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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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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 AND NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent financial adviser to the Independent Shareholders and  
Independent Board Committee in respect of the Settlement**



**大華證券(香港)有限公司**  
GRAND CATHAY SECURITIES (HONG KONG) LIMITED

**Independent financial adviser to the Independent Shareholders and  
Independent Board Committee in respect of the YSH Disposal**

**AmCap**  
*Ample Capital Limited*  
**豐盛融資有限公司**

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A letter from the independent board committee of the Company is set out from pages 20 to 21 of this circular. Letters from Grand Cathay Securities (Hong Kong) Limited and Ample Capital Limited containing their advice to the independent board committee and independent shareholders of the Company are set out from pages 22 to 40 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at 13/F., Sunning Plaza, 10 Hysan Avenue, Causeway Bay, Hong Kong on 13 January 2010 at 11:30 a.m. (the "EGM") is set out on pages 54 to 56 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you propose to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Union Registrars Limited, at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM if you so wish.

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## DEFINITIONS

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*Unless the context otherwise requires, terms or expressions used in this circular shall have the meanings ascribed to them below:*

“Board”	the board of Directors
“Business Day”	means any days (other than a Saturday or Sunday) on which banks are generally open for business in Hong Kong
“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
“Convertible Bonds”	the zero coupon convertible bonds to be issued by the Company to Pioneer (China) Limited in the principal amount of HK\$19.2 million pursuant to the Secondary Agreement
“Completion Date Management Accounts”	the management accounts of ESL as at the date of ESL 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
“EGM”	an extraordinary general meeting of the Company to be convened and held on 13 January 2010 at 11:30 a.m. for approving the ESL Agreement, the Deed, the YSH Agreement and the respective transactions contemplated thereunder
“ESL”	Excalibur Securities Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“ESL 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
“ESL Completion”	completion of the ESL Agreement

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## DEFINITIONS

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“ESL Completion Date”	on the fifth Business Day following the fulfilment or waiver of the conditions as contained in the ESL Agreement, or such other date as the parties to the ESL Agreement may agree
“ESL Disposal”	the disposal of the ESL Sale Shares at the ESL Disposal Consideration pursuant to the ESL Agreement
“ESL Disposal Consideration”	as defined in the section headed “ESL Disposal Consideration” in this circular
“ESL Purchaser”	Faith Star Asia Limited, a company incorporated in the British Virgin Islands with limited liability
“ESL 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 ESL Vendor as at the date of the ESL Agreement
“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 “ESL 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 Board Committee”	a committee of the Board comprising all the independent non-executive Directors formed for the purpose of advising and giving recommendation to the independent shareholders regarding the Deed and the YSH Agreement and the respective transactions contemplated thereunder

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## DEFINITIONS

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“independent shareholders”	has the meaning given to it under the Listing Rules
“Independent Shareholders”	in respect of the Deed, the Shareholders other than Mr. Lao and his 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
“Latest Practicable Date”	17 December 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“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 which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Settlement”	the settlement of certain 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 circular
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Cap 571) of the Laws of Hong Kong

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## DEFINITIONS

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“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 Rights”	the two trading rights legally and beneficially owned by ESL (as evidenced by Trading Right Certificate Number R1134 and R1380)
“YSH”	Yew Sang Hong (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“YSH Agreement”	the conditional Agreement entered into between the YSH Vendor and the YSH Purchaser on 24 November 2009 (after trading hours) pursuant to which the YSH Vendor has agreed to sell and the YSH Purchaser has agreed to acquire the YSH Sale Shares and the YSH Sale Loan at the YSH Disposal Consideration
“YSH Completion”	means completion of the YSH Agreement
“YSH Completion Date”	means three (3) Business Days after the YSH Agreement has become unconditional or such later date as the parties may agree in writing prior to YSH Completion
“YSH Disposal”	The disposal of the YSH Sale Shares and the YSH Sale Loan at the YSH Disposal Consideration pursuant to the YSH Agreement
“YSH Disposal Consideration”	as defined in the section headed “YSH Disposal Consideration” in this circular
“YSH Group”	YSH and its subsidiaries including Yew Sang Hong Limited, Yew Sang Hong Trading Limited, Yew Sang Hong Building Services (Maintenance) Engineering Limited and Brongham Park Limited

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## DEFINITIONS

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“YSH Purchaser”	Mr. Lai Sai Sang, a director of YSH and a connected person of the Company
“YSH Sale Loan”	means the loan owed by the YSH Group to the YSH Vendor as at the date of the YSH Agreement in the sum of HK\$5,110,683
“YSH Sales Shares”	means the one (1) ordinary share of US\$1.00 each in the capital of YSH, representing the entire equity interest in YSH as at the date of the YSH Agreement, legally and beneficially owned by the YSH Vendor
“YSH Vendor”	the Company
“%”	per cent.

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## LETTER FROM THE BOARD

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

**(Stock Code: 290)**

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

*Non-executive Director:*

Mr. Wong Kam Fat, Tony (*Chairman*)

*Executive Directors:*

Mr. Ng Cheuk Fan, Keith (*Managing Director*)

Mr. Yeung Kwok Leung

*Independent Non-executive Directors:*

Mr. Ng Kay Kwok

Mr. Lam Ka Wai, Graham

Mr. Tam B Ray Billy

*Registered office:*

P.O. Box 309, Ugland House  
Grand Cayman, KY1-1104  
Cayman Islands

*Head office and principal place of  
business in Hong Kong:*

13/F., Sunning Plaza  
10 Hysan Avenue  
Causeway Bay, Hong Kong

22 December 2009

*To the Shareholders and for information purpose only,  
holders of convertible securities*

Dear Sir or Madam,

## MAJOR AND CONNECTED TRANSACTIONS

### INTRODUCTION

#### ESL Disposal

Reference is made to the announcement of the Company dated 22 October 2009 in which the Board announced that on 16 October 2009, the ESL Vendor, the ESL Purchaser and ESL entered into the conditional ESL Agreement pursuant to which the ESL Vendor agreed to sell and the ESL Purchaser agreed to acquire the ESL Sale Shares at the ESL Disposal Consideration.



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## LETTER FROM THE BOARD

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The Board also announced that on 16 October 2009, 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 his certain outstanding obligations under the Original Agreements in relation to the Lao 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 ESL Agreement.

The ESL 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 connection transaction on the part of the Company under Chapter 14A of the Listing Rules. Accordingly, the proposed ESL Disposal and transactions contemplated thereunder are subject to notification, publication and independent shareholders approval requirements under the Listing Rules.

### **YSH Disposal**

Reference is also made to the announcement of the Company dated 27 November 2009 in which the Board announced that on 24 November 2009, the YSH Vendor and the YSH Purchaser entered into the YSH Agreement pursuant to which, among other matters, the YSH Vendor agreed to sell and the YSH Purchaser agreed to acquire the YSH Sale Shares and YSH Sale Loan at the YSH Disposal Consideration.

The proposed YSH Disposal constitutes a major transaction on the part of the Company under Chapter 14 of the Listing Rules. As the YSH Purchaser, Mr. Lai Sai Sang is a director of YSH and thus a connected person (as defined in the Listing Rules) of the Company, the proposed YSH Disposal therefore also constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules. Accordingly, the proposed YSH Disposal and the transactions contemplated thereunder are subject to notification, publication and independent shareholders approval requirements under the Listing Rules.

The purpose of this circular is to provide with the Shareholders, among other matters, (i) further details of the ESL Agreement, the Deed, the YSH Agreement and the respective transactions contemplated thereunder; (ii) the recommendation from the independent board committee of the Company in respect of the Deed and the YSH Disposal and the transactions contemplated thereunder; and (iii) the advice from independent financial advisers in respect of the Deed and the YSH Disposal as well as the respective transactions contemplated thereunder; in order to enable the Shareholders to make a properly informed decision on whether to vote for or against the relevant resolutions in the EGM.

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## LETTER FROM THE BOARD

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### THE ESL AGREEMENT

#### Date

16 October 2009 (after trading hours)

#### Parties

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

ESL Purchaser: Faith Star Asia Limited

Target Company: Excalibur Securities Limited

The ESL 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 ESL Purchaser and its ultimate beneficial owner is an Independent Third Party.

#### Asset to be disposed

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

#### ESL Disposal Consideration

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

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

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## LETTER FROM THE BOARD

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

The ESL Disposal Consideration was arrived at after arm’s length negotiations between the ESL Vendor and the ESL Purchaser with reference to (i) the net asset value of ESL; (ii) the value of the Trading Rights; and (iii) the future prospect of ESL as discussed in the section headed “Reasons for and the Benefits of the ESL Disposal” below.

### Conditions

The ESL 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 ESL Agreement, the implementation of and all other matters incidental to the ESL Agreement (including the approval by the SFC to the application of the ESL Purchaser to be the sole shareholder of ESL and the non-revocation of the Trading Rights and the Certificate of Exchange Participant held by ESL as a result of the transactions contemplated under the ESL Agreement and all the conditions and requirements as the SFC and the Stock Exchange shall stipulate in relation to the Trading Rights and the Certificate of Exchange Participant held by ESL respectively having been duly complied with);
- (b) the passing by the shareholders of the ESL Vendor in general meeting of the necessary resolutions approving the ESL Agreement and other transactions contemplated in or incidental to the ESL 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 ESL 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 ESL Agreement and the transactions contemplated therein being/having been obtained;

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## LETTER FROM THE BOARD

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- (d) all warranties as contained in the ESL Agreement remaining true and accurate as at ESL Completion and ESL as well as the ESL 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 ESL Vendor at or prior to the ESL Completion Date;
- (e) a satisfactory result from the due diligence examinations to be conducted against ESL by the ESL Purchaser and/or its agents, appointees, or professional advisors after the signing the ESL 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 ESL Purchaser is entitled to carry out another due diligence within 14 days from the date on which the ESL Purchaser is informed of the grant of the Necessary Approvals; and
- (f) receipt of the Completion Date Management Accounts by the ESL Purchaser from the ESL Vendor at or before 11:00 a.m. on the business day before the ESL 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 ESL Purchaser.

