中國富強集團有限公司
China Fortune Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 290)

Website: http://www.290.com.hk

FULFILLMENT OF ALL RESUMPTION CONDITIONS AND RESUMPTION OF TRADING

Financial adviser to the Company

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FULFILLMENT OF ALL RESUMPTION CONDITIONS

The Board is pleased to announce that all the Conditions set out in the Resumption Letter have been fulfilled as at the date of this announcement:

– as to Condition (1), the relevant details had been disclosed in this announcement and previous announcements of the Company.

– as to Condition (2), all the transactions contemplated under the Resumption Proposal were completed, details of which are set out in the section headed "The Resumption Proposal" in this announcement.

– as to Condition (3), the relevant details were disclosed in the section headed "Future development of the Enlarged Group" in this announcement.

– as to Conditions (4), (5) and (6), all the relevant comfort letters and reports have been provided to the Company, such details are disclosed in the section headed "Provision of comfort letters and report" in this announcement.

– as to Condition (7), the findings from SHINEWING and the fact that on 30 September 2008, SHINEWING observed that all its recommendations have been adopted and mechanisms have been established and implemented are set out in the section headed "Follow-up review on financial reporting system and internal control procedures of the Group" in this announcement.

RESUMPTION OF TRADING

Trading in the Shares was suspended with effect from 9:30 a.m. on 29 September 2005 at the request of the Company. The Company has made an application to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 20 February 2009.

References are made to the announcements of China Fortune Group Limited (formerly known as China Conservational Power Holdings Limited) (the "**Company**") dated 30 May 2008, 18 August 2008, 24 September 2008, 3 November 2008, 10 December 2008 (there are two announcements of the Company published on such date and the one titled "Latest update on the proposal for resumption of trading in the shares of the Company on the Stock Exchange is identified as the "**Conditions Announcement**") and 2 February 2009 and circulars ("**Circulars**") of the Company dated 30 June 2008 and 8 October 2008 respectively. Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Conditions Announcement and the Circulars.

FULFILLMENT OF ALL RESUMPTION CONDITIONS

The Board is pleased to announce that as at the date of this announcement, all conditions set out in the letter to the Company ("**Conditions**", and individually "**Condition**") from the Stock Exchange dated 8 December 2008 ("**Resumption Letter**") in relation to the Resumption Proposal (as set out in the same order in the Conditions Announcement under the section headed "Letter from the Stock Exchange regarding the Resumption Proposal") have been fulfilled and the respective details are stated in the following sections and paragraphs.

I. The Resumption Proposal

(A) Acquisition of 51% interest in Excalibur Securities

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 (Holdings) Limited (a wholly-owned subsidiary of the Company, formerly known as Yew Sang Hong Investment Services Limited) (the "**Purchaser**") 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 "**ESL Agreement**") whereby Mr. Lao Chio Kuan ("**Mr. Lao**") agreed to sell or procure the sale to the Purchaser and the Purchaser agreed to purchase 51% of the issued share capital of Excalibur Securities at HK$20 million. Mr. Lao covenanted and guaranteed that the net profit after tax of Excalibur Securities for each of the financial years ending 31 December 2009 and 2010 shall not be less than HK$10 million and HK$12 million respectively.

The consideration has been settled by way of the Company issuing, upon completion of the ESL Agreement, the Consideration CB for a principal amount of HK$20 million to Mr. Lao. The ESL Agreement has been approved by the Shareholders at the extraordinary general meeting of the Company held on 18 July 2008. All conditions of the ESL Agreement have been fulfilled and completion of the ESL Agreement took place on 17 February 2009. Mr. Lao has converted the Consideration CB in full and all the Consideration Conversion Shares have been issued as at the date of this announcement.

Excalibur Securities has become a non-wholly owned subsidiary of the Company upon completion of the ESL Agreement and the financial results of Excalibur Securities forms a part of the consolidated results of the Company.

(B) Acquisition of 51% interest in Excalibur Futures

With reference to the announcements of the Company dated 18 August 2008 and 24 September 2008 and the circular of the Company dated 8 October 2008, the Purchaser has entered into a legally binding memorandum on 31 July 2008 and a formal agreement (the "**EFL Agreement**") on 19 September 2008 respectively, with Pioneer (China) Limited ("**Pioneer**"), under which, the Purchaser agreed to purchase and Pioneer agreed to sell 51% of the issued share capital of Excalibur Futures at a consideration of HK$10.2 million. Pioneer covenanted and guaranteed that the net profit after tax of Excalibur Futures for each of the financial years ending 31 December 2009 and 2010 shall not be less than HK$4.5 million and HK$5 million respectively.

The consideration has been settled by the issue of promissory note by the Purchaser to Pioneer on the EFL Completion. The EFL Agreement has been approved by the Shareholders at the extraordinary general meeting of the Company held on 3 November 2008. All conditions of the EFL Agreement have been fulfilled and EFL Completion took place on 17 February 2009.

Excalibur Futures has become a non-wholly owned subsidiary of the Company upon completion of the EFL Agreement and the financial results of Excalibur Futures forms a part of the consolidated results of the Company.

(C) Placing of the Placing CB and the Placing Shares

References are made to the announcements of the Company dated 30 May 2008, 18 August 2008, 24 September 2008, 10 December 2008 and 2 February 2009 and circular of the Company dated 30 June 2008 respectively. On 27 February 2008, the Company entered into a conditional placing agreement (as supplemented on 30 May 2008, 31 July 2008, 31 October 2008 and 31 January 2009) (the "**CB Placing Agreement**") with Kingston Securities Limited as the placing agent in respect of the placing of the Placing CB in a principal amount of HK$50 million with zero coupon due in three years from the date of issue. The CB Placing Agreement has been approved by the Shareholders at the extraordinary general meeting of the Company held on 18 July 2008. All the conditions of the CB Placing Agreement have been fulfilled and completion of the CB Placing Agreement took place on 19 February 2009.

References are made to the announcements of the Company dated 24 September 2008, 10 December 2008 and 2 February 2009 respectively. On 10 September 2008, the Company and Get Nice Securities Limited as the placing agent entered into a conditional placing agreement (as supplemented on 10 December 2008 and 31 January 2009) (the "**Placing Agreement**"), pursuant to which the placing agent has agreed to place 80,000,000 new shares (the "**Placing Shares**") on a fully underwritten basis, at the price of HK$0.25 per Placing Share. The Placing Shares have been issued under the general mandate granted on the annual general meeting of the Company held on 29 August 2008. All conditions of the Placing Agreement have been fulfilled and completion of the Placing Agreement took place on 19 February 2009.

