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

**(Stock Code: 290)**

*Website: <http://www.290.com.hk>*

## **MAJOR AND CONNECTED TRANSACTIONS**

### **THE DISPOSAL**

The Board announces that on 16 October 2009 (after trading hours), the Vendor, the Purchaser and ESL entered into the Agreement pursuant to which the Vendor has agreed to sell and the Purchaser has agreed to acquire the Sale Shares at the Disposal Consideration.

### **THE SETTLEMENT**

The Board announces that on 16 October 2009 (after trading hours), Pioneer, Mr. Lao and Fortune Financial entered into the Deed pursuant to which (i) Fortune Financial agreed to waive, release and/or otherwise discharge Mr. Lao from all his obligations under the Original Agreement in relation to the Cash Profit Guarantee; and (ii) notwithstanding the provisions relating to the Lao Profit Guarantee and the Pioneer Profit Guarantee, the conditions attached to the conversion of the Convertible Bonds shall be unequivocally waived such that Pioneer shall be entitled to immediately convert the Convertible Bonds in its entirety, at the Settlement Consideration.

Completion of the Deed is conditional upon the execution and completion of the Agreement.

## **LISTING RULES IMPLICATION**

The Disposal constitutes a major transaction on the part of the Company under Chapter 14 of the Listing Rules. As Mr. Lao and Pioneer are substantial shareholders of the Company and thus connected persons (as defined in the Listing Rules) of the Company, the Settlement constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules. The Deed and the transactions contemplated thereunder are therefore subject to the approval of the Independent Shareholders at the EGM. Mr. Lao, Pioneer and their respective associates shall be required to abstain from voting on the resolution relating to the Deed and the transactions contemplated thereunder.

An independent board committee of the Company will be established to advise the Independent Shareholders in respect of the Deed and the transactions contemplated thereunder and an independent financial adviser will be appointed to advise the independent board committee and the Independent Shareholders in respect of the Deed and the transactions contemplated thereunder.

A circular containing, among other matters, (i) further details of the Agreement, the Deed and the respective transactions contemplated thereunder; (ii) recommendation from the independent board committee of the Company in respect of the Deed and the transactions contemplated thereunder; and (iii) advice from an independent financial adviser in respect of the Deed and the transactions contemplated thereunder, together with the notice of EGM will be despatched to the Shareholders as soon as practicable.

## **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 19 October 2009 pending for the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 23 October 2009.

## **THE AGREEMENT**

### **Date**

16 October 2009 (after trading hours)

### **Parties**

Vendor: Fortune Financial (Holdings) Limited, a wholly-owned subsidiary of the Company

Purchaser: Faith Star Asia Limited

Target Company: Excalibur Securities Limited

The Purchaser is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Purchaser and its ultimate beneficial owner is an Independent Third Party.

### **Asset to be disposed**

Pursuant to the Agreement, the Vendor has agreed to sell and the Purchaser has agreed to acquire the Sale Shares at the Disposal Consideration. The Sale Shares represents the entire issued share capital of ESL which is legally and beneficially owned by the Vendor as at the date of the Agreement.

### **Disposal Consideration**

The disposal consideration for the Sale Shares shall be calculated using the following formula and shall be satisfied by the Purchaser in cash/cashier order upon Completion:

The NAV of ESL based on the Completion Date Management Accounts + HK\$5 million

A refundable cash deposit in the sum of HK\$2 million shall be paid by the Purchaser to the Vendor upon the execution of the Agreement (the “Deposit”). The Deposit shall be refunded within 7 days upon demand by the Purchaser in the case of a non-satisfactory result of the due diligence examination. Should the parties proceed to Completion, the Deposit shall be set off against the Disposal Consideration. The balance of the Disposal Consideration, calculated by using the abovementioned formula and having deducted the Deposit, shall be settled in cash upon Completion.

The Disposal Consideration was arrived at after arm’s length negotiations between the Vendor and the Purchaser with reference to (i) the net asset value of ESL; (ii) the value of the two trading rights owned by ESL; and (iii) the future prospect of ESL.

### **Conditions**

Completion is conditional upon fulfillment of the following conditions:

- (a) all necessary consents, confirmations, permits, approvals, licences and authorisations (the “Necessary Approvals”) having been obtained from the Stock Exchange and all relevant governmental, regulatory and other authorities, agencies and departments in Hong Kong (including but not limited to the SFC) in connection with the transactions contemplated under the Agreement, the implementation of and all other matters incidental to the Agreement (including the approval by the SFC to the application of the Purchaser to be the sole shareholder of ESL and the non-revocation of the Trading Right and the Certificate of Exchange Participant held by ESL as a result of the transactions contemplated under the Agreement and all the conditions and requirements as the SFC and the Stock Exchange shall stipulate in relation to the Trading Right and the Certificate of Exchange Participant held by ESL respectively having been duly complied with);
- (b) the passing by the shareholders of the Vendor in general meeting of the necessary resolutions approving the Agreement and other transactions contemplated in or incidental to the Agreement (if any) in accordance with the Listing Rules;
- (c) all other necessary announcements, waivers, consents and approvals (if required) in relation to ESL, the Vendor, its holding company(ies) and its (their) shareholders and directors from the relevant governmental or regulatory authorities in Hong Kong (including the Stock Exchange) and other applicable jurisdictions required for the Agreement and the transactions contemplated therein being/having been obtained;