The ESL 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 ESL 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 ESL Agreement (or such later date as the parties may agree in writing), the ESL Agreement shall automatically terminate and none of the parties to the ESL Agreement shall have any claim of any nature or liabilities thereunder whatsoever against any of the other parties under the ESL Agreement (save for any antecedent breaches of the terms thereof). In such event, the ESL Vendor shall forthwith return all deposit and/or part payment of purchase price received to the ESL Purchaser in full without any interest and costs.

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

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## LETTER FROM THE BOARD

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### Completion

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

Upon Completion, the Company will not have any equity interest in ESL and therefore ESL will cease to be a subsidiary of the Company.

### THE SETTLEMENT

Reference is made to the announcements of the Company dated 30 May 2008, 18 August 2008, 24 September 2008, 3 November 2008 and 2 February 2009 respectively, as well as the circular of the Company dated 30 June 2008. 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%.

Reference is also made to the announcement of the Company dated 16 March 2009 and the circular of the Company dated 8 May 2009. On 6 March 2009, Fortune Financial entered into a conditional sale and purchase agreement (the “Secondary Agreement”) with Pioneer 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.

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## LETTER FROM THE BOARD

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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 his certain outstanding obligations under the Original Agreements in relation to the Lao 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 shall remain 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 Pioneer 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.

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## LETTER FROM THE BOARD

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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 discussed in the section headed "Reasons for and Benefits of the ESL Disposal".

### **Conditions and completion**

Completion of the Deed is conditional upon the execution and completion of the ESL 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 (if any).

### **INFORMATION ON 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 approximately 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 ESL DISPOSAL**

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

After the completion of the acquisition of 100% equity interest in ESL on 11 August 2009, the Group has two securities brokerage arms, 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 do not override the immediate benefits to be gained from the ESL Disposal insofar as the ESL Disposal would represent a good opportunity for the Company to realize its investment in ESL and to release resources for development and investment in other business opportunities. The Company already has a well established securities business in place; the ESL disposal will release resources for development and investment in other business opportunities, which is beneficial to the Company and its shareholders as a whole.

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## LETTER FROM THE BOARD

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Taking into account the size of operation of ESL, the special dividend from ESL and the ESL Disposal Consideration and the Settlement Consideration that will be entirely in cash, the ESL 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 ESL Completion, the Group will continue its existing business of securities, futures and insurance brokerage, margin financing, electrical engineering contracting and trading of electrical goods if the YSH Disposal has not completed.

Having considered the above, the Directors are of the view that the terms of the ESL 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 FROM THE ESL DISPOSAL

Assuming the NAV of ESL as at the date of ESL Completion is HK\$20 million after the payment of the special dividend, the Company expects that the net proceeds from the ESL 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 ESL DISPOSAL

Subject to audit, the Group expects to record a consolidated loss of approximately HK\$19.9 million as calculated by reference to: (i) the NAV of ESL as at the date of ESL Completion; (ii) the ESL Disposal Consideration; (iii) the Settlement Consideration; and (iv) the writing off of the goodwill of ESL of HK\$25.9 million. Such loss was principally due to the upward revaluation of the fair value of the convertible bonds for the acquisition of 51% interest in ESL (details of which were set out in circular of the Company dated 30 June 2008) at the issue date on 24 August 2009. Upon Completion of the ESL Disposal, subject to audit, the total assets of the Group will be decreased by HK\$25.9 million which is goodwill written off and the total liabilities of the Group will have no change. Reference to the audited accounts of the Group as at 31 March 2009, the earnings of the Group will be decreased by HK\$0.3 million.

### THE YSH AGREEMENT

#### Date

24 November 2009 (after trading hours)

#### Parties

YSH Vendor:                      the Company

YSH Purchaser:                 Mr. Lai Sai Sang



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## LETTER FROM THE BOARD

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Mr. Lai is a director of YSH and thus a connected person (as defined in the Listing Rules) of the Company.

### **Asset to be disposed**

Pursuant to the YSH Agreement, the Company has agreed to sell and the YSH Purchaser has agreed to purchase the YSH Sales Shares and the YSH Sale Loan. The YSH Sales Shares represents the entire 100% equity interest in YSH as at the date of the YSH Agreement.

YSH is a directly and wholly-owned subsidiary of the Company and an investment holding company. YSH possesses the entire equity interest in Yew Sang Hong Limited, Yew Sang Hong Trading Limited, Yew Sang Hong Building Services (Maintenance) Engineering Limited and Brongham Park Limited.

The YSH Sale Loan represents HK\$5,110,683 owing by YSH Group to the Company at as the date of the YSH Agreement. The YSH Sale Loan was made by the Company as the holding company of YSH Group to finance the operating expenses of the YSH Group for previous years.

### **YSH Disposal Consideration**

The YSH Disposal Consideration for the YSH Sale Shares and the YSH Sale Loan shall be the sum of HK\$10,000 which shall be paid and satisfied by way of cash upon YSH Completion.

The YSH Disposal Consideration was arrived at after arm's length negotiations between the Company and the YSH Purchaser with reference to the net liabilities of the YSH Group as at as 31 October 2009 in the sum of HK\$11,207,586, the face value of the YSH Sale Loan of HK\$5,110,683 and the future prospects of the YSH Group as discussed in the section headed "**Reasons for and Benefits of the YSH Disposal**" below.

### **Conditions**

YSH Completion is conditional upon fulfillment of the following conditions:

- (a) the passing by the board of directors of the YSH Purchaser and the Company in a board meeting of a resolution approving the YSH Agreement and the implementation thereof;
- (b) the passing of all necessary resolutions (if required) of the shareholders of the Company to approve the terms of the YSH Agreement to enable the Company to complete and implement the terms of the YSH Agreement; and

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## LETTER FROM THE BOARD

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- (c) all other necessary announcements, waivers, consents and approvals (if required) in relation to YSH, 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 YSH Agreement and the transactions contemplated herein being/having been obtained.

The YSH Purchaser may not waive any of the abovementioned conditions. If the conditions set out above shall not have been fulfilled within ninety (90) business days of the execution of the YSH Agreement (or such later dates as may be subsequently agreed between the YSH Vendor and the YSH Purchaser), the YSH Agreement and everything contained in the YSH Agreement, subject to, among other things, the liability of any party to the others in respect of any antecedent breaches of the terms hereof, shall be null and void and of no effect.

### **Completion**

Completion will take place on the third (3rd) Business Day after the YSH Agreement has become unconditional or such later date as the parties may subsequently agree in writing prior to YSH Completion.

Upon YSH Completion, the Company will not hold any interest in the equity capital of YSH Group and the YSH Group will cease to be subsidiaries of the Company.

### **INFORMATION ON THE YSH GROUP**

The YSH Group is principally engaged in electrical engineering contracting business and trading of electrical goods. As stated in the unaudited financial statements of the YSH Group as at 31 March 2009, YSH Group had net liabilities of HK\$12,415,409. The attributable losses before and after taxation of YSH Group for the year ended 31 March 2009 were approximately HK\$84,155 and HK\$84,155 respectively. The attributable loss before and after taxation of YSH Group for the year ended 31 March 2008 were approximately HK\$4,154,888 and HK\$4,154,888 respectively.

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

The Group is principally engaged in securities, futures and insurance brokerage, margin financing, electrical engineering contracting and trading of electrical goods. The Group is envisioned to become a renowned full range financial services provider in the financial industry in the long run. No new electrical engineering contract was signed during the last financial year ended 31 March 2009 and it is expected that contributions from electrical engineering contracting and the trading of electrical goods will become insignificant.

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## LETTER FROM THE BOARD

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The Directors are of the view that the terms of the Agreement and the transactions contemplated thereunder are fair, reasonable and are in the interests of the Company and its shareholders as a whole. And the proposed YSH Disposal would represent a good opportunity for the Company to release resources for its development and investment in other business opportunities.

In view of the recent economic performance globally, in particular, the rebound of the security market in Hong Kong and the PRC, the Directors believe that the future prospect of the security market in Hong Kong and the PRC is promising. Upon YSH Completion, the Group will continue its existing business of securities, futures and insurance brokerage and margin financing. Furthermore, the Group will focus on exploring further opportunities to invest in financial services-related businesses.

Taking into account the aforesaid benefits of the proposed YSH Disposal and based on the above, the Directors are of the view that the terms of the YSH Agreement are fair, reasonable and in the interests of the Company and its shareholders as a whole.

### **USE OF PROCEEDS FROM THE YSH DISPOSAL**

The Company expects that all proceeds from the proposed YSH Disposal will be used to pay expenses incurred for the transaction.

### **FINANCIAL EFFECT OF THE YSH DISPOSAL**

Subject to audit, the Company expects to record a profit of approximately HK\$6.1 million from the proposed YSH Disposal as calculated by reference to (i) the net liabilities of the YSH Group of HK\$11,207,586 as at the date of the YSH Agreement, (ii) the YSH Disposal Consideration and (iii) the YSH Sale Loan. Upon completion of the YSH Disposal and with reference to the audited account of the Group as at 31 March 2009, the total assets of the Group will be decreased by HK\$0.25 million and total liabilities will be decreased by HK\$7.6 million. The earnings of the Group will be increased by HK\$0.08 million.

### **FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

The Group is cautious about its business outlook. During the first half of this year, the financial markets have been adversely affected by fears of a global slowdown and inflationary pressure. The average daily turnover of the Hong Kong stock market for first and second quarters of year 2009 were approximately 44.6 billion and 71.3 billion, respectively. Turning to the third quarter, the average daily turnover of Hong Kong stock market was approximately HK\$66.3 billion (third quarter of 2008: 63.4 billion).