(D) Issue of Remuneration Shares and Remuneration Warrants

References are made to the announcement of the Company dated 30 May 2008 and circular of the Company dated 30 June 2008 respectively. Pursuant to the engagement letter dated 15 April 2008 entered into between the Company and Veda Capital, it was agreed that part of the professional fees of HK$1.2 million charged by Veda Capital may be settled by the issue of the Remuneration Shares to Veda Capital (or its nominee(s)) at an issue price of HK$0.1 per Remuneration Share upon the approval by the Stock Exchange on the resumption of trading in the Shares. The Company also agreed to grant the Remuneration Warrants to Veda Capital (or its nominee(s)) upon the approval by the Stock Exchange on the resumption of trading in the Shares, which entitle Veda Capital (or its nominee(s)) to subscribe for 12,000,000 new Shares at the exercise price of HK$0.10 per Share (subject to adjustments), at any time between the date of issue of the Remuneration Warrants and 36 months thereafter. Issue of Remuneration Shares and Remuneration Warrants has been approved by the Shareholders at the extraordinary general meeting of the Company held on 18 July 2008. All conditions for the issues of the Remuneration Shares and the Remuneration Warrants have been fulfilled and the Remuneration Shares and the Remuneration Warrants were issued on 17 February 2009.

(The group of companies comprising the Group after the completions of the above transactions is referred to hereinafter as the "**Enlarged Group**")

(E) Other actions taken by the Company

Shortly after the outbreak of the Incident, the Board (including the independent non-executive Directors) had established a management committee and a special board committee respectively:

– Due to the resignation of the then chairman of the Company and the re-designation of three out of five then executive Directors to non-executive Directors in October 2005, the Board had only two executive Directors at the material time. In order to maintain the efficient daily operation of the Company, a management committee (comprised of Mr. Loo Chung Keung, Steve, Mr. Lin Hoi Kwong and Mr. Kam Yiu Shing, Tony) was established on 4 October 2005 to carry out the management function of the Board and to oversee and supervise the daily operation of the Group after the Incident. The management committee was eventually dissolved on 31 October 2005 due to the resignations of Mr. Loo Chung Keung, Steve and Mr. Lin Hoi Kwong as Directors on 26 October 2005 and 31 October 2005 respectively. The function of the management committee was then taken up by the Board. Mr. Kam Yiu Shing, Tony also subsequently resigned as assistant of the then chairman of the Company on 26 November 2005.

– A special board committee (comprised of Mr. Szeto Chak Wah, Michael (alias Seto Chak Wah 司徒澤樺) and Mr. Lai Man Leung) was established on 26 October 2005 to review the financial and business positions of the Group after the Incident. The special board committee has appointed CCIF CPA Limited in December 2005 to conduct a financial due diligence review on the financial affairs of the Company for the period from 1 April 2005 to 31 December 2005. The engagement of CCIF CPA Limited was terminated in June 2006. The special board committee was dissolved on 29 June 2006 due to the resignations of Mr. Szeto Chak Wah, Michael (alias Seto Chak Wah 司徒澤樺) and Mr. Lai Man Leung as Directors on 27 April 2006. The function of the special board committee was then taken up by the Board.

After the Incident, there had been changes in the composition of the Board from time to time. The composition of the current Board is totally different from that at the time of the Incident. Mr. Yeung Kwok Leung, an executive Director, was appointed in December 2005 whereas all the rest of the Directors (namely Mr. Sun Tak Yan, Desmond, Mr. Ng Cheuk Fan, Keith, Mr. Ng Kay Kwok, Mr. Lam Ka Wai, Graham and Mr. Tam B Ray Billy) were appointed in 2007.

The current Board (including the independent non-executive Directors) has taken the following actions to investigate and address the issues relating to the Incident:

– reviewed minutes of the Group;

– checked bank statements of the Group and made enquiries for details of transactions with values over HK$1 million including background, basis of value of the transactions;

– reviewed and engaged SHINEWING (HK) CPA Limited ("**SHINEWING**"), an independent professional adviser, to conduct review (the "**Special Review**") on the financial affairs of the Group for the period from 1 October 2003 to 31 December 2005 (the "**Review Period**");

– reviewed press releases from the ICAC in relation to the Incident;

– engaged SHINEWING to conduct a review (the "**Internal Control Review**") on the financial reporting system and internal control procedures of the Group; and

– reviewed and investigated each of the issues raised by the auditors in respect of the results of the Group for the two years ended 31 March 2006 and 2007 respectively.

In the report of the Special Review dated 30 April 2008 (the "**Special Review Report**"), SHINEWING had reviewed all bank payment transactions with amount over HK$1 million provided by the Group during the Review Period. The focus of the Special Review included but not limited to the alleged misappropriation of funds by former Directors and any other irregularities in the accounts, records and affairs of the Group.

After reviewing all bank payment transactions provided by the Group during the Review Period, SHINEWING noted that the Group had made numerous transactions which were without adequate supporting documents or approvals, especially for those transactions of investment or loan natures during the Review Period.

The Board (including the independent non-executive Directors) noted that there were control failings or weakness in transactions of investment and loan natures. The control failings or weaknesses identified in relation to the Group's transactions of payment amount over HK$1 million of loan and investment natures as well as other kinds of natures other than loan and investment are summarized as follows:

– most of the decisions related to transactions of investment nature were approved by former Directors without adequate supporting. Such transactions of investment nature were mainly earnest monies paid for the proposed equity investment. Some of those transactions of investment nature were considered as irrecoverable and fully provided during the Review Period.

– loan receivables were lent to individuals without adequate documentation. The identity of those individuals cannot be identified. Those loan receivables were mainly approved by former Directors. The loan receivables eventually were impaired during/after the Review Period.

In view of the previous control failings or weakness in transactions of investment and loan natures of the Group, the Board has engaged SHINEWING to conduct the Internal Control Review and has identified certain areas for the Company to improve and has made recommendations to the Board accordingly. Please refer to the section headed "Deficiencies identified by SHINEWING in the Internal Control Review" below for the actions and measures taken by the Company to rectify the matters highlighted by SHINEWING.

