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

If you have sold or transferred all your shares in **C Y Foundation Group Limited** (the “Company”), you should at once hand this circular, together with the enclosed 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 transferee.

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C Y FOUNDATION GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 1182)

**SHARE CONSOLIDATION;
CHANGE OF BOARD LOT SIZE;
AND
NOTICE OF SPECIAL GENERAL MEETING**

A notice convening a special general meeting of the Company (the “SGM”) to be held at 6/F – Tin Hau Function Room, L’hotel Causeway Bay Harbour View Hong Kong, 18 King’s Road, Causeway Bay, Hong Kong, on Monday, 17 September 2012 at 11:00 a.m. is set out on pages 9 to 10 of this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the office of the Company’s branch share registrar in Hong Kong, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for the SGM or any adjournment thereof. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.cyfoundation.com). The completion and delivery of a form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof in person should you so wish.

31 August 2012

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated 15 August 2012 in relation to, among other matters, the Share Consolidation
“Board”	the board of Directors
“Business Day(s)”	any day (other than a Saturday, a Sunday or days on which a typhoon signal 8 or above or black rainstorm signal is hoisted in Hong Kong at 10:00 a.m.) on which banks in Hong Kong are generally open for business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Change of Board Lot Size”	the proposed change of board lot size of the Shares for trading on the Stock Exchange from 5,000 Existing Shares to 10,000 Consolidated Shares with effect from 4 October 2012 (assuming the Share Consolidation becomes effective on 18 September 2012)
“Company”	C Y Foundation Group Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Consolidated Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company immediately after the Share Consolidation becoming effective
“Convertible Notes”	the 3% convertible notes in the principal amount of HK\$20,000,000 conferring rights to convert into 349,040,139 Existing Shares at the initial conversion price of HK\$0.0573 per Existing Share (subject to adjustments)
“Director(s)”	the director(s) of the Company
“Existing Share(s)”	ordinary share(s) of HK\$0.001 each in the share capital of the Company prior to the Share Consolidation having become effective
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	28 August 2012, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Open Offer”	the proposed issue of not less than 3,484,355,163 new Existing Shares and not more than 3,484,355,165 new Existing Shares (or 348,435,516 new Consolidated Shares) to be offered to the qualified Shareholders for subscription on the basis of one (1) offer Share or every two (2) Shares held as disclosed in the Announcement
“Registrar”	the Company’s branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
“SGM”	the special general meeting of the Company to be held on Monday, 17 September 2012 at 6/F – Tin Hau Function Room, L’hotel Causeway Bay Harbour View Hong Kong, 18 King’s Road, Causeway Bay, Hong Kong for the purpose of considering and, if thought fit, approving the proposed resolution as set out in the notice of the SGM
“Share(s)”	Existing Share(s) or Consolidated Share(s), as the case may be
“Share Consolidation”	the proposed consolidation of every ten (10) Existing Shares of HK\$0.001 each in the issued and unissued share capital of the Company into one (1) Consolidated Share of HK\$0.01 in the issued and unissued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

EXPECTED TIMETABLE

Set out below is the expected timetable for the Share Consolidation. This timetable is indicative only and may be varied due to additional time required for compliance with regulatory requirements. Shareholders will be informed of any significant changes to the expected timetable by public announcement.

Latest time for lodging the form of proxy for the SGM	11:00 a.m. on Saturday, 15 September 2012
SGM	11:00 a.m. on Monday, 17 September 2012
Announcement of results of SGM	Monday, 17 September 2012
Effective date of the Share Consolidation	Tuesday, 18 September 2012
Original counter for trading in Existing Shares in board lots of 5,000 Shares (in the form of existing share certificates) temporarily closes	9:00 a.m. Tuesday, 18 September 2012
Temporary counter for trading in Consolidated Shares in board lots of 500 Consolidated Shares (in the form of existing share certificates) opens	9:00 a.m. Tuesday, 18 September 2012
First day for free exchange of existing share certificates	Tuesday, 18 September 2012
Original counter for trading in Consolidated Shares in board lots of 10,000 Consolidated Shares (in the form of new share certificates) reopens	9:00 a.m. Thursday, 4 October 2012
Parallel trading in Consolidated Shares commences	9:00 a.m. Thursday, 4 October 2012
First day of operation of odd lot trading facility	Thursday, 4 October 2012
Temporary counter for trading in Consolidated Shares in board lots of 500 Consolidated Shares (in the form of existing share certificates) closes	4:00 p.m. Thursday, 25 October 2012
Parallel trading ends	4:00 p.m. Thursday, 25 October 2012
Last day of operation of odd lot trading facility	Thursday, 25 October 2012
Latest time for free exchange of share certificates	4:00 p.m. Monday, 29 October 2012

Note: All dates and times in this circular refer to Hong Kong local dates and times.