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## LETTER FROM THE BOARD

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In view of the recent economic performance globally, in particular, the rebound of the securities market in Hong Kong and the PRC, the Directors believe that the future prospect of the securities and futures markets in Hong Kong and the PRC is promising. The Company reiterates its beliefs that the PRC's economy should retain its resilience and that Hong Kong's advantageously close integration with the PRC will enhance its exclusive accessibility to this mass market.

The Group is envisioned to become a renowned full range financial services provider in the financial industry in the long run. Following the ESL and YSH Disposals, the Group will continue its existing business of securities, futures and insurance brokerage and margin financing and will focus on exploring opportunities to invest in financial service provider in the PRC.

### LISTING RULES IMPLICATION

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 therefore 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 are required to abstain from voting on the resolution(s) relating to the Deed and the transactions contemplated thereunder. As at the Latest Practical Date, Pioneer holds zero coupon convertible bonds of the Company in the principal amount of HK\$29 million due on 23 August 2012 at a conversion price of HK\$0.16 per Share convertible into a maximum of 181,250,000 Shares, representing approximately 12.96% of the total issued share capital of the Company as at the Latest Practical Date. Pioneer is owned as to 50.92% by Mr. Lao, therefore, Mr. Lao is deemed to be interested in the HK\$29 million convertible bonds held by Pioneer.

Furthermore, as at Latest Practicable Date, Mr. Lao is a registered owner of 200 million Shares, representing approximately 14.29% of the total issued share capital of the Company as at the Latest Practical Date. Accordingly, Mr. Lao and his associates (that is Pioneer), in aggregate, interested in 381,250,000 Shares and underlying Shares, representing 27.25% of the total issued share capital of the Company as at the Latest Practical Date.

As the YSH Purchaser, Mr. Lai, is a director of YSH and thus a connected person (as defined in the Listing Rules) of the Company, the proposed YSH Disposal therefore also constitutes a connected transaction on the part of the Company under Chapter 14A of Listing Rules. Mr. Lai and his associates are therefore required to abstain from voting on the relevant resolution(s) approving the YSH Disposal. As at the Latest Practicable Date, Mr. Lai and his associates do not have any interest in the Shares of the Company.

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## LETTER FROM THE BOARD

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The ESL and YSH Disposals constitute major transactions on the part of the Company under Chapter 14 of the Listing Rules. Therefore, the ESL and YSH Disposals and their respective transactions contemplated thereunder will be subject to, amongst other things, the approval of the Shareholders at the EGM. Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the EGM will be taken by poll. Furthermore, any Shareholder with a material interest in the proposed transaction(s) and his associates will abstain from voting on resolution(s) approving that transaction(s). Save for the aforesaid connected persons and their respective associates are required to abstain from voting on the relevant resolution(s) as mentioned above, as far as the Directors are aware of, no Shareholders are required to abstain from voting at the EGM.

The Company will seek the relevant Shareholders' approval at the EGM for the above matters and will announce the results of the poll in the manner set out in Rule 13.39(5) of the Listing Rules.

### **EGM**

A notice convening an extraordinary general meeting of the Company to be held at 13/F., Sunning Plaza, 10 Hysan Avenue, Causeway Bay, Hong Kong on 13 January 2010 at 11:30 a.m. (the "EGM") is set out on pages 54 to 56 of this circular. Ordinary resolutions will be proposed at the EGM to consider and, if thought fit, to approve the ESL Agreement, the Deed, the YSH Agreement and the respective transactions contemplated thereunder.

A form of proxy for the EGM is enclosed with this circular. Whether or not you propose to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Union Registrars Limited, at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM if you so wish.

### **RECOMMENDATION**

The Directors consider that the terms of the ESL Agreement, the Deed, the YSH Agreement and their respective transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to approve the above matters at the EGM.

### **FURTHER INFORMATION**

Your attention is also drawn to the information set out in the appendices to this circular.

Yours faithfully,  
For and on behalf of the Board of  
**China Fortune Group Limited**  
**Ng Cheuk Fan, Keith**  
*Managing Director*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Deed and the transactions contemplated thereunder:*



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

**(Stock Code: 290)**

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

22 December 2009

### CONNECTED TRANSACTIONS

*To the Independent Shareholders*

Dear Sir or Madam,

We refer to the circular of the Company dated 22 December 2009 (the “Circular”), of which this letter forms part. Unless otherwise stated, capitalized terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as the Independent Board Committee to advise you as to whether, in our opinion, the Settlement and the YSH Disposal are in the interests of the Company and the Shareholders as a whole.

#### **ESL DISPOSAL**

Grand Cathay Securities (Hong Kong) Limited (“Grand Cathay”) has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Settlement. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out from pages 22 to 31 of this Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the terms of the Deed and the transactions contemplated thereunder and the independent advice of Grand Cathay in relation thereto, we are of the opinion that the Deed and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Deed and the transactions contemplated thereunder.

### **YSH DISPOSAL**

Ample Capital Limited (“Ample Capital”) has been appointed as the independent financial adviser to advise the Independent Board Committee and the independent shareholders on the YSH Disposal. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out from pages 32 to 40 of this Circular.

Having considered the terms of the YSH Agreement and the transactions contemplated thereunder and the independent advice of Ample Capital in relation thereto, we are of the opinion that the YSH Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. We therefore recommend the independent shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the YSH Agreement and the transactions contemplated thereunder.

Yours faithfully,

Independent Board Committee of

**China Fortune Group Limited**

**Ng Kay Kwok**

*Independent non-executive Director*

**Lam Ka Wai, Graham**

*Independent non-executive Director*

**Tam B Ray Billy**

*Independent non-executive Director*

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# LETTER FROM GRAND CATHAY SECURITIES (HONG KONG) LIMITED

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*The following is a letter of advice from Grand Cathay to the Independent Board Committee and the Independent Shareholders in connection with the Deed and the transactions contemplated thereunder which has been prepared for the purpose of incorporation in this circular:*



**GRAND CATHAY SECURITIES (HONG KONG) LIMITED**

香港中環花園道3號中國工商銀行大廈7樓705至706室

Room 705-706, 7/F., ICBC Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong

Tel: 852-2521-2982 Fax: 852-2521-0085 www.gsc.com.tw

22 December 2009

*To the Independent Board Committee and  
the Independent Shareholders of China Fortune Group Limited*

Dear Sirs,

## **MAJOR AND CONNECTED TRANSACTIONS**

### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders with regard to the Settlement, details of which are set out in the section headed “Letter from the Board” (the “Letter”) in the Company’s circular dated 22 December 2009 (the “Circular”) to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 22 October 2009, the Board announced that on 16 October 2009 (after trading hours), the ESL Vendor, the ESL Purchaser and ESL entered into the ESL Agreement pursuant to which the ESL Vendor has agreed to sell and the ESL Purchaser has agreed to acquire the ESL Sale Shares at the ESL Disposal Consideration. On the same date, the Board also announced 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 his certain outstanding obligations under the Original Agreements in relation to the Lao 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.



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## LETTER FROM GRAND CATHAY SECURITIES (HONG KONG) LIMITED

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The ESL 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 transaction contemplated thereunder.

Mr. Ng Kay Kwok, Mr. Lam Ka Wai, Graham and Mr. Tam B Ray Billy, being all the independent non-executive Directors, have been appointed by the Board to form the Independent Board Committee to advise and make recommendation to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution(s) regarding the Settlement.

Our role as the independent financial adviser is to give our independent opinion to the Independent Board Committee and Independent Shareholders as to whether the Deed is on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole and whether the Independent Shareholders should vote in favour of the resolutions to approve the Deed and the transactions contemplated thereunder to be proposed at the EGM.

### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the information, opinion and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the management of the Company and the Directors. We have assumed that all information, opinions and representations contained or referred to in the Circular and all information, opinion and representations which have been provided by the management of the Company and the Directors, for which they are solely and wholly responsible, were true, accurate and complete at the time when they were made and continue to be so at the date hereof.

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## LETTER FROM GRAND CATHAY SECURITIES (HONG KONG) LIMITED

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Accordingly, we have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information, opinions and representations contained in the Circular, or the reasonableness of the opinions expressed by the management of the Company and the Directors. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. Furthermore, we consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have performed all applicable steps as required under Rule 13.80 of the Listing Rules including the notes thereto. We have relied on such information, opinions and representations but have not, however, conducted any independent in-depth investigation into the business, financial conditions and affairs or the future prospects of the Group or the market in which it operates.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our recommendation in relation to the Deed, we have considered the following principal factors and reasons:

#### **(1) Background of ESL**

The Group is principally engaged in securities, future and insurance brokerage, margin financing, electrical engineering contracting and trading of electrical goods. As at the Latest Practicable Date, the Group has two securities brokerage arms, namely ESL and Fortune Securities.

Reference is 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. The Original Agreements were completed on 17 February 2009.

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## LETTER FROM GRAND CATHAY SECURITIES (HONG KONG) LIMITED

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Reference is 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 of ESL for a consideration of HK\$19.2 million. The Secondary Agreement was completed on 11 August 2009.

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 at 31 December 2008, ESL had an audited net asset value of approximately HK\$34.33 million. The following table shows the financial performance of ESL for the two years ended 31 December 2008:

	<b>Year ended 31 December 2007 HK\$'000 (audited)</b>	<b>Year ended 31 December 2008 HK\$'000 (audited)</b>
Net profit before taxation and extraordinary items	6,834	5,286
Net profit after taxation and extraordinary items	5,675	4,282

As stated in the Letter, the unaudited net profit of ESL for the eight months ended 31 August 2009 was approximately HK\$2.5 million.

