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# **China Fire Safety Enterprise Group Holdings Limited**

**中國消防企業集團控股有限公司\***

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

(Stock code: 8201)

## **MAJOR TRANSACTION**

**Acquisition of 100% of the equity interest of Sichuan Fire Safety Appliances Factory  
and  
RESUMPTION OF TRADING**

\* For identification purpose only

The Directors are pleased to announce that on 24 September 2004 the Purchasers, which are the Company's indirect subsidiaries, entered into the Agreement with the Vendor (which is an Independent Third Party) in relation to the acquisition of 100% of the equity interest of Sichuan Fire Factory held by the Vendor at a consideration of RMB81,000,000, which will be wholly satisfied in cash in 2 tranches by the Purchasers.

The Consideration is arrived at after arm's length negotiation and is based on the net asset value of RMB70,185,000 of the Sichuan Group as at 30 April 2003 valued by Sichuan Chunghwa Assets Appraisal Company Limited (四川中華資產評估有限公司), a qualified independent appraiser in the PRC and the audited increment in the net asset value of the Sichuan Group amounted to RMB9,423,300 from 30 April 2003 to 29 February 2004 and the Directors' estimation of the future prospects of the Sichuan Group.

Sichuan Fire Factory is a state owned enterprise established in the PRC in 1963, with paid up capital of RMB9,599,000. Sichuan Fire Factory and its subsidiaries are principally engaged in the manufacturing and sale of fire engines, design, manufacturing, sale and installation of fire fighting and prevention equipment; and provision of installation and maintenance services of fire prevention systems.

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

The Acquisition constitutes a major transaction under Chapter 19 of the GEM Listing Rules. On 24 September 2004, the Company received a written approval on the Agreement from a closely allied group of shareholders, namely Mr. Jiang Xiong and Mr. Jiang Qing, who are brothers and also directors of the Company, and who have no interest in the Agreement or any transaction contemplated thereunder other than through their shareholding interests in the Company and who together hold more than 50% in the nominal value of the securities in the Company that carry voting rights. No shareholder is required to abstain from voting on the relevant resolution should an extraordinary general meeting be held. Accordingly, pursuant to Rule 19.44 of the GEM Listing Rules, no extraordinary general meeting is required to be held to consider the Acquisition.

At the request of the Company, trading in Shares on GEM was suspended with effect from 9:30 a.m. on 27 September 2004, pending release of this announcement. Application has been made by the Company for the resumption of trading in the Shares with effect from 9:30 a.m. on 30 September 2004.

A circular containing further details of the Acquisition will be despatched to the Shareholders as soon as practicable.

## **AGREEMENT DATED 24 September 2004**

### **Parties:**

- Vendor : Hua Xia Fire Safety (Group) Company Limited (華夏消防(集團)有限責任公司), which is wholly owned by China Huan Dao (Group) Company (中國寰島(集團)公司). Hua Xia Fire Safety (Group) Company Limited and China Huan Dao (Group) Company, who and whose ultimate beneficial owners are to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, are Independent Third Parties
- Purchasers : Fujian Wanyou Fire Engineering Group Company Limited (福建萬友消防工程集團有限公司), ("Purchaser 1") and Jiangxi Shengan City Safety Communications Development Company Limited (江西盛安城市安全信息發展有限公司), ("Purchaser 2") both are indirect subsidiaries of the Company

### **Assets to be acquired:**

Pursuant to the Agreement, Purchaser 1 and Purchaser 2 have agreed to acquire from the Vendor 95% and 5% respectively of the equity interest of Sichuan Fire Factory. Sichuan Fire Factory is a state owned enterprise established in the PRC in 1963, with a registered capital of RMB15,158,000 and a paid up capital of RMB9,599,000 respectively. The Sichuan Group is principally engaged in the manufacturing and sale of fire engines, design, manufacturing, sale and installation of fire fighting and prevention equipment; and provision of installation and maintenance services of fire prevention systems.

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

The Consideration payable by the Purchasers is RMB81,000,000 (out of which Purchaser 1 to pay pro rata RMB76,950,000 for 95% equity interest of Sichuan Fire Factory and Purchaser 2 to pay pro rata RMB4,050,000 for 5% equity interest of Sichuan Fire Factory), which will be wholly satisfied in cash, RMB21,200,000 of which will be financed out of the proceeds from placement of new shares by the Company in September 2002 and the remaining out of the Group's internal resources. The current intended use of the proceeds is in line with disclosure made in September 2002. Sichuan Fire Factory will become a subsidiary of the Company after completion of the Acquisition. The Consideration will be settled in the following manners:

