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China Fortune Financial Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 290)

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

(1) SUBSCRIPTION OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND (2) PROPOSED CAPITAL REORGANISATION

SUBSCRIPTION OF CONVERTIBLE BONDS

On 21 September 2016 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to issue, and the Subscriber conditionally agreed to subscribe for, the Convertible Bonds with an aggregate principal amount of HK\$390,000,000 due three years from the date of issue of the Convertible Bonds at the Conversion Price of HK\$0.06 per Conversion Share.

Completion of the Subscription Agreement is subject to the conditions set out in the paragraph headed “Conditions Precedent” below. Detailed terms of the Convertible Bonds are set out in the paragraph headed “Principal Terms and Conditions of the Convertible Bonds” below. Upon full conversion of the Convertible Bonds at the Conversion Price, a total of 6,500,000,000 Conversion Shares will be issued, representing approximately 65.53% of the issued share capital of the Company had the Capital Reorganisation become effective and as enlarged by the issue of the Conversion Shares (assuming that there is no change in the issued share capital of the Company).

The Conversion Shares to be issued upon exercise of the conversion rights attached to the Convertible Bonds at the Conversion Price will be allotted and issued pursuant to the Specific Mandate to be sought from the Shareholders at the EGM.

The gross proceeds and the net proceeds from the issue of the Convertible Bonds are estimated to be approximately HK\$390,000,000 and HK\$386,300,000 respectively. The Company intends to utilise the net proceeds for the purposes as disclosed in the paragraph headed “Reasons for the Subscription and Use of Proceeds” below.

No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares that may be allotted and issued upon the exercise of the conversion rights attached to the Convertible Bonds.

PROPOSED CAPITAL REORGANISATION

The Board proposes to reorganise the share capital of the Company in the following manner:

Capital Reduction

The Board proposes that the issued share capital of the Company be reduced from HK\$341,838,566.80 to HK\$34,183,856.68 by: (i) the cancellation of HK\$0.09 paid up capital on each issued Share so that each issued Share shall be treated as one fully paid up Share of HK\$0.01 each in the capital of the Company; and (ii) the reduction of the par value of each unissued Share from HK\$0.10 to HK\$0.01, such that the authorised share capital of the Company shall be reduced from HK\$500,000,000 comprising 5,000,000,000 Shares of par value of HK\$0.10 each to HK\$50,000,000 comprising 5,000,000,000 New Shares of par value of HK\$0.01 each.

As at the date of this announcement, 3,418,385,668 Shares have been issued and are fully paid or credited as fully paid. Assuming that the paid-up capital of each of the 3,418,385,668 issued Shares will be reduced from HK\$0.10 to HK\$0.01 per issued Share by cancelling the paid-up capital to the extent of HK\$0.09 per issued Share by way of a reduction of capital, so as to form New Shares with par value of HK\$0.01 each, the Company’s existing issued share capital of HK\$341,838,566.80 will be reduced by HK\$307,654,710.12 to HK\$34,183,856.68.

The credit arising from the Capital Reduction in the amount of HK\$307,654,710.12 be applied towards offsetting the accumulated losses of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated losses of the Company.

Increase in Authorised Share Capital

The current authorised share capital of the Company is HK\$500,000,000 divided into 5,000,000,000 Shares of HK\$0.10 each, of which 3,418,385,668 Shares are in issue and are fully paid or credited as fully paid.

In order to facilitate the issue of the Conversion Shares upon the exercise of the conversion rights attached to the Convertible Bonds and to accommodate future expansion and growth of the Group and subject to the Capital Reduction becoming effective, the Board proposes to increase the authorised share capital of the Company from HK\$50,000,000 divided into 5,000,000,000 New Shares to HK\$200,000,000 divided into 20,000,000,000 New Shares of HK\$0.01 each, by the creation of an additional 15,000,000,000 New Shares, which will rank pari passu in all respects with the New Shares in issue.

GENERAL

The EGM will be convened for the Shareholders to consider and, if thought fit, to approve (i) the Subscription Agreement and the transactions contemplated under it; (ii) the grant of the Specific Mandate; and (iii) the Capital Reorganisation. To the best information, knowledge and belief of the Board having made all reasonable enquiries, as at the date of this announcement, no Shareholder has any interest in the Subscription Agreement and the respective transactions contemplated thereunder that is materially different from the other Shareholders. Therefore, no Shareholder is required to abstain from voting on the resolutions to be proposed at the EGM.

A circular containing, among other things, (i) further details of the Subscription Agreement; (ii) further details of the Capital Reorganisation; and (iii) the notice of the EGM, will be despatched to the Shareholders on or before 26 October 2016.

Completion of the Subscription is subject to fulfilment of the conditions precedent under the Subscription Agreement. Accordingly, the Subscription may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

SUBSCRIPTION OF CONVERTIBLE BONDS

On 21 September 2016 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement in respect of the issue of the Convertible Bonds in the principal amount of HK\$390,000,000 due three years from the date of issue of the Convertible Bonds at a Conversion Price of HK\$0.06 per Conversion Share. Details of the Subscription Agreement and the terms of the Convertible Bonds are set out below.

THE SUBSCRIPTION AGREEMENT

Date: 21 September 2016

Parties:

Issuer: the Company

Subscriber: the Subscriber

To the best of the Board's knowledge, information and belief, having made all reasonable enquiries, the Subscriber and its ultimate beneficial owner(s) are third parties independent of and are not connected with the Company under the Listing Rules. The Subscriber is a company incorporated in the British Virgin Islands and is principally engaged in investment holding.

