

CHINA FIRE & SECURITY GROUP, INC.
Form PRE 14A
June 10, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
 Confidential, for Use of the Commission Only (as permitted by
Rule 14a-6(e)(2))
 Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material Pursuant to §240.14a-12

CHINA FIRE & SECURITY GROUP, INC.
(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- | | |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (1) | Title of each class of securities to which transaction applies:
China Fire & Security Group, Inc. common stock, par value \$0.001
("common stock") |
| (2) | Aggregate number of securities to which transaction applies:
28,640,321 shares of common stock (including 27,890,321 shares
outstanding and 750,000 shares of restricted stock) and 1,731,220 shares of
common stock underlying options of the Company with an exercise price of
\$6.81 or less |
| (3) | Per unit price or other underlying value of transaction computed pursuant to
Exchange Act Rule 0-11 (set forth the amount on which the filing fee is
calculated and state how it was determined):
The proposed maximum aggregate value of the transaction for purposes of
calculating the filing fee is \$265,584,025. The maximum aggregate value of
the transaction was calculated based upon the sum of (A) (1) 28,640,321
shares of common stock (including shares of restricted stock) issued and
outstanding and owned by persons other than the Company, Parent and
Merger Sub on June 8, 2011, multiplied (2) by \$9.00 per share (the "per share
merger consideration") and (B) (1) 1,731,220 shares of common stock
underlying outstanding options of the Company with an exercise price of
\$6.81 or less, as of June 8, 2011, multiplied by (2) the excess of the per
share merger consideration over the weighted average exercise price of
\$4.48. The filing fee equals the product of 0.00011610 multiplied by the |

Edgar Filing: CHINA FIRE & SECURITY GROUP, INC. - Form PRE 14A

maximum aggregate value of the transaction.

(4) Proposed maximum aggregate value of transaction: \$265,584,025

(5) Total fee paid: \$30,834.31

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PRELIMINARY PROXY MATERIAL SUBJECT TO COMPLETION

[], 2011

To the Shareholders of China Fire & Security Group, Inc.:

You are cordially invited to attend a special meeting of shareholders of China Fire & Security Group, Inc., a Florida corporation (the “Company,” “we,” “us” or “our”) to be held at [], local time, on [], 2011, at [].

On May 20, 2011, we entered into an Agreement and Plan of Merger (the “merger agreement”) with Amber Parent Limited, an exempted company incorporated in the Cayman Islands (“Parent”), and Amber Mergerco, Inc., a Florida corporation and a wholly owned subsidiary of Parent (“Merger Sub”), providing for the merger of Merger Sub with and into the Company (the “merger”), with the Company surviving the merger as a wholly owned subsidiary of Parent. Parent and Merger Sub are both affiliates of funds managed by Bain Capital Partners, LLC. At the special meeting, we will ask you to approve the merger agreement.

If the merger is completed, each share of Company common stock, other than as provided below, will be converted into the right to receive \$9.00 in cash, without interest and less any applicable withholding taxes. We refer to this amount as the “per share merger consideration.” The following shares of Company common stock will not be converted into the right to receive the per share merger consideration in connection with the merger: (a) shares owned by the Company, any subsidiary of the Company, Parent or Merger Sub, immediately prior to the effective time of the merger, (b) shares that the Rollover Investors (as defined below) agreed to contribute to Parent and/or Merger Sub, and (c) shares owned by shareholders who have perfected and not withdrawn a demand for appraisal rights under the Florida Business Corporation Act (the “FBCA”).

A special committee of our board of directors, consisting entirely of independent directors, reviewed and considered the terms and conditions of the merger agreement and the transactions contemplated by the merger agreement, including the merger. This special committee determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable, fair (both substantively and procedurally) to and in the best interests of the Company and its unaffiliated shareholders, recommended that our board of directors approve, adopt and declare the advisability of the merger agreement and the transactions contemplated by the merger agreement, including the merger, and recommend that our shareholders approve the merger agreement. Our board of directors, after careful consideration and acting on the unanimous recommendation of the special committee, deemed it advisable and in the best interests of the Company and our shareholders that the Company enter into the merger agreement, determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable, fair (both substantively and procedurally) to and in the best interests of the Company and its unaffiliated shareholders, approved and adopted the merger agreement and recommended that our shareholders approve the merger agreement at the special meeting. Our board of directors recommends that you vote “FOR” the proposal to approve the merger agreement.

