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

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CHINA NEW ECONOMY FUND LIMITED

中國新經濟投資有限公司

(an exempted company incorporated in the Cayman Islands with limited liability)

(Stock Code: 80)

**PROPOSED CAPITAL REDUCTION OF ISSUED SHARES
AND SUB-DIVISION OF UNISSUED SHARES
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

A notice convening the extraordinary general meeting of the Company to be held at Room 4608, 46/F, The Center, 99 Queen’s Road Central, Hong Kong on Monday, 17 September 2018 at 10:00 a.m., is set out on pages 12 to 14 of this circular. Whether or not you propose to attend the extraordinary general meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Registrar at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending in person and voting at the extraordinary general meeting or any adjourned meeting (as the case may be) should you so wish. In such event, the form of proxy previously submitted shall be deemed to be revoked.

21 August 2018

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DEFINITIONS

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

“Board”	the board of the Directors
“Capital Reduction”	the reduction of the issued share capital of the Company by reducing the par value of each issued Ordinary Share from HK\$0.50 to HK\$0.01 by cancelling the paid up share capital to the extent of HK\$0.49 per issued Ordinary Share
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961), of the Cayman Islands as consolidated and revised
“Company”	China New Economy Fund Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Stock Exchange (Stock Code: 80)
“Court”	The Grand Court of the Cayman Islands
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at Room 4608, 46/F, The Center, 99 Queen’s Road Central, Hong Kong on Monday, 17 September 2018 at 10:00 a.m. to consider and, if thought fit, approve, among other things, the Capital Reduction and the Sub-division
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of The People’s Republic of China
“Latest Practicable Date”	16 August 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein

DEFINITIONS

“Listing Committee”	has the meaning attributed to that term in the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Ordinary Share(s)”	ordinary share(s) with par value of HK\$0.01 each in the share capital of the Company immediately following the Capital Reduction and the Sub-division becoming effective
“Ordinary Share(s)”	ordinary share(s) with par value of HK\$0.50 each in the share capital of the Company prior to the Capital Reduction and the Sub-division becoming effective
“Registrar”	Computershare Hong Kong Investor Services Limited, the share registrar and transfer office of the Company
“Shareholder(s)”	holder(s) of the Ordinary Share(s) or the New Ordinary Share(s), as case may be
“Share Option Scheme”	the share option scheme of the Company adopted on 1 June 2015
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sub-division”	the sub-division of each authorised but unissued Ordinary Share into 50 unissued New Ordinary Shares

EXPECTED TIMETABLE

Set out below is the expected timetable for the proposed Capital Reduction and Sub-division:

2018

Latest time for lodging forms of proxy for the EGM (not less than 48 hours before the holding of the EGM) 10:00 a.m. on Saturday, 15 September

Date and time of the EGM 10:00 a.m. on Monday, 17 September

Announcement of results of EGM Monday, 17 September

The following events are conditional on the results of the EGM and the approval from the Court and therefore the dates are tentative:

Expected effective date of the Capital Reduction and the Sub-division Monday, 21 January 2019

First day for free exchange of existing certificates for Shares for new certificates for New Shares Tuesday, 22 January 2019

Commencement of dealings in New Shares on the Stock Exchange Tuesday, 22 January 2019

Last day of free exchange of existing certificates for Shares for new certificates for New Shares Friday, 1 March 2019

Notes:

- (1) All times and dates in this timetable refer to Hong Kong local times and dates.
- (2) Dates or times specified in this circular for events in the timetable for (or otherwise in relation to) the Capital Reduction and the Sub-division are indicative only and may be excluded or varied due to the timetable and availability of the Court, additional time required for compliance with the regulatory requirements in the Cayman Islands and/or with any requirements imposed by the Court or varied by the Company. Any change to the expected timetable for the Capital Reduction and the Sub-division will be published as and when appropriate.

