

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.



China Fortune Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 290)

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

**CONNECTED TRANSACTION
SUPPLEMENTAL AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**

Nuada Limited

Corporate Finance Advisory

A letter from the Independent Board Committee is set out on pages 9 to 10 of this circular.

A letter from Nuada containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 11 to 17 of this circular.

A notice convening the EGM to be held at 13th Floor, Sunning Plaza, 10 Hysan Avenue, Causeway Bay, Hong Kong on 25 October 2010 at 11:00 a.m. is set out on pages 21 to 22 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon 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 as soon as possible and in any event not less than 48 hours before the time appointed for the EGM or any adjournment thereof (as the case may be). 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

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day”	A day (excluding Saturday, Sunday and public or statutory holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Company”	China Fortune Group Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Conversion Shares”	the Shares which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Optional Bonds
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held on 25 October 2010 at 11:00 a.m. for the purpose of considering, and if thought fit, approving, among others, the Supplemental Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“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 Supplemental Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Nuada”	Nuada Limited, a licensed corporation authorized to conduct type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Agreement and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders who are not required to abstain from voting on the Supplement Agreement and the transactions contemplated thereunder at the EGM under the Listing Rules

DEFINITIONS

“Latest Practicable Date”	29 September 2010, 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
“Option”	the option granted to the Subscriber to subscribe for the Optional Bond(s) which is exercisable within the Option Period pursuant to the Subscription Agreement
“Option Period”	the period within which the Option is exercisable, being the 12 months commencing from the date of the Subscription Agreement became unconditional, that is, 7 September 2009, pursuant to the Subscription Agreement
“Optional Bonds”	the zero coupon convertible bonds in a principal sum of HK\$128 million which may fall to be issued by the Company upon full exercise of the Option by the Subscriber, and is convertible into a maximum of 800 million Conversion Shares, pursuant to the Subscription Agreement
“PRC”	the People’s Republic of China, which for the purpose of this circular shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Alteration”	to extend the Option Period from 12 months to 24 months, both commencing from the date of the Subscription Agreement became unconditional, that is, 7 September 2009 and as such, the expiry date shall be 6 September 2011
“SFO”	the Hong Kong Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subscriber”	Jadehero Limited, a private company incorporated in the British Virgin Islands with limited liability
“Subscription Agreement”	the subscription agreement dated 22 May 2009 entered into between the Company and the Subscriber in relation to, <i>inter alia</i> , the grant of the Option to the Subscriber by the Company

DEFINITIONS

“Supplemental Agreement”	the conditional supplemental agreement dated 6 September 2010 entered into between the Company and the Subscriber in relation to, <i>inter alia</i> , the Proposed Alteration.
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent

LETTER FROM THE BOARD



China Fortune Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 290)

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

Non-Executive Directors:

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

Executive Directors:

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

Mr. Yeung Kwok Leung

Mr. Hon Chun Yu

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*

13th Floor, Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

4 October 2010

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

Dear Sirs or Madam,

CONNECTED TRANSACTION SUPPLEMENTAL AGREEMENT

INTRODUCTION

Reference is made to the announcement of the Company dated 27 May 2009 and the circular of the Company dated 12 June 2009 in relation to the Subscription Agreement, pursuant to which the Subscriber was granted, *inter alia*, the Option to subscribe for the Optional Bonds within the Option Period.

Reference is also made to the announcement of the Company dated 7 September 2010, in relation to the Supplemental Agreement entered into between the Company and the Subscriber pursuant to which they conditionally agreed, *inter alia*, to the Proposed Alteration.

The purpose of this circular is to give details of (i) the Supplemental Agreement and the transactions contemplated thereunder; and (ii) the recommendation of the Independent Board Committee in relation to the Supplemental Agreement and the transactions contemplated thereunder, and (iii) a

LETTER FROM THE BOARD

letter from Nuada containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Alteration and the transactions contemplated thereunder; and (iv) the notice to convene the EGM.

THE SUPPLEMENTAL AGREEMENT

On 6 September 2010, the Company and the Subscriber entered into the Supplemental Agreement pursuant to which the Company and the Subscriber conditionally agreed, *inter alia*, to the Proposed Alteration.

