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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 accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sales or transfer was effected for transmission to the purchaser or the transferee.

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**CHINA NEW ECONOMY FUND LIMITED**

**中國新經濟投資有限公司**

*(Incorporated in the Cayman Islands as an exempted company with limited liability)*

**(Stock code: 80)**

- (1) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;  
(2) PROPOSED RIGHTS ISSUE OF 333,784,800  
RIGHTS SHARES ON THE BASIS OF  
THREE RIGHTS SHARES FOR EVERY TWO EXISTING  
SHARES HELD ON THE RECORD DATE WITH  
BONUS ISSUE ON THE BASIS OF TWO BONUS SHARES  
FOR EVERY THREE RIGHTS SHARES TAKEN UP  
UNDER THE RIGHTS ISSUE;  
(3) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION;  
AND  
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**UNDERWRITER TO THE RIGHTS ISSUE**



**中國建信金融服務有限公司**  
**China Jianxin Financial Services Limited**

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

**ROYAL EXCALIBUR**  
**CORPORATE FINANCE COMPANY LIMITED**

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 8 to 26 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 27 to 28 of this circular. A letter from Royal Excalibur, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, containing its advice in respect of the Rights Issue and the Bonus Issue is set out on pages 29 to 49 of this circular.

A notice convening the EGM to be held at 5/F., Euro Trade Centre, 13-14 Connaught Road Central, Hong Kong on Wednesday, 14 December 2016 at 10:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular. A proxy form for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for holding of 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 adjournment thereof (as the case may be) should you so wish and in such event, the proxy shall be deemed to be revoked.

Shareholders and potential investors should note that the Rights Issue and the Bonus Issue are conditional upon, among other matters, the Underwriting Agreement having become unconditional (see the section headed "Conditions of the Rights Issue and the Bonus Issue" herein) and that the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (see the section headed "Termination of the Underwriting Agreement" herein). Accordingly, the Rights Issue and the Bonus Issue may or may not proceed.

Shareholders and potential investors should exercise extreme caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

Shareholders should note that the Shares will be dealt in on an ex-rights basis commencing from Friday, 16 December 2016 and that dealing in the Rights Shares in the nil-paid form will take place from Thursday, 29 December 2016 to Monday, 9 January 2017 (both days inclusive) while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Rights Issue and the Bonus Issue are subject are fulfilled (which is expected to be on Monday, 16 January 2017), will accordingly bear the risk that the Rights Issue and the Bonus Issue cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

21 November 2016

# CONTENTS

	<i>Page</i>
<b>Expected timetable</b> .....	ii
<b>Definitions</b> .....	1
<b>Termination of the Underwriting Agreement</b> .....	6
<b>Letter from the Board</b> .....	8
<b>Letter from the Independent Board Committee</b> .....	27
<b>Letter from the Independent Financial Adviser</b> .....	29
<b>Appendix I — Financial information of the Company</b> .....	I-1
<b>Appendix II — Unaudited pro forma financial information of the Company</b> ...	II-1
<b>Appendix III — General information</b> .....	III-1
<b>Notice of EGM</b> .....	EGM-1

## EXPECTED TIMETABLE

Set out below is the expected timetable of the Rights Issue and the Bonus Issue:

Latest time for lodging transfer of Shares to qualify for attendance and voting at EGM .....	4:30 p.m. on Monday 12 December 2016
Latest time for lodging forms of proxy for the purpose of the EGM.....	4:30 p.m. on Monday 12 December 2016
Closure of register of members of the Company (both days inclusive) .....	Tuesday, 13 December to Wednesday 14 December 2016
Expected date and time of the EGM.....	10:00 a.m. on Wednesday, 14 December 2016
Announcement of poll results of EGM.....	Wednesday, 14 December 2016
Effective date of the Authorised Share Capital Increase and amendments to Articles of Association .....	Wednesday, 14 December 2016
Last day of dealings in shares on cum-rights basis .....	Thursday, 15 December 2016
First day of dealings in shares on ex-rights basis.....	Friday, 16 December 2016
Latest time for the Shareholders to lodging transfer of shares in order to qualify for the Rights Issue and Bonus Issue.....	4:30 p.m. on Monday, 19 December 2016
Closure of register of members of the Company (both days inclusive) .....	Tuesday, 20 December to Thursday 22 December 2016
Record Date and time for determining entitlements to the Rights Issue .....	4:30 p.m. on Thursday, 22 December 2016
Despatch of Prospectus Documents.....	Friday, 23 December 2016
First day of dealings in nil-paid Rights Shares .....	9:00 a.m. on Thursday, 29 December 2016
Latest time for splitting nil-paid Rights Shares .....	4:30 p.m. on Wednesday, 4 January 2017
Last day of dealings in nil-paid Rights Shares .....	Monday, 9 January 2017

## EXPECTED TIMETABLE

Latest time for acceptance of, and payment for, the Rights Shares.....	4:00 p.m. on Thursday, 12 January 2017
Latest time to terminate the Underwriting Agreement and for the Rights Issue to become unconditional .....	5:00 p.m. on Monday, 16 January 2017
Announcement of results of the Rights Issue.....	Friday, 20 January 2017
Refund cheques, if any, to be despatched if the Rights Issue is terminated or in respect of wholly or partially unsuccessful applications for excess Rights Shares on or before.....	Monday, 23 January 2017
Certificates for fully paid Rights Shares and Bonus Shares to be despatched on or before.....	Monday, 23 January 2017
Designated broker starts to stand in the market to provide matching services for odd lots of Shares .....	Tuesday, 24 January 2017
Commencement of dealings in fully-paid Rights Shares and Bonus Issue.....	9:00 a.m. on Tuesday, 24 January 2017
Last day for the designated broker to provide for odd lot matching .....	Tuesday, 14 February 2017

*All times stated in this circular refer to Hong Kong times. Dates stated in this circular for events in the timetable are indicative only and may be extended or varied. Any changes to the anticipated timetable for the Rights Issue and the Bonus Issue will be announced as appropriate.*

### **EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES AND FOR APPLICATION AND PAYMENT FOR EXCESS RIGHTS SHARES**

The latest time for acceptance of and payment for the Rights Shares will not take place if there is:

1. a tropical cyclone warning signal number 8 or above; or
2. a “black” rainstorm warning
  - (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the date of the Latest Time for Acceptance, the latest time for acceptance of and payment for the Rights shares will be extended to 5:00 p.m. on the same Business Day; or

## EXPECTED TIMETABLE

- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the date of the Latest Time for Acceptance, the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of and payment for the Rights Shares is postponed in accordance with the foregoing, the dates mentioned in this section may be affected. An announcement will be made by the Company in such event as soon as possible.

## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 4 November 2016 in relation to, among other things, the Authorised Share Capital Increase, the Rights Issue and the Bonus Issue and the amendments to the Articles of Association
“Articles of Association”	the Articles of Association of the Company as amended from time to time
“associates”	has the meaning ascribed to this term under the Listing Rules
“Authorised Share Capital Increase”	the proposed increase in the authorised share capital of the Company from HK\$200,000,000 divided into 400,000,000 Shares to HK\$1,000,000,000 divided into 2,000,000,000 Shares by the creation of an additional 1,600,000,000 unissued Shares
“Board”	the board of Directors
“Bonus Issue”	the issue of the Bonus Shares pursuant to the terms and conditions of the Underwriting Agreement
“Bonus Shares”	the bonus Shares to be issued (for no additional payment) to the Qualifying Shareholders, who elect to take up Rights Shares, on the basis of two (2) Bonus Shares for every three (3) Rights Shares under the Rights Issue subject to the terms and upon conditions as set out in the Underwriting Agreement
“Business Day”	a day (other than a Saturday, Sunday or public holiday or days on which) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Companies Ordinance”	Companies Ordinance, Chapter 622 of the Laws of Hong Kong (as amended from time to time)
“Company”	China New Economy Fund Limited, an exempted company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to this term under the Listing Rules

## DEFINITIONS

“Director(s)”	director(s) of the Company
“EAF(s)”	the excess application form(s) for the excess Rights Shares (with Bonus Shares)
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and approve the Authorised Share Capital Increase, the Rights Issue, the Bonus Issue, and the proposed amendments to the Articles of Association and the transactions contemplated thereunder
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Board comprising all independent non-executive Directors established to advise the Independent Shareholders in respect of the Rights Issue and the Bonus Issue
“Independent Financial Adviser” or “Royal Excalibur”	Royal Excalibur Corporate Finance Company Limited, a corporation licensed under the SFO to conduct type 6 (advising on corporate finance) regulated activity as defined under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders as to the fairness and reasonableness of the terms of the Rights Issue and the Bonus Issue and as to the voting action by Independent Shareholders at the EGM
“Independent Shareholders”	Shareholders other than the Directors (excluding independent non-executive Directors) and chief executive and their respective associates
“Independent Third Party”	any person or company and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons
“Investment Manager”	China Everbright Securities (HK) Limited, a company incorporated in Hong Kong with limited liability and a licensed corporation under the SFO authorised to carry out regulated activities of type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management)

## DEFINITIONS

“Last Trading Day”	4 November 2016, being the last trading day for the Shares before the date of release of the Announcement
“Latest Lodging Time”	4:30 p.m. on 19 December 2016 as the latest time for lodging transfer of Shares in order to qualify for the Rights Issue
“Latest Practicable Date”	18 November 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Latest Time for Acceptance”	4:00 p.m. on 12 January 2017 or such later time or date as may be agreed between the Company and the Underwriter, being the latest time for acceptance of, and payment for, the Rights Shares
“Latest Time for Termination”	5:00 p.m. on the second business day after the Latest Time for Acceptance or such later time or date as may be agreed between the Company and the Underwriter, being the latest time to terminate the Underwriting Agreement
“Listing Committee”	has the meaning ascribed to this term under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Overseas Letter”	a letter from the Company to the Prohibited Shareholders explaining the circumstances in which the Prohibited Shareholders are not permitted to participate in the Rights Issue
“Overseas Shareholders”	the Shareholders with registered addresses on the register of members of the Company which are outside Hong Kong on the Record Date
“PAL(s)”	the provisional allotment letter(s) for the Rights Shares (with Bonus Shares)
“PRC”	the People’s Republic of China (for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan)



## DEFINITIONS

“Prohibited Shareholder(s)”	those Overseas Shareholder(s) to whom the Board, after making enquires, considers it necessary or expedient on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Rights Shares and Bonus Shares to them
“Prospectus”	the prospectus to be issued by the Company in relation to the Rights Issue and the Bonus Issue
“Prospectus Documents”	the Prospectus, the PAL and the EAF in respect of the allotment of Rights Shares
“Prospectus Posting Date”	23 December 2016 or such later date as may be agreed between the Underwriter and the Company for the despatch of the Prospectus Documents
“Qualifying Shareholders”	the Shareholders, other than the Prohibited Shareholders, whose names appear on the register of members of the Company as at the close of business on the Record Date
“Record Date”	22 December 2016, being the date by reference to which entitlements to the Rights Issue will be determined
“Registrar”	Computershare Hong Kong Investor Services Limited, the branch share registrar of the Company in Hong Kong
“Rights Issue”	the proposed issue of the Rights Shares by way of Rights Issue to the Qualifying Shareholders on the terms to be set out in the Prospectus Documents and summarised herein
“Rights Share(s)”	333,784,800 new Shares proposed to be offered to the Qualifying Shareholders for subscription on the basis of three (3) Rights Shares for every Two (2) existing Shares held on the Record Date and payable in full on acceptance pursuant to the Rights Issue
“Share(s)”	existing share(s) of par value of HK\$0.50 each in the authorised share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Specified Event”	an event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect

## DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.50 per Rights Share
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Underwriter”	China Jianxin Financial Services Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 4 (advising in securities) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Underwriting Agreement”	the underwriting agreement dated 4 November 2016 and entered into between the Company and the Underwriter in relation to the Rights Issue
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

## TERMINATION OF THE UNDERWRITING AGREEMENT

### TERMINATION OF THE UNDERWRITING AGREEMENT

If, prior to the Latest Time for Termination (provided that for the purposes of the Underwriting Agreement if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