The merger cannot be completed unless the merger agreement is approved by the affirmative vote of (i) shareholders holding at least seventy-five percent (75%) of the outstanding shares of the Company common stock at the close of business on the record date and (ii) unaffiliated shareholders holding more than fifty percent (50%) of the outstanding shares of the Company common stock at the close of business on the record date (other than shares owned by the Rollover Investors (as defined below), certain holders of Company common stock who have entered into voting agreements with Parent and Merger Sub, and/or any holders of Company common stock who have entered into voting agreements or other similar shareholder support agreements with Parent, Merger Sub or their affiliates following May 20, 2011, agreeing to vote in favor of the merger). More information about the merger is contained in the accompanying proxy statement and the merger agreement attached thereto as Annex A.

In considering the recommendation of the special committee and the board of directors, you should be aware that some of the Company's directors and executive officers have interests in the merger that are different from, or in addition to, the interests of our shareholders generally. Certain special purpose companies (collectively, the "Rollover Investors") controlled by Mr. Weigang Li (our chairman of the board of directors) in whole or in part, Mr. Brian Lin (our chief executive officer and one of our directors), and Mr. Weishe Zhang (our vice president

of strategic planning and one of our directors) have agreed with Parent and Merger Sub to contribute to Parent a portion of the shares of Company common stock owned by them, aggregating approximately 19.9% of the outstanding shares of Company common stock as of June 8, 2011 (the "Rollover Shares"), in exchange for a certain equity interest in Parent at the same price per share as is paid by the shareholders of Parent affiliated with the Sponsors at closing. In addition, Li Brothers Holdings Inc. ("Li Brothers"), a Rollover Investor controlled in part by Mr. Weigang Li, agreed to contribute an additional portion of the Company common stock owned by it representing approximately 4.3% of the outstanding shares of Company common stock as of June 8, 2011 (the "Cashed-Out Shares") to Merger Sub in exchange for a per share amount equal to the per share merger consideration, which will be paid after our shareholders generally receive their merger consideration. The surviving corporation is required to pay Li Brothers the consideration for the Cashed-Out Shares as soon as practicable following such time as it has funds sufficient to make such payment and to use its reasonable best efforts to make such payment within three months following the completion of the merger. The accompanying proxy statement includes additional information regarding certain interests of the Company's directors and executive officers that may be different from, or in addition to, the interests of our shareholders generally.

We encourage you to read the accompanying proxy statement in its entirety because it explains the proposed merger, the documents related to the merger and other related matters.

Regardless of the number of shares of Company common stock you own, your vote is important. The failure to vote will have the same effect as a vote against the proposal to approve the merger agreement. Whether or not you plan to attend the special meeting, please take the time to submit a proxy by following the instructions on your proxy card as soon as possible. If your shares of Company common stock are held in an account at a broker, dealer, commercial bank, trust company or other nominee, you should instruct your broker, dealer, commercial bank, trust company or other nominee how to vote in accordance with the voting instruction form furnished by your broker, dealer, commercial bank, trust company or other nominee.

We appreciate your continued support of the Company.

Sincerely,

[]

The merger has not been approved or disapproved by the Securities and Exchange Commission or any state securities commission. Neither the Securities and Exchange Commission nor any state securities commission has passed upon the merits or fairness of the merger or upon the adequacy or accuracy of the information contained in this document or the accompanying proxy statement. Any representation to the contrary is a criminal offense.

The accompanying proxy statement is dated [], 2011 and is first being mailed to shareholders on or about [], 2011.

CHINA FIRE & SECURITY GROUP, INC.

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD [], 2011

NOTICE IS HEREBY GIVEN that the special meeting of shareholders of China Fire & Security Group, Inc. (the “Company,” “we,” “us” or “our”) will be held at [], local time, on [], 2011, at [], for the following purposes:

1. To approve the Agreement and Plan of Merger, dated May 20, 2011 (the “merger agreement”), by and among the Company, Amber Parent Limited, an exempted company incorporated in the Cayman Islands (“Parent”), and Amber Mergerco, Inc., a Florida corporation and a wholly owned subsidiary of Parent (“Merger Sub”) providing for the merger of Merger Sub with and into the Company (the “merger”), with the Company surviving the merger as a wholly owned subsidiary of Parent. Parent and Merger Sub are affiliates of funds managed by Bain Capital Partners, LLC; and
2. To approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the merger agreement.