In the Special Review Report, SHINEWING also noted that the Group's turnover kept decreasing from the financial year ended 31 March 2004 to the financial year ended 31 March 2006, which covers the duration of the Review Period. According to the audited financial information published by the Company, the Group's turnover was approximately HK$166.2 million, HK$102.2 million and HK$29.7 million for the financial years ended 31 March 2004, 2005 and 2006 respectively. The Group also recorded audited losses attributable to Shareholders of approximately HK$57.5 million, HK$96.8 million and HK$131.3 million for the years ended 31 March 2004, 2005 and 2006 respectively. As set out in the annual report of the Company for the year ended 31 March 2007, turnover of the Group decreased continuously to approximately HK$6.5 million and net loss attributable to Shareholders was approximately HK$13.2 million for the year ended 31 March 2007. As set out in the annual report of the Company for the year ended 31 March 2008, turnover of the Group improved by approximately 90.0% to approximately HK$12.4 million for the year ended 31 March 2008 with the main growth driver from the securities brokerage and margin financing business of the Group which increased by approximately 336.9% to approximately HK$6.6 million for the year ended 31 March 2008. Net loss of the Group also narrowed substantially by approximately 56.0% to approximately HK$5.8 million for the year ended 31 March 2008.

With the recent improvement in the financial performance of the Group, along with the Resumption Proposal which would (i) generate HK$70 million from the proceeds of the Placing CB and the Placing respectively to the Company to reduce borrowings and interest expenses of the Company and to improve the overall performance of the Company; and (ii) effect the Acquisition of 51% of the issued share capital of each of Excalibur Securities and Excalibur Futures, which will generate additional income to the Group and contribute to the assets level of the Group, the Board believes that the Company would have sufficient level of operations and assets under Rule 13.24 of the Listing Rules. Please refer to the section headed "Company's expectation on future performance of Fortune Securities, Excalibur Securities and Excalibur Futures" below.

On the other hand, the Directors had reviewed and investigated each of the issues raised by the auditors in respect of the results of the Group for the two years ended 31 March 2006 and 2007 respectively. Please refer to the section headed "Audit qualifications in financial statements for the two years ended 31 March 2006 and 2007" below.

II. Future development of the Enlarged Group

(A) Future plans and market outlook of brokerage business

The Group is principally engaged in securities brokerage and margin financing; electrical engineering contracting; and sale of electrical goods.

Excalibur Securities is principally engaged in securities brokerage and margin financing. The acquisition of the majority interest in Excalibur Securities is in line with one of the existing principal businesses of the Group, being the securities brokerage and margin financing business through Fortune (HK) Securities Limited (formerly known as Hong Tong Hai Securities Limited) ("**Fortune Securities**") so that such acquisition will enhance the Enlarged Group's portfolio of securities brokerage business by strengthening the income flow, enhancing the operation level and increasing the client base of the Enlarged Group.

With the EFL Acquisition, the Company is able to extend the scope of its securities business to futures brokerage service to prepare itself as a full range financial services company. The EFL Acquisition of the majority interest in Excalibur Futures is also in line with the existing business of securities brokerage and margin financing of the Group, and with an expanded scope into the business of futures brokerage so that the EFL Acquisition is expected to strengthen the income flow, enhance the operation level and increase the client base of the Enlarged Group. The Directors believe that the expanded scope of business of the Enlarged Group into the futures brokerage business would provide an additional service to its clients for investment and hedging purposes while on the other hand could provide an extra income source to the Enlarged Group.

The financial market in general had been affected by the drastic downturn since October 2007, triggered by deepened concerns over the US economy after the housing meltdown and sub-prime crisis. The global worsening economy was further fuelled by factors such as credit crunch, inflationary fears and worries over a looming recession in the US economy. Asian markets were particularly weak in the second half of 2008 with investors becoming more prudent and pessimistic, while mainland China experienced a major correction from previous overvaluation and weak market sentiment amid a tightened monetary policy. These all resulted in global sell-off and shrinkage in overall trading volume as investors were uncertain about the market directions.

As mentioned in the circular of the Company dated 8 October 2008, there has been a decrease in overall turnover of the Group in all business segments with respect to the recent volatile Hong Kong stock market which affected the Group's securities brokerage segment and the fact that no new contract was obtained for the Group's electrical engineering contracting segment since last financial year ended 31 March 2008. The situation is expected to improve upon completion of Acquisitions (including the issuance of the Placing CB and the Placing Shares) since more resources would be available to expand the business of the Enlarged Group so that the scale of operation of the Enlarged Group would be elevated and the capital base of the Enlarged Group would be strengthened.

The Enlarged Group is cautious about its business outlook. Financial markets had been dampened in recent months on fears of a global slowdown and inflationary pressure. Volatility in financial markets across the world is expected to persist, while the global investment sentiment is likely to remain negative. Nonetheless, with the availability of sufficient financial resources to the Enlarged Group and additional financial services platforms as availed by both Excalibur Securities and Excalibur Futures upon resumption, the Directors believed that the Enlarged Group will be in an advantageous position to recruit quality and skilled account executives with diverse client base. The Enlarged Group will continue to focus on securities brokerage and margin financing business. The strengthened financial position of and the availability with more financial resources also enables the Enlarged Group as placing agent and underwriter to more fundraising exercises and of larger sizes of its listed clients. In addition, given the recent fluctuation in the global investment market, the Directors believe that the expanded business scope of the Group into the futures brokerage business through Excalibur Futures would provide an additional service platform to its clients for investment and hedging purposes. The Enlarged Group stresses the importance of integrity, quality service, teamwork and expertise. It is expected that the Enlarged Group would further expand the business scope to securities research and corporate finance in the medium to long term development of the Enlarged Group.

Amidst of the recent turmoil experienced in the global financial market, the Directors are optimistic about the development of brokerage business in the greater China region in the long run. The PRC had recently announced that it would relax credit conditions, cut taxes and embark on a massive infrastructure spending program in a wide-ranging effort to offset adverse global economic conditions by boosting domestic demand with a stimulus package estimated at four trillion yuan to be spent over the next two years on finance programmes. Investment value had emerged for investors but the outlook of the stock market in short to medium term remains challenging.

The Enlarged Group would manage its cost structure and conduct its business prudently. Fortune Securities, Excalibur Securities and Excalibur Futures had experienced numerous challenges over the past decade and the management believes that it is a key to survival. The Enlarged Group will continue to review and improve its credit control. On 9 December 2008, the Purchaser entered into a memorandum of understanding with an independent third party for the possible acquisition of not less than 20% interest in a company which provides brokerage services for dealing in futures contracts in the PRC. Should such acquisition opportunity realize, the Enlarged Group can further extend the scope of its securities business to futures brokerage services in the PRC. The other options of acquisition of the Enlarged Group include the acquisition of certain percentage of the balance of 49% shareholdings of Excalibur Securities and/or Excalibur Futures when and where appropriate.