Principal Terms and Conditions of the Convertible Bonds

The principal terms and conditions of the Convertible Bonds are summarised as follows:

Issuer: The Company

Holder: The Subscriber

Principal Amount: HK\$390,000,000

Issue Price: 100% at the full face value of the Convertible Bonds

Status: The Convertible Bonds constitute a direct unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank pari passu and rateably without any preference equally with all other unsecured and unsubordinated obligations of the Company. The payment obligations of the Company under the Convertible Bonds shall, save for such exceptions as may be provided by applicable legislation, at rank at least equally with all its other present and future unsecured and unsubordinated obligations

Form and Denomination: The Convertible Bonds will be issued in registered form in denomination of HK\$1,000,000 each. The certificate will be issued to the Subscriber in respect of its registered holding of the Convertible Bonds

Interest: 2% per annum on the outstanding principal amount of the Convertible Bonds which shall be paid on the maturity date of the Convertible Bonds

Interest Period:	The period of three years commencing on the date of issue of the Convertible Bonds and ending on the maturity date of the Convertible Bonds
Maturity Date:	The date falling on the third (3 rd) anniversary of the date of issue of the Convertible Bonds
Conversion Price:	HK\$0.06 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds The initial Conversion Price of HK\$0.06 per Conversion Share represents: 1. a discount of approximately 63.0% to the closing price of HK\$0.1620 per Share, based on the closing price as quoted on the Stock Exchange on the date of the Subscription Agreement; 2. a discount of approximately 63.9% to the average closing price of HK\$0.1664 per Share, based on the average of the closing prices as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; 3. a discount of approximately 63.7% to the average closing price of HK\$0.1654 per Share, based on the average of the closing prices as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and 4. a premium of approximately 87.5% over to HK\$0.032 per Share, based on the consolidated net asset value attributable to the owners of the Company of approximately HK\$108,665,000 as at 31 March 2016 as extracted from the annual report of the Group for the year ended 31 March 2016 (based on the number of issued Shares as at the date of this announcement).

Adjustment events:

The Conversion Price is subject to adjustments in accordance with the terms and conditions set out in the Convertible Bonds if any of the following specific events occurs:

- (a) where there is an alteration to the nominal amount of a New Share by reason of any consolidation or subdivision;
- (b) where the Company issues (other than in lieu of a cash dividend) any New Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);
- (c) where the Company makes (whether on a reduction of capital or otherwise except pursuant to any purchase by the Company of its own New Shares which is permitted by law and by the rules of the Stock Exchange and in accordance with the provisions of the Company's memorandum and articles of association) any capital distribution (including distributions in cash or specie, and any dividend charged or provided for in the accounts for any financial period) to the Shareholders (in their capacity as such) or grants to the Shareholders rights to acquire for cash assets of the Company or any of its subsidiaries;
- (d) where the Company offers to the Shareholders New Shares for subscription by way of rights, or grants to the Shareholders any options or warrants to subscribe for New Shares at a price per new Share which is less than 90% of the market price (as defined in the Convertible Bonds) as at the date of the announcement of the terms of the offer or grant;
- (e) where the Company or any other company issues wholly for cash any securities which by their terms are convertible into or exchangeable for or carrying rights of conversion for New Shares, and the total effective consideration (as defined in the Convertible Bonds) per New Share initially receivable for such securities is less than 90% of the market price (as defined in the Convertible Bonds) as at the date of the announcement of the terms of issue of such securities;

- (f) where the rights of conversion or exchange attached to any such securities as mentioned in subparagraph (e) above are modified so that the total effective consideration (as defined in the Convertible Bonds) per New Share initially receivable for such securities shall be less than 90% of the market price (as defined in the Convertible Bonds) as at the date of announcement of the proposal to modify such rights of conversion or exchange;
- (g) where the Company issues wholly for cash any New Shares at a price per New Share which is less than 90% of the market price as at the date of the announcement of the terms of such issue; or
- (h) where the Company shall be permitted by law and, by the rules of the Stock Exchange and in accordance with the provisions of its memorandum and articles of association, purchases and makes an offer or invitation to Shareholders to tender for sale to the Company any New Shares or if the Company purchases any New Shares or securities convertible into New Shares or any rights to acquire New Shares (excluding any such purchase made on the Stock Exchange, or any recognised stock exchange, being a stock exchange recognised for this purpose by the SFC or equivalent authority and the Stock Exchange).

Notwithstanding the specific adjustment events set out above, in any circumstances where the Directors shall consider that an adjustment to the Conversion Price provided for under the relevant provisions set out in the terms of Convertible Bonds should not be made or should be calculated on a different basis or that an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under such relevant provisions set out in the Convertible Bonds or that such adjustment shall take effect on a different date or at a different time from that provided under such relevant provisions, the Company shall appoint an independent merchant bank or the auditors of the Company to consider whether the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately

reflect the relative interests of the persons affected thereby and, if such independent merchant bank or the auditors of the Company consider this to be the case, the adjustment shall be modified or nullified, or an adjustment made instead of no adjustment, in such manner and/or the adjustment takes effect on a different date and/or time as shall be certified by such independent merchant bank or the auditors of the Company to be in its opinion appropriate.

Whenever the Conversion Price is adjusted, the Company will give notice to the holders of the Convertible Bonds and will make available for inspection by them, among other things, a signed certificate of the auditors of the Company or an independent merchant bank and a certificate signed by a Director setting out brief particulars of the adjustment to the Conversion Price. The Company will make announcement(s) on any adjustment to the Conversion Price.

Assuming conversion of the Convertible Bonds into Conversion Shares in full at the initial Conversion Price, the net price per Conversion Share to the Company is HK\$0.059.