- (d) all warranties as contained in the Agreement remaining true and accurate as at Completion and ESL as well as the Purchaser shall have performed or complied, in all respects, with their undertakings, covenants and agreements contained therein and required to be performed or complied with by ESL and the Vendor at or prior to the Completion Date;
- (e) a satisfactory result from the due diligence examinations to be conducted against ESL by the Purchaser and/or its agents, appointees, or professional advisors after the signing the Agreement. If the Necessary Approvals referred to in the condition (a) above cannot be obtained within two months from the date of completion of the due diligence, the Purchaser is entitled to carry out another due diligence within 14 days from the date on which the Purchaser is informed of the grant of the Necessary Approvals; and
- (f) receipt of the Completion Date Management Accounts by the Purchaser from the Vendor at or before 11:00 a.m. on the business day before the Completion Date showing that there is no material adverse change of the financial position of ESL from the report of the last due diligence conducted by the Purchaser.

The Purchaser shall have the discretion to waive all or any part of the conditions set out above except conditions (a), (b) and (c) and any waiver so granted may be subject to such conditions as the Purchaser may deem fit. If the conditions set out above shall not have been fulfilled or waived by 5:00 p.m. (Hong Kong time) on the day falling 180 days of the date of execution of the Agreement (or such later date as the parties may agree in writing), the Agreement shall automatically terminate and none of the parties to the Agreement shall have any claim of any nature or liabilities thereunder whatsoever against any of the other parties under the Agreement (save for any antecedent breaches of the terms thereof). In such event, the Vendor shall forthwith return all deposit and/or part payment of purchase price received to the Purchaser in full without any interest and costs.

The Purchaser acknowledges and agrees that prior to Completion, ESL may pay special dividend to the Vendor at such amount not more than the retained earnings of ESL before Completion. Under such arrangement, the net asset value of ESL shall be reduced upon the distribution and the amount of the cash consideration payable by the Purchaser to the Vendor shall be reduced accordingly while the aggregate cash inflow by the Vendor remain unchanged.

## **Completion**

Completion shall take place on the 5th Business Day following the fulfilment and/or waiver of the conditions as contained in the Agreement or at such other date as the Vendor and the Purchaser may agree.

Upon Completion, ESL will cease to be a subsidiary of the Company.

## **THE SETTLEMENT**

References are made to the announcements of the Company dated 30 May 2008, 18 August 2008, 24 September 2008, 3 November 2008 and 2 February 2009 and the circular of the Company dated 30 June 2008 respectively. On 27 February 2008, Fortune Financial entered into a conditional sale and purchase agreement (as amended on 30 May 2008, 31 July 2008, 19 September 2008, 31 October 2008 and 31 January 2009) (the “Original Agreements”) whereby Mr. Lao agreed to sell and Fortune Financial agreed to purchase 51% of the issued share capital of ESL for a consideration of HK\$20 million.

Pursuant to the Original Agreements, Mr. Lao covenanted and guaranteed to Fortune Financial that, inter alia, (1) the net profits after tax of ESL attributable to the shareholders of ESL for each of the years ending on 31 December 2009 (the “2009 Net Profit”) and 31 December 2010 (the “2010 Net Profit”) shall not be less than HK\$10 million and HK\$12 million, respectively (the “Lao Profit Guarantee”), and (2) that in the event the 2009 Net Profit and/or the 2010 Net Profit is less than HK\$10 million and HK\$12 million, respectively (the “Lao Shortfall”), Mr. Lao shall within 10 days of the date on which the relevant financial statements are made available to him, pay to Fortune Financial an amount in cash (in Hong Kong dollars) equivalent to such Lao Shortfall multiplied by 51%.

References are also made to the announcement of the Company dated 16 March 2009 and the circular of the Company dated 8 May 2009 respectively. On 6 March 2009, Fortune Financial entered into a conditional sale and purchase agreement (the “Secondary Agreement”) whereby Pioneer agreed to sell and Fortune Financial agreed to purchase the remaining 49% of the issued share capital ESL for a consideration of HK\$19.2 million.