- 1 40% of the Consideration (i.e. RMB32,400,000. Out of this RMB32,400,000, RMB 13,000,000 has been paid as down payment. So the amount to be paid will be RMB19,400,000) will be settled within 5 working days after:
  - Delivery by the Vendor to Purchaser 1 documents evidencing the approval by China Huan Dao (Group) Company (中國寰島(集團)公司) of the transfer of equity interest in Sichuan Fire Factory;
  - Delivery by the Vendor to Purchaser 1 document evidencing the approval of the Agreement by China Huan Dao (Group Company) Limited (中國寰島(集團)公司);
  - Delivery by the Vendor to Purchaser 1 written confirmations by financial institution creditors of the Sichuan Group approving the Restructuring;
  - Delivery by the Vendor to Purchaser 1 document evidencing the approval by China Huan Dao (Group) Company (中國寰島(集團)公司) of the Restructuring;

- Delivery by the Vendor to Purchaser 1 settlement arrangement (職工安置方案) in respect of compensation to be paid to Sichuan Group's employees (as a result of the Restructuring) which have been signed by the employees representatives of Sichuan Group and approved by the general meetings of employees representatives of Sichuan Group (職工代表大會); and
  - Delivery by the Vendor to Purchaser 1 document evidencing after the execution of the Agreement, China Huan Dao (Group Company) Limited (中國寰島(集團)公司) has passed a resolution to submit a proposal to SASAC for the cancellation of Sichuan Group's state-owned property rights.
- 2 60% of the Consideration (i.e. RMB48,600,000) will be paid within 5 working days after:
- All the conditions in number 1 above have been fulfilled;
  - Delivery by the Vendor to Purchaser 1 approval by SASAC of cancellation of Sichuan Group's state-owned property rights;
  - New business license (營業執照) has been obtained for the Restructured Company;
  - All land use rights and property rights of the Sichuan Group which have been valued by Sichuan Chunghwa Assets Appraisal Company Limited (四川中華資產評估有限公司) have been transferred and registered in the name of the Restructured Company;
  - All operations and business certificates (業務及經營許可證) of the Sichuan Group have been transferred and registered in the name of the Restructured Company;
  - The China Huan Dao (Group) Company (中國寰島(集團)公司) has settled all the amount it owes to Sichuan Group as loan advances amounted to approximately RMB5,547,000.; and
  - Delivery by the Vendor to Purchaser 1 signed confirmations by the employees of Sichuan Group agreeing to the compensation amount to be paid to them under the Sichuan Group's compensation arrangement with the employees.

There is no long stop date for the fulfillment of the above conditions precedent.

In the event that the Acquisition fails to complete due to default by the Vendor, the Consideration including the down payment of RMB13,000,000 will be refunded to the Purchasers with interest of 0.0002% per day from the date of down payment to the refund date. If the actual loss of the Purchasers as a result of the Vendor's default is greater than the above interest amount, the Vendor shall pay the difference to the Purchasers.

In the event that the Acquisition fails to complete due to default by the Purchasers, the Vendor shall return the down payment and other Consideration paid after deducting the actual loss of the Vendor as a result of the Purchasers' default.

The Consideration is arrived at after arm's length negotiation and is based on the net asset value of RMB70,185,500 of Sichuan Group as at 30 April 2003 valued by Sichuan Chunghwa Assets Appraisal Company Limited (四川中華資產評估有限公司), a qualified independent appraiser in the PRC and recognized by SASAC, according to the valuation standards generally accepted in PRC and the audited increment in the net asset value of the Sichuan Group amounted to RMB9,423,300 from 30 April 2003 to 29 February 2004 which was made according to PRC accounting standards and the Directors' view of the future prospects of the Sichuan Group. The Directors believe that the Acquisition would enlarge the Group's product range and give the Group an opportunity to step into the huge market for fire engines and other fire fighting equipment such as fire extinguishing system in which the Group has not been involved to date. Furthermore the Group can utilize the extensive sales

network already established by the Sichuan Group, and thereby extend its market coverage outside Fujian, especially in the Southwest region in the PRC. The Directors consider the pricing of the Acquisition to be reasonable based on the financial due diligence conducted by the Company.

The Vendor has guaranteed that each of the total debt to total assets ratio and the current liabilities to current assets ratio based on the value of the net assets, as computed by the Purchasers according to the PRC valuation standards and accounting standards, handed over to the Purchasers upon completion of the Acquisition as compared to the respective total debt to total assets ratio and the current liabilities to current assets ratio based the net asset value of Sichuan Group as at 30 April 2003 valued by Sichuan Chunghwa Assets Appraisal Company Limited (四川中華資產評估有限公司), plus the audited increment in net assets from 30 April 2003 to 29 February 2004 would not be higher than 2%. If the above comparison produces a figure higher than 2%, it may amount to a material breach of the term of the Agreement and the Purchasers may either (i) rescind the Agreement (with the consequence that the Consideration including the down payment of RMB13,000,000 be refunded to the Purchasers with interest of 0.0002% per day from the date of down payment to the refund date. If the actual loss of the Purchasers as a result of the Vendor's breach is greater than the above interest amount, the Vendor shall pay the difference to the Purchasers); or (ii) choose to continue with the Agreement and the Vendor shall compensate the Purchasers their loss as a result of the Vendor's breach.