(B) Company's expectation on future performance of Fortune Securities, Excalibur Securities and Excalibur Futures

The principal value of the Preference Shares in the amount of HK$60.8 million was received by the Group in October 2008. Along with the proceeds from the placing of the Placing CB and the Placing Shares, total proceeds amounted to HK$130.8 million, of which:

(i) as to approximately HK$45 million will be used for margin financing business of Fortune Securities;

(ii) as to approximately HK$9.3 million will be used for margin financing business of Excalibur Securities;

(iii) as to approximately HK$23 million will be used to repay the outstanding indebtedness due to Kingston Finance Limited;

(iv) as to HK$10.2 million to repay the Promissory Note;

(v) as to approximately HK$30 million for future acquisitions of the Enlarged Group;

(vi) as to approximately HK$3.5 million for related expenses for the execution of the Resumption Proposal; and

(vii) as to the balance of approximately HK$9.8 million for general working capital of the Enlarged Group.

The Company's expectation of the future performance of the Enlarged Group, including Fortune Securities, Excalibur Securities, Excalibur Futures and other existing business of the Group, for the year ending 31 March 2010 has been contained in the Resumption Proposal and the major key assumptions thereto are set out as follows:

(i) Monthly commission income, margin interest income and related expenses (excluding the non-recurring items) of Fortune Securities are projected to maintain at the 21-month average ended 31 December 2008 (including the latest audited financial information for the year ended 31 March 2008 and unaudited financial information for the 9 months ended 31 December 2008).

(ii) Monthly commission income, margin interest income and related expenses (excluding the non-recurring items) of Excalibur Securities are projected to maintain at the 24-month average ended 31 December 2008 (including the latest audited financial information for the year ended 31 December 2007 and unaudited financial information for the 12 months ended 31 December 2008).

(iii) Given the improving commission income of Excalibur Futures since 2005 and especially during the 12 months ended 31 December 2008, the monthly commission income of Excalibur Futures is based on the monthly average commission income for the 12 months ended 31 December 2008.

(iv) The Consideration CB in the amount of HK$20 million to settle the consideration of the acquisition of 51% of Excalibur Securities will be converted in full upon resumption of trading of the Shares.

(v) As the capital of Fortune Securities for extending margin financing to clients will be increased by over 5.7 times to HK$45 million, the management prudently expects the commission income will be increased by approximately 2 times upon resumption of trading of the Shares.

(vi) Commission rate of Fortune Securities and Excalibur Securities remain as 0.25% and 0.2% respectively for new clients for the financial year ending 31 March 2010.

(vii) Monthly margin interest income of Fortune Securities for the additional HK$45 million will be extended to clients at a rate of 3% over the prime rate.

(viii) Approximately HK$9.3 million will be used to expand the margin financing business of Excalibur Securities upon completion of the ESL Agreement, which in turn will generate income for Excalibur Securities in two areas, namely (i) increase in securities trading turnover due to leverage facilities provided to clients; and (ii) margin interest income incurred from HK$9.3 million.

(ix) It is expected that nine additional accounts executives will be recruited by Fortune Securities while six additional accounts executives will be recruited by Excalibur Securities. Each accounts executive is expected to bring in 32 new clients.

(x) Both Fortune Securities and Excalibur Securities pay 50% of the commission income to each new account executive as commission expenses for each month.

(xi) In the event that Excalibur Securities cannot meet the net profit guaranteed by Mr. Lao under the ESL Agreement for the acquisition of 51% interest of Excalibur Securities by the Group, the Group will be compensated for 51% of the difference.

(xii) In the event that Excalibur Futures cannot meet the net profit guaranteed by Pioneer under the EFL Agreement for the acquisition of 51% interest of Excalibur Futures by the Group, the Group will be compensated for 51% of the difference.

(xiii) Other incomes of respective companies are based on historical information whereas non-recurring items have been excluded.

Other income (excluding the non-recurring items) of Fortune Securities represents interest income, handling charges and sundry income is projected to maintain at the 21-month average ended 31 December 2008.

Other income (excluding the non-recurring items) of Excalibur Securities represents CCASS fee received, interest income from banks, handling charges and sundry income and is projected to maintain at the 24-month average ended 31 December 2008.

Other income (excluding the non-recurring items) of Excalibur Futures represents interest income from banks and HKCC, and sundry income and is projected to maintain at the 12-month average ended 31 December 2008.

(xiv) Advertisement will be launched in March 2009 for Fortune Securities and Excalibur Securities. The expected cost of advertisement for 6 months from March 2009 to August 2009 is HK$300,000 for each company. The advertisement will be in magazines for economic news and a total of eight advertisements per month per company.

(xv) Reference is made to note 28 to the consolidated financial statements of the Group for the year ended 31 March 2008. The Directors assume that the balance of the investment deposit in the amount of HK$3.5 million would be received in full. (Regarding to the total HK$20 million investment deposit previously provided for, the Group has already received HK$16.5 million)

(xvi) There will be no material fluctuation for the stock market in Hong Kong.

There will be no material changes in the Group's operation other than the acquisitions of 51% of each of Excalibur Securities and Excalibur Futures.

There will be no material changes in the existing political, legal, fiscal, market or economic conditions in Hong Kong and the PRC.

There will be no material changes in legislation, regulations or rules in Hong Kong, PRC or any other countries in which the Enlarged Group operates.

There will be no material changes in inflation rates, interest rates or foreign exchange rates from those currently prevailing and affecting the Enlarged Group.

There will be no material changes in the bases or applicable rates of taxation, surcharges or other government levies, other than changes already announced by the government.

There will be no other unforeseen circumstances, such as the occurrence of natural disasters or catastrophes (floods, typhoons, fire etc) or serious accidents beyond control of the Enlarged Group.

Based on the above major key assumptions, and in the absence of unforeseen circumstances, it is expected that net profit of Fortune Securities, Excalibur Securities and Excalibur Futures for the year ending 31 March 2010 will not be less than HK$7.4 million, HK$5.7 million and HK$4.3 million respectively.

(C) Risk factors associated with the brokerage business

The Hong Kong stock market

The business of the Enlarged Group may be adversely affected by external factors including the volatility of the Hong Kong stock market, which is beyond the control of the Enlarged Group, Shareholders and potential investors should be aware that there is no assurance that the Enlarged Group will be able to maintain its historical results in times of difficult economic conditions or unstable political environments.

High level of liquidity required

A licensed corporation shall at all times maintain liquid capital which is not less than the required liquid capital as stipulated under the Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong) (the "**FRR**"). For each of Fortune Securities, Excalibur Securities and Excalibur Futures, the required liquid capital is the higher of HK$3 million and 5% of the aggregate of, (a) its adjusted liabilities; (b) the aggregate of the initial margin requirements in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients; and (c) the aggregate of the amounts of margin required to be deposited in respect of outstanding futures contracts and outstanding options contracts held by it on behalf of its clients, to the extent that such contracts are not subject to payment of initial margin requirements.