- (1) in the absolute opinion of The Underwriter, the success of the Rights Issue would be materially and adversely affected by:
  - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Company or is materially adverse in the context of the Rights Issue; or
  - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Company or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
  - (c) the imposition of any moratorium, suspension or material restriction on trading of the Shares on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (3) there is any change in the circumstances of the Company which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a

## TERMINATION OF THE UNDERWRITING AGREEMENT

petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of the Company or the destruction of any material asset of the Company; or

- (4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (5) any other material adverse change in relation to the business or the financial or trading position or prospects of the Company whether or not ejusdem generis with any of the foregoing; or
- (6) the Prospectus Documents when published contain information (either as to business prospects or the condition of the Company or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the absolute opinion of the Underwriter is material to the Company and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to apply for its assured entitlements of Rights Shares under the Rights Issue (with Bonus Issue); or
- (7) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue,

The Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (2) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination and thereupon the obligations of all parties under the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

**LETTER FROM THE BOARD**

**CHINA NEW ECONOMY FUND LIMITED**

**中國新經濟投資有限公司**

*(Incorporated in the Cayman Islands as an exempted company with limited liability)*

**(Stock code: 80)**

*Executive Directors:*

Mr. Gu Xu (*Chairman*)  
Mr. Chan Cheong Yee

*Independent Non-executive Directors:*

Mr. LAM Chun Ho  
Mr. Faris Ibrahim Taha AYOUB  
Mr. PUN Tit Shan

*Registered office:*

P.O. Box 309, Uglan House,  
South Church Street,  
George Town,  
Grand Cayman KY1-1104,  
Cayman Islands

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

Room 707,7/F, New World Tower 1,  
16–18 Queen's Road Central,  
Hong Kong

21 November 2016

*To the Qualifying Shareholders and, for information only, the Prohibited Shareholders*

Dear Sir or Madam,

- (1) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;  
(2) PROPOSED RIGHTS ISSUE OF 333,784,800  
RIGHTS SHARES ON THE BASIS OF  
THREE (3) RIGHTS SHARES FOR EVERY TWO (2) EXISTING  
SHARES HELD ON THE RECORD DATE WITH  
BONUS ISSUE ON THE BASIS OF TWO (2) BONUS SHARES  
FOR EVERY THREE RIGHTS SHARES TAKEN UP  
UNDER THE RIGHTS ISSUE;  
AND  
(3) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION**

**INTRODUCTION**

Reference is made to the Announcement in relation to, among other things, (i) the proposed Authorised Share Capital Increase; (ii) the Rights Issue and the Bonus Issue; and (iii) the proposed amendments to Articles of Association.

The Board proposes to increase the Company's authorised share capital from HK\$200,000,000 divided into 400,000,000 Shares to HK\$1,000,000,000 divided into 2,000,000,000 Shares by the creation of an additional 1,600,000,000 unissued Shares.

## LETTER FROM THE BOARD

Subject to the approval of the Authorised Share Capital Increase at the EGM, the Company proposes to raise approximately HK\$166.9 million before expenses, by way of Rights Issue of 333,784,800 Rights Shares at the Subscription Price of HK\$0.50 per Rights Share on the basis of three (3) Rights Shares for every two (2) existing Shares held on the Record Date and payable in full on acceptance with Bonus Issue on the basis of two (2) Bonus Shares for every three (3) Rights Shares taken up under the Rights Issue. The Company will provisionally allot to the Qualifying Shareholders three (3) Rights Shares in nil-paid form for every two (2) Shares in issue and held on the Record Date. The Rights Issue will not be available to the Prohibited Shareholders.

The Rights Issue will be fully underwritten by the Underwriter. The Underwriting Agreement contains provisions granting the Underwriter the right, which may be exercised at any time prior to the Latest Time for Termination or such later time or date as may be agreed to terminate the Underwriting Agreement on the occurrence of certain events. If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed.

In order to give effect to the Bonus Issue as proposed, the Company proposes to put forward a special resolution to the Shareholders for approval at the EGM to amend the Articles of Association such that all resolutions to approve the declaration, making or payment of a distribution or dividend to the Shareholders can be declared, made or paid otherwise than pro rata to their respective shareholdings upon the capitalisation of any part of the Company's reserves or undivided profits.

The purpose of this circular is to provide you with, among other things, (i) further details of the Rights Issue with the Bonus Issue, the proposed amendments to the Articles of Association and the Authorised Share Capital Increase; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Rights Issue with the Bonus Issue; and (iv) a notice convening the EGM.

## LETTER FROM THE BOARD

### PROPOSED AUTHORISED SHARE CAPITAL INCREASE

The Board proposes to increase the Company's authorised share capital from HK\$200,000,000 divided into 400,000,000 Shares to HK\$1,000,000,000 divided into 2,000,000,000 Shares by creation of an additional 1,600,000,000 unissued Shares. The proposed Authorised Share Capital Increase is necessary as the current authorised share capital of the Company is insufficient to allow for allotment and issue of the Rights Shares and Bonus Shares. The proposed Authorised Share Capital Increase is subject to the approval of the Shareholders by way of an ordinary resolution at the EGM. As none of the Shareholders has any material interest in the Authorised Share Capital Increase, no Shareholder is required to abstain from voting for this resolution at the EGM.

### RIGHTS ISSUE WITH BONUS ISSUE

#### Issue statistics

Basis of the Rights Issue with Bonus Issue:	Three (3) Rights Shares for every two (2) existing Shares held on the Record Date and payable in full on acceptance, together with two (2) Bonus Shares for every three (3) Rights Shares taken up. The aggregate effect of the Rights Issue and the Bonus Issue would be for every two (2) existing Shares held on Record Date, five (5) new Shares would be issued to the Qualifying Shareholder should the Qualifying Shareholder elect to take up the Rights Shares.
Subscription Price:	HK\$0.50 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	222,523,200 Shares
Number of Rights Shares:	333,784,800 Rights Shares
Number of Bonus Shares:	up to 222,523,200 Bonus Shares to be issued to the Qualifying Shareholders, who elect to take up the Rights Issue, on the basis of two (2) Bonus Shares for every three (3) Rights Shares under the Rights Issue
Number of Rights Shares underwritten by the Underwriter:	333,784,800 Rights Shares, being the aggregate number of the Rights Shares under the Rights Issue
Number of Shares in issue upon completion of the Rights Issue with the Bonus Issue:	up to 778,831,200 Shares

## LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company does not have any outstanding convertible note, warrant, option, derivative or other securities convertible into or exchangeable for any Share. The Company has no intention to issue or grant any warrants, options and/or convertible securities on or before the Record Date.