For more information about the merger and the other transactions contemplated by the merger agreement, please review the accompanying proxy statement and the merger agreement attached thereto as Annex A.

A special committee of our board of directors, consisting entirely of independent directors, reviewed and considered the terms and conditions of the merger agreement and the transactions contemplated by the merger agreement, including the merger. This special committee determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable, fair (both substantively and procedurally) to and in the best interests of the Company and its unaffiliated shareholders, recommended that our board of directors approve, adopt and declare the advisability of the merger agreement and the transactions contemplated by the merger agreement, including the merger, and recommend that our shareholders approve the merger agreement. Our board of directors, after careful consideration and acting on the unanimous recommendation of the special committee, deemed it advisable and in the best interests of the Company and our shareholders that the Company enter into the merger agreement, determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable, fair (both substantively and procedurally) to and in the best interests of the Company and its unaffiliated shareholders, approved and adopted the merger agreement and recommended that our shareholders approve the merger agreement at the special meeting. Our board of directors recommends that you vote “FOR” the proposal to approve the merger agreement.

Certain special purpose companies (collectively, the “Rollover Investors”) controlled by Mr. Weigang Li (our chairman of the board of directors) in whole or in part, Mr. Brian Lin (our chief executive officer and one of our directors) and Mr. Weishe Zhang (our vice president of strategic planning and one of our directors) have agreed with Parent and Merger Sub to contribute to Parent a portion of the shares of Company common stock owned by them, aggregating approximately 19.9% of the outstanding shares of Company common stock as of June 8, 2011 (the “Rollover Shares”), in exchange for a certain equity interest in Parent at the same price per share as is paid by the shareholders of Parent affiliated with the Sponsors at closing. In addition, Li Brothers Holdings Inc. (“Li Brothers”), a Rollover Investor controlled in part by Mr. Weigang Li, agreed to contribute an additional portion of the Company common stock owned by it, representing approximately 4.3% of the outstanding shares of Company common stock as of June 8, 2011 (the “Cashed-Out Shares”), to Merger Sub in exchange for a per share amount equal to the per share merger consideration, which will be paid after our shareholders generally receive their merger consideration. The surviving

corporation is required to pay Li Brothers the consideration for the Cashed-Out Shares as soon as practicable following such time as it has funds sufficient to make such payment and to use its reasonable best efforts to make such payment within three months following the completion of the merger. Messrs. Weigang Li and Brian Lin will also enter into new three-year employment agreements (with two conditional one-year extensions) with Parent or one of its subsidiaries following the merger.

Only shareholders of record at the close of business on [], 2011 are entitled to notice of and to vote at the special meeting and at any and all adjournments or postponements thereof.

The approval of the merger agreement requires the affirmative vote of (i) shareholders holding at least seventy-five percent (75%) of the outstanding shares of the Company common stock at the close of business on the record date and (ii) unaffiliated shareholders holding more than fifty percent (50%) of the outstanding shares of the Company common stock at the close of business on the record date (other than shares owned by the Rollover Investors, certain holders of Company common stock who have entered into voting agreements with Parent and Merger Sub, and/or any holders of Company common stock who have entered into voting agreements or other similar shareholder support agreements with Parent, Merger Sub or their affiliates following May 20, 2011, agreeing to vote in favor of the merger). The approval of the adjournment of the special meeting requires the affirmative vote of the holders of at least a majority of the shares of the Company common stock present and entitled to vote at the special meeting as of the record date, whether or not a quorum is present. Notice of the adjourned meeting need not be given if the time and place to which the meeting is adjourned is announced at the meeting before an adjournment is taken and our board of directors does not fix a new record date for the adjourned meeting.

Regardless of the number of shares of Company common stock you own, your vote is important. The failure to vote will have the same effect as a vote against the proposal to approve the merger agreement. Whether or not you plan to attend the special meeting, please take the time to submit a proxy by following the instructions on your proxy card as soon as possible. If your shares of Company common stock are held in an account at a broker, dealer, commercial bank, trust company or other nominee, you should instruct your broker, dealer, commercial bank, trust company or other nominee how to vote in accordance with the voting instruction form furnished by your broker, dealer, commercial bank, trust company or other nominee.