In order to comply with the FRR, the Enlarged Group must maintain a high level of liquidity at all times. Failure to meet the above requirement may cause the SFC to take appropriate actions against the Enlarged Group, which may adversely affect the Enlarged Group's operations and performance.

Risk of compliance failure

The securities market in Hong Kong is highly regulated. The businesses operated by Fortune Securities, Excalibur Securities and Excalibur Futures are classified as regulated activities under the SFO and their respective responsible officers and account executives are required under the SFO to be licensed by the SFC and be subject to any rules and regulations promulgated by the SFC. As securities and futures trading activities are executed through the Stock Exchange or Futures Exchange, Fortune Securities, Excalibur Securities and Excalibur Futures are required to be their respective registered participants and trading right holders and be subject to the regulation from time to time introduced by the two exchanges. Failure to comply with the SFO, the rules and regulations promulgated by the Stock Exchange or Futures Exchange or any applicable laws or rules or regulations may result in revocation or suspension of the licences of Fortune Securities, Excalibur Securities or Excalibur Futures or their responsible officers and/or account executives, thereby adversely affecting the business and financial performance of the Enlarged Group.

Credit risks

Cash clients of Fortune Securities and Excalibur Securities have to settle their securities transactions within two trading days from the transaction day ("**T+2**"). If a client (either being a cash client or margin client) fails to settle the transaction within T+2, Fortune Securities and Excalibur Securities are required to settle the same on the client's behalf with HKSCC with its own funds. There is a risk of default in payment by cash clients.

The Futures Exchange and the Stock Exchange prescribe the minimum margin deposit required for opening of each futures and option contract. Clients are required to maintain at all times the minimum margin deposit with Excalibur Futures from time to time as determined by the Futures Exchange and the Stock Exchange. When a client is unable to meet a margin call, Excalibur Futures may close out the futures and/or option contract. In the event that the client's margin deposit with Excalibur Futures is unable to cover the loss arising from closing out of the futures and/or option contract, Excalibur Futures would be exposed to the risk of not being able to recover such shortfall from the clients, particularly in times of a volatile market.

Risk of financing business

Margin loan provided to a client is required to be maintained within the margin value of his pledged securities, which means the aggregate market value of his pledged securities, after the haircut. Once the margin value falls below the outstanding amount of the loan as a result of market downturn or adverse movement in the prices of the pledged securities, Fortune Securities and Excalibur Securities will make a margin call requesting the client to deposit additional funds, sell securities or pledge additional securities to top up their margin value. If the client is unable to meet a margin call, Fortune Securities and Excalibur Securities will dispose of the pledged securities to recover the loan. Similarly, for loans and advances, if the client is unable to repay Fortune Securities and Excalibur Securities, Fortune Securities and Excalibur Securities will dispose of the pledged securities to recover the loan. However, the amount recovered from the sale of the pledged securities may fall short of the outstanding amount of the loan. In the event that Fortune Securities and Excalibur Securities fail to recover the shortfall from the clients, they would suffer losses.

Reliance on stockbroking commission and securities financing

Both of the Enlarged Group's stockbroking business and margin financing business will be affected by external factors, including the performance of the Hong Kong, PRC and the US financial markets which are generally subject to economic conditions and investment sentiment and fluctuations in interest rates, which are beyond the control of the Enlarged Group. There is no assurance that the Enlarged Group's income derived from its stockbroking business as well as margin financing business in the past would be sustained.

Competition in the securities industry

The business focus of Fortune Securities, Excalibur Securities and Excalibur Futures is on the retail market in Hong Kong which is characterized by a large number of market participants. Fortune Securities, Excalibur Securities and Excalibur Futures are subject to significant competition from securities brokerage firms, local and international banks operating in Hong Kong, which may include competitors that have greater financial and other resources. As at 31 January 2009, there are about 443 and 125 exchange participants on the Stock Exchange and the Futures Exchange respectively. Many of the international and local banks operating in Hong Kong compete for substantially the same customers with small to medium sized securities firms. If Fortune Securities, Excalibur Securities and Excalibur Futures fail to maintain their competitive edge, the business and profitability of Fortune Securities, Excalibur Securities and Excalibur Futures may be adversely affected.

Risk of underwriting business

Performance of underwriting business would be severely deteriorated during sluggish and volatile market conditions when the securities underwritten by Fortune Securities and Excalibur Securities are undersubscribed and Fortune Securities and Excalibur Securities as the underwriters/sub-underwriter are required to take up the unsubscribed securities. The financial position of the Enlarged Group would be adversely affected if the underwritten securities taken up by Fortune Securities and Excalibur Securities become illiquid and/or their market values drop.

Risk of operational system failure

The operations of the business of Fortune Securities, Excalibur Securities and Excalibur Futures are highly dependent on the capability and reliability of the computer systems used. Since technology advances rapidly, Fortune Securities, Excalibur Securities and Excalibur Futures may not be competitive or that further costs for the development or maintenance of more competitive systems may be required.

The network infrastructure used by Fortune Securities, Excalibur Securities and Excalibur Futures for their business may be vulnerable to computer viruses, hackers or other disruptive actions by visitors or other internet users and therefore causing data corruption and interruptions, delay or cessation in the services provided through the Enlarged Group's securities trading facilities which could have material adverse effect on the business of the Enlarged Group. Inappropriate use of the internet by third parties may also jeopardize the security of confidential information (such as client data or trading records) stored in the computer systems of Fortune Securities, Excalibur Securities and Excalibur Futures and cause losses to the Enlarged Group.

III. Provision of comfort letters and report

Comfort letters from Shu Lun Pan Horwath Hong Kong CPA Limited ("**SLP Horwath**") in respect of, (i) the pro forma balance sheet of the Enlarged Group upon completion of the transactions contemplated under the Resumption Proposal (which includes the Acquisitions, the conversion of the Consideration CB and the issuance of the Placing CB, the Placing Shares, the Remuneration Shares and the Remuneration Warrants) prepared in accordance with Listing Rule 4.29; (ii) the profit and cash flow forecasts of the Enlarged Group for the 15 months ending 31 March 2010; and (iii) the sufficiency of working capital of the Enlarged Group for the next 12 months dated 16 February 2009, being the latest practicable date from the date of resumption of trading of the Shares, have been provided to the Company. As at the date of this announcement, the Directors, after due and careful consideration, are of the opinion that should the transactions contemplated under the Resumption Proposal be completed, the Enlarged Group will have sufficient working capital for the next 12 months from the date of resumption of trading of the Shares.

A report from Veda Capital confirming being satisfied that the profit forecast of the Enlarged Group as contained in the Resumption Proposal has been made after due and careful enquiry by the Directors has been provided to the Company.