LETTER FROM THE BOARD

CHINA NEW ECONOMY FUND LIMITED

中國新經濟投資有限公司

(an exempted company incorporated in the Cayman Islands with limited liability)

(Stock Code: 80)

Executive Directors:

GU Xu (*Chairman*)

CHAN Cheong Yee

Non-Executive Director:

LAM Chun Ho

Independent Non-executive Directors:

Faris Ibrahim Taha AYOUB

CHONG Ching Hoi

PUN Tit Shan

Registered Office:

P.O. Box 309, Ugland House

South Church Street

George Town

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Cayman Islands

Principal Office in Hong Kong:

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9/F Ovest

77 Wing Lok Street

Hong Kong

21 August 2018

To the Shareholders

Dear Sir or Madam,

**PROPOSED CAPITAL REDUCTION OF ISSUED SHARES
AND SUB-DIVISION OF UNISSUED SHARES
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 1 August 2018 that the Board proposes to effect the Capital Reduction and the Sub-division.

The purpose of this circular is to provide you with the information relating to the special resolution to be proposed at the EGM for the proposed Capital Reduction and Sub-division and to give you the notice of EGM in order to enable you to make an informed decision on whether to vote for or against the special resolution to be proposed.

LETTER FROM THE BOARD

PROPOSED CAPITAL REDUCTION OF ISSUED SHARES AND SUB-DIVISION OF UNISSUED SHARES

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$1,000,000,000 divided into 2,000,000,000 Ordinary Shares, of which 1,168,246,794 Ordinary Shares have been issued and are fully paid or credited as fully paid are in issue. The Board proposes the Capital Reduction and the Sub-division to be implemented in the following manner:

- i. the par value of each of the issued Ordinary Shares be reduced from HK\$0.50 to HK\$0.01 per issued Ordinary Share by cancelling the paid up share capital to the extent of HK\$0.49 per issued Ordinary Share by way of a reduction of capital, so as to form issued New Ordinary Shares with par value of HK\$0.01 each;
- ii. the credit arising from the Capital Reduction be applied towards offsetting the accumulated loss of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated loss of the Company. The balance of credit (if any) will be transferred to a distributable reserve account of the Company and be applied for such purposes as permitted by all applicable laws and the memorandum and articles of association of the Company and as the Board considers appropriate;
- iii. immediately following the Capital Reduction, each of the then authorised but unissued Ordinary Shares with par value of HK\$0.50 each be subdivided into 50 New Ordinary Shares with par value of HK\$0.01 each; and
- iv. each of the New Ordinary Shares arising from the Capital Reduction and Sub-division shall rank pari passu in all respects with each other and have rights and privileges and be subject to the restrictions contained in the memorandum and articles of association of the Company.

LETTER FROM THE BOARD

Assuming there will be no change in the issued share capital of the Company from the Latest Practicable Date up to the date on which the Capital Reduction and the Sub-division become effective, the share capital structure of the Company will be as follows:

	As at the date of this circular	Immediately after the Capital Reduction and the Sub-division becoming effective
Par value per Share	HK\$0.50	HK\$0.01
Amount of the authorised share capital		
– <i>Ordinary Shares</i>	HK\$1,000,000,000.00	HK\$1,000,000,000.00
Number of authorised shares		
– <i>Ordinary Shares</i>	2,000,000,000 Ordinary Shares	100,000,000,000 New Ordinary Shares
Amount of the issued share capital	HK\$584,123,397.00	HK\$11,682,467.94
Number of issued shares	1,168,246,794 Ordinary Shares	1,168,246,794 New Ordinary Shares

The size of each board lot of the New Ordinary Shares will remain the same as that of the Shares, being 20,000 New Ordinary Shares per board lot. The New Ordinary Shares will rank pari passu in all respects with each other.