Pursuant to the Secondary Agreement, Pioneer covenanted, warranted, undertook and guaranteed to Fortune Financial that, inter alia, (1) the 2009 Net Profit and the 2010 Net Profit shall not be less than HK\$10 million and HK\$12 million, respectively (the “Pioneer Profit Guarantee”), and (2) that in the event the 2009 Net Profit and/or the 2010 Net Profit is less than HK\$10 million and HK\$12 million, respectively (the “Pioneer Shortfall”), Pioneer’s ability to convert the Convertible Bonds issued as consideration under the Secondary Agreement shall be adjusted, forfeited and/or extinguished depending on the degree of the Pioneer Shortfall and in accordance with the terms and conditions of the Secondary Agreement.

## **THE DEED**

### **Date**

16 October 2009 (after trading hours)

### **Parties**

- (1) Pioneer (China) Limited
- (2) Mr. Lao Chio Kuan
- (3) Fortune Financial (Holdings) Limited

Pursuant to the Deed, (i) Fortune Financial agreed to waive, release and/or otherwise discharge Mr. Lao from all his obligations under the Original Agreements in relation to the Cash Profit Guarantee; and (ii) notwithstanding the provisions relating to the Lao Profit Guarantee and the Pioneer Profit Guarantee, the conditions attached to the conversion of the Convertible Bonds shall be unequivocally waived such that Pioneer shall be entitled to immediately convert the Convertible Bonds in its entirety. The limitation on the conversion remains effective subsequent to the completion of the Deed. The conditions waived relate purely to the mechanism for the exercise and conversion of the Convertible Bonds in relation to the profit guarantee and has no effect on the overriding principal that Pioneer and its concert parties shall not hold more than 30% of the interests in the Company.

## **Settlement Consideration**

The aggregate consideration of HK\$1,000,000 for the Settlement shall be satisfied in cash upon Completion by:

- i) Pioneer paying to Fortune Financial the sum of HK\$490,000; and
- ii) Mr. Lao paying to Fortune Financial the sum of HK\$510,000.

The Settlement Consideration was arrived at after arm's length negotiations between Pioneer, Mr. Lao and Fortune Financial with reference to (i) the unaudited net profit of ESL for the eight months ended 31 August 2009 of approximately HK\$2.5 million; (ii) the Lao Profit Guarantee; (iii) the Pioneer Profit Guarantee; and (iv) the benefits on disposal of ESL as discuss in the section headed "Reasons for and benefits of the disposal".

## **Conditions and completion**

Completion of the Deed is conditional upon the execution and completion of the Agreement and subject to the liability of any party to the others in respect of any antecedent breaches of the terms and conditions of the Original Agreements and/or the Secondary Agreement.

## **INFORMATION OF ESL**

ESL is principally engaged in securities brokerage and margin financing. ESL is an Exchange Participant and a licensed corporation under the SFO permitted to engage in type 1 regulated activity (dealing in securities).

As stated in the audited financial statements of ESL as at 31 December 2008, ESL had net assets of HK\$34,332,000. The attributable profits before and after taxation of ESL for the year ended 31 December 2008 were approximately HK\$5,286,000 and HK\$4,282,000, respectively. The attributable profits before and after taxation of ESL for the year ended 31 December 2007 were approximately HK\$6,834,000 and HK\$5,675,000, respectively.



## **REASONS FOR AND BENEFITS OF THE DISPOSAL**

The Group is principally engaged in securities, futures and insurance brokerage, margin financing, electrical engineering contracting and trading of electrical good.

After the completion of acquisition of 100% equity interest in ESL on 24 August 2009, the Group has two securities brokerage arm, namely ESL and Fortune Securities. However, while the Company initially considered and continues to consider that ESL would help generate cost and operating efficiencies and other synergistic effects to the Group; the Company believes the synergistic advantages to be gained does not override the immediate benefits to be gained from the disposal insofar as the disposal would represent a good opportunity for the Company to realize its investment in ESL at a premium to the acquisition cost and to release resources for development and investment in other business opportunities. The company already has a well established securities business in place; the disposal will release resources for development and investment in other business opportunities, which is beneficial to the Company and its shareholders as a whole, given the slow recovery of the economy and the persisting volatility in the overall market conditions.

Taking into account the size of operation of ESL, the special dividend from ESL, the estimated profit on the Disposal of approximately HK\$6 million and the Disposal Consideration that will be entirely in cash, the Disposal represents a good opportunity for the Company to realize its investment in ESL and to release its resources for development and investment in other business opportunities.

Upon Completion, the Group will continue its existing business of securities, futures and insurance brokerage, margin financing, electrical engineering contracting and trading of electrical good.

Having considered the above, the Directors are of the view that the terms of the Agreement, the Deed and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **USE OF PROCEEDS ON THE DISPOSAL**

Assuming the NAV of ESL as at the date of Completion is HK\$20 million after the payment of the special dividend, the Company expects that the net proceeds from the Disposal and the Settlement will be approximately HK\$26 million which will be used for general working capital of the Group.