### **Bonus Issue**

Subject to the satisfaction of the conditions of the Rights Issue, the Bonus Shares will be issued to the Qualifying Shareholders, who elect to take up the Rights Shares, on the basis of two (2) Bonus Shares for every three (3) Rights Shares under the Rights Issue. The aggregate effect of the Rights Issue and the Bonus Issue would be for every two (2) existing Shares held on Record Date, five (5) new Shares would be issued to the Qualifying Shareholder should the Qualifying Shareholder elect to take up the Rights Shares.

On the basis of 333,784,800 Rights Shares to be issued under the Rights Issue, a maximum of 222,523,200 Bonus Shares will be issued.

### **Subscription Price**

The Subscription Price is HK\$0.50 per Rights Share, payable in full on application and the effective subscription price (the “**Effective Subscription Price**”) after taking into consideration the Bonus Issue is HK\$0.30 per Right Shares. The Subscription Price represents:

- (i) a premium of approximately 14.9% over the closing price of HK\$0.435 per Share as quoted on Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 47.5% over the theoretical ex-entitlement price of approximately HK\$0.339 per Share after the Rights Issue with Bonus Issue based on the closing price of HK\$0.435 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 12.1% to the average closing prices of HK\$0.446 per Share for the last five consecutive trading days including and up to the Last Trading Day;
- (iv) a discount of approximately 78.0% to the latest unaudited net asset value attributable to the Shareholders per Share of approximately HK\$2.27 as at 30 September 2016; and
- (v) a premium of approximately 29.9% over the closing price of HK\$0.385 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Effective Subscription Price of HK\$0.30 represents:

- (i) a discount of approximately 31.0% to the closing price of HK\$0.435 per Share as quoted on Stock Exchange on the Last Trading Day;



## LETTER FROM THE BOARD

- (ii) a discount of 11.5% to the theoretical ex-entitlement price of approximately HK\$0.339 per Share after the Rights Issue with Bonus Issue based on the closing price of HK\$0.435 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 32.7% to the average of the closing prices of HK\$0.446 per Share for the last five consecutive trading days including and up to the Last Trading Day;
- (iv) a discount of approximately 86.8% to the latest unaudited net asset value attributable to the Shareholders per Share of approximately HK\$2.27 as at 30 September 2016; and
- (v) a discount of approximately 22.1% to the closing price of HK\$0.385 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The theoretical ex-entitlement price per Share after completion of the Rights Issue and Bonus Issue is approximately HK\$0.339 and this is calculated based on the following formula:

$$\frac{(\text{Number of Rights Shares} \times \text{Subscription Price}) + (\text{Number of existing Shares} \times \text{Closing Price as at the Last Trading Day})}{\text{Total number of Shares after completion of the Rights Issue and Bonus Issue}}$$

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the prevailing market price of the Shares, the financial position of the Company and having considered the future development and other investment opportunities of the Company. Taking into consideration of the theoretical ex-entitlement price per Share, in order to increase the attractiveness of the Rights Issue to the Qualifying Shareholders, the Directors consider that the proposed discount of the Subscription Price to the market price is appropriate and the Subscription Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole as each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company.

### **Qualifying Shareholders**

The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Prohibited Shareholders. The Company will send (i) the Prospectus Documents to the Qualifying Shareholders and (ii) the Overseas Letter together with the Prospectus, for information only, to the Prohibited Shareholders. To qualify for the Rights Issue, the Shareholders must at the close of business on the Record Date:

- (i) be registered on the register of members of the Company; and
- (ii) not be the Prohibited Shareholders.

## **LETTER FROM THE BOARD**

In order to be registered as members of the Company on the Record Date, the Shareholders must lodge any transfer of the Shares (with the relevant share certificates) for registration with the Registrar by 4:30 p.m. on Monday, 19 December 2016. The address of the Registrar is at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

### **Prohibited Shareholders**

The Company will send the Prospectus only (without PAL and EAF) to the Prohibited Shareholders for their information. Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Prohibited Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence and before dealings in nil-paid Rights Shares end, if a premium (net of expenses) can be obtained. The proceeds from such sale, less expenses, of more than HK\$100 will be paid pro rata to the Prohibited Shareholders. The Company will retain individual amounts of HK\$100 or less for its own benefit. Any unsold entitlement of Prohibited Shareholders, together with any Rights Shares provisionally allotted but not accepted, will be taken up by the Underwriter.

### **Fractional entitlements to the Rights Shares**

The Company will not provisionally allot to and will not accept applications for any fractions of Rights Shares from Qualifying Shareholders. Fractional entitlements will be rounded down to the nearest whole number of Rights Shares. Any Rights Shares created from the aggregation of fractions of the Rights Shares will be available for excess application by the Qualifying Shareholders. Should there be no excess application by the Qualifying Shareholders, those Rights Shares created from the aggregation of fractions of the Rights Shares will be taken up by the Underwriter.

### **Closure of register of members**

The register of members of the Company will be closed from Tuesday, 13 December 2016 to Wednesday, 14 December 2016, both dates inclusive, to determine the eligibility of the Shareholders to vote at the EGM. The register of members of the Company will be closed from Tuesday, 20 December 2016 to Thursday, 22 December 2016, both dates inclusive, to determine the eligibility of the Rights Issue and the Bonus Issue. No transfer of Shares will be registered during the periods.