The expected effective date the Share Consolidation is subject to the relevant conditions precedent (including Shareholders' approval) being fulfilled.

LETTER FROM THE BOARD

C Y FOUNDATION GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 1182)

Executive Directors:

Mr. SNEAH Kar Loon
Mr. SIK Siu Kwan
Mr. NG Kwok Lun

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent non-executive Directors:

Mr. LAI Hock Meng
Mr. BALAKRISHNAN Narayanan
Mr. YONG Peng Tak
Mr. IO Rudy Cheok Kei

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

Unit 3503B-5, 35th Floor
148 Electric Road
North Point
Hong Kong

31 August 2012

To the Shareholders

Dear Sir or Madam,

SHARE CONSOLIDATION AND CHANGE OF BOARD LOT SIZE

INTRODUCTION

As disclosed in the Announcement, the Company proposed to put forward the Share Consolidation and the Change of Board Lot Size involving: (i) consolidation of every ten (10) Existing Shares of HK\$0.001 each in the issued and unissued share capital of the Company into one (1) Consolidated Share of HK\$0.01 in the issued and unissued share capital of the Company subject to approval by the Shareholders at the SGM; and (ii) change of board lot size of the Shares for trading on the Stock Exchange from 5,000 Existing Shares to 10,000 Consolidated Shares after the Share Consolidation becomes effective.

The purpose of this circular is to provide you with further information regarding, among other things, (a) the Share Consolidation; (b) the Change of Board Lot Size; and (c) the notice of SGM.

PROPOSED SHARE CONSOLIDATION AND CHANGE OF BOARD LOT SIZE

The Board proposes that every ten (10) Existing Shares of HK\$0.001 each in the issued and unissued share capital of the Company be consolidated into one (1) Consolidated Share of HK\$0.01 in the issued and unissued share capital of the Company. As at the Latest Practicable Date, the authorized share capital of the Company was HK\$300,000,000 divided into 300,000,000,000 Shares of HK\$0.001 each, of which 6,968,710,326 Existing Shares

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have been allotted and issued as fully paid or credited as fully paid. In order to facilitate the Share Consolidation, the Company will consider issuance of four (4) new Existing Shares before the date of the SGM for the purpose of topping up the number of the Existing Shares in issue to multiples of ten to avoid any fractional Consolidated Share arising from the Share Consolidation. Assuming the aforementioned four (4) new Existing Shares are issued and no further Existing Shares will be issued or repurchased from the Latest Practicable Date up to and including the date of the SGM, there will be 696,871,033 Consolidated Shares in issue and fully paid or credited as fully paid immediately following the Share Consolidation. The authorised share capital of the Company will become HK\$300,000,000 divided into 30,000,000,000 Consolidated Shares of HK\$0.01 each. The Company will issue further announcement as and when required under the Listing Rules in the event that four (4) new Existing Shares are to be issued to facilitate the Share Consolidation.

Conditions of the Share Consolidation

The implementation of the Share Consolidation is conditional upon:

- (i) the passing of the necessary ordinary resolution by the Shareholders at the SGM to approve the Share Consolidation;
- (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares; and
- (iii) compliance with the relevant procedures and requirements under Bermuda law and the Listing Rules to effect the Share Consolidation.

Subject to the fulfillment of the above conditions, the Share Consolidation will become effective on the Business Day following the date of the SGM, which is expected to be Tuesday, 18 September 2012.