Date

6 September 2010

Parties

- (a) the Company; and
- (b) the Subscriber

The Subscriber is a private company incorporated in the British Virgin Islands with limited liability and is primarily engaged in the investment of local stocks. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, as at the Latest Practicable Date, the Subscriber is interested in 419,000,000 Shares, representing approximately 29.87% of the existing issued share capital of the Company and is thus a substantial Shareholder. The Subscriber is owned as to 60% by Marvel Steed Limited and 40% by Southlead Limited. Mr. Wong Kam Fat, Tony, the chairman and the non-executive director of the Company, is the sole beneficial owner of Marvel Steed Limited, while Mr. Xia Ying Yan is the sole beneficial owner of Southlead Limited. Accordingly, the Subscriber, Marvel Steed Limited, Southlead Limited, Mr. Wong Kam Fat, Tony and Mr. Xia Ying Yan are all connected persons of the Company.

CONDITIONS PRECEDENT TO THE SUPPLEMENTAL AGREEMENT

The Supplemental Agreement is conditional upon fulfillment of the following conditions:

- (a) the passing by the Independent Shareholders of ordinary resolution(s) approving the Supplemental Agreement and the transactions contemplated thereunder; and
- (b) the passing by the shareholders of the Subscriber of the necessary resolution(s) approving the Supplemental Agreement and the transactions contemplated thereunder.

COMPLETION

Completion of the Supplemental Agreement shall take place upon fulfillment of all the conditions precedent of the Supplemental Agreement. None of the above conditions precedent can be waived.

LETTER FROM THE BOARD

REASONS FOR ENTERING INTO THE SUPPLEMENTAL AGREEMENT

The Group is principally engaged in the provision of brokerage services for securities, futures and insurance and margin financing.

The terms of the Supplemental Agreement were arrived at after arm's length negotiations between the Company and the Subscriber.

In accordance with the Subscription Agreement, the Option Period would lapse on 6 September 2010. In view of the fact that pursuant to the Proposed Alteration, the Option itself, and the terms and conditions of the Optional Bonds shall remain unchanged, and in light of the fact that the Proposed Alteration will maintain a source for the possible non-interest bearing fund of up to HK\$128 million for general working capital use of the Group in the coming 12 months and which may not bring to the Shareholders immediate dilution effect, the Directors are of the view that the terms of the Supplemental Agreement and the transactions contemplated thereunder are fair, reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

The resolution approving the Supplemental Agreement and the transactions contemplated thereunder will be taken by way of poll at the EGM and any Shareholder having a material interest in the same will be required to abstain from voting on the resolution. Furthermore, as the entering into of the Supplemental Agreement constitutes a connected transaction for the Company under Chapter 14A the Listing Rules, the controlling Shareholders and their associates or, where there are no controlling Shareholders (as in the present case of the Company), Directors (including independent non-executive Directors) and the chief executive of the Company and their respective associates, to the extent that they hold any Share at the time of the EGM, will be required to abstain from voting on the resolution.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Subscriber is interested in 419,000,000 Shares, representing approximately 29.87% of the existing issued share capital of the Company and is thus a substantial Shareholder. The Subscriber is owned as to 60% by Marvel Steed Limited and 40% by Southlead Limited. Mr. Wong Kam Fat, Tony, the chairman and the non-executive director of the Company, is the sole beneficial owner of Marvel Steed Limited, while Mr. Xia Ying Yan is the sole beneficial owner of Southlead Limited. Accordingly, the Subscriber, Marvel Steed Limited, Southlead Limited, Mr. Wong Kam Fat, Tony and Mr. Xia Ying Yan are all connected persons of the Company.

As such, the entering into of the Supplemental Agreement constitutes a connected transaction for the Company under Chapter 14A the Listing Rules, and is therefore subject to the requirements of the reporting, announcement and approval of the Independent Shareholders by poll at the EGM under the Listing Rules.

The Subscriber and its associates, Marvel Steed Limited, Southlead Limited, Mr. Wong Kam Fat, Tony and Mr. Xia Ying Yan (to the extent that they hold any Share at the time of the EGM), who are connected persons of the Company and have material interests in the Supplemental Agreement and the transaction contemplated thereunder, are required to abstain from voting on the relevant resolution at the EGM.

LETTER FROM THE BOARD

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, no Shareholder (other than the Subscriber and its associates) has any material interest in the Supplemental Agreement and the transactions contemplated thereunder and are not therefore required to abstain from voting on the resolution.