Conversion Rights:

Holder of the Convertible Bonds will have the right, during the period commencing on the date of issue of the Convertible Bonds and ending on the maturity date of the Convertible Bonds, to convert the Convertible Bonds in whole or in part of the outstanding principal amount of the Convertible Bonds into Conversion Shares, provided that the exercise of the Conversion Rights will not result in:

- (i) any mandatory offer obligation under Rule 26.1 of the Takeovers Code being triggered by the holder of the Convertible Bonds and/or parties acting in concert (as defined in the Takeovers Code) with such holder; or
- (ii) the Company being in breach of any provision of the Listing Rules, including the requirement to maintain any prescribed minimum percentage of the issued share capital of the Company held by the public.

Conversion Shares:	6,500,000,000 Conversion Shares would be in issue on full conversion of the Convertible Bonds, had the Capital Reorganisation become effective (subject to adjustments to the Conversion Price)
Redemption:	The Company shall redeem the Convertible Bonds by repaying the holder(s) of the Convertible Bonds all outstanding principal amount and accrued interests of the Convertible Bonds on the maturity date of the Convertible Bonds. No interest shall be paid on the amount of the Convertible Bonds which has been converted into Conversion Shares prior to the maturity date of the Convertible Bonds
Transferability:	The Convertible Bonds are transferable except that no Convertible Bonds shall be transferred to any person who (i) is not independent of the Group or the connected persons of the Company (unless otherwise permitted with prior written consent of the Company); or (ii) is a party acting in concert (as defined in the Takeovers Code) with any person or Shareholder to the effect that any transfer of the Convertible Bonds to such transferee(s) and/or the exercise by such transferee(s) of any conversion right attaching to the Convertible Bonds subject to such transfer will trigger the mandatory offer obligation under Rule 26.1 of the Takeovers Code During the period of 12 months commencing from the date of issue of the Convertible Bonds, the holder shall not dispose of or transfer any of the Conversion Shares issued pursuant to the exercise of any conversion rights attaching to the Convertible Bonds by that holder
Ranking of Conversion Shares:	The Conversion Shares issued upon conversion of the Convertible Bonds will in all respects rank pari passu with the New Shares already in issue on the conversion date
Listing:	No application will be made by the Company for the listing of the Convertible Bonds on the Stock Exchange. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares that may be issued upon the conversion of the Convertible Bonds

The principal amount of the Convertible Bonds and the initial Conversion Price were determined by the Company and the Subscriber after arm's length negotiations by reference to, among other things, the liquidity, the historical trading prices of the Shares, the consolidated net asset value and the financial performance of the Group for the year ended 31 March 2016.

Conditions Precedent

Completion of the Subscription Agreement is conditional upon the fulfilment (or otherwise waived by the Company or the Subscriber (as the case may be) in writing, to the extent such conditions precedent may be waived) of the following conditions precedent:

- (a) to the extent not waived or consented to by or the requisite approval or ruling not obtained from the relevant regulatory or governmental authorities, compliance by each of the Company and the Subscriber of all applicable laws and regulations, including but not limited to those under the Listing Rules, (if applicable) the Takeovers Code, the Companies Ordinance and the laws and regulations of each party's jurisdiction of incorporation;
- (b) the passing by the requisite majority of Shareholders or independent Shareholders (as appropriate) of the Company in the EGM of all resolutions required under relevant laws and regulations, including but not limited to the Listing Rules and the applicable laws of the transactions contemplated under the Subscription Agreement, including, without limitation, the Capital Reorganisation and the Specific Mandate;
- (c) the granting of the approval for the listing of, and permission to deal in the Conversion Shares by the Listing Committee;
- (d) all license, permit, consent, authorisation, permission, clearance, warrant, confirmation, certificate or approval of any competent governmental, administrative, supervisory, regulatory, judicial, determinative, disciplinary, enforcement or tax raising body, authority, agency, board, department, court or tribunal of any jurisdiction (including the Stock Exchange, the SFC or any relevant securities exchange) and whether supranational, national, regional or local or any other person which are required for the Subscription and all matters contemplated thereunder having been obtained or made, if any;
- (e) all the representations and warranties contained in the Subscription Agreement in relation to the Company and the Subscriber remain true, accurate in all material respects and not misleading when made, and being true, accurate in all material respects and not misleading on and as of the date of Completion;

- (f) no material adverse change having occurred in respect of the business, assets, financial position, performance, operations, properties or conditions (financial or otherwise) of the Group; and
- (g) the Capital Reorganisation becoming effective.

The Company shall use its reasonable endeavours to procure the satisfaction of the above conditions precedent (unless otherwise waived by the Subscriber). The Subscriber shall use its reasonable endeavours to procure the satisfaction of the conditions precedent set out in paragraphs (a), (d) and (e) above (unless otherwise waived by the Company).

The conditions precedent in paragraphs (e) (in respect of the Company) and (f) above may be waived by the Subscriber (in whole or in part) and the conditions precedent in paragraph (e) (in respect of the Subscriber) may be waived by the Company (in whole or in part). No other conditions precedent may be unilaterally waived by the Company or the Subscriber.

The Company and the Subscriber shall each notify the others promptly (but in any event within five (5) Business Days) upon becoming aware that any of the conditions precedent have not been fulfilled.

If the above conditions precedent are unfulfilled or, if applicable, waived on or prior to 28 February 2017 (the “**Longstop Date**”), or such other date as the Company and the Subscriber may agree in writing (the “**Extended Long Stop Date**”), all obligations of the Company and the Subscriber shall cease and determine immediately on the Longstop Date or the Extended Long Stop Date (as the case may be) and none of the Company and the Subscriber (nor any of their respective affiliates) shall have any claim against the other (or any of their respective affiliates) except in respect of any rights and liabilities which have accrued prior to termination.

The Board (including the independent non-executive Directors) considers that the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms determined after arm’s length negotiation among the parties, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Specific Mandate

The Subscription Agreement and the transactions contemplated thereunder, including the allotment and issue of the Conversion Shares under the Specific Mandate, are subject to the approval of the Shareholders at the EGM.