## **FINANCIAL EFFECT OF THE DISPOSAL**

Subject to audit, the Company expects to record a profit of approximately HK\$6 million as calculated by reference to: (i) the NAV of ESL as at the date of Completion; (ii) the Disposal Consideration; and (iii) the Settlement Consideration.

## **LISTING RULES IMPLICATION**

The Disposal constitutes a major transaction on the part of the Company under Chapter 14 of the Listing Rules. As Mr. Lao and Pioneer are substantial shareholders of the Company and thus connected persons (as defined in the Listing Rules) of the Company, the Settlement constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules. The Deed and the transactions contemplated thereunder are therefore subject to the approval of the Independent Shareholders at the EGM. Mr. Lao, Pioneer and their respective associates shall be required to abstain from voting on the resolution relating to the Deed and the transactions contemplated thereunder.

An independent board committee of the Company will be established to advise the Independent Shareholders in respect of the Deed and the transactions contemplated thereunder and an independent financial adviser will be appointed to advise the independent board committee and the Independent Shareholders in respect of the Deed and the transactions contemplated thereunder.

A circular containing, among other matters, (i) further details of the Agreement, the Deed and the respective transactions contemplated thereunder; (ii) recommendation from the independent board committee of the Company in respect of the Deed and the transactions contemplated thereunder; and (iii) advice from an independent financial adviser in respect of the Deed and the transactions contemplated thereunder, together with the notice of EGM will be despatched to the Shareholders as soon as practicable.

## **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 19 October 2009 pending for the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 23 October 2009.

## DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires.

“Agreement”	the conditional sale and purchase agreement dated 16 October 2009 entered into among the Vendor, the Purchaser and ESL in relation to the Disposal
“Board”	the board of the Directors
“Business Day”	means any days (other than a Saturday or Sunday) on which banks are generally open for business in Hong Kong
“Convertible Bonds”	the zero coupon convertible bonds to be issued by the Company in the principal amount of HK\$19.2 million
“Company”	China Fortune Group Limited, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Disposal
“Completion Date”	on the fifth Business Day following the fulfilment or waiver of the conditions as contained in the Agreement, or such other date as the parties to the Agreement may agree
“Completion Date Management Account”	The management accounts of ESL as at the date of Completion
“Deed”	the conditional deed of settlement dated 16 October 2009 entered into among Pioneer, Mr. Lao and Fortune Financial in relation to the Settlement

“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Shares at the Disposal Consideration pursuant to the Agreement
“Disposal Consideration”	as defined in the section headed “Disposal Consideration” in this announcement
“EGM”	the extraordinary general meeting of the Company to be held for approving the Agreement, the Deed and the transactions contemplated thereunder
“ESL”	Excalibur Securities Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Exchange Participant”	has the meaning given to it under the rules of the Stock Exchange and “Exchange Participant” shall be construed accordingly
“Fortune Financial” or “Vendor”	Fortune Financial (Holdings) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Fortune Securities”	Fortune (HK) Securities Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders other than Mr. Lao, Pioneer and their respective associates

“Independent Third Party”	a party which is not a connected person (as defined under the Listing Rules) of the Company and is independent of the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Lao”	Mr. Lao Chio Kuan
“NAV”	net asset value
“Pioneer”	Pioneer (China) Limited, a company incorporated in Hong Kong with limited liability
“PRC”	the People’s Republic of China
“Purchaser”	Faith Star Asia Limited, a company incorporated in the British Virgin Islands with limited liability
“Sale Shares”	20,000,000 ordinary shares of HK\$1.00 each in the issued share capital of ESL, representing the entire issued share capital of ESL, legally and beneficially owned by the Vendor
“Settlement”	the settlement of all outstanding obligations of the Original Agreements and the Secondary Agreement at the Settlement Consideration pursuant to the Deed
“Settlement Consideration”	as defined in the section headed “Settlement Consideration” in this announcement
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Cap 571) of the Laws of Hong Kong

“Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trading Right”	the two trading rights legally and beneficially owned by ESL (as evidenced by Trading Right Certificate Number R1134 and R1380)
“%”	per cent.

By Order of the Board  
**China Fortune Group Limited**  
**Ng Cheuk Fan, Keith**  
*Managing Director*

Hong Kong, 22 October 2009

*As at the date of this announcement, the Board consists of two Executive Directors, namely Mr. Ng Cheuk Fan, Keith (Managing Director) and Mr. Yeung Kwok Leung; one Non-Executive Director, Mr. Wong Kam Fat, Tony (Chairman), and three Independent Non-Executive Directors, namely Mr. Tam B Ray Billy, Mr. Ng Kay Kwok and Mr. Lam Ka Wai, Graham.*