### **(2) Reasons for the ESL Disposal and the ESL Disposal Consideration**

On 22 October 2009, the Board announced that on 16 October 2009 (after trading hours), the ESL Vendor, the ESL Purchaser and ESL entered into the ESL Agreement pursuant to which the ESL Vendor has agreed to sell and the ESL Purchaser has agreed to acquire the ESL Sale Shares at the ESL Disposal Consideration.

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## LETTER FROM GRAND CATHAY SECURITIES (HONG KONG) LIMITED

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As stated in the Letter, 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 that the synergistic advantages to be gained does not override the fact that ESL Disposal would represent a good opportunity for the Company to realize its investment in ESL and to release resources for the development and investment in other business opportunities. Besides, we have been advised by the Directors that given the Company already has a well established securities business in place, the ESL Disposal will not have any detrimental effect to the Group's existing businesses.

The ESL Disposal Consideration would be satisfied by the ESL Purchaser in cash/cashier order upon ESL Completion based on the following formula:

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

According to the management of the Company, the NAV mentioned in the above formula does not include the goodwill of the ESL which was arisen from its previous acquisitions. The total goodwill of ESL arisen in its previous acquisitions was approximately HK\$25.9 million. Based on the above formula and according to the Directors, assuming the ESL Completion on 31 August 2009 and no special dividend is declared by ESL, the ESL Disposal Consideration would be approximately HK\$41.8 million (being the sum of the NAV of ESL as at 31 December 2008 of approximately HK\$34.3 million (excluding the goodwill of HK\$25.9 million), the unaudited net profit of ESL for the eight months ended 31 August 2009 of approximately HK\$2.5 million and the premium of HK\$5 million).

In order to assess the fairness and reasonableness of the ESL Disposal Consideration, we have identified 19 comparable companies listed on the main board of the Stock Exchange ("Market Comparables"), which have similar principal business of ESL that provides financial services and conducts regulated activities under SFO in Hong Kong. Due to the fact that some of the Market Comparables may also conduct other businesses which is unrelated to that of ESL, Independent Shareholders should note that the following analysis, mainly the

## LETTER FROM GRAND CATHAY SECURITIES (HONG KONG) LIMITED

comparison of price to earning ratio (“PE Ratio”) and price to book ratio (“PB Ratio”) are only used to provide a general reference in assessing the fairness and reasonableness of the ESL Disposal Consideration. Details of our findings are set out in the table below:

Company (Stock Code)	Closing price as at the date of the Agreement (HK\$)	Earning per share based on the information available on “Company/ Securities Profile” as quoted in the website of the Stock Exchange (HK\$)	NAV per share based on the information available on “Company/ Securities Profile” as quoted in the website of the Stock Exchange (HK\$)	PE Ratio (times)	PB Ratio (times)
CASH Financial Services Group Limited (510)	0.59	NA	1.1170	NA	0.5282
Celestial Asia Securities Limited (1049)	1.56	NA	1.2574	NA	1.2407
China Everbright Limited (165)	18.76	0.6386	8.2900	29.3768	2.2630
Cinda International Holdings Limited (111)	1.87	NA	0.4255	NA	4.3948
Emperor Capital Group Limited (717)	0.425	NA	0.6101	NA	0.6966
First Shanghai Investments Limited (227)	1.06	NA	1.6580	NA	0.6393
Get Nice Holdings Limited (64)	0.44	NA	0.7314	NA	0.6016
Hong Kong Chinese Limited (655)	0.66	NA	2.5704	NA	0.2568
Karl Thomson Holdings Limited (7)	0.67	NA	0.7064	NA	0.9485
Quam Limited (952)	0.34	NA	0.3575	NA	0.9510
Rexlot Holdings Limited (555)	0.72	0.0368	0.3924	19.5652	1.8349
Shenyin Wanguo (H.K.) Limited (218)	3.66	0.0271	1.7834	135.0554	2.0523
South China Financial Holdings Limited (619)	0.081	NA	0.0651	NA	1.2442
Sun Hung Kai & Co. Limited (86)	5.95	0.2042	6.4752	29.1381	0.9189
SW Kingsway Capital Holdings Limited (188)	0.171	NA	0.1771	NA	0.9656
Taifook Securities Group Limited (665)	3.19	0.184	2.7256	17.3370	1.1704
Tanrich Financial Holdings Limited (812)	0.425	NA	0.2283	NA	1.8616
Upbest Group Limited (335)	0.98	0.0903	0.7528	10.8527	1.1823
Value Convergence Holdings Limited (821)	1.79	0.0205	1.6376	87.3171	1.0907
			Maximum	135.0554	4.3948
			Minimum	10.8527	0.2568
			Mean	41.0803	1.3074
			ESL	9.7618 (Note 1)	1.1359 (Note 2)

Source: The website of the Stock Exchange

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## LETTER FROM GRAND CATHAY SECURITIES (HONG KONG) LIMITED

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*Notes:*

1. Based on the ESL Disposal Consideration of HK\$41.8 million (assuming the ESL Completion on 31 August 2009 and no special dividend is declared by ESL) and the audited net profit after tax of HK\$4.282 million for the year ended 31 December 2008.
2. Based on the ESL Disposal Consideration of HK\$41.8 million (assuming the ESL Completion on 31 August 2009 and no special dividend is declared by ESL) and NAV of ESL as at 31 December 2008 of approximately HK\$34.3 million and the unaudited net profit of ESL for the eight months ended 31 August 2009 of approximately HK\$2.5 million.

As noted from the above table, the majority of the Market Comparables reported loss based on its latest published audited accounts. Therefore, there were only 7 Market Comparables available for our analysis of PE Ratio. The PE Ratio of the remaining Market Comparables ranged from 10.8527 to 135.0554 times with the mean at 41.0803 times. Given the said range was wide and the majority of the Market Comparables had no PE Ratios for our analysis, we are of the view that the PE Ratio analysis cannot serve as a meaningful reference in assessing the fairness and reasonableness of the ESL Disposal Consideration.

The above table shows that the PB Ratio of the Market Comparables ranged from 0.2568 to 4.3948 times with the mean at 1.3074 times. The PB Ratio of ESL represented by the ESL Disposal Consideration, being 1.1359 times, falls within the said range and is close to the mean of the Market Comparables. On this basis, we are of the view that the ESL Disposal Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

### **(3) Reasons for the entering into the Deed**

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%.

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## LETTER FROM GRAND CATHAY SECURITIES (HONG KONG) LIMITED

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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.

In view of ESL is being disposed by the Company, Fortune Financial, Pioneer and Mr. Lao entered into the Deed pursuant to which (i) Fortune Financial agreed to waive, release and/or otherwise discharge Mr. Lao from his certain outstanding obligations under the Original Agreements in relation to the Lao 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.

According to the Letter, 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. The completion of the Deed is conditional upon the execution and completion of the ESL 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.

The aggregate consideration of HK\$1 million for the Settlement shall be satisfied in cash upon ESL 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.

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## LETTER FROM GRAND CATHAY SECURITIES (HONG KONG) LIMITED

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We understand from the Company that the Lao Profit Guarantee and Pioneer Profit Guarantee were the standalone rights contained in the Original Agreements and the Secondary Agreement, respectively. As Fortune Financial are then to dispose ESL, there would be significant difficulties for Fortune Financial to enforce the standalone rights of the Lao Profit Guarantee and Pioneer Profit Guarantee on the basis that ESL, being the subject of the Original Agreements and the Secondary Agreement and the reason for the original inclusion of the Lao Profit Guarantee and the Pioneer Profit Guarantee as part of the sale to Fortune Financial, has been sold by Fortune Financial. In addition, difficulty may be encountered in enforcing the Lao Profit Guarantee and Pioneer Profit Guarantee as Fortune Financial would no longer have access to the books and records of ESL and thus would not be in position to confirm whether the Profit Guarantee has been met or not.

Given the difficulty in enforcing the Profit Guarantee after the ESL Disposal, we consider that the Settlement Consideration, which represents an additional premium to the ESL Disposal Consideration, is fair and reasonable.

In view of (i) the ESL Disposal would represent a good opportunity for the Company to realize its investment in ESL as discussed in the previous paragraph headed “Reasons for the ESL Disposal and the ESL Disposal Consideration”; (ii) the difficulty in enforcing the Profit Guarantee after the ESL Disposal; and (iii) the Settlement Consideration would provide additional premium to the Company as a result of the ESL Disposal, we consider that the Settlement is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and its Shareholders as a whole.

### **(3) Financial effects of the ESL Disposal on the Group**

Upon Completion, the Company will not have any equity interests in ESL and therefore ESL will cease to be a subsidiary of the Company.

#### ***Loss on ESL Disposal and NAV***

Subject to audit, the Company expects to record a consolidated loss of approximately HK\$19.9 million as calculated by reference to: (i) the NAV of ESL as at the date of ESL Completion; (ii) the ESL Disposal Consideration; (iii) the Settlement Consideration; and (iv) the written off of the goodwill of ESL of HK\$25.9 million. Such loss was principally due to the upward revaluation of the fair value of the convertible bonds for the acquisition of 51% interest in ESL (details of which were set out in the Company’s circular dated 30 June 2008) at the issue date on 24 August 2009. Accordingly, the NAV of the Company will be decreased by HK\$19.9 million.



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## LETTER FROM GRAND CATHAY SECURITIES (HONG KONG) LIMITED

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### *Earnings*

According to the annual report of the Company for the year ended 31 March 2009, the Group recorded a profit after tax of approximately HK\$15.7 million. As illustrated in the previous paragraph headed “Background of ESL”, the profit after tax of ESL was approximately HK\$4.3 million for the year ended 31 December 2008 and the profit of HK\$2.5 million for the eight month ended 31 August 2009. Given the Group has another well established brokerage house which conducting similar business of ESL, the Directors consider that the ESL Disposal will not have a material impact to the profitability of the Group.