Application will be made by the Company to the Stock Exchange for the grant of listing of and permission to deal in the Conversion Shares.

Completion

Completion shall take place in Hong Kong on the fifth (5th) Business Day following the date on which the conditions precedent set out in the Subscription Agreement are fulfilled and/or waived (or such other date as the parties may agree).

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save for the following fund raising activities, the Company did not carry out any equity fund raising activities during the past 12 months prior to the date of this announcement:

Date of announcement	Fund raising activity	Net proceeds	Intended use of proceeds	Actual use of proceeds as at the date of this announcement
27 June 2016	Issue of convertible bonds	Approximately HK\$32,000,000	Settlement of previous debt owed to the subscriber of relevant convertible bonds	Used as intended
18 March 2016	Issue of convertible bonds	Approximately HK\$40,000,000	Settlement of previous debt owed to the subscriber of relevant convertible bonds	Used as intended

INFORMATION OF THE SUBSCRIBER

The Subscriber is a limited liability company incorporated in the British Virgin Islands and is owned as to 55% by Best Fortress Limited, a company incorporated in the British Virgin Islands and as to 45% by Riverhead Capital (International) Management Co., Ltd., a company incorporated in the Cayman Islands. Best Fortress Limited is owned as to 90% by Mr. Yip Sum Yin (“**Mr. Yip**”) and as to 10% by Mr. Chung Chi Shing (“**Mr. Chung**”). Riverhead Capital (International) Management Co., Ltd. is owned as to 80% by Mr. Xie Zhichun (“**Mr. Xie**”) and as to 20% by Ms. Xie Juhan, who is the daughter of Mr. Xie. The Subscriber, Best Fortress Limited and Riverhead Capital (International) Management Co., Ltd. are investment holding companies.

Set out below are the biographical details of Mr. Xie, Mr. Chung and Mr. Yip:

Mr. Xie, aged 58, has extensive experience and high standing status in banking, securities and investment fields. Mr. Xie is currently the vice chairman of the consultation committee of Shenzhen Qianhai Shekou Free Trade Zone and Qianhai Shenzhen Hong Kong Cooperation Zone. He is also a distinguished professor of China Center for Special Economic Zone Research at Shenzhen University and post-graduate supervisor of PBC School of Finance at Tsinghua University. Mr. Xie has been an independent non-executive director of China Taiping Insurance Holdings Company Limited, a company listed on the Stock Exchange (Stock Code: 966), and Sun Life Hong Kong Limited under Sun Life Financial Services of Canada since 2015.

Mr. Xie has held various key positions in certain banks, securities firms and insurance companies in the PRC and listed companies in Singapore, and has extensive experience in management of financial institutions. Mr. Xie acted as a deputy general manager of China Investment Corporation (“CIC”) (中國投資有限責任公司), a state-owned company with registered capital of RMB200,000,000,000 and an executive director and general manager of Central Huijin Investment Ltd. (中央滙金投資有限公司), a subsidiary of CIC which makes equity investment in key state-owned financial institutions in the PRC, from 2014 to 2015. From 2008 to 2014, Mr. Xie acted as an executive director and deputy general manager of China Everbright Group Limited and chairman of the board of directors of Sun Life Everbright Life Insurance Co., Ltd. and chairman of the board of directors of Sun Life Everbright Asset Management Co., Ltd. From 2006 to 2008, he acted as the vice president and director of reorganisation and listing office of China Everbright Bank Company Limited. From 2001 to 2006, Mr. Xie acted as a director and president of Everbright Securities Company Limited, an executive director of China Everbright Group, an executive director of China Everbright Limited, a company listed on the Stock Exchange (Stock Code: 165), a vice chairman (unattending) of China Enterprises Association (Singapore), a director of Shenyin & Wanguo Securities Co., Ltd., a director of Everbright Pramerica Fund Management Co., Ltd. and a vice chairman (unattending) of Securities Association of China.

From 1997 to 2001, he acted as an executive director and president of China Everbright Asia-Pacific Company Limited, a company listed on the Singapore Stock Exchange, a director of Shenyin & Wanguo Securities Co., Ltd, the chairman of the board of directors of China Everbright Asia-Pacific (New Zealand) Company, the chairman of the board of directors of China Everbright (South Africa) Company, a director of China Everbright Asia-Pacific Industrial Investment Fund Management Company (中國光大亞太工業投資基金管理公司) and a director of Thailand Sunflower Company (泰國向日葵公司). From 1992 to 1999, Mr. Xie was a director and vice president of Everbright Securities Company Limited, a director of China Everbright Financial Holding Company (Hong Kong) (中國光大金融控股公司(香港)), a general manager of northern head office of Everbright Securities Company Limited, a director of Da Cheng Investment Fund Management Company, a deputy director of preparation team and deputy president of China Everbright Bank, Dalian Branch and a general manager of the international business department of China Everbright Bank, Heilongjiang Branch.

Mr. Chung, aged 51, has more than 25 years of experience in the investment industry. Currently, he is a non-executive director of Value Convergence Holdings Limited, a company listed on the Stock Exchange (Stock Code: 821), an executive director of China Nuclear Energy Technology Corporation Limited (formerly known as “China Nuclear Industry 23 International Corporation Limited”), a company listed on the Stock Exchange (Stock Code: 611), and a general manager of several subsidiaries of GCL New Energy Holdings Limited (formerly known as Same Time Holdings Limited (“STHL”)) (“**GCL New Energy**”), a company listed on the Stock Exchange (Stock Code: 451). He was an executive director of GCL New Energy from 4 July 2011 to 8 May 2014. He was a director of Vega Science & Technology (HK) Co. Limited (a manufacturer of printed circuit board drilling machines) from 2007 to 2012. He was a director of a trading company of chemical products from 2005 to 2006 and an executive director and chief executive officer of Central China Enterprises Limited, a company listed on the Stock Exchange (Stock Code: 351), from 2000 to 2004.