### **Rights of the Overseas Shareholders**

If, on the Record Date, a Shareholder’s address on the register of member of the Company is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Rights Issue as the Prospectus Documents will not be registered and/or filed under the applicable securities legislation of any jurisdictions other than Hong Kong and the Cayman Islands. The Board will make enquiries to its lawyers as to whether the issue of Rights Shares and the Bonus Shares to the Overseas Shareholders may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange pursuant to the Listing Rules. If, after making such enquiry, the Board is of the

## **LETTER FROM THE BOARD**

opinion that it would be necessary or expedient not to Rights Shares to such Overseas Shareholders, no provisional allotment of Rights Shares will be made to such Overseas Shareholders. Accordingly, the Rights Issue will not be extended to the Prohibited Shareholders.

Based on the register of members of the Company as at the Latest Practicable Date, there was no Overseas Shareholder. The Directors will comply with Rule 13.36(2) of the Listing Rules and make enquiries regarding the feasibility of extending the Rights Issue and the Bonus Issue to the Overseas Shareholders (if any) taking into consideration the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange for the issue of Rights Shares and Bonus Shares to the Overseas Shareholders.

If, after making such enquiry, the Directors are of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any applicable requirements of the relevant regulatory body or stock exchange in that place, not to offer the Rights Shares and the Bonus Shares to the Overseas Shareholders, the Rights Issues and the Bonus Issues will not be extended to the Overseas Shareholders who will become the Prohibited Shareholders. The results of the enquiries and the basis of the exclusion of the Overseas Shareholders will be included in the Prospectus.

### **Status of the Rights Shares and the Bonus Shares**

The Rights Shares and the Bonus Shares (when allotted, fully paid and issued) will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Rights Shares and the Bonus Shares. Holders of the Rights Shares in their fully paid form and the Bonus Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Rights Shares and the Bonus Shares.

### **Certificates of the Rights Shares and the Bonus Shares and refund cheques**

Subject to fulfillment of the conditions of the Rights Issue, share certificates for the Rights Shares and the Bonus Shares are expected to be posted on or before Monday, 23 January 2017 to those entitled thereto by ordinary post at their own risk.

### **Application for excess Rights Shares**

Qualifying Shareholders shall be entitled to apply for (i) the Rights Shares representing the entitlement of the Prohibited Shareholders and which cannot be sold at a net premium; (ii) any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders; and (iii) any Rights Shares arising out of the aggregation of fractional entitlements. Application may be made by completing the EAF for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Company will allocate the Rights Shares in excess of the entitlement at its discretion on a fair and equitable basis to the Qualifying Shareholders who have applied for excess Rights Shares. Shareholders who have been offered odd lots of the Rights Shares should note that there is no guarantee that such

## LETTER FROM THE BOARD

odd lots of the Rights Shares will be topped up to create whole board lots pursuant to applications for the excess Rights Shares. The Directors will allocate the excess Rights Shares at their sole discretion on a fair and equitable basis on the following principles:

- (i) no preference will be given to applications for topping-up odd-lot holdings to whole-lot holdings as the giving of such preference may potentially be abused by certain investors by splitting their Shares and thereby receiving more Rights Shares than they would receive if such preference is not given, which is an unintended and undesirable result; and
- (ii) subject to availability of excess Rights Shares, the excess Rights Shares will be allocated to the Qualifying Shareholders who have applied for excess application on a pro rata basis based on the excess Rights Shares applied for by them. No reference will be made to Rights Shares subscribed through applications by PAL or the existing number of Shares held by the Qualifying Shareholders.

Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually. Investors with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) prior to the Latest Lodging Time. Investors whose Shares are held by their nominee(s) and who would like to have their names registered on the register of members of the Company must lodge all necessary documents with the Registrar, Computershare Hong Kong Investor Services Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for completion of the relevant registration by 4:30 p.m. (Hong Kong time) on Monday, 19 December 2016.

### **Application for listing**

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares (in their nil-paid and fully-paid forms) and the Bonus Shares (in their fully-paid form).

### **UNDERWRITING ARRANGEMENT**

#### **Underwriting Agreement**

<b>Date:</b>	4 November 2016
<b>Underwriter:</b>	China Jianxin Financial Services Limited
<b>Number of Rights Shares underwritten:</b>	Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Rights Shares which have not been taken up (the “ <b>Untaken Shares</b> ”). Accordingly, the Rights Issue is fully underwritten.

## LETTER FROM THE BOARD

The Company will pay the Underwriter an underwriting commission of 3.5% of the aggregate Subscription Price in respect of the 333,784,800 underwritten Rights Shares for which the Underwriter has agreed to subscribe or procure subscription and all reasonable legal fees and other reasonable out-of-pocket expenses of the Underwriter in respect of the Rights Issue. The Directors are of the view that the commission is fair and reasonable.

To the best of the Directors' knowledge, information and belief, the Underwriter and its ultimate beneficial owners are Independent Third Parties.

Pursuant to the Underwriting Agreement, the Underwriter shall not subscribe, for its own account, for such number of Untaken Shares which will result in the shareholding of it and parties acting in concert (within the meaning of the Takeovers Code) with it in the Company to exceed 29.9% of the voting rights of the Company upon the completion of the Rights Issue and the Bonus Issue. The Underwriter shall also use all reasonable endeavours to ensure that each of the subscribers or purchasers of the Untaken Shares procured by it (i) shall be third party independent of, not acting in concert (within the meaning of the Takeovers Code) with and not connected with the Company, any of the Directors, chief executive of the Company or substantial shareholder(s) of the Company or their respective associates (as defined in the Listing Rules); and (ii), save for the Underwriter itself and its associates, shall not, together with any party acting in concert (within the meaning of the Takeovers Code) with it, hold 10.0% or more of the voting rights of the Company upon completion of the Rights Issue and Bonus Issue.

The Company will take all appropriate steps to ensure that sufficient public float be maintained upon the completion of the Rights Issue and the Bonus Issue in compliance with Rule 8.08(1)(a) of the Listing Rules. To the best information, belief and knowledge of the Directors, as at the Latest Practicable Date, the Underwriter is not beneficially interested in any Shares in its own capacity but one client of the Underwriter has approximately 6.3 million Shares in the clients account with the Underwriter. As at the Latest Practicable Date, no sub-underwriter has been engaged.