Company common shareholders who do not vote in favor of approval of the merger agreement will have the right to seek appraisal and receive the fair value of their shares in lieu of receiving the per share merger consideration if the merger closes but only if they perfect their appraisal rights by complying with the required procedures under Florida law, which are summarized in the accompanying proxy statement. The procedure for dissent and appraisal is described in Sections 607.1301 to 607.1333 of the Florida Business Corporation Act, which are attached as Annex C to the proxy statement accompanying this notice. We are providing this notice and a copy of such sections pursuant to Section 607.1320 of the Florida Business Corporation Act. Florida law requires strict adherence to the procedures set forth therein, and failure to do so may result in the loss of all dissenters' appraisal rights. Accordingly, each shareholder who might desire to exercise dissenter's appraisal rights should carefully consider and comply with the provisions of those sections and consult his or her legal advisor.

If you plan to attend the special meeting, please note that you may be asked to present valid photo identification, such as a driver's license or passport. If you wish to attend the special meeting and your shares of Company common stock are held in an account at a broker, dealer, commercial bank, trust company or other nominee (i.e., in "street name"), you will need to bring a copy of your voting instruction card or statement reflecting your share ownership as of the record date.

By Order of the Board of Directors,

[Name]

[Title]

Beijing, China

[], 2011

Important Notice of Internet Availability

This proxy statement for the special meeting to be held on [], 2011, is available free of charge at <http://www.myproxyonline.com/chinafire>

YOUR VOTE IS IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING IN PERSON, YOU ARE ENCOURAGED TO VOTE AS SOON AS POSSIBLE. YOU MAY VOTE YOUR SHARES OF COMPANY COMMON STOCK BY TELEPHONE, OVER THE INTERNET, OR IF YOU RECEIVED A PAPER COPY OF THE PROXY CARD, BY SIGNING AND DATING IT AND RETURNING IT PROMPTLY. VOTING BY PROXY WILL NOT PREVENT YOU FROM ATTENDING THE MEETING AND VOTING IN PERSON IF YOU SO DESIRE.

SUMMARY VOTING INSTRUCTIONS

Ensure that your shares of Company common stock can be voted at the special meeting by submitting your proxy or contacting your broker, dealer, commercial bank, trust company or other nominee.

If your shares of Company common stock are registered in the name of a broker, dealer, commercial bank, trust company or other nominee: check the voting instruction card forwarded by your broker, dealer, commercial bank, trust company or other nominee to see which voting options are available or contact your broker, dealer, commercial bank, trust company or other nominee in order to obtain directions as to how to ensure that your shares of Company common stock are voted at the special meeting.

If your shares of Company common stock are registered in your name: submit your proxy as soon as possible by telephone, via the Internet or by signing, dating and returning the enclosed proxy card in the enclosed postage-paid envelope, so that your shares of Company common stock can be voted at the special meeting.

Instructions regarding telephone and Internet voting are included on the proxy card.

The failure to vote will have the same effect as a vote against the proposal to approve the merger agreement. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be voted in favor of the proposal to approve the merger agreement and the proposal to adjourn the special meeting, if necessary and appropriate, to solicit additional proxies.

If you have any questions, require assistance with voting your proxy card,
or need additional copies of proxy material, please call Okapi Partners LLC
at the phone numbers listed below.