Mr. Yip, aged 66, is one of the co-founders of STHL, which was founded in 1982. He has over 40 years of experience in the electronics industry and was responsible for GCL New Energy’s business activities which include the sale and manufacture of printed circuit boards. He had been the chairman of the board of directors of STHL since 1992 and resigned as chairman with effect from 9 May 2014 when STHL was renamed as GCL New Energy Holdings Limited. He also resigned as an executive director of GCL New Energy with effect from 23 June 2016. He is currently a director of several subsidiaries of GCL New Energy.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Group is principally engaged in provision of brokerage and margin financing, proprietary trading, corporate finance, money lending and factoring, and consultancy and insurance brokerage.

With the continuing expansion of commercial banks and financial institutions into brokerage and related businesses in Hong Kong as well as acquisitions and mergers of local securities firms by/with Chinese and overseas investors and securities firms, the financial services market continues to consolidate and become increasingly dominated by China and foreign securities firms with substantial financial backings. The Board believes that in order to compete successfully against the financial powerhouses, it is imperative for local securities firms, like the Company, to expand its business scale and to tap into the PRC financial services market to capture the vast business opportunities through expansion of its capital base.

Upon Completion, gross proceeds from the Subscription will be HK\$390,000,000 before expenses, and the estimated net proceeds of the Subscription will be approximately HK\$386,300,000 after deduction of the estimated expenses to be incurred in relation to the Subscription. The Company intends to apply the net proceeds from the Subscription as follows:

- (i) *approximately HK\$180,000,000 for the injection of capital to a wholly-owned subsidiary (the “Securities Subsidiary”) of the Company and expanding its margin financing and underwriting businesses;*

As the Securities Subsidiary is a licensed corporation licensed to carry out type 1 regulated activities (dealing in securities) under the SFO, it is the intention of the Company to increase its capital so as to enable it to be eligible to be a partner in a joint venture to be formed in the PRC (the “JV Company”) with third parties independent of the Company to carry out securities services business in the PRC. The capital to be injected into the Securities Subsidiary will be used to finance the expansion of its margin financing and underwriting businesses.

The margin financing lent out amount of the Group during the period from 1 January 2016 to the date of this announcement amounted to approximately HK\$64,000,000. The Group has recently been approached by existing clients and other new clients seeking margin financing facilities in aggregate for more than HK\$60,000,000. In view of the increasing trend of this business segment in light of the booming and promising securities markets arising from the stock connect systems among Hong Kong, Shanghai, Shenzhen and London, the Group intends to expand its brokerage business so as to capture the business opportunities in the near term. As a licensed corporation, the Group is subject to the financial resources requirement (i.e. minimum capital requirement) and without the necessary capital, it is not in a position to expand its margin financing business despite the availability of such business.

Furthermore, the relatively small capital of the Securities Subsidiary also restricts the number of underwritings that it can engage in as certain level of liquid capital is required to be maintained under the SFO as liquid capital of the Group. With the increase in capital, the Securities Subsidiary has more flexibility in taking up underwriting business as well as margin financing business which will enable it to earn more revenue.

With the increase in capital of the Securities Subsidiary, it will also meet the net asset value requirement for Hong Kong substantial shareholder of the JV Company under the Closer Economic Partnership Arrangement. One of the conditions for the establishment of the JV Company is that the Hong Kong substantial shareholder is required to have a net asset value of more than RMB200,000,000. Currently, the Securities Subsidiary has a net asset value of approximately RMB100,000,000. The injection of the additional funds by way of capital injection will enable the Securities Subsidiary to meet the net asset value requirement and to expand its margin financing and underwriting businesses at the same time. As

at the date of this announcement, the Company has not identified any specific partner in the PRC for the formation of the JV Company and there is no specific timeframe for the establishment of the JV Company. However, without the necessary capital, the Company is simply not an eligible partner for the JV Company and not in a position to approach any potential business partner for co-operation. Therefore, if the Company is to expand its financial services platform into the PRC and capture the business opportunities in the vast PRC market, it is a pre-requisite that the Securities Subsidiary meets the net asset value requirement.

- (ii) *approximately HK\$150,000,000 for expanding its money lending business;*

From 1 January 2016 to the date of this announcement, the Group has successfully lent out loans in the amount of approximately HK\$38,300,000 and loans in the amount of approximately HK\$15,200,000 are currently under review. The loan portfolio of the Group includes share-back financing and mortgage financing. It is expected that the money lending market in Hong Kong will continue to grow in the near future. As disclosed in the Monthly Statistical Bulletin published by the Hong Kong Monetary Authority in September 2016, the total loans and advances of all authorised money lending institutions in Hong Kong increased from approximately HK\$2,468,000,000,000 in 2006 to approximately HK\$7,534,000,000,000 in 2015, representing a compound annual growth rate of approximately 13.2%. The increasing trend of total loans and advances indicates a rising demand in the money lending market in Hong Kong. The Group can only further tap into this blooming market with sufficient cash resources. Due to the loan cycles, the Group requires a strong cash base to support the growth of its lending business pending maturity of the loans. As the Hong Kong Monetary Authority restricts licensed banks from providing loans to money lenders and financial institutions for funding their mortgage financing business, the Group has to identify separate fund source for its money lending business in order to expand the business and capture market opportunities on a timely basis.