### *Gearing, working capital and liquidity*

Assuming the ESL Completion on 31 August 2009 and no special dividend is declared by ESL, the ESL Disposal Consideration would be approximately HK\$41.8 million (being the sum of the NAV of ESL as at 31 December 2008 of approximately HK\$34.3 million, the unaudited net profit of ESL for the eight months ended 31 August 2009 of approximately HK\$2.5 million and the premium of HK\$5 million) and the Settlement Consideration would be HK\$1 million, both of which are intended to be used for general working capital of the Group. As a result, it is expected that the gearing ratio, working capital and liquidity of the Group would be improved by the net proceeds from the ESL Disposal and the Settlement.

## RECOMMENDATION

Taking into account the factors and reasons as mentioned above, we are of the opinion that despite the Settlement is not part of the ordinary and usual course of business of the Group, the Deed is on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders and advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the resolutions to approve the Deed to be proposed at the EGM.

Yours faithfully,

For and on behalf of

**Grand Cathay Securities (Hong Kong) Limited**

**Kim Chan**

*Director*

**Kevin Wong**

*Vice President*

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## LETTER FROM AMPLE CAPITAL LIMITED

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*The following is the full text of the letter of advice from Ample Capital Limited in respect of the YSH Disposal and is prepared for the purpose of incorporation into this circular.*

**AmCap**

*Ample Capital Limited*

豐盛融資有限公司

Ample Capital Limited

Unit A, 14th Floor

Two Chinachem Plaza

135 Des Voeux Road Central

Hong Kong

22 December 2009

*To the Independent Board Committee and  
the Independent Shareholders of China Fortune Group Limited*

Dear Sirs,

### **MAJOR AND CONNECTED TRANSACTION DISPOSAL OF YSH**

#### **INTRODUCTION**

We refer to our engagement by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the YSH Disposal, the particulars of which have been set out in a circular to the Shareholders dated 22 December 2009 (the “**Circular**”) and in which this letter is reproduced. Unless the context requires otherwise, terms used in this letter shall have the same meanings as given to them in the Circular.

Ample Capital Limited has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders to (i) give our recommendation as to whether the terms of the YSH Disposal are fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms; (ii) give our recommendations as to whether the YSH Disposal in the interest of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group; and (iii) advice the Independent Shareholders on how to vote at the EGM. Details of the reasons for the YSH Disposal are set out in the section headed “Letter from the Board” in the Circular (the “**Board Letter**”).

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## LETTER FROM AMPLE CAPITAL LIMITED

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On 24 November 2009, the Company as the YSH Vendor and the YSH Purchaser entered into the conditional YSH Agreement pursuant to which, among other matters, the YSH Vendor has agreed to sell and the YSH Purchaser has agreed to acquire the YSH Sale Shares and the YSH Sale Loan at the YSH Disposal Consideration.

The Company is incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange. The Group is principally engaged in securities, futures and insurance brokerage, margin financing, electrical engineering contracting and trading of electrical goods.

The proposed YSH Disposal constitutes a major transaction on the part of the Company under Chapter 14 of the Listing Rules. As the YSH Purchaser, Mr. Lai Sai Sang, is a director of YSH and thus a connected person (as defined in the Listing Rules) of the Company, the proposed YSH Disposal therefore also constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules. Accordingly, the proposed YSH Disposal and the transactions contemplated thereunder are subject to notification, announcement and Independent Shareholders approval requirement under the Listing Rules.

### **BASIS OF ADVICE**

In formulating our opinions and recommendations, we have relied on the information supplied to us by the Company, the opinions expressed by, and the representations of, the Directors and the management of the Company, including those set out in the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and presentation provided to us by the Directors.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

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## LETTER FROM AMPLE CAPITAL LIMITED

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While we have taken reasonable steps to satisfy the requirements under the Listing Rules, we have not carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor have we conducted an independent investigation into the business affairs or assets and liabilities of the Group or any of the other parties involved in the YSH Disposal.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

### PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion in relation to the YSH Disposal, we have taken into consideration the following factors:

#### 1. Information on the Group

As mentioned earlier, the Group is principally engaged in securities, futures and insurance brokerage, margin financing, electrical engineering contracting and trading of electrical goods. Set out below is selected key financial information as extracted from the Group's annual report for the year ended 31 March 2009 (the "Annual Report"):

	Year ended 31 March	
	2009	2008
	HK\$'000	HK\$'000
	(audited)	(audited)
Turnover	15,562	12,355
Net profit/(loss) attributable to Shareholders	16,224	(5,827)
Total assets (as at period end)	242,706	79,820
Total liabilities (as at period end)	108,005	58,784
Net assets (as at period end)	134,701	21,036

We note that the Company recorded a consolidated turnover of approximately HK\$15,562,000 for the year ended 31 March 2009, representing an approximately 25.96% increase when compared with the consolidated turnover of approximately HK\$12,355,000 recorded during the year ended 31 March 2008. During the year ended 31 March 2009, the Company also turned around into a profit attributable to Shareholders of approximately HK\$16,224,000 from a loss attributable to Shareholders of approximately HK\$5,827,000 recorded in the year ended 31 March 2008. As at 31 March 2009, the Company had consolidated total assets, total liabilities and net assets of approximately HK\$242,706,000, HK\$108,005,000, and HK\$134,701,000 respectively.

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## LETTER FROM AMPLE CAPITAL LIMITED

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### 2. Information on the YSH Group

The YSH Group is principally engaged in electrical engineering contracting business and trading of electrical goods. Selected key financial information of the YSH Group as per the unaudited consolidated management accounts (the “**Management Accounts**”) provided by the Group’s management is set out below:

	<b>7 months ended</b>	<b>Year ended 31 March</b>	
	<b>31 October</b>	<b>2009</b>	<b>2008</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
	(unaudited)	(unaudited)	(unaudited)
Turnover	484	5,002	4,430
Net profit/(loss)	1,208	(84)	(4,155)
Total assets			
(as at period end)	127	255	3,228
Total liabilities			
(as at period end)	11,335	12,671	15,571
Net liabilities			
(as at period end)	11,208	12,415	12,343

It is stated in the Board Letter that YSH has not signed any new electrical engineering contracts during the year ended 31 March 2009 and it is expected that contributions from these electrical engineering contracting and trading of electrical goods will become insignificant. As illustrated in YSH’s summary financial information set out above, YSH’s unaudited turnover dropped from approximately HK\$5,002,000 in year ended 31 March 2009 to approximately HK\$484,000 in the 7 months ended 31 October 2009 (approximately HK\$830,000 on an annualized basis), representing a decrease of approximately 83.41% on an annualized basis. We have learnt from our discussion with the Group’s management that the turnover recorded during the 7 months ended 31 October 2009 is mainly related to retention money in respect of projects completed in prior years. It is noted that in the 7 months ended 31 October 2009, YSH turned over the loss making position during the 2 years ended 31 March 2008 and 2009 and recorded an unaudited profit of approximately HK\$1,208,000. We have also learnt from the Group’s management that the YSH Group recorded an unaudited sundry income of approximately HK\$863,000 and unaudited reversal

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## LETTER FROM AMPLE CAPITAL LIMITED

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of provision for group companies of approximately HK\$577,000 during the 7 months ended 31 October 2009. These 2 items (in the aggregate amount of approximately HK\$1,440,000) are non-recurring in nature. Had these non-recurring items not been taken into account in the profit and loss account, YSH Group is expected to have made a net loss during the 7 months ended 31 October 2009. We also note that the YSH Group has maintained unaudited net liabilities as at 31 March 2008 and 2009 and 31 October 2009. As at 31 October 2009, the YSH Group had unaudited net liabilities of approximately HK\$11,208,000 (inclusive of the YSH Sale Loan).

We note that the Company has announced on 18 August 2009 that Yew Sang Hong Limited, a subsidiary of YSH, received a winding-up petition issued by the Hong Kong Housing Authority (“HKHA”) on 17 August 2009. On 22 October 2009, the Company announced that an amicable settlement with HKHA has been reached, and the High Court of Hong Kong has granted an order directing the withdrawal of the winding-up petition lodged against Yew Sang Hong Limited on 19 October 2009, thereby discontinuing the winding-up proceedings against it.

### **3. Reasons for and the benefits of the YSH Disposal**

As stated in the Board Letter, the Group is envisioned to become a renowned full range financial services provider in the financial industry in the long run. The Directors consider that the proposed YSH Disposal would represent a good opportunity for the Company to release resources for its development and investment in other business opportunities. In view of the recent economic performance globally, in particular, the rebound of the security market in Hong Kong and the PRC, the Directors believe that future prospect of the security market in Hong Kong and the PRC is promising. Upon YSH Completion, the Group will continue its existing business of securities, futures and insurance brokerage and margin financing. Furthermore, the Group will focus on exploring further opportunities to invest in financial services-related business.

Taking into account the benefits of the proposed YSH Disposal and based on the above, the Directors are of the view that the terms of the YSH Agreement are fair, reasonable and in the interests of the Company and its shareholders as a whole.

The Board Letter states that the Company expects that all proceeds from the proposed YSH Disposal will be used to pay expenses incurred for the transaction.

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## LETTER FROM AMPLE CAPITAL LIMITED

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### 4. Terms of the YSH Agreement

#### 4.1 *Asset to be disposed*

Pursuant to the YSH Agreement, the Company has agreed to sell and the YSH Purchaser has agreed to purchase the YSH Sales Shares and the YSH Sale Loan. The YSH Sales Shares represents the entire 100% equity interest in YSH as at the date of the YSH Agreement.