As at the Latest Practicable Date, 1,168,246,794 Ordinary Shares have been issued and are fully paid or credited as fully paid. Assuming that the par value of each of the 1,168,246,794 issued Ordinary Shares will be reduced from HK\$0.50 to HK\$0.01 per issued Ordinary Share by cancelling the paid up share capital to the extent of HK\$0.49 per issued Ordinary Share by way of a reduction of capital, so as to form issued New Ordinary Shares with par value of HK\$0.01 each, the Company's existing issued share capital of HK\$584,123,397.00 will be reduced by HK\$572,440,929.06 to HK\$11,682,467.94.

As at the Latest Practicable Date, the Company has no outstanding share options, warrants or convertible bonds.

LETTER FROM THE BOARD

Reasons for and Effects of the Capital Reduction and the Sub-division

The proposed Capital Reduction and Sub-division will enable the par value of the Shares to be reduced from HK\$0.50 to HK\$0.01 each. The credit arising from the Capital Reduction will be applied towards offsetting the accumulated loss of the Company as at the effective date of the Capital Reduction, thereby reducing the accumulated loss of the Company. The balance of credit (if any) will be transferred to the distributable reserve account of the Company which may be utilised by the Directors as a distributable reserve.

The Board is of the opinion that the proposed Capital Reduction will give greater flexibility to the Company to declare dividends and/or to undertake any corporate exercise which requires the use of distributable reserves in the future, 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 and Sub-division will enable the nominal or par value of the Shares to be reduced from HK\$0.50 to HK\$0.01 each, thus giving greater flexibility to the Company to issue new Shares in the future given that the Company is not permitted, without order of the Court, to issue new Shares below their nominal or par value. It is important for Shareholders to note that, at this stage, there can be no assurance that any dividends will be declared or paid in the future, or that the Company will issue New Ordinary Shares, even if the Capital Reduction and the Sub-division take effect. As of the Latest Practicable Date, the Company has no immediate plan for any equity fundraising however should there be any changes in this regard, the Company will make such announcement as required under the Listing Rules.

As such, the Directors are of the view that the Capital Reduction and the Sub-division are in the best interests of the Company and its Shareholders as a whole.

Save for applying the credit arising from the Capital Reduction towards offsetting the accumulated loss of the Company and the expenses to be incurred in relation to the Capital Reduction and the Sub-division, the Directors consider that the Capital Reduction and the Sub-division will have no effect on the underlying assets, business operations, management or financial position of the Company or the proportional interests of the Shareholders in the Company.

According to the unaudited management accounts of the Company for the seven months ended 31 July 2018, the Company had accumulated losses of about HK\$557,013,786.

LETTER FROM THE BOARD

Set out below, for illustrative purpose only, is a simplified statement showing the proposed movement of the equity of the Company immediately before and immediately after the Capital Reduction taking effect, based on the Company's financial position as at 31 July 2018.

	As at 31 July 2018 HK\$	Effect of the Capital Reduction HK\$	Immediately after the Capital Reduction HK\$
Issued Share capital	584,123,397.00	(572,440,929.06)	11,682,467.94
Share premium	108,512,129.00	–	108,512,129.00
Accumulated losses	(557,013,786.00)	557,013,786.00	–
Distributable reserve	–	15,427,143.06	15,427,143.06
	<u> </u>	<u> </u>	<u> </u>
Total equity of the Company	<u>135,621,740.00</u>	<u>–</u>	<u>135,621,740.00</u>

Note: This table does not take into account expenses that will be incurred by the Company in relation to the Capital Reduction.

Conditions of the Capital Reduction and the Sub-division

The Capital Reduction and the Sub-division are conditional on the following conditions being fulfilled:

- i. the Shareholders' approval by way of special resolution at the EGM to be convened and held to consider and, if thought fit, approve, among other things, the Capital Reduction and the Sub-division;
- ii. an order being made by the Court confirming the Capital Reduction;
- iii. compliance with any conditions which the Court may impose in relation to the Capital Reduction;
- iv. registration by the Registrar of Companies of the Cayman Islands of a copy 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 granting the listing of, and permission to deal in, the New Ordinary Shares arising from the Capital Reduction and the Sub-division.