### **Termination of the Underwriting Agreement**

If, prior to the Latest Time for Termination (provided that for the purposes of the Underwriting Agreement if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

- (1) in the absolute opinion of The Underwriter, the success of the Rights Issue would be materially and adversely affected by:
  - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter

## LETTER FROM THE BOARD

materially and adversely affect the business or the financial or trading position or prospects of the Company or is materially adverse in the context of the Rights Issue; or

- (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Company or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
  - (c) the imposition of any moratorium, suspension or material restriction on trading of the Shares on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
  - (3) there is any change in the circumstances of the Company which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of the Company or the destruction of any material asset of the Company; or
  - (4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
  - (5) any other material adverse change in relation to the business or the financial or trading position or prospects of the Company whether or not ejusdem generis with any of the foregoing; or
  - (6) the Prospectus Documents when published contain information (either as to business prospects or the condition of the Company or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the absolute opinion of the Underwriter is material to the Company

## LETTER FROM THE BOARD

and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to apply for its assured entitlements of Rights Shares under the Rights Issue (with Bonus Issue); or

- (7) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue,

The Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (2) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination and thereupon the obligations of all parties under the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

### **Conditions of the Rights Issue and the Bonus Issue**

The Rights Issue and the Bonus Issue are conditional upon:

- (1) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance not later than the Prospectus Posting Date;
- (2) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and the Overseas Letter in the agreed form to the Prohibited Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue on or before the Prospectus Posting Date;

## LETTER FROM THE BOARD

- (3) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Rights Shares and the Bonus Shares by no later than the first day of their dealings;
- (4) the obligations of the Underwriter becoming unconditional and that the Underwriting Agreement is not terminated in accordance with its terms;
- (5) the amendments to the Articles of Association becoming effective;
- (6) the Authorised Share Capital Increase becoming effective;
- (7) the passing of the necessary resolution(s) at the EGM to approve the Rights Issue and Bonus Issue (including but not limited to the allotment and issue of the Rights Shares and the Bonus Shares) by the Independent Shareholders and the Authorised Share Capital Increase and the amendments to the Articles of Association by the Shareholders and the transactions contemplated thereunder; and
- (8) compliance with and performance of all undertakings and obligations of the Company under the Underwriting Agreement.

Neither of the Company nor the Underwriter may waive conditions (1) to (7) stated above. The Underwriter may waive the condition stated in (8) above by written notice to the Company. If the conditions precedent are not satisfied (or waived, as the case may be) in full by the Company by the Latest Time for Termination or such other date as the Company and the Underwriter may agree, the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

As at the Latest Practicable Date, none of the above conditions has been fulfilled.

### **BUSINESS REVIEW, FINANCIAL AND TRADING PROSPECT OF THE COMPANY**

The Company is an investment company listed under Chapter 21 of the Listing Rules. The investment objective of the Company is to achieve long-term capital appreciation through investing globally in both private and publicly listed enterprises that have demonstrated the ability to manufacture a product or deliver a service that is supported by the economies of mainland China, Hong Kong, Macau and Taiwan.

During the six months ended 30 June 2016 (the “**Period**”), China has been faced with complicated external and domestic economic conditions. The national economy is showing moderate but stable and sound momentum of development. According to the data of the National Bureau of Statistics of China, the gross domestic product (“**GDP**”) of China in the first half of 2016 increased by 34,063.7 billion RMB over the corresponding period, which represents an increase of 6.7% compared with the first half of 2015. The GDP of the second quarter of 2016 went up by 1.8% on a quarter-to-quarter basis.



## LETTER FROM THE BOARD

During the Period, the benchmark of Shanghai Composite Index dropped 17.22%, while Hang Seng Index declined 5.11%. The Company has adopted a different investment approach and implementing a better strategy. By expanding our horizon, our investment team worked closely with variety of professional analysts for more timely reliable resources. This method allows the Company to detect investment opportunities from the emerging sectors efficiently and benefiting from substantial net asset appreciation. The Company will continue to develop its investment strategies with an aim to achieve stable return on investments for our shareholders.

In addition, the Chinese economic growth is expected to enter an L-shaped trajectory for the next few years, and China will maintain its accommodative monetary policy. During the Period, the People's Bank of China has lowered once, the reserve requirement ratio (“**RRR**”) from 17.5% to 17% for all banks. The reduction of RRR is to add more liquidity to its market to help spur bank lending and combat slowing growth.

During the Period, the Company has invested an additional private equity, making a total of six private equities and equity fund investments in our diversified portfolio. The new private equity is specialised in conducting investments in pre-initial public offerings (“**IPO**”) equities. The Company believes it will bring a potential return in the longrun. Our Company will explore more investment opportunities toward private equities.

We are continuously optimistic towards the information technology (“**IT**”), healthcare, education, environmental and creative culture industries as they will continue to benefit from the transformation of Chinese economy.

The Company will continue to deploy an investment strategy focusing on Greater China and closely monitor the changes in the global market. With our professional and experienced investment and risk management team, we are confident to capture valuable investment opportunities to maximize profit to our shareholders.

### **REASONS FOR THE RIGHTS ISSUE AND THE BONUS ISSUE AND USE OF PROCEEDS**

The estimated net proceeds from the Rights Issue will be approximately HK\$159 million. The net proceeds of the Rights Issue would be applied as to HK\$150 million for the repayment of margin payables and as to the remaining balance for general working capital of the Company.

The margin payable is due to a securities broker of the Company as a result of trading in various listed securities through the securities broker's margin account. As at the Latest Practicable Date, the margin payable to this securities broker is approximately HK\$154 million and that the repayment of this margin payable could significantly reduce the interest expenses of the Company. The repayment of the margin payables would take place as soon as the Rights Issue is completed and currently there is no set timeframe with regards to the utilisation of the general working capital of the Company. Other than the HK\$150 million margin repayment, the Company is obliged to redeem the note (the “**Note**”) issued to Pitta Income Fund up to an amount of HK\$8 million by October 2017. Further information on the Note is set out in the announcement of the Company dated 21 September 2016.