The YSH Sale Loan represents HK\$5,110,683 owing by YSH Group to the Company as at the date of the YSH Agreement. The YSH Sale Loan was made by the Company as the holding company of YSH Group, to finance the operating expenses of the YSH Group for the previous years.

#### 4.2 *The YSH Disposal Consideration*

The YSH Disposal Consideration for the YSH Sale Shares and the YSH Sale Loan shall be the sum of HK\$10,000 which shall be paid and satisfied by way of cash upon YSH Completion.

The YSH Disposal Consideration was arrived at after arm's length negotiations between the Company and the YSH Purchaser with reference to the net liabilities of the YSH Group as at 31 October 2009 in the sum of HK\$11,207,586, the face value of the YSH Sale Loan of HK\$5,110,683 and the future prospects of the YSH Group as discussed in the section headed "Reasons for and benefits of the YSH Disposal" in the Board Letter.

As mentioned in section 2 of this letter, YSH has not signed any new electrical engineering contracts during the year ended 31 March 2009 and it is expected that contributions from these electrical engineering contracting and trading of electrical goods will become insignificant. In our discussion with the Group's management, we have learnt that during the period from 1 April 2009 up to the Latest Practicable Date, YSH has not signed any new electrical engineering contracts, and it is unlikely for YSH to enter into any new electrical engineering contracts in the immediate future. Having considered the above and the fact that YSH's unaudited turnover during the 7 months ended 31 October 2009 of approximately HK\$484,000 (approximately HK\$830,000 on an annualized basis) is mainly related to retention money in respect of projects completed in prior years, the future prospects of the YSH Group do not appear to be promising.

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## LETTER FROM AMPLE CAPITAL LIMITED

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Upon consolidation of the YSH Group into the Group's accounts, the YSH Sale Loan, which amounted to approximately HK\$5,079,000 as at 31 October 2009, would be eliminated. Accordingly, the unaudited net liabilities of the YSH Group attributable to the Group as at 31 October 2009 were approximately HK\$6,129,000. In essence, the proposed YSH Disposal would allow the Group to (i) get rid of the aforementioned unaudited net liabilities of the YSH Group attributable to the Group from its balance sheet; (ii) discard the business of the YSH Group which has been loss making for each of the 2 years ended 31 March 2008 and 2009 and the 7 months ended 31 October 2009 (after disregarding the 2 non-recurring items mentioned in section 2 of this letter); and (iii) receive the YSH Disposal Consideration of HK\$10,000 in cash.

It is stated in the Board Letter that subject to audit, the Company expects to record a profit of approximately HK\$6.1 million from the YSH Disposal as calculated by reference to (i) the net liabilities of the YSH Group of HK\$11,207,586 as at the date of the YSH Agreement, (ii) the YSH Disposal Consideration and (iii) the YSH Sale Loan.

### ***4.3 Conclusion regarding the YSH Agreement***

Having considered the aforementioned factors, we consider that the terms of the YSH Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

## **5. Financial effects of the YSH Disposal**

### ***5.1 Earnings***

As per the Annual Report, the Company recorded profit attributable to Shareholders of approximately HK\$16,224,000 in the year ended 31 March 2009. At the same time, the YSH Group registered an unaudited net loss of approximately HK\$84,000 during the year ended 31 March 2009 as per the Management Accounts. Upon YSH Completion, it is expected that the YSH Disposal will result in a positive impact on the earnings of the Group immediately after YSH Completion (the "**Remaining Group**").



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## LETTER FROM AMPLE CAPITAL LIMITED

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### **5.2 Net asset value**

As illustrated in the Annual Report, the Group had net assets (total equity) of approximately HK\$134,701,000 while the YSH Group had unaudited net liabilities of approximately HK\$11,208,000 as at 31 October 2009 as per the Management Accounts. After taking into account of the disposal of the YSH Sale Loan, it is expected that the YSH Disposal will have a positive impact on the Remaining Group's net assets.

### **5.3 Gearing**

As per the Annual Report, the Group had debts of approximately HK\$23,066,000 (comprising convertible loan notes of approximately HK\$23,066,000) as at 31 March 2009. In addition, the Group had total assets of approximately HK\$242,706,000 as at 31 March 2009. Accordingly, the gearing ratio (total debts / total assets x 100%) of the Group was approximately 9.50% as at 31 March 2009. Since the YSH Group did not have any debts and its unaudited total asset was immaterial as at 31 October 2009 as per the Management Accounts, the YSH Disposal is not expected to result in any material change to the Remaining Group's gearing position.

### **5.4 Liquidity**

Based on the Annual Report, the Group had total current assets and total current liabilities of approximately HK\$232,057,000 and HK\$84,939,000 as at 31 March 2009, translating into a current ratio (current assets / current liabilities) of approximately 2.73. As the YSH Group's unaudited current liabilities was significantly larger than its unaudited current assets as at 31 October 2009, it is expected that the YSH Disposal would result in an improvement in the Remaining Group's liquidity upon YSH Completion.

It should be noted that the aforementioned analysis is for illustrative purposes only and does not purport to represent how the financial position of the Remaining Group will be upon YSH Completion.

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## LETTER FROM AMPLE CAPITAL LIMITED

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### CONCLUSION

Having considered the above principal factors, we are of the opinion that the terms of YSH Disposal are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In addition, we consider that the YSH Disposal is on normal commercial terms and in the ordinary and usual course of business of the Group. Accordingly, we would recommend (1) the Independent Board Committee to advise the Independent Shareholders and (2) the Independent Shareholders, to vote in favor of the ordinary resolution(s) to approve the YSH Disposal at the EGM.

Yours faithfully,

For and on behalf of

**Ample Capital Limited**

**H. W. Tang**

**Andrew Cheng**

*President*

*Managing Director*

**1. INDEBTEDNESS STATEMENT**

As at 31 October 2009, the Group had the following outstanding convertible bonds issued by the Company:

- (i) Zero coupon convertible bonds in the principal amount of HK\$28 million due on 18 February 2012 at an initial conversion price of HK\$0.10 per conversion share;
- (ii) Zero coupon convertible bonds in the principal amount of HK\$32 million due on 29 June 2012 at an initial conversion price of HK\$0.16 per conversion share;
- (iii) Zero coupon convertible bonds in the principal amount of HK\$29 million due on 23 August 2012 at an initial conversion price of HK\$0.16 per conversion share;
- (iv) Zero coupon convertible bonds in the principal amount of HK\$128 million due on 31 December 2012 at an initial conversion price of HK\$0.16 per conversion share;

As at 31 October 2009, the Group had unsecured borrowings of approximately HK\$30,437,000.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, term loans, debt securities or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits, or any guarantees, or other material contingent liabilities outstanding as at 31 October 2009.

For the purpose of this indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate rates of exchange prevailing as at 31 October 2009.

**2. LITIGATION**

On 17 August 2009, Yew Sang Hong Limited, a wholly-owned subsidiary in the Group, received a Winding-Up Petition issued by the Hong Kong Housing Authority (“HKHA”) demanding repayment of (i) the Judgment Debts of HK\$1,094,252.20; (ii) accrued interest of HK\$167,719.89 for the Judgment Debts up to 14 July 2009; and (iii) further interest on the Judgment Debts accruing from 15 July 2009 until full repayment. The case was fully settled by a mutually agreed amount of HK\$400,000.00 and the Winding-Up Petition was withdrawn on 19 October 2009.

One of the Company’s subsidiary had claimed for rental deposit in the sum of HK\$130,000 and was counterclaimed by the landlord in the sum of approximately HK\$940,000 for alterations made, chattels removed and loss of rental. The Company is currently seeking legal advice for further course of action.

Save as disclosed in this circular, as at the Latest Practicable Date, so far as the Directors were aware of, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claims of material importance pending or threatened by or against any member of the Group.

**3. WORKING CAPITAL**

The Directors, after due and careful enquiry, are of the opinion that upon completion of the ESL Disposal and the YSH Disposal and after taking into account the internal financial resources of the Group, the Group will have sufficient working capital for at least the next twelve months from the date of this circular.

**4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, save as disclosed herein, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2009, being the date of which the latest audited financial statements of the Group were made up.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

### Directors' interests in Shares and underlying shares of the Company

So far as known to the Directors, as at the Latest Practicable Date, the interests and short positions of each of the Directors or chief executive of the Company and their associates in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

#### *Interests in Shares*

<b>Name of Director</b>	<b>Number of underlying shares held through controlled corporations</b>	<b>Percentage of the Company's issued share capital</b>
Wong Kam Fat, Tony ( <i>Note</i> )	<u>1,600,000,000</u>	<u>114.38</u>

*Note:*

Pursuant to a subscription agreement (the "Subscription Agreement") entered into between the Company as issuer and Jadehero Limited ("Jadehero") as subscriber on 22 May 2009, the Company will issue convertible bonds in the principal amount of HK\$128 million due on 31 December 2012 at an exercise price of HK\$0.16 per conversion share with the option for the Jadehero to further subscribe convertible bonds up to a maximum principal amount of HK\$128 million convertible into a maximum of 800 million shares of the Company.

Jadehero Limited is a company incorporated in the British Virgin Islands with limited liability, and is owned as to 40% by Southlead Limited and as to 60% by Marvel Steed Limited of which its entire issued share capital are held by Mr. Wong Kam Fat, Tony, the Chairman and Non-executive Director of the Company.