Toll Free: (877) 869-0171
Collect: (212) 297-0720

TABLE OF CONTENTS

	PAGE
PROXY STATEMENT	1
SUMMARY TERM SHEET	1
QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER	13
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS	17
SPECIAL FACTORS	18
The Parties	18
Background of the Merger	19
Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Approval of the Merger Agreement; Fairness of the Merger	24
Opinion of Barclays Capital, Financial Advisor to the Special Committee	30
Purposes and Reasons of the Sponsors, Parent and Merger Sub for the Merger	36
Purposes and Reasons of the Rollover Investors for the Merger	37
Position of the Sponsors, Parent and Merger Sub Regarding the Fairness of the Merger	38
Position of the Rollover Investors Regarding the Fairness of the Merger	39
Management's Projected Financial Information	40
Certain Effects of the Merger	41
Effects on the Company if Merger is not Completed	44
Plans for the Company	44
Financing of the Merger	44
Limited Guarantee	46
Interests of the Company's Directors and Executive Officers in the Merger	46
Dividends	48
Determination of the Per Share Merger Consideration	48
Regulatory Matters	48
Estimated Fees and Expenses	48
Certain Material United States Federal Income Tax Consequences	49
Accounting Treatment of the Merger	51
Delisting and Deregistration of the Company Common Stock	51
Litigation Relating to the Merger	51
Provisions for Unaffiliated Shareholders	51
THE SPECIAL MEETING	53
Date, Time and Place	53
Purpose of the Special Meeting	53
Recommendation of Our Board of Directors and Special Committee	53
Record Date; Shareholders Entitled to Vote; Quorum	53
Abstentions and "Broker Non-votes"	53
Vote Required	54
Stock Ownership and Interests of Certain Persons	54
Voting Procedures	54
Other Business	56
Revocation of Proxies	56
Rights of Shareholders Who Object to the Merger	56
Solicitation of Proxies	56
Availability of Documents Incorporated by Reference	56
Questions and Additional Information	57
THE MERGER AGREEMENT	58
Explanatory Note Regarding the Merger Agreement	58

Effects of the Merger; Directors and Officers; Articles of Incorporation; By-laws	58
Closing and Effective Time of the Merger	58
Treatment of Common Stock, Options and Restricted Stock	59
Representations and Warranties	60
Conduct of Our Business Pending the Merger	64
Solicitation of Acquisition Proposals	66
Shareholders' Meeting	69
Reasonable Best Efforts	69

Financing; Financing Assistance	70
Indemnification; Directors' and Officers' Insurance	71
Other Covenants	72
Conditions to the Completion of the Merger	73
Termination of the Merger Agreement	74
Termination Fees; Reimbursement of Expenses	75
Limitations on Liabilities	77
Specific Performance	78
Modification or Amendment	79
COMMON STOCK OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS	80
COMMON STOCK TRANSACTION INFORMATION	82
APPRAISAL RIGHTS	82
SELECTED FINANCIAL INFORMATION	84
MARKET PRICE AND DIVIDEND INFORMATION	85
SUBMISSION OF SHAREHOLDER PROPOSALS	85
WHERE YOU CAN FIND MORE INFORMATION	86
ANNEX A: AGREEMENT AND PLAN OF MERGER	A-1
ANNEX B: OPINION OF BARCLAYS CAPITAL ASIA LIMITED	B-1
ANNEX C: SECTIONS 607.1301-607.1333 OF THE FLORIDA BUSINESS CORPORATION ACT	C-1
ANNEX D: ROLLOVER AGREEMENT	D-1
ANNEX E: FORM OF VOTING AGREEMENT	E-1

CHINA FIRE & SECURITY GROUP, INC.

SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON [], 2011

PROXY STATEMENT

This proxy statement contains information related to a special meeting of shareholders of China Fire & Security Group, Inc. which will be held at [], local time, on [], 2011, at [] and any adjournments or postponements thereof. We are furnishing this proxy statement to shareholders of China Fire & Security Group, Inc. as part of the solicitation of proxies by the Company's board of directors for use at the special meeting. This proxy statement is dated [], 2011 and is first being mailed to shareholders on or about [], 2011.

SUMMARY TERM SHEET

This summary term sheet, together with the section of this proxy statement entitled "Questions and Answers About the Special Meeting and the Merger" beginning on page 13 of this proxy statement, highlights selected information in this proxy statement and may not contain all of the information about the merger that is important to you. We have included page references in parentheses to direct you to more complete descriptions of the topics presented in this summary term sheet. You should carefully read this proxy statement in its entirety, including the annexes and the other documents to which we have referred you, for a more complete understanding of the matters being considered at the special meeting. In addition, this proxy statement incorporates by reference important business and financial information about the Company. You are encouraged to read all of the documents incorporated by reference into this proxy statement and you may obtain without charge copies of such documents incorporated by reference into this proxy statement by following the instructions under "Where You Can Find More Information" beginning on page 86.