- (iii) *approximately HK\$12,000,000 for engaging in private equity investments;*

The Group has obtained approval for the establishment of a private equity company in Qianhai, the PRC, with a registered capital of approximately RMB10,000,000 (equivalent to approximately HK\$12,000,000). The Qianhai entity is set up for investing in non-listed private companies under the asset management business segment of the Group.

- (iv) *approximately HK\$9,000,000 for strengthening the capital base of its asset management, wealth management and corporate financing business; and*

The Group intends to allocate approximately HK\$5,000,000 for proprietary trading of securities under the asset management business; approximately HK\$2,000,000 for investment under its wealth management business and approximately HK\$2,000,000 for the corporate financing business; and

- (v) *the remaining balance of approximately HK\$39,000,000 for the general working capital of the Group which includes staff costs, rental, professional fee, marketing expenses etc..*

The working capital requirement of the Group for the year ended 31 March 2016 was approximately HK\$84,000,000 which included staff costs of approximately HK\$40,000,000, rental of approximately HK\$17,000,000, professional fee of approximately HK\$5,800,000, marketing expenses of approximately HK\$3,300,000 and others of approximately HK\$18,000,000. It is envisaged that with the implementation of the business expansion plan, the administrative cost of the Group, including staff costs, rental, marketing expenses will increase at the initial stage. The Group needs to have sufficient working capital to fund the growing of its business before it can reap the profits of the expansion plan.

In view of the expansion plan listed above, and the low cash level of the Group as at 31 March 2016, the Company has imminent fund raising needs to finance the implementation of the business expansion plan.

Prior to entering into the Subscription, the Board has considered alternative ways of fund raising such as placing and preemptive issues such as rights issue or open offer. However, given the fund raising size and the thin trading volume of the Shares, the Company was not able to identify a suitable underwriter for the preemptive issues, in addition to the high commission rates demanded by some of the securities firms approached by the Company. In the circumstances, the Board considered that it may have difficulty in finding an independent underwriter in Hong Kong which is interested to fully underwrite a rights issue or an open offer of the Company to raise the proposed amount of funds within the timeframe that would allow the Company to implement the business expansion plan and to capture the business opportunities envisaged. The Board considered that even if such an independent underwriter was identified, the rights issue or open offer would incur costly underwriting commission and the process would be relatively more time-consuming than debt financing. Having considered these factors, the Board is of the view that the Subscription will provide the Company with the necessary funding to implement the business expansion plan at a reasonable cost. Hence, the Board considers that fund raising through the Subscription is in the interest of the Company and the Shareholders as a whole.

Furthermore, given Mr. Xie's strong background, expertise and renowned status in the financial services industry in the PRC and the profound experience of Mr. Chung and Mr. Yip in the listed companies in Hong Kong, the Board is of the view that it is a valuable opportunity to have them as strategic investors to invest in the Company. The Subscription will provide the Company with the opportunity to forge a closer business relationship with the Subscriber and pave the way for future business co-operations.

To the extent that the proceeds are not immediately required, the Group will seek potential business opportunities in the securities and financial markets so as to maximise the efficiency and return of such idle funds, broaden the income source and improve the financial position of the Group.

The Board is of the view that the Subscription, assuming conversion of part or all the Convertible Bonds into Conversion Shares, will broaden the Shareholders' portfolio and also strengthen the financial position of the Group. As disclosed in the annual report of the Group for the year ended 31 March 2016, it is the Group's business strategies to continue to explore and evaluate new business opportunities with cautiousness and prudence in order to enhance returns for Shareholders and strengthen the Group's business and financial positions.

PROPOSED CAPITAL REORGANISATION

As at the date of this announcement, the authorised share capital of the Company is HK\$500,000,000 comprising 5,000,000,000 Shares of HK\$0.10 each, of which 3,418,385,668 Shares have been issued and are fully paid or credited as fully paid. The Board proposes to reorganise the share capital of the Company in the following manner:

(A) Capital Reduction

The Board proposes that the issued share capital of the Company be reduced from HK\$341,838,566.80 to HK\$34,183,856.68 by:

- (i) the cancellation of HK\$0.09 paid up capital on each issued Share so that each issued Share shall be treated as one fully paid up Share of HK\$0.01 each in the capital of the Company; and
- (ii) the reduction of the par value of each unissued Share from HK\$0.10 to HK\$0.01, such that the authorised share capital of the Company shall be reduced from HK\$500,000,000 comprising 5,000,000,000 Shares of par value of HK\$0.10 each to HK\$50,000,000 comprising 5,000,000,000 New Shares of par value of HK\$0.01 each.

As at the date of this announcement, 3,418,385,668 Shares have been issued and are fully paid or credited as fully paid. Assuming that the paid-up capital of each of the 3,418,385,668 issued Shares will be reduced from HK\$0.10 to HK\$0.01 per issued Share by cancelling the paid-up capital to the extent of HK\$0.09 per issued Share by way of a reduction of capital, so as to form New Shares with par value of HK\$0.01 each, the Company's existing issued share capital of HK\$341,838,566.80 will be reduced by HK\$307,654,710.12 to HK\$34,183,856.68.

The credit arising from the Capital Reduction in the amount of HK\$307,654,710.12 be credited towards offsetting the accumulated losses of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated losses of the Company.

As at the date of this announcement, save for the Existing CB, the Company has no outstanding share options, warrants or convertible bonds.

Conditions for the Capital Reduction

The Capital Reduction is conditional on the following conditions being fulfilled:

- (i) the passing of a special resolution by the Shareholders to approve the Capital Reduction at the EGM;
- (ii) the approval of the Capital Reduction by the Court;
- (iii) the compliance with any conditions which the Court may impose in relation to the Capital Reduction;
- (iv) the registration by the Registrar of Companies of the Cayman Islands of the order of the Court confirming the Capital Reduction and the minutes approved by the Court containing the particulars required under the Companies Law with respect to the Capital Reduction; and
- (v) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares arising from the Capital Reduction.