LETTER FROM THE BOARD

The Capital Reduction and the Sub-division will become effective when the conditions mentioned above are fulfilled. As at the Latest Practicable Date, none of the above conditions has been fulfilled. Upon the approval by the Shareholders of the Capital Reduction and the Sub-division at the EGM, the legal advisors to the Company (as to Cayman Islands Law) will apply to the Court for hearing date(s) to confirm the Capital Reduction and a further announcement will be made by the Company as soon as practicable after the Court hearing date(s) is confirmed.

Listing and Dealings

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Ordinary Shares arising from the Capital Reduction and the Sub-division.

The New Ordinary Shares will be identical in all respects and rank *pari passu* in all respects with each other as to all future dividends and distributions which are declared, made or paid. Subject to the granting of the listing of, and permission to deal in, the New Ordinary Shares on the Stock Exchange, the New Ordinary 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 New Ordinary 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 settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Free Exchange of Certificates for New Shares

Subject to the Capital Reduction and the Sub-division becoming effective, tentatively Shareholders may, on or after Tuesday, 21 January 2019 and until Friday, 1 March 2019 (both dates inclusive), submit their existing certificates for the Shares in yellow colour to the Registrar at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong to exchange for certificates for the New Shares in green colour at the expense of the Company. Thereafter, existing share certificates will cease to be valid for trading and settlement purpose, but will remain valid and effective as documents of title and existing, certificates for the Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) by the Shareholders for each certificate issued or cancelled.

EGM

There is set out on pages 12 to 14 of this circular a notice convening the EGM to be held at Room 4608, 46/F, The Center, 99 Queen's Road Central, Hong Kong on Monday, 17 September 2018 at 10:00 a.m.. At the EGM, a special resolution will be put forward to the Shareholders to consider and, if thought fit, approve the proposed Capital Reduction and Sub-division. The resolution proposed to be approved at the EGM will be taken by way of poll

LETTER FROM THE BOARD

and an announcement will be made after the EGM on the results of the EGM. As no Shareholders have a material interest in the Capital Reduction and the Sub-division, no Shareholders will be required to abstain from voting on the resolution to approve the Capital Reduction and the Sub-division.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you propose to attend the EGM, you are requested to complete the accompanying proxy form, in accordance with the instructions printed thereon and deposit the same, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power of attorney or authority, to the Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned thereof should you so wish. In such event, the form of proxy previously submitted shall be deemed to be revoked.

The Company will make further announcements as and when appropriate on the results of the EGM and the effective date of the Capital Reduction and the Sub-division.

GENERAL

None of the Directors, the controlling shareholder (as defined under the Listing Rules) of the Company and their respective close associates (as defined under the Listing Rules) are considered to have an interest in a business which competes or may compete with the business of the Group and there is no conflicts of interest which the Directors, the controlling shareholder (as defined under the Listing Rules) of the Company and their respective close associates (as defined under the Listing Rules) have or may have with the Company.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares, the New Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

RESPONSIBILITY STATEMENT

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 Group. 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 aspects and not misleading or deceptive, and there are no other matters, the omission of which would make any statement herein or this circular misleading.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors believe that the proposed Capital Reduction and Sub-division are in the best interests of the Company and its Shareholders as a whole, and therefore recommend the Shareholders to vote in favour of the special resolution to be proposed at the EGM.