IV. Follow-up review on financial reporting system and internal control procedures of the Group

The Company had engaged SHINEWING to conduct the Internal Control Review. In the report dated 30 April 2008 (the "**ICR Report**"), SHINEWING has, amongst others, made the recommendations on the internal control system of the Company. Subsequently, SHINEWING was further engaged to conduct a follow-up review on the financial reporting system and internal control procedures of the Group.

(A) Deficiencies identified by SHINEWING in the Internal Control Review

Deficiencies identified by and recommendations from SHINEWING	Measures and actions taken by the Company	Results of follow-up review by SHINEWING
1. Equity investments		
(i) Absence of proper documentation		
– the process of initiation, negotiation and monitoring of a proposed investment should be properly documented and to be reviewed by the financial controller of the Company to ensure the proposal is most beneficial to the Group;	– the initiation, negotiation and monitoring of the acquisitions (the "**Acquisitions**") of 51% of each of Excalibur Securities and Excalibur Futures have been properly documented – investment proposals (including the Acquisitions) have been reviewed by the financial controller of the Group to ensure there is no conflict of interest of the proposer and the investment/divestments is consistent with the development of the Group	– on 30 September 2008, SHINEWING observed that the internal control procedures for initialization, negotiation and monitoring of investment projects had been established and implemented. All documents are maintained in a proper manner

Deficiencies identified by and recommendations from SHINEWING	Measures and actions taken by the Company	Results of follow-up review by SHINEWING
	– finalized terms and conditions of the Acquisitions have been reviewed by the financial controller of the Group to ensure that the Acquisitions are beneficial to the Group before it is tabled to the Board meeting	

(ii) Absence of financial analysis on Group's financial position

Deficiencies identified by and recommendations from SHINEWING	Measures and actions taken by the Company	Results of follow-up review by SHINEWING
– Company is recommended to establish a mechanism or benchmark for acceptance and rejection of investment including criteria like expected growth rate should be taken into consideration;	– a detailed financial analysis of the Acquisitions, which contain information including the purpose of the investment, budget forecast and cash flow forecast have been performed – the price-earnings ratios, price-to-book ratios of the Acquisitions and comparison to other listed comparables, financial performance of Excalibur Securities and Excalibur Futures, the prospects of the industry and synergy with the existing securities brokerage business of the Group have all been considered by the Board	– on 30 September 2008, SHINEWING observed that financial analysis and declaration of conflict of interest for proposed investment had been made

Deficiencies identified by and recommendations from SHINEWING	Measures and actions taken by the Company	Results of follow-up review by SHINEWING

(iii) No authorization for the signing representative to enter into the acquisition agreements

– authorization should be obtained from the Board before entering into any investment/ divestment agreement;	– terms of negotiations and conditions of the Acquisitions have been reported to the Board – progress on the Acquisitions has been reported to the Board on a regular basis – authorization had been obtained from the Board before entering into the ESL Agreement and EFL Agreement	– on 30 September 2008, SHINEWING observed that the internal control procedures for authorization for signing representative to entering into investment/divestment agreement had been established and implemented

(iv) Lack of segregation of duties in the investment project approval process

– there should be segregation of duties between the project proposer and the negotiation representative of the Company;	– the segregation of duties between the proposer and the negotiation representative had been in place for the Acquisitions – the proposer for the Acquisitions had declared that he has no interest in the Acquisitions and such declaration had been documented in the board minutes	– on 30 September 2008, SHINEWING observed that the duties had been segregated between the proposer and the negotiation representative

Deficiencies identified by and recommendations from SHINEWING	Measures and actions taken by the Company	Results of follow-up review by SHINEWING

(v) Absence of mechanism to monitor the operating and financial performance of the subsidiaries, associates and joint ventures entities

– all subsidiaries, associates and joint ventures are to be requested to provide management reports, monthly financial statements and latest audited financial information for reviewing and controlling;	– the Company has requested all subsidiaries, associates and joint venture entities to submit their management and audited accounts for review and monitoring purposes on a regular basis	– on 30 September 2008, SHINEWING observed that the internal control manual of mechanism had been set up and implemented to monitor the operating and financial performance of the subsidiaries, associated and joint venture entities

2. Loan and Borrowing

(i) No mechanism to monitor the initiation and negotiation process of loan and borrowing

– mechanism to report and monitor the progress of loan and borrowing's negotiation should be established by the Company;	– no loan and borrowing has been given by the Group since the money lender licence of the Group expired on 15 June 2006 and had not been renewed	– on 30 September 2008, SHINEWING observed that the internal control manual of mechanism had been set up and implemented to monitor the initiation and negotiation process of loan and borrowing

Deficiencies identified by and recommendations from SHINEWING	Measures and actions taken by the Company	Results of follow-up review by SHINEWING
(ii) No financial analysis on Group financial position was performed before entering into the loan agreement		
– a borrowing proposal should be initiated by the financial controller of the Company who has sufficient financial knowledge to perform financial analysis on the Group's financial positions with an in-depth financial analysis for the Group before the approval of the borrowing intention;	– periodic review of the cash flow has been performed to ensure that the Group has enough cash flow to meet its financial obligations	– on 30 September 2008, SHINEWING observed that the internal control procedures on financial analysis on Group's financial position before entering into the loan agreement had been set up and implemented
(iii) Lack of segregation of duties in the loan and borrowing approval process		
– mechanism for segregation of duties in the loan and borrowing approval process should be established;	– no loan and borrowing has been given by the Group since the money lender licence of the Group expired on 15 June 2006 and had not been renewed	– on 30 September 2008, SHINEWING observed that the duties had been segregated between the proposer and other board members

Deficiencies identified by and recommendations from SHINEWING	Measures and actions taken by the Company	Results of follow-up review by SHINEWING

3. Revenue

(i) Waiver of the income proof of the new application or subsequent uplift of credit limit

– the Company should have a credit check on the current credit status of new applicants when processing his account application or his subsequent request for the increase of his limit;	– income proof such as tax return, asset proof or past 3 months' bank statements showing the latest salary income have been obtained from the applicant who applies for a trading limit – credit review has been conducted on a regular basis on the existing clients who submitted no income proof when his trading account was opened – facility of the margin clients will be suspended once the client fail to meet the margin call	– on 30 September 2008, SHINEWING observed that check on client's income proof had been made and cash deposit were received from clients for security account

Deficiencies identified by and recommendations from SHINEWING	Measures and actions taken by the Company	Results of follow-up review by SHINEWING

(ii) No policy on updating current credit status of each trading/ margin account client

– the Company is advised to perform an annual or periodical review on the credit limit of all existing clients, or alternatively to be done on randomly selected sampling basis.	– the finance director checks the active trading accounts on a daily basis.	– on 30 September 2008, SHINEWING observed that periodical review on credit limit of clients had been made

(B) The Incident

In the ICR Report, comments related to internal control deficiencies associated with the Incident relating to the arrest of three former Directors are sought. However, as the Incident is still under legal proceeding and no document is available to the public for inspection no work can be performed to verify any association between the Incident and the internal control deficiencies. Having said that, as confirmed with the Board and audit committee of the Company, it is highly probable that certain internal control deficiencies as identified in section (A) above headed “Deficiencies identified by SHINEWING in the Internal Control Review” might associate with the Incident.