EGM

A notice convening an extraordinary general meeting of the Company to be held at 13th Floor, Sunning Plaza, 10 Hysan Avenue, Causeway Bay, Hong Kong on 25 October 2010 at 11:00 a.m. is set out on pages 21 to 22 of this circular. An ordinary resolution will be proposed at the EGM to consider and, if thought fit, to approve the Supplemental Agreement and the transactions contemplated thereunder.

A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon 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 as soon as possible and in any event not less than 48 hours before the time appointed for the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

All votes of the Shareholders at the EGM shall be taken by poll pursuant to Rule 13.39(4) of the Listing Rules. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee which comprises Mr. Ng Kay Kwok, Mr. Lam Ka Wai, Graham and Mr. Tam B Ray, Billy, all being the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Supplemental Agreement and the transactions contemplated thereunder are fair and reasonable and whether they are in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote after taking into account the recommendations of the Independent Financial Adviser. The letter of advice from the Independent Board Committee is set out on pages 9 to 10 of this circular.

Nuada has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Supplemental Agreement and the transactions contemplated thereunder are fair and reasonable and whether they are in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote. The letter of advice from Nuada is set out on pages 11 to 17 of this circular.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Supplemental Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into the Supplemental Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a

LETTER FROM THE BOARD

whole, and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolution which will be proposed at the EGM for approving the Supplemental Agreement and the transactions contemplated thereunder.

RECOMMENDATION

Save for Mr. Wong Kam Fat, Tony, who has a material interest in the Supplemental Agreement and the transactions contemplated thereunder and has abstained from voting on the Board resolution(s) in relation to the same, none of the Directors has a material interest in the Supplemental Agreement and the transactions contemplated thereunder and are not, therefore, required to abstain from voting on the Board resolution(s) in relation to the same.

The Directors (excluding Mr. Wong Kam Fat, Tony), having taken into account the advice of the Independent Financial Adviser and the Independent Board Committee, consider that the terms of the Supplemental Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Supplemental Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (excluding Mr. Wong Kam Fat, Tony) recommend the Independent Shareholders to vote in favor of the resolution as set out in the enclosed notice of the EGM.

FURTHER INFORMATION

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

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

LETTER FROM INDEPENDENT BOARD COMMITTEE

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 Supplemental Agreement and the transactions contemplated thereunder:



China Fortune Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 290)

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

CONNECTED TRANSACTION SUPPLEMENTAL AGREEMENT

4 October 2010

To the Independent Shareholders

Dear Sirs or Madam,

We refer to the circular of the Company dated 4 October 2010 (the “Circular”), of which this letter forms part. Capitalized terms used herein shall have the same meaning as those defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Supplemental Agreement are fair and reasonable so far as the Independent Shareholders are concerned and whether they are in the interests of the Company and the Shareholders as a whole.

Nuada has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect. Details of its independent advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 11 to 17 of the Circular. Your attention is also drawn to the “Letter from the Board” in the Circular and the additional information set out in the appendix thereto.

LETTER FROM INDEPENDENT BOARD COMMITTEE

Having considered the principal reasons and factors considered by, and the independent advice of Nuada, we are of the opinion that the terms of the Supplemental Agreement are fair and reasonable as far as the Independent Shareholders are concerned and the entering into of the Supplemental Agreement and the transactions contemplated thereunder is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Supplemental 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

LETTER FROM NUADA

The following is the text of a letter of advice from Nuada to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Agreement and the transactions contemplated thereunder for incorporation in this circular.

Nuada Limited
Corporate Finance Advisory

17th Floor, BLINK, 111 Bonham Strand
Sheung Wan, Hong Kong
香港上環文咸東街111號 BLINK 17樓

4 October 2010

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

Dear Sirs,

CONNECTED TRANSACTION SUPPLEMENTAL AGREEMENT

INTRODUCTION

We refer to the circular dated 4 October 2010 (the “Circular”) issued by the Company to its Shareholders of which this letter forms part and to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Agreement, details of which are set out in the “Letter from the Board” (the “Letter”) contained in the Circular and in which this letter is reproduced. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular of which this letter forms part unless the context otherwise requires.