Reasons for and Effects of the Capital Reduction

Upon the Capital Reduction becoming effective, the credit arising from the Capital Reduction will be credited towards offsetting the accumulated losses of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated losses of the Company. The Board is of the view that the elimination of the Company's accumulated losses will therefore facilitate any dividend payment by the Company, subject to the Company's performance and when the Board considers that it is appropriate to do so in the future. In addition, the Board considers that the Capital Reduction will enable the nominal or par value of the Shares to be reduced from HK\$0.10 to HK\$0.01 each, thus giving greater flexibility to the Company in future fund raising to accommodate its future expansion and growth, should the Board consider it prudent or advisable to do so, through the issue of New Shares in the future given that the Company is not permitted, pursuant to its articles of association, to issue new shares in the share capital of the Company below their nominal or par value.

Save for the expenses to be incurred by the Company in implementing the Capital Reduction, the Board considers that the Capital Reduction will have no impact on the underlying assets, business operations, management or financial position of the Group or the proportionate interests of the Shareholders and their respective voting rights. Further, the Capital Reduction does not involve the diminution of any liability in respect of any unpaid capital of the Company nor does it involve the repayment to the Shareholders of any paid up capital of the Company. The Board considers that the Capital Reduction will not have any material adverse effect on the financial position of the Company.

In view of the above, the Board considers that the Capital Reduction is in the interests of the Company and the Shareholders at a whole.

Upon approval by the Shareholders of the Capital Reduction at the EGM, the legal advisers to the Company (as to the Cayman Islands law) will apply to the Court for hearing date(s) to confirm the Capital Reduction and further announcement(s) will be made by the Company on the progress of the Capital Reduction as and when appropriate.

(B) Increase in Authorised Share Capital

The current authorised share capital of the Company is HK\$500,000,000 divided into 5,000,000,000 Shares of HK\$0.10 each, of which 3,418,385,668 Shares are in issue and are fully paid or credited as fully paid.

In order to facilitate the issue of Conversion Shares upon the exercise of the conversion rights attached to the Convertible Bonds and to accommodate future expansion and growth of the Group and subject to the Capital Reduction becoming effective, the Board proposes to increase the authorised share capital of the Company from HK\$50,000,000 divided into 5,000,000,000 New Shares to HK\$200,000,000 divided into 20,000,000,000 New Shares of HK\$0.01 each, by the creation of an additional 15,000,000,000 New Shares, which will rank pari passu in all respects with the New Shares in issue. The Increase in Authorised Share Capital is subject to the approval of the Shareholders by way of an ordinary resolution at the EGM.

Immediately after the completion of Increase in Authorised Share Capital and assuming no Shares are issued or repurchased, the authorised share capital of the Company will be HK\$200,000,000 divided into 20,000,000,000 New Shares, with 3,418,385,668 New Shares being in issue and 16,581,614,332 New Shares remaining unissued.

EFFECTS OF THE CAPITAL REORGANISATION

Assuming there will be no change in the issued share capital of the Company from the date of this announcement up to the date on which the Capital Reorganisation becomes effective, the share capital structure of the Company will be as follows:

	As at the date of this announcement	Immediately upon the Capital Reorganisation taking effect
Nominal or par value	HK\$0.10 per Share	HK\$0.01 per New Share
Amount of the authorised share capital	HK\$500,000,000	HK\$200,000,000
Number of authorised shares	5,000,000,000 Shares	20,000,000,000 New Shares
Number of issued shares	3,418,385,668 Shares	3,418,385,668 New Shares
Amount of the issued share capital	HK\$341,838,566.80	HK\$34,183,856.68

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

For illustrative purpose only, set out below is the shareholding structure of the Company (a) as at the date of this announcement; (b) immediately after the Capital Reorganisation becoming effective but before full conversion of the Convertible Bonds; (c) after the Capital Reorganisation becoming effective and immediately upon full conversion of the Convertible Bonds (without adjustment), assuming there being no other change in the issued share capital and shareholding structure of the Company since the date of this announcement:

Shareholder	As at the date of this announcement		Immediately after the Capital Reorganisation becoming effective but before full conversion of the Convertible Bonds		After the Capital Reorganisation becoming effective and immediately upon full conversion of the Convertible Bonds (without adjustment) (Note 3)	
	Number of Shares	Approximately %	Number of New Shares	Approximately %	Number of New Shares	Approximately %
Jadehero Limited (“ Jadehero ”) (Note 1)	800,000,000	23.40	800,000,000	23.40	800,000,000	8.07
Mankind Investment Limited (“ MIL ”) (Note 2)	500,000,000	14.63	500,000,000	14.63	500,000,000	5.04
The Subscriber	–	–	–	–	6,500,000,000	65.53
Other public shareholders	2,118,385,668	61.97	2,118,385,668	61.97	2,118,385,668	21.36
Total	<u>3,418,385,668</u>	<u>100%</u>	<u>3,418,385,668</u>	<u>100%</u>	<u>9,918,385,668</u>	<u>100%</u>

Notes:

- Jadehero, a company incorporated in the British Virgin Islands with limited liability, beneficially held 800,000,000 Shares. Jadehero is owned as to 80% by Southlead Limited and as to 20% by Marvel Steed Limited. Southlead Limited is wholly owned by Wahan Investments Limited which is in turn wholly owned by Mr. Zhao Xu Guang. Mr. Wong Kam Fat Tony, who is the former chairman of the Company and the former executive Director, is the sole beneficial owner of the entire equity interests in Marvel Steed Limited.
- MIL beneficially held 500,000,000 Shares. MIL is wholly-owned by China Cinda (HK) Asset Management Co., Limited (“**China Cinda (HK) Asset Management**”) which is in turn wholly-owned by China Cinda (HK) Holdings Company Limited (formerly known as Well Kent International Investment Company Limited) (“**China Cinda (HK) Holdings**”). China Cinda (HK) Holdings is wholly-owned by China Cinda Asset Management Co., Limited (“**China Cinda Asset Management**”). For the purpose of the SFO, China Cinda (HK) Asset Management, China Cinda (HK) Holdings and China Cinda Asset Management are deemed or taken to be interested in the Shares held by MIL.
- For illustrative purposes only, the Convertible Bonds are subject to restrictions such that the conversion of which would (a) not trigger a mandatory offer obligation under Rule 26.1 of the Takeovers Code on the part of the Subscriber and parties acting in concert with it (as defined in the Takeovers Code) or (b) cause the Company to be unable to meet the minimum public float requirement under the Listing Rules. Due to the above conversion restrictions on the Convertible Bonds, full conversion of the Convertible Bonds into the Conversion Shares by the Subscriber as the holder of the Convertible Bonds is unlikely to come about under the existing terms of the Convertible Bonds.

GENERAL

The EGM will be convened for the Shareholders to consider and, if thought fit, to approve (i) the Subscription Agreement and the transactions contemplated under it; (ii) the grant of the Specific Mandate; and (iii) the Capital Reorganisation. To the best information, knowledge and belief of the Board having made all reasonable enquiries, as at the date of this announcement, no Shareholder has any interest in the Subscription Agreement and the respective transactions contemplated thereunder that is materially different from the other Shareholders. Therefore, no Shareholder is required to abstain from voting on the resolutions to be proposed at the EGM.

A circular containing, among other things, (i) further details of the Subscription Agreement; (ii) further details of the Capital Reorganisation; and (iii) the notice of the EGM, will be despatched to the Shareholders on or before 26 October 2016.

Completion of the Subscription is subject to fulfilment of the conditions precedent under the Subscription Agreement. Accordingly, the Subscription may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

DEFINITIONS

The following terms have the following meanings in this announcement unless the context otherwise requires:

“Board”	the board of Directors
“Business Day(s)”	any day (excluding Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business in Hong Kong
“Capital Reduction”	the reduction of the paid-up capital of each of the issued Shares by cancelling the paid-up capital to the extent of HK\$0.09 per issued Share, thereby reducing the nominal value of each issued Share from HK\$0.10 to HK\$0.01 and the reduction of the nominal value of each authorised but unissued Share from HK\$0.10 to HK\$0.01
“Capital Reorganisation”	the proposed capital reorganisation of the Company comprising (i) the Capital Reduction; and (ii) the Increase in Authorised Share Capital
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

“Companies Law”	the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Company”	China Fortune Financial Group Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Stock Exchange
“Completion”	completion of the Subscription Agreement in accordance with its terms and conditions
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Conversion Price”	HK\$0.06 per Conversion Share (subject to adjustments)
“Conversion Share(s)”	the New Share(s) which may fall to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds had the Capital Reorganisation become effective
“Convertible Bond(s)”	the 2% three-year convertible bonds in the aggregate principal amount of HK\$390,000,000 to be issued by the Company to the Subscriber pursuant to the Subscription Agreement
“Court”	The Grand Court of the Cayman Islands
“Directors”	directors of the Company
“EGM”	an extraordinary general meeting to be held by the Company to consider and, if thought fit, approve, among other things, (i) the Subscription Agreement and the transactions contemplated thereunder, (ii) the grant of the Specific Mandate; and (iii) the Capital Reorganisation
“Existing CB”	the existing convertible bonds in principal amounts of HK\$40,384,615 and HK\$32,000,000 issued by the Company, details of which are set out in the announcements of the Company dated 18 March 2016 and 27 June 2016, respectively

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Increase in Authorised Share Capital”	the proposed increase in the authorised share capital of the Company to HK\$200,000,000 divided into 20,000,000,000 New Shares by the creation of an additional 15,000,000,000 New Shares
“Last Trading Day”	20 September 2016, being the last day on which the Shares were traded on the Stock Exchange prior to the date of the Subscription Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“New Shares”	ordinary share(s) with par value of HK\$0.01 each in the share capital of the Company immediately after the Capital Reduction becoming effective
“PRC”	the People’s Republic of China, and for the purpose of this announcement only, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Registrar”	Union Registrars Limited, the Hong Kong branch share registrar and transfer office of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Share(s)”	ordinary share(s) with par value of HK\$0.10 each in the share capital of the Company prior to the Capital Reduction becoming effective
“Shareholders”	holders of the ordinary shares in the share capital of the Company

“Specific Mandate”	the mandate to be sought from the Shareholders at the EGM to allot and issue the Conversion Shares upon exercise of the conversion rights attached to the Convertible Bonds
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Pacific Alliance Limited, a company incorporated in the British Virgin Islands with limited liability
“Subscription”	the subscription of the Convertible Bonds by the Subscriber pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 21 September 2016 and entered into between the Company and the Subscriber in relation to the subscription and issue of the Convertible Bonds
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buybacks
“%”	per cent.

By order of the Board
China Fortune Financial Group Limited
WONG Kam Choi MH
Chairman

Hong Kong, 21 September 2016

As at the date of this announcement, the Board consists of three executive Directors, namely Mr. WONG Kam Choi MH (Chairman), Mr. HON Chun Yu and Ms. FU Wan Sheung; two non-executive Directors, namely Mr. TANG Baoqi and Mr. WU Ling; and three independent non-executive Directors, namely Mr. CHAN Kin Sang, Mr. NG Kay Kwok and Mr. TAM B Ray Billy.