However, as confirmed with the Board and audit committee of the Company, the mis-appropriation of funds is related to the following internal control deficiencies identified in the ICR Report:

Internal control deficiencies related to the Incident	**Section under paragraph (A) above**
Absence of proper documentation	1(i)
No authorization for the signing representative to enter into the acquisition agreement	1(iii)
Lack of segregation of duties in the investment project approval process	1(iv)
Absence of mechanism to monitor the operation and financial performance of the subsidiaries, associates and joint venture entities	1(v)
No mechanism to monitor the initiation and negotiation process of loan and borrowing	2(i)
No financial analysis on Group's financial position was performed before entering into loan agreement	2(ii)
Lack of segregation of duties in loan and borrowing approval process	2(iii)
Waiver of the income proof of the new application or subsequent uplift of credit limit	3(i)

The Company is seeking legal advice to assess the possibility of recovering the funds pending the result of the legal proceeding of the Incident. The Directors consider that, to the best of their knowledge, they are not aware of any development of the Incident subsequent to the date of the annual report of the Company for the year ended 31 March 2008 that would adversely affect the Group's operation and financial position.

(C) Audit qualifications in financial statements for the two years ended 31 March 2006 and 2007

(i) Audit qualifications

Relevant annual report of the Company	**Auditors' qualifications**	**Response and action taken by the Company**
Annual report for the year ended 31 March 2006	1. Inability to give representation as to the completeness of the books and records of the Group	Please refer to section (ii) 1 below
	2 Unavailability of financial information of associates, joint venture and subsidiary	Please refer to section (ii) 2 below
	3. Investments in listed company of prolonged suspension	Please refer to section (ii) 3 below
	4. Loan receivable and interests	Please refer to section (ii) 4 below
	5. Unavailability of audited financial statements of disposed subsidiaries	Please refer to section (ii) 5 below
	6. Recovery of investment deposits	Please refer to section (ii) 6 below
	7. Receipt of irrecoverable prepayment	Please refer to section (ii) 7 below
	8. Fundamental uncertainty relating to the going concern	Please refer to section (ii) 8 below

Relevant annual report of the Company	**Auditor's qualifications**	**Response and action taken by the Company**
Annual report for the year ended 31 March 2007	1. Unavailability of financial information of subsidiary	Please refer to section (ii) 2 below
	2. Investments in listed company of prolonged suspension	Please refer to section (ii) 3 below
	3. Fundamental uncertainty relating to the going concern	Please refer to section (ii) 8 below

(ii) Company's response to the auditor's qualifications

1. Inability to give representation as to the completeness of the books and records of the Group

   Due to change of members of the Board subsequent to 31 March 2006, the then Board (during the issue of 2006 audited financial statements) was unable to make full representations that all transactions of the Group have been properly included. The Board (during the issue of 2007 audited financial statements) has made full representation that all transactions for the financial year ended 31 March 2007 have been properly included;

   During the follow-up review, SHINEWING considered that such qualification was related to the issue of "absence of proper documentation" and please refer to paragraph 1(i) under the section headed "Deficiencies identified by SHINEWING in the Internal Control Review" above for details.

2. Unavailability of financial information of associates, joint venture and subsidiary

   (a) Share of results of associates of HK$Nil was included in the consolidated profit and loss account for the year ended 31 March 2006 which was due to the fact that no management accounts were available to the Directors for the associate company. As far as the current Board is aware, the associate company was inactive for a number of years, therefore no results were being shared. The Board is considering applying for deregistration of the associate company.

   (b) Interest in associates of HK$Nil was included in the consolidated balance sheet as at 31 March 2006. The financial information of the associate was based on financial statements audited by the PRC auditors made up to 31 December 2005 and the management accounts made up to 31 March 2006. Since the associate company was loss-making, full provision was made as to the investment in the associate company for prudence.

   The auditors have been provided sufficient information and explanations during audit for the year ended 31 March 2007 for both items (a) and (b) above, no qualified opinion in respect of these associate companies was expressed in the Independent Auditor's Report for the financial year ended 31 March 2007.

   Financial statements or financial information of the joint venture were not available to the Directors during audit for the year ended 31 March 2006. The Group after making due enquiries has made contracts with the joint venture party and responsible officers during the financial year ended 31 March 2007. The auditors were provided with sufficient information and explanations and were satisfied that the interest in the joint venture is fairly stated. As such, no qualification was expressed in the Independent Auditor's Report for the financial year ended 31 March 2007.

Financial statements or financial information of a non-wholly owned subsidiary were not available to the Directors. The Group had conducted a company search and made site visits to the last known address of the subsidiary, and could not make contacts with the minority shareholders or responsible officers of the subsidiary during the financial year ended 31 March 2006. The results of the company search revealed that the subsidiary did not incur any turnover and was loss-making. But the company search did reveal and confirm the 60% indirect shareholding of the Company in the subsidiary. In view of the above and after due consideration, management resolved to dispose of its 60% interest of this subsidiary and its immediate holding company held by the Group during the financial year ended 31 March 2007.

However, the disposal constituted a qualification in the Independent Auditor's Report for the financial year ended 31 March 2007 since the auditors have been unable to carry out audit procedures to ascertain the assets and liabilities of theses subsidiaries at the time of disposal. Accordingly, the auditors were unable to satisfy themselves that the gain on disposal of these subsidiaries of approximately HK$9,196,000 was fairly stated.

During the follow-up review, SHINEWING considered that such qualifications were related to the issues of "absence of financial analysis on Group's financial position" and "absence of mechanism to monitor the operating and financial performance of the subsidiaries, associates and joint venture entities". Please refer to paragraphs 1(ii) and (v) under the section headed "Deficiencies identified by SHINEWING in the Internal Control Review" above for details.