According to the announcement dated 7 September 2010, the Company and the Subscriber entered into the Supplemental Agreement on 6 September 2010 pursuant to which they conditionally agreed, inter alia, to the Proposed Alteration. Pursuant to the Supplemental Agreement, the Option Period is proposed to be extended for one year from 12 months to 24 months, both commencing from the date of the Subscription Agreement became unconditional, that is 7 September 2009 and as such, the expiry date shall be 6 September 2011. Save for the Proposed Alteration, other terms and conditions of the Optional Bonds shall remain unaltered.

As at the Latest Practicable Date, to the best of the Directors’ knowledge, information and belief, and having made all reasonable enquiries, the Subscriber is interested in 419,000,000 Shares, representing approximately 29.87% of the existing issued share capital of the Company and is thus a substantial Shareholder. The Subscriber is owned as to 60% by Marvel Steed Limited and 40% by Southlead Limited. Mr. Wong Kam Fat, Tony, the chairman and non-executive director of the Company, is the sole beneficial owner of Marvel Steed Limited, while Mr. Xia Ying Yan is the sole beneficial owner of Southlead Limited. Accordingly, the Subscriber, Marvel Steed Limited, Southlead Limited, Mr. Wong Kam Fat, Tony and Mr. Xia Ying Yan are all connected persons of the Company. As such, the entering into of the Supplemental Agreement constitutes a connected transaction for the Company under Chapter 14A the Listing Rules, and is therefore subject to the requirements of the reporting, announcement and approval of the Independent Shareholders by poll at the EGM under the Listing

LETTER FROM NUADA

Rules. The Subscriber and its associates, Marvel Steed Limited, Southlead Limited, Mr. Wong Kam Fat, Tony and Mr. Xia Ying Yan (to the extent that they hold any Share at the time of the EGM) are required to abstain from voting at the EGM.

Save as disclosed above, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, no Shareholder other than the Subscriber and its associates have any material interest in the Supplemental Agreement and the transactions contemplated thereunder and are required to abstain from voting on the relevant resolution(s).

The Independent Board Committee which comprises Mr. Tam B Ray Billy, Mr. Ng Kay Kwok and Mr. Lam Ka Wai, Graham, all being the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the Supplemental Agreement and the transactions contemplated thereunder are (i) on normal commercial terms; and (ii) the terms of the Supplemental Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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, opinion and representations provided to us by the management of the Company and the Directors. We have assumed that all information, opinion 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.

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, opinion and representations contained in the Circular, or the reasonableness of the opinions expressed by the management of the Company and the Directors provided to us. 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 relied on the Company that it has provided us sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have relied on such information and opinions but have not, however, conducted any independent in-depth investigation into the business, financial conditions and affairs or the future prospects of the Group nor have we considered the taxation implication on the Group or the Shareholders as a result of the entering of the Supplemental Agreement.

LETTER FROM NUADA

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the entering of the Supplemental Agreement, we have considered the following factors and reasons:

1. Reasons and benefits of entering of the Supplemental Agreement

(i) *Background*

Pursuant to the Company's announcement dated 27 May 2009 and circular dated 12 June 2009 ("2009 Circular"), on 22 May 2009, the Company and the Subscriber entered into the Subscription Agreement in respect of the issuance of convertible bonds (the "Convertible Bonds") in the principal amount of HK\$128 million at an exercise price of HK\$0.16 per conversion share and due on 31 December 2012 with the Option for the Subscriber to further subscribe the Optional Bonds up to a maximum principal amount of HK\$128 million convertible into a maximum of 800 million Shares.

In accordance with the Subscription Agreement, the Option Period would lapse on 6 September 2010. In order to cope with the expansion of business, the Company proposes to extend the Option Period for one year from 12 months to 24 months, both commencing from the date of the Subscription Agreement became unconditional, that is, 7 September 2009 and as such, the expiry date shall be 6 September 2011.

(ii) *Background of the Group*

The Company is incorporated in the Cayman Islands with limited liability. Its securities are listed on the Main Board of the Stock Exchange of Hong Kong Limited. The Group is principally engaged in the provision of brokerage services for securities, futures and insurance and margin financing.

Issuance of convertible bonds during the year ended 31 March 2010

During the year ended 31 March 2010, the Company has issued four convertible bonds in amounts of HK\$19.2 million, HK\$9.8 million, HK\$32 million and HK\$128 million to independent third parties. All of them were zero interest and have a conversion price of HK\$0.16. The closing Share price from 1 April 2009 to 31 March 2010 were within the range of HK\$0.24 and HK\$0.56. As such, the conversion price of the above convertible bonds represents a 71.43% discount to the highest closing price of the Shares and 33.33% discount to the lowest closing price of the Shares.