Listing application

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consolidated Shares. No part of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange. Subject to the granting of the listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

LETTER FROM THE BOARD

Change of Board Lot Size

The Board also proposes to change the board lot size for trading in Existing Shares in board lots of 5,000 Existing Shares to new board lots of 10,000 Consolidated Shares following the Share Consolidation. Based on the closing price of HK\$0.029 per Existing Share on the Latest Practicable Date, the value of each board lot of the Consolidated Shares, assuming the Share Consolidation had already been effective, would be HK\$2,900.

Status of the Consolidated Shares

The Consolidated Shares will be identical and rank *pari passu* in all respects with each other as to all future dividends and distributions which are declared, made or paid. The Share Consolidation will not result in any change in the relative rights of the Shareholders. Fractional Consolidated Shares will not be issued by the Company to Shareholders. Any fractional entitlement to the Consolidated Shares will be aggregated, sold and retained for the benefit of the Company.

Odd lot trading arrangement

In order to alleviate the difficulties arising from the existence of odd lots of Consolidated Shares, the Company has agreed to engage Kingston Securities Limited to arrange for matching service on a best effort basis regarding the sale and purchase of odd lots of Consolidated Shares from Thursday, 4 October 2012 to Thursday, 25 October 2012 (both days inclusive). Shareholders who wish to acquire odd lots of the Consolidated Shares to make up a full board lot, or to dispose of their holding of odd lots of the Consolidated Shares may contact Ms. Rosita Kiu of Kingston Securities Limited at Suite 2801, 28th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong (telephone number: (852) 2298-6215) during office hours in the aforesaid period. Shareholders should note that matching of the sale and purchase of odd lots of Consolidated Shares is not guaranteed. The Company will bear the costs relating to the matching of sale and purchase of odd lots of the Consolidated Shares. Any Shareholder who is in doubt about the odd lot trading arrangement is recommended to consult his/her/its own professional advisers.

Reasons for the Share Consolidation, the Change of Board Lot Size and their impact on the Company and the Shareholders

The Board is aware that after the resumption of trading of the Existing Shares since 17 July 2012, the Existing Shares have been trading at a price below HK\$0.10. Based on the recent trading prices of the Existing Shares, there is a risk that the price of the Existing Shares may approach the extremity of HK\$0.01, being the trading limit under Rule 13.64 of the Listing Rules. The proposed Share Consolidation will increase the nominal value of the Existing Shares and reduce the total number of Existing Shares currently in issue, thereby minimizing the possibility that the price of the Existing Shares would approach such extremity. The Board believes that the Share Consolidation, together with the Change of Board Lot Size, will allow the Company to better respond to the market situations after the long suspension of the Existing Shares prior to 17 July 2012, and to provide greater

LETTER FROM THE BOARD

flexibility to the Company in pricing future capital raising exercise. Accordingly, the Board is of the view that the Share Consolidation and the Change of Board Lot Size are beneficial to the Company and Shareholders as a whole.

Other than the expenses to be incurred by the Company in relation to the Share Consolidation, the implementation thereof will not, by itself, affect the underlying assets, business operations, management or financial position of the Group or the interests of Shareholders as a whole.

Free exchange of Share certificate

Subject to the Share Consolidation becoming effective, which is currently expected to be Tuesday, 18 September 2012, being the Business Day immediately after the date of the SGM. Shareholders may, between Tuesday, 18 September 2012 and Monday, 29 October 2012 (both days inclusive and during office hours), submit their share certificates in green for the Existing Shares to the Registrar for exchange for share certificates in blue for the Consolidated Shares at the expense of the Company.

Shareholders should note that after the prescribed time for free exchange of share certificates, a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) will be payable by the Shareholders to the Registrar for exchange of share certificates.

With effect from 4:00 p.m. on Thursday, 25 October 2012, trading will only be in Consolidated Shares. Share certificates in green for the Existing Shares will cease to be valid for trading and settlement purpose, but will remain valid and effective as documents of title.

Adjustments to the outstanding Convertible Notes

As at the Latest Practicable Date, the Company has outstanding Convertible Notes in the principal amount of HK\$20,000,000 convertible into 349,040,139 Existing Shares at the initial conversion price of HK\$0.0573 per Existing Share (subject to adjustment pursuant to the terms thereof).