3. Investments in listed company of prolonged suspension

The amount of investments held for trading of the Group of approximately HK$38,816,000 after impairment provision was qualified by the auditors for the two financial years ended 31 March 2006 and 2007 since the auditors have been unable to carry out the necessary audit procedures to satisfy themselves that the investee company, which is listed on the Stock Exchange of Hong Kong and its shares were suspended for trading until 2 October 2008, would be able to continue to carry on business as a going concern. As a result of this uncertainty, the auditors were unable to satisfy themselves as to whether or not the impairment provision was adequate or the resulting carrying value of investment held for trading for both financial years was fairly stated. HK$24.8 million has been written back in the interim report of the Group for the six months ended 30 September 2008 due to the redemption of the Preference Shares and the principal value of which in the amount of HK$60.8 million was repaid to the Company in October 2008. Such qualification is not related to internal control deficiencies of the Group and is related to the situation that the auditors were unable to satisfy themselves as to whether or not the impairment provision is adequate or the resulting carrying value of investments held for trading was fairly stated.

4. Loan receivable and interests

Full provision was made in the financial year ended 31 March 2006 for certain loan receivable and interests thereon of a number of group companies. The auditors were unable to ascertain the carrying value of these receivables and whether or not it was appropriate to fully provide for them. None of these receivables was recovered during the financial year ended 31 March 2006, therefore, it was appropriate that full provision was made. As such, no qualification in respect of these receivables was expressed in the Independent Auditor's Report for the financial year ended 31 March 2007.

During the follow-up review, SHINEWING considered that such qualification was related to the issues of "no mechanism to monitor the initiation and negotiation process of loan and borrowing" and "no financial analysis on Group's financial position was performed before entering into the loan agreement". Please refer to paragraphs 2(i) and (ii) under the section headed "Deficiencies identified by SHINEWING in the Internal Control Review" above for details.

5. Unavailability of audited financial statements of disposed subsidiaries

Audited financial statements of the Group's subsidiaries were not available at the time of their disposal in July 2005. The auditors have been unable to carry out audit procedures to ascertain the assets and liabilities of these companies at the time of disposal. Accordingly, the auditors were unable to satisfy themselves that the gain on disposal of subsidiaries was fairly stated. The disposal was part of a major and connected transaction announced on 12 April 2005. A circular in respect of the major and connected transaction was despatched to the Shareholders on 17 May 2005. An extraordinary general meeting was duly convened on 3 June 2005 and all resolutions were duly passed by independent Shareholders by way of poll. The transaction was completed in July 2005. Since the transaction related only to the financial year ended 31 March 2006, no qualification was expressed in the Independent Auditor's Report for the financial year ended 31 March 2007 in respect of this transaction.

During the follow-up review, SHINEWING considered that such qualification was related to the issues of "absence of proper documentation" and "absence of mechanism to monitor the operating and financial performance of the subsidiaries, associates and joint venture entities". Please refer to paragraphs 1(i) and (v) under the section headed "Deficiencies identified by SHINEWING in the Internal Control Review" above.

6. Recovery of investment deposits

Full provision of approximately HK$25,000,000 was made in the financial year ended 31 March 2006 for certain investment deposits. The auditors have been unable to obtain the necessary evidence and explanations as to why these deposits were regarded as irrecoverable and have to be fully provided for. None of these deposits was recovered in the financial year ended 31 March 2007, therefore, it was appropriate that full provision was made. As such, no qualification in respect of these receivables was expressed in the Report of the Auditors for the financial year ended 31 March 2007. Reference is also made to note 28 to the consolidated financial statements of the Group for the year ended 31 March 2008. Regarding to the total HK$20 million investment deposit previously provided for, the Group has already received HK$16.5 million as at the Latest Practicable Date.

During the follow-up review, SHINEWING considered that such qualification was related to the issues of "absence of proper documentation" and "no authorization for the signing representative to enter into the acquisition agreement". Please refer to paragraphs 1(i) and (iii) under the section headed "Deficiencies identified by SHINEWING in the Internal Control Review" above.

7. Receipt of irrecoverable prepayment

The auditors were being properly explained as to the nature of the cash receipt of approximately HK$3,000,000. It was correct to account for the receipt as other operating income for the financial year ended 31 March 2006. As such, no qualification in respect of this receipt was expressed in the Independent Auditor's Report for the financial year ended 31 March 2007.

During the follow-up review, SHINEWING considered that such qualification was related to the issues of "absence of proper documentation" and "no authorization for the signing representative to enter into the acquisition agreement". Please refer to paragraphs 1(i) and (iii) under the section headed "Deficiencies identified by SHINEWING in the Internal Control Review" above.

8. Fundamental uncertainty relating to the going concern

The Group suffered losses of approximately HK$131,251,000 and approximately HK$13,230,000 for the two years ended 31 March 2006 and 2007 respectively. Net current assets and total equity only amounted to approximately HK$26,173,000 and approximately HK$26,863,000 respectively as at 31 March 2007 which include investments held for trading with a carrying value of HK$38,816,000. As stated in the paragraph headed "Investments in listed company of prolonged suspension" above, the auditors were unable to satisfy themselves as to whether or not the carrying value of investments held for trading was fairly stated. The financial statements for the two years ended 31 March 2006 and 2007 had been prepared on a going concern basis, the validity of which depended upon the financial support of a substantial shareholder and a lender of the Group who have undertaken to provide funds to finance the working capital requirements of the Group.

The Company had subsequently negotiated with its creditor to reschedule of payment of its outstanding indebtedness. In addition, the subject listed company resumed trading after prolonged suspension and the Preference Shares were redeemed and the principal value of which in the amount of HK$60.8 million was repaid to the Company in October 2008. The financial statements for the year ended 31 March 2008 had not been prepared on a going concern basis.

(D) Conclusion

Based on the ICR Report and the follow-up review conducted by SHINEWING, the Group has implemented and established adequate and effective internal control procedures. In summary, SHINEWING consider that the internal control procedures, that were suggested by the management of the Company and were documented in the ICR Report, have been implemented effectively to maintain internal controls that safeguard the Company's investments and assets. SHINEWING does not find any irregularities related to those previous identified area of deficiencies in its follow-up review.

RESUMPTION OF TRADING

Trading in the Shares was suspended with effect from 9:30 a.m. on 29 September 2005 at the request of the Company. The Company has made an application to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 20 February 2009.

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

Hong Kong, 19 February 2009

As at the date hereof, the Board consists of three executive Directors, namely, Mr. Sun Tak Yan, Desmond (Chairman), Mr. Ng Cheuk Fan, Keith (Managing Director) and Mr. Yeung Kwok Leung; and three independent non-executive Directors, namely Mr. Tam B Ray Billy, Mr. Ng Kay Kwok and Mr. Lam Ka Wai, Graham.