## LETTER FROM THE BOARD

The Company has no plan to apply the funding of the Rights Issue for the repayment of the Note as the redemption date of the Note is not until October 2017. As at the Latest Practicable Date, the Company does not have any plan to conduct further rights issue or other fund raising activities. However, should the Company identify any investment opportunity that is in line with the investment strategy of the Company and the expected return being higher than the finance cost, the Company may consider other funding methods to finance such investment.

The estimated expense in relation to the Rights Issue, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses is approximately HK\$7.6 million and will be borne by the Company. Having considered other fund raising alternatives for the Company, such as issue of unlisted notes and placing of new Shares, and taking into account the benefits and cost of each of the alternatives, the Rights Issue allows the Company to strengthen its balance sheet by raising long term equity fund without the need for payment of interest and repayment. The Board considers that the Rights Issue is in the interest of the Company and the Shareholders as a whole as it offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so. In addition, the Bonus Issue will be issued as an incentive for the Shareholders to take part into the Rights Issue. However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled should note that their shareholdings in the Company will be diluted.

The Company has considered fund raising by issuing debt security or debt financing but the Board considers that any further debt financing or borrowings would worsen the gearing ratio and incur further interest expenses of the Company and it is the intention of the Board to reduce the gearing ratio and interest expenses of the Company to a more favourable level to improve the rate of return of the Company's investment portfolio. Therefore, the Board has ruled out debt financing as a source for raising funds in this occasion.

The Board also considered placing of new Shares. However as placing of new Shares would be on a best efforts basis of which the success is not guaranteed and the size of any placing would not be sufficient to meet the funding requirement on this occasion, placing of new Shares was not considered by the Board when it was considering the Rights Issue and hence did not proceed further. The Board considers that rights issue would be more favourable and attractive to the Shareholders than open offer because it would allow Shareholders to have more flexibility in dealing with the Shares and the nil paid rights attaching thereto.

The Board considers that disposal of investments in the Company to the extent required to fund the current funding needs of the Company would involve the disposal of a significant amount of the Company's current investment portfolio and it would have a significant detrimental impact on the future earnings and returns of the Company. The Board considered that disposal of investments would not be in the best interests of the Company and Shareholders for the purpose of raising funds to meet the Company's current funding needs.

## **LETTER FROM THE BOARD**

The Rights Issue, when compared with other forms of equity fund raising, would offers the existing Shareholders the opportunity to participate in the future growth of the Company as it allows existing Shareholders to subscribe for Rights Shares in proportion to their existing shareholdings in the Company without having their relative shareholdings being diluted and the Board considers that the terms of the Rights Issue with Bonus Issue are fair and reasonable and in the best interest of the Shareholders as it allows existing Shareholders to participate in the future growth of the Company without having their relative shareholding diluted and it will improve the capital base and gearing ratio of the Company.

The Board, having considered the amount of funding required by the Company, the attractiveness of the Rights Issue with Bonus Issue and the par value of the Shares, considers that the current structure and the terms of the Rights Issue to be fair and reasonable and it is in the best interest of the Shareholders as the Rights Issue would strengthen the capital base of the Company and improve its gearing ratio.

The Company approached five financial institutions including the Underwriter concerning the Rights Issue with Bonus Issue based on the current proposed structure. Out of the five firms, two have indicated that they are not interested in participating in underwriting the Rights Issue and the other two firms quoted underwriting commission that is higher than the one offered by the Underwriter. Furthermore, the Underwriter was the underwriter to the rights issue of the Company which was completed in January this year and hence the Underwriter has a proven track record of successfully underwriting shares for the Company in the past.

The Directors consider that the Rights Issue and the Bonus Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole having taken into account the terms of the Rights Issue and the Bonus Issue.

### **THE PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION**

In order to give effect to the Bonus Issue as proposed, the Company proposes to amend the Articles of Association such that all resolutions to approve the declaration, making or payment of a distribution or dividend to the Shareholders can be declared, made or paid otherwise than pro rata to their respective shareholdings upon the capitalisation of any part of the Company's reserves or undivided profits.

The Directors consider that such amendments would facilitate the issue of the Bonus Shares and to provide the Company with flexibility in raising capital from its Shareholders.

The proposed amendments to the Articles of Association are subject to and conditional upon the passing of a special resolution by the Shareholders approving the proposed amendments to the Articles of Association at the EGM.

### **Arrangement on odd lot trading**

In order to facilitate the trading of odd lots (if any), the Company will arrange odd lot matching services during Tuesday, 24 January 2017 to Tuesday, 14 February 2017 (both dates inclusive). Shareholders should note that matching of the sale and purchase of odd lots of the

## LETTER FROM THE BOARD

Shares is on a best effort basis and successful matching of the sale and purchase of such odd lots is not guaranteed. Further details in respect of the odd lots arrangement will be set out in the Prospectus.

### EFFECTS ON SHAREHOLDING STRUCTURE

The existing and enlarged shareholding structures of the Company immediately before and after the completion of the Rights Issue and the Bonus Issue are set out below:

Shareholders	As at the Latest Practicable Date		Upon completion of the Rights Issue and the Bonus Issue			
			Assuming no Qualifying Shareholders take up their respective entitlements under the Rights Issue		Assuming full subscription by the Qualifying Shareholders as to their respective entitlements under the Rights Issue	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
The Underwriter and its sub-underwriter(s) and subscriber(s) procured by the Underwriter (if any) <i>(Note 1)</i>	—	—	556,308,000	71.43	—	—
Public Shareholders	222,523,200	100.00	222,523,200	28.57	778,831,200	100.00
<b>Total</b>	<b>222,523,200</b>	<b>100.00</b>	<b>778,831,200</b>	<b>100.00</b>	<b>778,831,200</b>	<b>100.00</b>

*Note:*

- Pursuant to the Underwriting Agreement, the Underwriter shall not subscribe, for its own account, for such number of Untaken Shares which will result in the shareholding of it and parties acting in concert (within the meaning of the Takeovers Code) with it in the Company to exceed 29.9% of the voting rights of the Company upon the completion of the Rights Issue and the Bonus Issue. The Underwriter shall also use all reasonable endeavours to ensure that each of the subscribers or purchasers of the Untaken Shares procured by it (i) shall be third party independent of, not acting in concert (within the meaning of the Takeovers Code) with and not connected with the Company, any of the Directors, chief executive of the Company or substantial shareholder(s) of the Company or their respective associates (as defined in the Listing Rules); and (ii), save for the Underwriter itself and its associates, shall not, together with any party acting in concert (within the meaning of the Takeovers Code) with it, hold 10.0% or more of the voting rights of the Company upon completion of the Rights Issue and Bonus Issue.