Current resources

According to the annual report 2010 of the Group ("Annual Report"), as at 31 March 2010, the Group's total current assets and current liabilities were approximately HK\$655.4 million and HK\$425.6 million respectively. The working capital is HK\$229.9 million and the current ratio was about 1.5 times. As at 31 March 2010, the Group's aggregate bank balances and cash amounted to approximately HK\$34.1 million, representing approximately 5.20% of total current assets. The gearing ratio as at 31

LETTER FROM NUADA

March 2010, measured on the basis of total borrowing as a percentage of total Shareholders' equity, was approximately 224.41%. The debt ratio, defined as total debts over total assets, was approximately 50.01%.

Reasons for entering into the Supplemental Agreement

After the financial turmoil in 2008, emerging markets in Asia become the driving force for economic recovery. Emergence of China as a world power in the global economy will bring immense opportunities to the local financial market. The Company will continue to focus on exploring further opportunities to invest in financial services-related businesses that could maximize the returns to the Shareholders and to finance its securities margin loan. As stated in the above, according to the Annual Report, the Group has cash on hand of approximately HK\$34.1 million as at 31 March 2010. The Directors have advised that such amount of cash are sufficient for its daily operation but would not be sufficient for its business expansion. Therefore, as the Company will continue to focus on exploring further opportunities in financial services-related businesses and the expansion of business in securities margin loan, since there is no certainty or guarantee that the current financial resource of the Group will be adequate for any appropriate investments that may be identified and materialize in the future and for the expansion of the securities margin loan, it is reasonable for the Company to seek for funding.

As stated in the Annual Report, the income generated from securities margin loan portfolio was approximately HK\$16.7 million. To leverage the growth opportunity, the Group has injected more resources into the securities financing business and deepened its coverage of the customers' need for capital. As such, we consider that the expansion of the Group's business in securities margin loan is within its objective.

By entering into the Supplemental Agreement, if the Option is exercised, a maximum of HK\$128 million will be further obtained by the Company on or before 6 September 2011 and this zero interest borrowing can help to support the Company's expansion. Accordingly, we consider the extension in the Option Period is in the interests of the Company and the Shareholders as a whole.

2. Optional Bonds

(i) Advantages of issuing the Optional Bonds

In the Option Period, the Subscriber can further subscribe Optional Bonds up to a maximum principal amount of HK\$128 million convertible into a maximum of 800 million Shares. Suppose the Subscriber does not exercise the Option in the extended Option Period, no further fund will be obtained by the Company from the Optional Bonds. On the other hand, suppose the Subscriber does exercise the Option during the extended Option Period, then a maximum of HK\$128 million will be further obtained by the Company on or before 6 September 2011. The Company will have to (i) repay the principal amount of the Optional Bonds to the Subscriber when the Optional Bonds due, if the Subscriber does not convert the Optional Bonds into Shares; or (ii) issue additional Shares due to the conversion of the Optional bonds, if the Subscriber does convert the Optional Bonds into Shares.

LETTER FROM NUADA

We consider that the extension in Option Period is in the interest of the Shareholders and the Company as a whole. Given the uncertainty and volatility of the market, we concur with the Board that it is important to maintain and/or enhance its cash position in order to prepare itself for possible investment opportunities and for the expansion of the securities margin loan portfolio. By entering into the Supplemental Agreement, if the Option is exercised, the Company can further obtain a maximum of HK\$128 million on or before 6 September 2011. This zero interest borrowing can help to support the Company's further expansions and investments or securities margin loan business.

The Optional Bonds is of zero interest. If the Subscriber does not convert the Optional Bonds into Shares, the Company can obtain a zero interest borrowing of at most HK\$128 million, which will be repaid at the maturity date of 31 December 2012. We consider this as a cost-effective fund raising method as the zero interest Optional Bonds save the cost of borrowing from banks. If the Subscriber converts the Optional Bonds into Shares, although a dilution of the shareholdings of the Company is inevitable, this dilution can be delayed by the issuance of Optional Bonds when compare with new issue of Shares, rights issue or open offer.