Accordingly, Mr. Wong Kam Fat, Tony is deemed to be interested in the 1,600,000,000 shares which were beneficially owned by Jadehero.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, none of the Directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

### Substantial Shareholders' interests in Shares and underlying shares of the Company

As at the Latest Practicable Date, so far as known to the Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had, or were deemed or taken to have interests or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of the Company or any other member of the Group:

Name of Shareholders	Capacity	Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of issued share capital
Good Treasure Holdings Ltd <i>(Note 1)</i>	Beneficial owner	108,000,000	9,000,000	117,000,000	8.36
Li Chun Sing, Andrew <i>(Note 1)</i>	Interest of controlled corporation	108,000,000	9,000,000	117,000,000	8.36

## APPENDIX II

## GENERAL INFORMATION

Name of Shareholders	Capacity	Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of issued share capital
Pioneer (China) Limited <i>(Note 2)</i>	Beneficial owner	–	181,250,000	181,250,000	12.96
Mr. Lao Chio Kuan <i>(Note 2)</i>	Beneficial owner	200,000,000	181,250,000	381,250,000	27.25
Kademan Ltd <i>(Note 2)</i>	Interest of controlled corporation	–	181,250,000	181,250,000	12.96
Chan Hoel Len <i>(Note 2)</i>	Interest of controlled corporation	–	181,250,000	181,250,000	12.96
Top Good Holdings Limited <i>(Note 3)</i>	Beneficial owner	263,738,000	230,000,000	493,738,000	35.30
PME Group Limited <i>(Note 3)</i>	Interest of controlled corporation	263,738,000	230,000,000	493,738,000	35.30
Jadehero Limited <i>(Note 4)</i>	Beneficial owner	419,000,000	1,181,000,000	1,600,000,000	114.38
Marvel Steed Limited <i>(Note 4)</i>	Interest of controlled corporation	419,000,000	1,181,000,000	1,600,000,000	114.38
Southlead Limited <i>(Note 4)</i>	Interest of controlled corporation	419,000,000	1,181,000,000	1,600,000,000	114.38
Wong Kam Fat, Tony <i>(Note 4)</i>	Interest of controlled corporation	419,000,000	1,181,000,000	1,600,000,000	114.38
Xia Ying Yan <i>(Note 4)</i>	Interest of controlled corporation	419,000,000	1,181,000,000	1,600,000,000	114.38

*Notes:*

- (1) Good Treasure Holdings Ltd (“Good Treasure”) is a company incorporated in the British Virgin Islands and whose entire equity interest is beneficially wholly-owned by Mr. Li Chun Sing, Andrew.

In addition to the 108,000,000 Shares, Good Treasure has also been granted a call option to acquire the entire 9,000,000 Shares at an exercise price of HK\$1 in total pursuant to a Deed of Assignment entered into between Good Treasure, Highworth Venture Limited and Billion Boom Investments Limited on 5 November 2007. The share certificates in respect of the 9,000,000 Shares were reported to have been lost and the replacement certificates were being applied for.

Good Treasure is therefore deemed to be interested in an aggregate of 117,000,000 Shares (representing approximately 8.36% of the issued share capital of the Company) under the SFO.

- (2) Pursuant to the sale and purchase agreement dated 6 March 2009 entered into between Pioneer (China) Limited (the “ESL vendor”) and Fortune Financial (Holdings) Limited, a wholly-owned subsidiary of the Company (the “ESL Purchaser”) in relation to the acquisition of 9.8 million shares in Excalibur Securities Limited (“ESL”) which represents 49% of the issued share capital of ESL (“ESL Acquisition”), ESL Purchaser is to procure the Company to issue to ESL Vendor the zero coupon convertible bonds for a principal amount of HK\$19.2 million due three years from the date of issue (that is, 23 August 2012) at an initial conversion price of HK\$0.16 per Share.

Pursuant to the sale and purchase agreement dated 6 March 2009 entered into between Pioneer (China) Limited (the “EFL vendor”) and Fortune Financial (Holdings) Limited, a wholly-owned subsidiary of the Company (the “EFL Purchaser”) in relation to the acquisition of 9.8 million shares in Excalibur Futures Limited (“EFL”) which represents 49% of the issued share capital of EFL (“EFL Acquisition”), the EFL Purchaser is to procure the Company to issue to EFL Vendor the zero coupon convertible bonds for a principal amount of HK\$9.8 million due three years from the date of issue (that is, 23 August 2012) at an initial conversion price of HK\$0.16 per Share.

Pioneer (China) Limited is owned as to 50.92% by Mr. Lao Chio Kuan, who does not hold any role/position in the Company save for being a Shareholder. Mr. Lao is also the registered owner of 200,000,000 Shares.

The balance of 49.08% equity interest in Pioneer (China) Limited is owned by Kademan Limited, a company incorporated in the British Virgin Islands and whose entire equity interest is beneficially and wholly-owned by Mr. Chan Hoel Len.

- (3) Top Good Holdings Limited, a wholly-owned subsidiary of PME Group Limited, a company whose shares are listed on the main board of the Stock Exchange, is the registered beneficial owner of 263,738,000 Shares (representing approximately 18.85% of the issued share capital of the Company) and owns as to 30,000,000 other convertible bonds in the principal amount of HK\$3,000,000 with zero coupon rate and conversion price of HK\$0.10 due on 18 February 2012. Pursuant to the subscription agreement dated 6 May 2009, the Company procures to issue the Top Good Convertible Bonds in the principal amount of HK\$32,000,000 with zero coupon rate and conversion price of HK\$0.16 due three years from date of issue upon Top Good CB Completion, that is, 29 June 2012.



- (4) Pursuant to a subscription agreement entered into between the Company as issuer and Jadehero Limited (“Jadehero”) as subscriber on 22 May 2009, the Company will issue convertible bonds in the principal amount of HK\$128 million due on 31 December 2012 at an exercise price of HK\$0.16 per conversion share with the option for the Jadehero to further subscribe convertible bonds up to a maximum principal amount of HK\$128 million convertible into a maximum of 800 million Shares.

Jadehero Limited is a company incorporated in the British Virgin Islands with limited liability, and is owned as to 40% by Southlead Limited and as to 60% by Marvel Steed Limited. Marvel Steed Limited is 100% owned by Mr. Wong Kam Fat Tony, the Chairman and Non-executive Director of the Company. Accordingly, Mr. Wong Kam Fat, Tony is deemed to be interested in the 1,600,000,000 Shares which that held by Jadehero.

Southlead Limited is 100% owned by Mr. Xia Ying Yan. Accordingly, Mr. Xia Ying Yan is also deemed to be interested in the 1,600,000,000 Shares held by Jadehero.

Save as disclosed above, as at the Latest Practicable Date, so far as known to the Directors or chief executive of the Company, no person (other than the Directors or chief executive of the Company) has any interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of any member of the Group.

### **3. DIRECTORS’ INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS**

None of the Directors have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2009, being the date to which the latest published audited consolidated accounts of the Group were made up.

None of the Directors were materially interested in any asset, contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

### **4. COMPETING INTERESTS**

As at the Latest Practicable Date, so far as the Directors were aware of, none of the Directors or their respective associates had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group or have or may have any other conflicts of interest with the Group pursuant to the Listing Rules.

**5. DIRECTORS' SERVICE CONTRACTS**

Mr. Wong Kam Fat, Tony, the Chairman and non-executive director of the Company, entered into letter of appointment with the Company on 14 October 2009 for a term of one year commencing from 11 September 2009, subject to the provisions on removal, re-election and retirement by rotation provisions in accordance with the articles of association of the Company.

Mr. Ng Cheuk Fan, Keith, the Managing Director and an executive Director, entered into a service agreement with the Company commencing from 4 April 2007 for a term of one year and subject to provisions on removal, re-election and retirement by rotation in accordance with the articles of association of the Company. He also entered into an employment contract with one of the subsidiary in the Group.

Mr. Yeung Kwok Leung, an executive Director, entered into a service agreement with the Company commencing from 1 August 2006 for a term of one year and subject to provisions on removal, re-election and retirement by rotation in accordance with the articles of association of the Company. He also entered into an employment contract with one of the subsidiary in the Group.

Mr. Ng Kay Kwok, an independent non-executive Director, entered into a letter of appointment with the Company on 14 September 2007 for a term of one year and can be terminated by the Company by giving one month written notice to him, subject to provisions on removal, re-election and retirement by rotation in accordance with the articles of association of the Company.

Mr. Lam Ka Wai, Graham, an independent non-executive Director, entered into a letter of appointment with the Company on 14 September 2007 for a term of one year and can be terminated by the Company by giving one month written notice to him, subject to provisions on removal, re-election and retirement by rotation in accordance with the articles of association of the Company.

Mr. Tam B Ray Billy, an independent non-executive Director, entered into a letter of appointment with the Company on 4 December 2007 for a term of one year and can be terminated by the Company by giving one month written notice to him, subject to provisions on removal, re-election and retirement by rotation in accordance with the articles of association of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors have entered into any service contract with the Company or any of its subsidiaries or associated companies (excluding contracts expiring or determinable by the employer within one year without payment of any compensation, other than statutory compensation).