Save as disclosed above, the Company does not have any other outstanding options, warrants or securities in issue which are convertible or exchangeable into the Shares. As the Share Consolidation will cause adjustments to the conversion price of the Convertible Notes and the resulting number of the Shares to be allotted and issue upon exercising of the conversion rights attached to the Convertible Notes, the Company will appoint the auditors of the Company to certify the necessary adjustment to the conversion price of the Convertible Notes. Further announcement will be made by the Company in this regard.

WARNING

The Share Consolidation and the Open Offer are not inter-conditional.

LETTER FROM THE BOARD

Shareholders and potential investors should be aware of and take note that the Share Consolidation is conditional upon satisfaction of the conditions precedent set out in the paragraph headed “Conditions of the Share Consolidation” above, and therefore may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Existing Shares, and if they are in any doubt about their position, they should consult their professional advisers.

SGM

The Share Consolidation will be conditional, among other matters, upon the passing by the Shareholders of the ordinary resolution at the SGM.

The SGM will be held at 11:00 a.m. on Monday, 17 September 2012 at 6/F – Tin Hau Function Room, L’hotel Causeway Bay Harbour View Hong Kong, 18 King’s Road, Causeway Bay, Hong Kong, the notice of which is, set out on pages 9 to 10 of this circular, for the Shareholders to consider and, if thought fit, to approve the resolution in respect of the Share Consolidation.

In compliance with the Listing Rules, the resolution will be voted on by way of a poll at the SGM. To the best of the Director’s knowledge, information and belief having made all reasonable enquiries, save for the holder of the four (4) new Existing Shares which may be issued to facilitate the Share Consolidation, no Shareholders are required to abstain from voting on the resolutions to be proposed at the SGM.

A form of proxy for use at the SGM is enclosed with this circular. In order to be valid, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed must be delivered to the offices of the Registrar as soon as possible but in any event not less than 48 hours before the time appointed for the holding the SGM or any adjournment thereof. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

RECOMMENDATION

The Directors are of the opinion that the Share Consolidation and the Change of Board Lot Size are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommended you to vote in favour of the resolution to be proposed in the SGM.

Yours faithfully
For and on behalf of the Board
C Y Foundation Group Limited
SNEAH Kar Loon
Chairman

NOTICE OF SGM

C Y FOUNDATION GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 1182)

NOTICE IS HEREBY GIVEN that a special general meeting (“**Meeting**”) of C Y Foundation Group Limited (the “**Company**”) will be held at 11:00 a.m., on Monday, 17 September 2012 at 6/F – Tin Hau Function Room, L’hotel Causeway Bay Harbour View Hong Kong, 18 King’s Road, Causeway Bay, Hong Kong for the purpose of considering and, if thought fit, passing/with or without modifying the following resolution which will be proposed as ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT**

subject to and conditional upon, among others, the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) of the listing of, and permission to deal in, the issued ordinary shares of the Company consolidated in the manner as set out in paragraph (a) of this resolution below (the “**Share Consolidation**”):

- (a) with effect from the day immediately following the date on which this resolution is passed, being a day on which shares are traded on the Stock Exchange, every ten (10) issued and unissued ordinary shares of HK\$0.001 each in the share capital of the Company be consolidated into one (1) share of HK\$0.01 (each a “**Consolidated Share**”), such Consolidated Shares shall rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the bye-laws of the Company;
- (b) the directors of the Company be and are generally authorised to do all such acts and things and execute all such documents, including under seal where applicable, as they consider necessary, desirable or expedient to give effect to the foregoing arrangements for the Share Consolidation.”

By Order of the Board
C Y Foundation Group Limited
SNEAH Kar Loon
Chairman

Hong Kong, 31 August 2012

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Head office and principal place of
business in Hong Kong:*
Unit 3503B-5, 35th Floor
148 Electric Road
North Point
Hong Kong

NOTICE OF SGM

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
2. A form of proxy for use at the Meeting is enclosed herewith.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney, duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
4. To be valid, the instrument appointing a proxy and (if required by the board of directors of the Company) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the Company's branch share registrar, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no less than 48 hours before the time for holding the Meeting or any adjournment thereof.
5. Delivery of an instrument appointing a proxy will not preclude a member from attending and voting in person at the Meeting if the member so desires and in such event, the instrument appointing the proxy shall be deemed to be revoked.
6. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto to if more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.