As at 31 December 2003, the audited consolidated total asset and net assets of the Sichuan Group amounted to approximately RMB222,961,000 and RMB78,647,000 respectively. For the year ended 31 December 2003, its audited consolidated profits before and after tax were approximately RMB1,288,000 and RMB1,117,000 respectively and the audited consolidated turnover for the Sichuan Group was approximately RMB145,894,000. For the year ended 31 December 2002, the audited consolidated profits before and after tax and turnover for the Sichuan Group were approximately RMB220,000, RMB179,000 and RMB117,800,000 respectively. All the above figures were prepared according to the PRC accounting standards. The Company will perform appropriate adjustment on the above figures in accordance with accounting standards generally accepted in Hong Kong. If a reconciliation of the figures produces a material difference of the relevant figures, the Company will make appropriate announcement of such material difference and comply with all the relevant GEM Listing Rules. As at the date of this announcement, a reconciliation result of the above figures is not yet available because the accountants report prepared in accordance with accounting standards generally accepted in Hong Kong has not been finalized.

## **INFORMATION ON THE GROUP AND REASONS FOR THE ACQUISITION**

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.

Sichuan Fire Factory is a state owned enterprise established in the PRC in 1963, with paid up capital of RMB9,599,000 million. It has two wholly owned subsidiaries, namely, Sichuan Fire Protection Engineering Company (四川消防工程公司) ("**Sichuan Engineering**") and Sichuan Fire Safety Appliance Factory 14th Factory (四川消防機械總廠第十四分廠) ("**Sichuan 14th Factory**"). The Sichuan Group is principally engaged in the manufacturing and sale of fire engines; the design, manufacturing, sale and installation of fire fighting and prevention equipment; and provision of installation and maintenance services of fire prevention systems. The Sichuan Group has 41 models of fire engines and 78 types of other fire-fighting products registered with or approved by the National Development and Reform

Commission (國家發展與改革委員會). They are sold nationwide in the PRC and in some countries in the Southeast Asia. The Sichuan Group's fire-fighting products mainly comprise fire extinguishing systems (with water, foam, carbon dioxide and powder). Sichuan Engineering has obtained Class I Certificate for contractors of professional fire prevention and fighting systems installation (消防設施工程專業承包一級資質證書) and is awarded Sichuan Construction Engineering Grade A Enterprise and ISO9001 certificate.

The Vendor is a state owned enterprise, directly under the administration of the Ministry of Public Security. It is founded in 1960's and has a registered capital of RMB100 million. It is principally engaged in the design, development, production and sale of fire engines and fire prevention and fighting products; fire safety system installation and maintenance services; and real estate development and property management. It is wholly owned by China Huan Dao (Group) Company (中國寰島(集團)公司), a state owned enterprise established in 1992 with registered capital of RMB200 million. Its principal business activities comprise real estate, tourism, hotel, financial services, technology development, manufacturing and trading.

The Directors believe that the Acquisition would enlarge the Group's product range and give the Group an opportunity to step into the huge market for fire engines and other fire fighting equipment such as fire extinguishing system in which the Group has not been involved to date. Furthermore the Group can utilize the extensive sales network already established by the Sichuan Group, and thereby extend its market coverage outside Fujian, especially in the Southwest region in the PRC.

The Group has entered into a non-legal binding letter of intent with Morita Corporation ("Morita") in January 2004, a shareholder of the Company holding 1.168% of the issued share capital, indicating that it will cooperate with the Group in various aspects including technical consultation and invest in the Restructured Company. Morita is principally engaged in the manufacturing and distribution of fire engines and fighting prevention and fighting equipment. It is listed on both the Tokyo Stock Exchange Limited and the Osaka Stock Exchange Limited. The participation of Morita in the Restructured Company by providing technical consultation and investing in the Restructured Company would strengthen the technical standards and improve quality of Sichuan Group's fire engines. It would also help the Sichuan Group to expand into markets for high end products. The Directors believe that the Acquisition would create a synergistic effect that enhances the growth of the Group.

It is intended that the Group will form the majority of the board and where necessary, retain the incumbent senior management team of the Sichuan Fire Factory.

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

As disclosed in the prospectus of the Company dated 23 September 2002, its business objectives include acquisitions of manufacturing enterprises engaged in fire service equipment so as to give the Company a speedy foray into the production and manufacture of this sector. The Directors consider that the acquisition of interest in Sichuan Fire Factory is in line with the business objectives of the Company.

