and take all such actions as he or they may in their discretion consider necessary or desirable for the purpose of or in connection with the giving effect to the Subscription Agreement and the exercise or enforcement of any of the Company's rights under the Subscription Agreement including, inter alia, upon the Subscription Agreement becoming unconditional, the authority to complete the transactions contemplated by the Subscription Agreement and/or to procure completion of the same and to make and

* *for identification purpose only*

agree with such changes in the terms of the Subscription Agreement as any such director(s) may in their discretion consider necessary, desirable or expedient and in the interest of the Company;

(b) the entering into between Mr. Jiang Xiong and UTFE of the option agreement (the "Option Agreement") dated 1 February, 2005 in relation to the grant by Mr. Jiang Xiong of 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, at the option exercise price (as defined in the circular of the Company dated 10 March, 2005), a copy of the Option Agreement has been produced to the meeting marked "B" and initialed by the chairman of the meeting for identification purpose and the Option and the transactions contemplated thereby be and are hereby confirmed, ratified and approved; and

(c) the waiver pursuant to Note 1 on dispensation from Rule 26 of the Code on Takeovers and Mergers of Hong Kong (the "Takeovers Code") waiving any obligation on the part of Mr. Jiang Xiong and UTFE and their parties acting in concert to make a general offer for all the issued shares in the capital of the Company not already owned by them or parties acting in concert with them which would otherwise arise under Rule 26 of the Takeovers Code as a result of the completion of the Subscription be and is hereby approved."

(2) "**THAT** conditional upon the ordinary resolution No. 1 contained in the notice of the Extraordinary General Meeting of which this resolution forms part being approved and becoming unconditional and effective, the directors of the Company be and they are hereby authorised to allot and issue the Subscription Shares (as defined in ordinary resolution No. 1 contained in the notice of Extraordinary General Meeting of which this resolution forms part) to UTFE (or to such other person or persons as it may nominate) upon the completion of the Subscription (as defined in ordinary resolution No. 1 contained in the notice of the Extraordinary General Meeting of which this resolution forms part) or any part thereof, credited as fully paid pursuant to the terms of the Subscription Agreement (as defined in ordinary resolution No. 1 contained in

the notice of the Extraordinary General Meeting of which this resolution forms part), such Subscription Shares shall rank pari passu in all respects with the existing Shares in issue at the date of allotment of the Subscription Shares."

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

Hong Kong, 10 March, 2005

Notes:

1. Any member of the Company (the "Member") entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. Vote may be given either personally or by a duly authorized corporate representative or by proxy. A Member who is the holder of two or more shares of the Company (the "Shares") may appoint more than one proxy to attend on the same occasion provided that, if more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed. A proxy need not be a Member. In addition, a proxy or proxies representing either an individual Member or a Member which is a corporate, shall be entitled to exercise the same powers on behalf of the Member which he or they represent as such Member could exercise, including, without limiting the generality of foregoing, but subject to the right to vote individually on a show of hands.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing or, if the appointor is corporation, either under seal or under the hand of an officer or attorney duly authorized.

3. A form of proxy for the Meeting is enclosed. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority shall be deposited at the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude of a Member from attending and voting in person at the meeting or poll concerned.

4. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date of its execution unless it states that it is valid for all meetings whatsoever until revoked with the exception that any instrument may be used at any adjournment of the meeting for which it was originally intended and on a poll demanded at a meeting or adjourned meeting provided that in all these cases the meeting was originally held within 12 months from such date.

5. The instrument appointing a proxy to vote shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit.

6. A vote given in accordance with the terms of an instrument of proxy or power of attorney or by the duly authorized corporate representative of a corporation shall be valid notwithstanding the previous death or insanity of the principal or the revocation of the proxy or power of the attorney or other authority under which the proxy was executed or transfer of the Share in respect of which the proxy is given provided that no intimation in writing of the death, insanity, revocation or transfer has been received at the office or such other place as was specified for the deposit of instrument of proxy or by the chairman of the meeting at least 2 hours before the commencement of the meeting or adjourned meeting at which the instrument of proxy is used.