(ii) *Conversion Period*

The length of the extension of the Option Period is one year from 12 months to 24 months. We have searched from 6 June 2010 to 6 September 2010 (the date of the Supplemental Agreement) for other companies listed on the Main Board in relation to the granting of or being granted options for the subscription of securities and known that two companies have made announcements in relation to the above and the exercise period of such options are around 3 years. As such, we consider that the extension is fair and reasonable.

LETTER FROM NUADA

(iii) *Conversion Price*

In order to assess the fairness of the Conversion Price, we compare the Conversion Price with the market price of the Shares. We have reviewed the movements in the trading price of the Shares during the period from 8 September 2009 to 7 September 2010 (the “Review Period”). The closing prices of the Shares during the Review Period are set out below:



During the Review Period, the lowest closing price was HK\$0.315 per share (recorded on 12 July 2010), the highest closing price was HK\$0.56 per share (recorded on 25 January 2010) and the average closing price per Share during the Review Period was approximately HK\$0.418. As such, the Conversion Price represents (i) a discount of approximately 49.2% over the aforesaid lowest closing price; (ii) a discount of approximately 71.4% over the aforesaid highest closing price; and (iii) a discount of approximately 61.7% over the aforesaid average closing price.

We understand from the 2009 Circular that the conversion price of HK\$0.16 of the Convertible Bonds issued to the Subscriber represents (i) a discount of approximately 64.84% to the closing price per Share as quoted on the Stock Exchange of HK\$0.455 on 22 May 2009, being the last day of trading in the Shares on the main board of the Stock Exchange immediately prior to the entering into of the Subscription Agreement; (ii) a discount of approximately 64.68% to the average of the closing prices of HK\$0.453 per Share for the last five consecutive trading days ended on 22 May 2009, being the last day of trading in the Shares on the main board of Stock Exchange immediately prior to the entering into of the Subscription Agreement; and (iii) a discount of approximately 66.32% to the closing price per Share as quoted on the Stock Exchange of HK\$0.475 on the latest practicable date of the 2009 Circular.

LETTER FROM NUADA

Therefore, after considering that the conversion prices of the convertible bonds issued by the Company in the year ended 31 March 2010 are HK\$0.16 and the recent market price of the Shares which the Conversion Price represents:

- (i) a discount of approximately 59.5% over the closing price of HK\$0.395 per Share as quoted on the Stock Exchange on 7 September 2010 (“Last Trading Day”);
- (ii) a discount of approximately 60.1% over the average of the closing prices of HK\$0.401 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and
- (iii) a discount of approximately 59.8% over the average of the closing prices of HK\$0.3985 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day,

we consider that the Conversion Price to be fair and reasonable.

3. Potential dilution to shareholding of the Company

For illustrative purpose and assuming that no Shares are issued and/or repurchased by the Company, the shareholding of the existing Independent Shareholders will decrease from approximately 70.13% to approximately 38.07% after the full conversion of the unconverted Convertible Bonds and the Optional Bonds.

Taking into account the reasons and benefits of the Proposed Alteration, which include the fund to be raised which is interest free and the expansion of business in securities margin loan, we consider that the potential dilution to the shareholding of the existing Independent Shareholders is acceptable.

RECOMMENDATION

Having considered the above principal factors, we are of the opinion that the Proposed Alteration is fair and reasonable so far as the Independent Shareholders are concerned and to be in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, and also recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution approving the Proposed Alteration at the EGM.

Yours faithfully,
For and on behalf of
Nuada Limited
Kevin Chan
Director

1. DISCLOSURE OF INTERESTS

Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

So far as is 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 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 he is 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 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:

Long Position in Shares and underlying Shares

Name of Director	Number of Shares and underlying shares held through controlled corporations	Percentage of the Company's issued share capital
Wong Kam Fat, Tony (<i>Note 1</i>)	1,600,000,000 (<i>Note 2</i>)	114.07%

Notes:

- (1) Mr. Wong Kam Fat, Tony is the chairman and a non-executive director of the Company.
- (2) These Shares are directly held by Jadehero Limited and comprise (i) 419,000,000 Shares and (ii) 1,181,000,000 underlying Shares.