## **6. MATERIAL CONTRACTS**

The following contracts (not being contracts in the ordinary course of business) were entered into by the members of the Group within two years immediately preceding the date of this circular, which are or may be material:

- (a) the sale and purchase agreement dated 27 February 2008 (as amended on 30 May, 31 July, 19 September, 31 October 2008 and 31 January 2009) entered into between Mr. Lao Chio Kuan (“Mr. Lao”) and the Fortune Financial (Holdings) Limited, a wholly-owned subsidiary of the Company (the “Purchaser”), in relation to the acquisition of 51% of the issued share capital of Excalibur Securities Limited (“ESL”) at the consideration of HK\$20 million, to be satisfied by the issue of convertible notes by the Company to Mr. Lao (“Original Agreements”);
- (b) the conditional placing agreement dated 27 February 2008 (as amended on 30 May, 31 July, 31 October 2008 and 31 January 2009) entered into between the Company and Kingston Securities Limited in relation to the placing of a principal amount of HK\$50 million convertible notes;
- (c) the conditional placing agreement entered into between the Company and Get Nice Securities Limited on 10 September 2008 (as supplemented on 10 December 2008 and 31 January 2009) in relation to the placing of 80,000,000 placing shares on a fully underwritten basis;
- (d) the formal sale and purchase agreement dated 19 September 2008 which is based on the principal terms of the memorandum entered into between Fortune Financial (Holdings) Limited, a wholly-owned subsidiary of the Company (the “Purchaser”), and Pioneer (China) Limited (“EFL Vendor”) for the acquisition of 51% of the issued share capital of Excalibur Futures Limited (“EFL”) at the consideration of HK\$10.2 million to be satisfied by the issue of promissory note by the Purchaser (“Secondary Agreement”);

- (e) the conditional sale and purchase agreement dated 6 March 2009 entered into between Ample Wealth Group Limited and the Purchaser for the acquisition for 100% issued share capital of Wealthy Aim Group Limited (“Wealthy Aim”) at a consideration of HK\$58.5 million (subject to adjustment), which shall be satisfied by the Purchaser paid an initial non-refundable deposit of HK\$100,000 in cash and the remaining balance of HK\$58.4 million (subject to adjustment) by the issue of convertible bonds. Wealthy Aim is an investment holding company and subject to reorganization, it will own 70% of the issued share capital of AMS Capital Limited. This agreement was terminated on 2 November 2009 as announced in an announcement of the Company dated 3 November 2009;
- (f) the subscription agreement entered into between the Company as issuer and Top Good Holdings Limited as subscriber on 6 May 2009 in relation to the subscription and issuance of zero coupon convertible bonds at principal amount of HK\$32 million due three years from the date of issue at an exercise price of HK\$0.16 per conversion share;
- (g) the conditional sale and purchase agreement entered into on 6 March 2009 between Pioneer (China) Limited (“ESL Vendor”) and Fortune Financial (Holdings) Limited, a wholly-owned subsidiary of the Company (the “Purchaser”), in relation to the sale and purchase of a total of 9,800,000 ordinary shares of Excalibur Securities Limited (“ESL”) which represent 49% of the issued share capital of ESL;
- (h) the conditional sale and purchase agreement entered into on 6 March 2009 between EFL Vendor and Fortune Financial (Holdings) Limited, a wholly-owned subsidiary of the Company (the “Purchaser”), in relation to the sale and purchase of a total of 9,800,000 ordinary shares of Excalibur Futures Limited (“EFL”) which represent 49% of the issued share capital of EFL;
- (i) the subscription agreement entered into between the Company as issuer and Top Good Holdings Limited as subscriber on 6 May 2009 in relation to the subscription and issuance of zero coupon convertible bonds at principal amount of HK\$32 million due three years from the date of issue at an exercise price of HK\$0.16 per conversion share;

- (j) the subscription agreement entered into between the Company as issuer and Jadehero Limited as subscriber on 22 May 2009 in relation to the subscription and issuance of zero coupon convertible bonds at principal amount of HK\$128 million due on 31 December 2012 at an exercise price of HK\$016 per conversion share;
- (k) the share transfer agreement dated 22 May 2009 entered into among Fortune Financial (Holdings) Limited, a wholly-owned subsidiary of the Company (as purchaser), and the 深圳市華德石油化工有限公司 (Shenzhen Huade Petrochemical Company Limited<sup>#</sup>) (as vendor) in relation to the Acquisition of 49% equity interest in the 新紀元期貨有限公司 (New Era Futures Co., Ltd.<sup>#</sup>);
- (l) the Subscription Agreement dated 18 September 2009 (as amended on 4 December 2009) entered into between Jetgain, a wholly-owned subsidiary of the Company (as subscriber) and Value Convergence Holdings Limited (as issuer) in relation to the subscription for the Convertible Bonds in a principal amount of HK\$100,000,000 with an initial conversion price of HK\$1.00 per Conversion Share;
- (m) the ESL Agreement and the Deed; and
- (n) the YSH Agreement.

<sup>#</sup> *the English translation of the Chinese name is for information purpose only and should not be regarded as the official English translation of such Chinese name.*

## 7. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given their opinions and advice which are included in this circular (the “Experts”):

<b>Name</b>	<b>Qualification</b>
Grand Cathay Securities (Hong Kong) Limited (“Grand Cathay”)	A licensed corporation under the SFO permitted to carry out Type 1 (dealing in securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities
Ample Capital Limited (“Ample Capital”)	A licensed corporation under the SFO permitted to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities

The Experts do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of the Experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.

#### **8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours (9 a.m. to 5 p.m.) on any weekday (public holidays excepted) at the office of the Company at 13/F., Sunning Plaza, 10 Hysan Avenue, Causeway Bay, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” in this circular;
- (c) the letters of advice from Grand Cathay and Ample Capital, each containing its advise to the Independent Board Committee and the independent shareholders, the text of which is set out in the section headed “Letter from Grand Cathay Securities (Hong Kong) Limited” and “Letter from Ample Capital Limited” in this circular;
- (d) the annual reports of the Company for each of the two financial years ended 31 March 2008 and 31 March 2009;
- (e) the written consents referred to in the section headed “Experts and Consents” in this appendix;
- (f) all service contracts referred to in the section headed “Directors’ Service Contracts” in this appendix;
- (g) all material contracts referred to in the section headed “Material Contracts” in this appendix; and

- (h) the following circulars of the Company:–
  - (i) the circular dated 30 June 2008 in relation to, among others, the very substantial acquisition of 51% interest in Excalibur Securities Limited.
  - (ii) the circular dated 8 October 2008 in relation to, among others, the very substantial acquisition of 51% interest in Excalibur futures Limited.
  - (iii) the circular dated 8 May 2009 in relation to, among others, the very substantial acquisitions and connected transactions of 49% interests in Excalibur Securities Limited and Excalibur Futures Limited respectively.
  - (iv) the circular dated 12 June 2009 in relation to, among others, the issuance of convertible bonds in the principal amount of HK\$128 million.

## **9. MISCELLANEOUS**

- (a) The registered office of the Company is located at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.
- (b) The head office and principal place of business of the Company in Hong Kong is at 13/F, Sunning Plaza, 10 Hysan Avenue, Causeway Bay, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Union Registrars Limited of 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.
- (d) The company secretary of the Company is Mr. Yeung Kwok Leung who is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.
- (e) The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

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## NOTICE OF EGM

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

**(Stock Code: 290)**

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

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (“**Meeting**”) of China Fortune Group Limited (the “**Company**”) will be held at 13/F., Sunning Plaza, 10 Hysan Avenue, Causeway Bay, Hong Kong on 13 January 2010 at 11:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

#### ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the conditional sale and purchase agreement dated 16 October 2009 (the “**ESL Agreement**”) entered into among Fortune Financial (Holdings) Limited (the “**Vendor**”), Faith Star Asia Limited (the “**Purchaser**”) and Excalibur Securities Limited (the “**ESL**”) in relation to the disposal of the entire equity interest in ESL by the Vendor to the Purchaser (a copy of the ESL Agreement will be produced to the Meeting marked “A” for the purpose of identification) and the transactions contemplated thereunder be and are thereby approved, confirmed and ratified; and
- (b) any director of the Company be and is thereby authorized to do all such acts and things and execute all documents which they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation and completion of the ESL Agreement and the matters contemplated therein.”



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## NOTICE OF EGM

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2. **“THAT**

- (a) the conditional deed of settlement dated 16 October 2009 (the **“Deed”**) entered into among Pioneer (China) Limited, Mr. Lao Chio Kuan and Fortune Financial (Holdings) Limited in relation to the settlement of certain outstanding obligations under the Original Agreements and Secondary Agreement (a copy of the Deed will be produced to the Meeting marked **“B”** for the purpose of identification) and the transactions contemplated thereunder be and are thereby approved, confirmed and ratified; and
- (b) any director of the Company be and is thereby authorized to do all such acts and things and execute all documents which they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation and completion of the Deed and the matters contemplated therein.”

3. **“THAT**

- (a) the conditional sale and purchase agreement dated 24 November 2009 (the **“YSH Agreement”**) entered into between the Company (the **“Vendor”**) and Mr. Lai Sai Sang (the **“Purchaser”**) in relation to the disposal of the entire equity interest in Yew Sang Hong (BVI) Limited, by the Vendor to the Purchaser (a copy of the YSH Agreement will be produced to the Meeting marked **“C”** for the purpose of identification) and the transactions contemplated thereunder be and are thereby approved, confirmed and ratified; and
- (b) any director of the Company be and is thereby authorized to do all such acts and things and execute all documents which they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation and completion of the YSH Agreement and the matters contemplated therein.”

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

Hong Kong, 22 December 2009

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## NOTICE OF EGM

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*Registered office:*

P.O. Box 309  
Ugland House  
Grand Cayman KY1-1104  
Cayman Islands

*Head office and principal*

*place of business:*  
13/F, Sunning Plaza  
10 Hysan Avenue  
Causeway Bay  
Hong Kong

*Notes:*

1. Any member of the Company entitled to attend and vote at the Meeting may appoint one or more than one proxy to attend and to vote in his stead. A proxy need not be a member of the Company.
2. Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share of the Company as if he was solely entitled thereto; but if more than one or such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
3. In order to be valid, the proxy form duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the Company's branch registrar and transfer office in Hong Kong, Union Registrars Limited, at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
4. Whether or not you propose to attend the Meeting in person, you are strongly urged to complete and return the proxy form in accordance with the instructions printed thereon. Completion and return of the proxy form will not preclude you from attending the Meeting and voting in person if you so wish. In the event that you attend the Meeting after having lodged the proxy form, it will be deemed to have been revoked.
5. A circular containing further details as required by the Rules Governing the Listing of Securities on the Stock Exchange will be dispatched to the Shareholders in due course.

*As at the date of this notice, 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.*