By Order of the Board

China New Economy Fund Limited

Gu Xu

Chairman, Chief Executive Officer, Executive Director

NOTICE OF EGM

CHINA NEW ECONOMY FUND LIMITED

中國新經濟投資有限公司

(an exempted company incorporated in the Cayman Islands with limited liability)

(Stock Code: 80)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“**Meeting**”) of China New Economy Fund Limited (“**Company**”) will be held at Room 4608, 46/F, The Center, 99 Queen’s Road Central, Hong Kong on Monday, 17 September 2018 at 10:00 a.m., for the purpose of considering and, if thought fit, passing the following resolution as a special resolution of the Company:

SPECIAL RESOLUTION

“**THAT** subject to and conditional upon (i) the approval of the Capital Reduction (as defined below) by the Grand Court of the Cayman Islands (“**Court**”); (ii) the compliance with any conditions which the Court may impose in relation to the Capital Reduction (as defined below); (iii) the registration by the Registrar of Companies of the Cayman Islands of the order of the Court confirming the Capital Reduction (as defined below) and the minutes approved by the Court containing the particulars required under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands with respect to the Capital Reduction (as defined below); and (iv) The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) granting the listing of, and permission to deal in, the New Ordinary Shares (as defined below) arising from the Capital Reduction (as defined below) and the Share Sub-division (as defined below), with effect from the date on which the aforesaid conditions are fulfilled (“**Effective Date**”):

- (a) the issued and paid-up share capital of the Company be reduced (“**Capital Reduction**”) by reducing the par value and each existing share HK\$0.50 of the Company (“**Existing Ordinary Share**”) in issue on the Effective Date from HK\$0.50 each to HK\$0.01 each by cancelling the paid-up capital to the extent of HK\$0.49 on each Existing Ordinary Share in issue on the Effective Date so that following the Capital Reduction each such issued Existing Ordinary Share with a par value of HK\$0.50 shall be treated as one fully paid-up share with a par value of HK\$0.01 (“**New Ordinary Shares**”) in the share capital of the Company and any liability of the holders of such shares to make any further contribution to the capital of the Company on each such share shall be treated as satisfied and that the amount of issued capital thereby cancelled be made available for issue of new shares of the Company;
- (b) immediately following the Capital Reduction becoming effective, each of the then authorised but unissued Existing Ordinary Shares with a par value of HK\$0.50 be subdivided into 50 unissued New Ordinary Shares with a par value of HK\$0.01 each in the share capital of the Company (“**Share Sub-division**”);

NOTICE OF EGM

- (c) the credits arising from the Capital Reduction shall be applied towards offsetting the accumulated deficit of the Company as at the Effective Date and the balance (if any) will be transferred to a distributable reserve account of the Company which may be utilised by the directors of the Company (“**Directors**”) as a distributable reserve in accordance with the articles of association of the Company and all applicable laws and rules (including the Rules Governing the Listing of Securities on the Stock Exchange (“**Listing Rules**”)) including, without limitation, eliminating or setting off the accumulated deficits of the Company which may arise from time to time and/or paying dividend and/or making any other distribution out of such account from time to time and all actions in relation thereto be approved, ratified and confirmed;
- (d) each of the New Ordinary Shares arising from the Capital Reduction and Sub-division shall rank pari passu in all respects with each other and have rights and privileges and be subject to the restrictions contained in the memorandum and articles of association of the Company; and
- (e) the Directors be and are hereby authorised to do all such acts and things and execute all such documents, which are ancillary to the Capital Reduction and the Share Sub-division and of administrative nature, on behalf of the Company, including under seal where applicable, as they may consider necessary or expedient to give effect to the Capital Reduction and the Share Sub-division.”

By Order of the Board
China New Economy Fund Limited
Gu Xu

Chairman, Chief Executive Director, Executive Director

Hong Kong, 21 August 2018

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy needs not be a member of the Company.
2. To be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
3. Where there are joint holders of any shares, any one of such joint holders may vote at the Meeting, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the 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, and 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.

NOTICE OF EGM

4. Completion and delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the Meeting if the member so wish and in such event, the instrument appointing a proxy should be deemed to be revoked.

As at the date of this notice, the Directors are:

Executive Directors:

Gu Xu and Chan Cheong Yee

Non-Executive Director:

Lam Chun Ho

Independent Non-Executive Directors:

*Faris Ibrahim Taha Ayoub, Chong Ching Hoi
and Pun Tit Shan*