In this proxy statement, the terms "we," "us," "our," "CFSG," or the "Company" refer to China Fire & Security Group, Inc. and its subsidiaries. We refer to Bain Capital Partners, LLC as "Bain Capital," Bain Capital Asia Fund, L.P. as the "Guarantor," and Guarantor and Bain Capital Fund X, L.P. collectively as the "Sponsors." We refer to Amber Parent Limited as "Parent" and Amber Mergerco, Inc. as "Merger Sub." We refer to Li Brothers Holdings Inc., Jin Zhan Limited, Vyle Investment Inc. and Small Special Technology Inc. collectively as the "Rollover Investors." We refer to Li Brothers Holdings Inc., China Honour Investment Limited, Jin Zhan Limited, Vyle Investment Inc., Small Special Technology Inc., Mr. Weigang Li, Mr. Brian Lin and Mr. Weishe Zhang collectively as the "Voting Shareholders." When we refer to the "merger agreement," we mean the Agreement and Plan of Merger, dated as of May 20, 2011, among the Company, Parent and Merger Sub.

The Parties (page 18)

China Fire & Security Group, Inc. is a Florida corporation, engaged primarily in the design, development, manufacturing and sale of fire protection products and services for large industrial firms in China and international markets. We have developed a proprietary product line that addresses all aspects of industrial fire safety from fire detection to fire system control and extinguishing.

Parent is a Cayman exempted limited company newly formed for the purpose of entering into and consummating transactions of the type contemplated by the merger agreement. Merger Sub was formed for the sole purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement. Both Parent and Merger Sub are affiliates of the Sponsors.

The Rollover Investors are a group of special purpose companies controlled by Mr. Weigang Li (our chairman of the board of directors) in whole or in part, Mr. Brian Lin (our chief executive officer and one of our directors) and Mr. Weishe Zhang (our vice president of strategic planning and one of our directors). The Rollover Investors have agreed with Parent and Merger Sub to contribute to Parent a portion of the shares of Company common stock owned by them, aggregating approximately 19.9% of the outstanding shares of Company common stock as of June 8, 2011 (the "Rollover Shares"), in exchange for a certain equity interest in Parent at the same price per share as

1

is paid by the shareholders of Parent affiliated with the Sponsors at closing. In addition, Li Brothers Holdings Inc. (“Li Brothers”), a Rollover Investor controlled in part by Mr. Weigang Li, agreed to contribute an additional portion of the Company common stock owned by it representing approximately 4.3% of the outstanding shares of Company common stock as of June 8, 2011 (the “Cashed-Out Shares”) to Merger Sub in exchange for a per share amount equal to the per share merger consideration, which will be paid after our shareholders generally receive their merger consideration. The surviving corporation is required to pay Li Brothers the consideration for the Cashed-Out Shares as soon as practicable following such time as it has funds sufficient to make such payment and to use its reasonable best efforts to make such payment within three months following the completion of the merger.

Overview of the Transaction (page 59)

The Company, Parent and Merger Sub entered into the merger agreement on May 20, 2011. Under the terms of the merger agreement, Merger Sub will be merged with and into the Company, with the Company surviving the merger as a wholly owned subsidiary of Parent. The following will occur pursuant to the merger:

- each share of Company common stock issued and outstanding immediately prior to the closing (other than (a) shares owned by the Company, any subsidiary of the Company, Parent or Merger Sub, (b) shares that the Rollover Investors (as defined below) have agreed to contribute to Parent and/or Merger Sub, and (c) shares owned by shareholders who have perfected and not withdrawn a demand for, or lost the right to, appraisal rights under the Florida Business Corporation Act (the “FBCA”)) will be converted into the right to receive the per share merger consideration, as described below; and
- all shares of Company common stock so converted will, at the closing of the merger, be canceled, and each holder of a certificate representing any shares of Company common stock shall cease to have any rights with respect thereto, except the right to receive the per share merger consideration upon surrender of such certificate (if such shares are certificated).

Following and as a result of the merger:

- holders of Company common stock (other than the Rollover Investors), will no longer have any interest in, and will no longer be shareholders of, the Company, and will not participate in any of the Company’s future earnings or growth;
- shares of Company common stock will cease to be listed on The NASDAQ Capital Market (the “NASDAQ”), and price quotations with respect to shares of Company common stock in the public market will no longer be available; and
- the registration of shares of Company common stock under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), will be terminated.

The Special Meeting (page 53)

Place, Date and Time of the Special Meeting