## **GENERAL**

The Acquisition constitutes a major transaction under Chapter 19 of the GEM Listing Rules. On 24 September 2004, the Company received a written approval on the Agreement from a closely allied group of shareholders of the Company, namely Mr. Jiang Xiong and Mr. Jiang

Qing, who are brothers and also directors of the Company, and who have no interest in the Agreement or any transaction contemplated thereunder other than through their equity interests in the Company. Mr. Jiang Xiong and Mr. Jiang Qing respectively hold 981,600,000 Shares and 100,000,000 Shares, representing 49.08% and 5% of the issued share capital of the Company. Mr. Jiang Xiong and Mr. Jiang Qing are brothers. No shareholder is required to abstain from voting on the relevant resolution should an extraordinary general meeting be held. Accordingly, no extraordinary general meeting is required to be held to consider the Acquisition contemplated under the Agreement pursuant to Rule 19.44 of the GEM Listing Rules.

At the request of the Company, trading in Shares on GEM was suspended with effect from 9:30 a.m. on 27 September 2004, pending release of this announcement. Application has been made by the Company for the resumption of trading in the Shares with effect from 9:30 a.m. on 30 September 2004.

A circular containing further details of the Acquisition will be despatched to the Shareholders as soon as practicable.

## DEFINITIONS

“Acquisition”	the acquisition of 100% of the equity interest of Sichuan Fire Factory, by the Purchasers from the Vendor pursuant to the Agreement
“Agreement”	the transfer of shareholding of state-owned assets agreement (國有股權轉讓協議) dated 24 September 2004 and entered into between the Purchasers and the Vendor
“Associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	China Fire Safety Enterprise Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Growth Enterprise Market of the Stock Exchange
“Consideration”	consideration for the Acquisition
“Director(s)”	the director(s) of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“Independent Third Party(ies)”	independent third party(ies), who is/are not connected with any of the directors, chief executives, substantial shareholders or management shareholders (as such term is defined in the GEM Listing Rules) of the

	Company and their subsidiaries or their respective associates (as such term is defined in the GEM Listing Rules) and are not connected persons of the Company
“PRC”	The People’s Republic of China
“Purchaser 1”	Fujian Wanyou Fire Engineering Company Limited (福建萬友消防工程集團有限公司), a limited liability company established in the PRC on 23 December 1996 and an indirect subsidiary, in which the Company holds 99.3% of equity interests. The remaining 0.7% is held by Ms. Liu Mei Jin (劉梅金女士), an Independent Third Party
“Purchaser 2”	Jiangxi Shengan City Safety Communications Development Co. Ltd. (江西盛安城市安全信息發展有限公司), a limited liability company established in the PRC in June 1998 and an indirect subsidiary, in which the Company holds 51.61% of equity interests since August 2004. The other 43.23% is held by Mr. Fung Quan Hui (馮權輝先生) and the remaining 5.16% is held by Mr. Deng Ping Tao (鄧評韜先生), both of them are Independent Third Parties (except that Mr. Fung Quan Hui (馮權輝先生) is a substantial shareholder of Purchaser 2, a subsidiary of the Company)
“Purchasers”	Purchaser 1 and Purchaser 2
“Restructured Company”	The new limited liability company after completion of the Restructuring.
“Restructuring”	The restructuring of Sichuan Fire Factory after the Acquisition such that it becomes a limited liability company.
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“Sichuan Fire Factory”	Sichuan Fire Safety Appliances Factory (四川消防機械總廠), a state owned enterprise established in the PRC in 1963
“Sichuan Group”	Sichuan Fire Factory and its subsidiaries
“Shareholders”	shareholders of the Company
“Shares”	shares of HK\$0.01 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited



“Vendor”

Hua Xia Fire Safety (Group) Company Limited (華夏消防(集團)有限責任公司) is a state owned enterprise, directly under the administration of the Ministry of Public Security. It is founded in 1960's and has a registered capital of RMB100 million. It is principally engaged in the design, development, production and sale of fire engines and fire prevention and fighting products; fire safety system installation and maintenance services; and real estate development and property management. It is wholly owned by China Huan Dao (Group) Company (中國寰島(集團)公司), a state owned enterprise established in 1992 with registered capital of RMB200 million. Its principal business activities comprise real estate, tourism, hotel, financial services, technology development, manufacturing and trading.

“%”

per cent.

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

As at the date of this announcement, the Directors comprise the following:

Mr. Jiang Xiong (*Executive Director*)  
Mr. Jiang Qing (*Executive Director*)  
Mr. Chen Shu Quan (*Executive Director*)  
Mr. Chan Siu Tat (*Executive Director*)  
Mr. Richard Owen Pyvis (*Non-executive Director*)  
Ms. Josephine Price (*Non-executive Director*)  
Mr. Liu Shi Pu (*Independent non-executive Director*)  
Mr. Heng Kwoo Seng (*Independent non-executive Director*)

Hong Kong, 28 September 2004

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

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