The 1,181,000,000 underlying Shares may fall to be issued upon (i) full conversion of the convertible bonds pursuant to the Subscription Agreement and (ii) full exercise of the Option (pursuant to the Subscription Agreement and the Supplemental Agreement) which is convertible into a maximum of 800 million Conversion Shares. The Supplemental Agreement is conditional upon the fulfillment of conditions precedent as disclosed under the section headed "**CONDITIONS PRECEDENT TO THE SUPPLEMENTAL AGREEMENT**".

Jadehero Limited is a company incorporated in the British Virgin Islands with limited liability and is owned as to 60% by Marvel Steed Limited and as to 40% by Southlead Limited. Mr. Wong Kam Fat, Tony is the beneficial owner of the entire equity interest in Marvel Steed Limited whereas Mr. Xia Ying Yan is the beneficial owner of the entire equity interest in Southlead Limited. Accordingly, Mr. Wong Kam Fat, Tony is deemed to be interested in these Shares.

Save as disclosed above, as at the Latest Practicable Date, so far as 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 of Part XV of the SFO (including interests and short positions which he is 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.

2. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS AND/OR OTHER INTERESTS

None of the Directors has 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 2010, being the date to which the latest published audited consolidated accounts of the Group were made up.

None of the Directors was materially interested in any contract or arrangement which was subsisting at the Latest Practicable Date and was significant in relation to the business of the Group.

3. 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 apart from the Company's business which competes or is likely to compete, either directly or indirectly, with the Group's business of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract or a proposed service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 31 March 2010, being the date to which the latest published audited financial statements of the Group were made up.

6. EXPERT AND CONSENT

The following is the qualification of the expert who has given its opinions and advice which are included in this circular:

Name	Qualification
Nuada	Nuada Limited, a licensed corporation authorized to conduct type 6 (advising on corporate finance) regulated activities under the SFO, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Agreement and the transactions contemplated thereunder

As at the Latest Practicable Date, Nuada does not hold any share, 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.

As at the Latest Practicable Date, Nuada does not possess 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 2010, being the date to which the latest published audited consolidated accounts of the Group were made up.

Nuada has given and has not withdrawn its written consent to the issue of this circular, with inclusion of its letter and/or its opinion and/or the references to its name in the form and context in which it is included.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at 13/F., Sunning Plaza, 10 Hysan Avenue, Causeway Bay, Hong Kong from 9 a.m. to 1 p.m. and from 2 p.m. to 5 p.m. of any Business Day from the date of this circular up to and including the date of the EGM:

- i. the Subscription Agreement;
- ii. the Supplemental Agreement; and
- iii. this circular.

8. MISCELLANEOUS

- (a) 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.
- (b) The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

NOTICE OF EXTRAORDINARY GENERAL MEETING



China Fortune Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 290)

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

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of China Fortune Group Limited (the “**Company**”) will be held at 13/F., Sunning Plaza, 10 Hysan Avenue, Causeway Bay, Hong Kong on 25 October 2010 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution with or without amendments as an ordinary resolution:

ORDINARY RESOLUTION

“THAT the conditional supplemental agreement dated 6 September 2010 (the “Supplemental Agreement”) entered into between the Company and Jadehero Limited in relation to the Proposed Alteration (as defined in the circular of the Company dated 4 October 2010), a copy of which is marked “A” and produced to the Meeting and signed by the chairman of the Meeting for identification purpose, be and is hereby ratified, confirmed and approved; and any one or more director(s) of the Company be and are hereby authorized generally to do all such acts and things, and to execute all such documents as he/they may, in his/their absolute discretion, deem necessary, desirable or appropriate for the implementation of and giving effect to the Supplemental Agreement and the transactions contemplated thereunder.”

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

Hong Kong, 4 October 2010

Principal Place of Business in Hong Kong:
13/F, Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. Any registered shareholders 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 registered shareholder 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 as if he was solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.
3. In order to be valid, this form of proxy and any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be delivered at the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the commencement of the Meeting or adjourned meeting. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution.
4. Whether or not you are able 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 delivery of this form of proxy will not preclude you from attending in person and voting at the Meeting if you so wish and, in such event, this form of proxy shall be deemed to be revoked.

As at the date of this notice, the Board consists of three Executive Directors, namely Mr. Ng Cheuk Fan, Keith (Managing Director), Mr. Yeung Kwok Leung and Mr. Hon Chun Yu; 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.