The Company will take all appropriate steps to ensure that sufficient public float be maintained upon the completion of the Rights Issue and the Bonus Issue in compliance with Rule 8.08(1)(a) of the Listing Rules.

### IMPLICATIONS UNDER THE LISTING RULES

Pursuant to Rule 7.24 of the Listing Rules, any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolution relating to the Rights Issue and

## LETTER FROM THE BOARD

the Bonus Issue at the EGM. No Shareholder is required to abstain from voting at the EGM in respect of the Authorised Share Capital Increase and the amendments of Articles of Association.

The Company has established an independent board committee to advise the Independent Shareholders as to whether the terms of the Rights Issue and the Bonus Issue are fair and reasonable and whether the Rights Issue and the Bonus Issue are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the independent financial adviser. In this connection, the Company has appointed Royal Excalibur Corporate Finance Company Limited as the independent financial adviser to advise the independent board committee and the Independent Shareholders as to whether the terms of the Rights Issue and the Bonus Issue are fair and reasonable.

The Rights Issue, the Bonus Issue, the Authorised Share Capital Increase and the proposed amendments to the Articles of Association are subject to, among other matters, the approval of the Shareholders or the Independent Shareholders (as the case may be) at the EGM.

### **EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS**

On 23 November 2015, the Company announced a rights issue of 309,060,000 rights shares on the basis of one rights share for every two shares held and this rights issue became unconditional on 8 January 2016. The approximate amount of fund raised net of expenses was HK\$70 million. As at the Latest Practicable Date, all the proceeds of this rights issue have been used for investment in the publicly listed enterprises in information technology, creative culture and healthcare sectors as intended.

On 13 June 2016, the Company announced a share placement of up to 185,436,000 Shares at the price of HK\$0.14 per Share under the general mandate of the Company. The approximate amount of fund raised net of expenses was HK\$25.1 million. As at the Latest Practicable Date, all the proceeds from this placing of shares have been used for investment in the publicly listed enterprises in consumer food, financial services and healthcare as well as creative culture sectors as intended.

Save as disclosed above, the Company has not conducted any equity fund raising activities in the past twelve months from the Latest Practicable Date.

### **WARNING OF THE RISK OF DEALINGS IN THE SHARES**

**Shareholders and potential investors should note that the Rights Issue and the Bonus Issue are conditional upon the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof. Accordingly, the Rights Issue and the Bonus Issue may or may not proceed.**

**Shareholders and potential investors should exercise extreme caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.**

## LETTER FROM THE BOARD

Shareholders should note that the Shares will be dealt in on an ex-rights basis commencing from Friday, 16 December 2016 and that dealing in the Rights Shares in the nil-paid form will take place from Thursday, 29 December 2016 to Monday, 9 January 2017 (both days inclusive) while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Rights Issue and the Bonus Issue are subject are fulfilled (which is expected to be on Monday, 16 January 2017), will accordingly bear the risk that the Rights Issue and the Bonus Issue cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

### THE EGM

The EGM will be convened and held for the Shareholders/Independent Shareholders (as the case may be) to consider and, if thought fit, approve, among other things, the Authorised Share Capital Increase, the Rights Issue and the Bonus Issue (including the Underwriting Agreement) and the proposed amendment to the Articles of Association and the transactions contemplated thereunder. A notice convening the EGM to be held at 5/F., Euro Trade Centre, 13–14 Connaught Road Central, Hong Kong on Wednesday, 14 December 2016 at 10:00 a.m. is enclosed with this circular.

No Shareholder has any material interest in the proposed Authorised Share Capital Increase and the proposed amendment to the Articles of Association and therefore, no Shareholder is required to abstain from voting in this respect.

Pursuant to Rule 7.19(6)(a) of the Listing Rules, any controlling shareholders their associates or, where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive (as defined under the Listing Rules) of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Rights Issue.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the meeting in person, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Registrar, Computershare Hong Kong Investor Services Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

### RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 27 to 28 of this circular which contains its recommendation to the Independent Shareholders, and the letter from the Independent Financial Adviser set out on pages 29 to 49 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue with the Bonus Issue.

## LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Rights Issue with the Bonus Issue and the Underwriting Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue with the Bonus Issue are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the proposed resolutions approving the Rights Issue with the Bonus Issue and the Underwriting Agreement at the EGM.

The Directors consider that the Authorised Share Capital Increase, the terms of the Rights Issue with the Bonus Issue, and the amendment to the Articles of Association are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, therefore, the Directors recommend the Shareholders, or as the case may be, the Independent Shareholders to vote in favour of the proposed resolutions approving the Authorised Share Capital Increase, the Rights Issue with the Bonus Issue, and the amendment to the Articles of Association at the EGM.

### ADDITIONAL INFORMATION

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

By Order of the Board  
**China New Economy Fund Limited**  
**GU Xu**  
*Chairman, Chief Executive Officer and Executive Director*

Hong Kong, 21 November 2016

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

*The following is the text of the letter of recommendation, prepared for the purpose of incorporation in this circular, from the Independent Board Committee to the Independent Shareholders regarding the Rights Issue with the Bonus Issue.*

### **CHINA NEW ECONOMY FUND LIMITED**

### **中國新經濟投資有限公司**

*(Incorporated in the Cayman Islands as an exempted company with limited liability)*

**(Stock code: 80)**

21 November 2016

*To the Independent Shareholders*

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE OF 333,784,800 RIGHTS SHARES ON THE BASIS OF THREE (3) RIGHTS SHARES FOR EVERY TWO (2) EXISTING SHARES HELD ON THE RECORD DATE WITH BONUS ISSUE ON THE BASIS OF TWO (2) BONUS SHARES FOR EVERY THREE RIGHTS SHARES TAKEN UP UNDER THE RIGHTS ISSUE**

We refer to the circular dated 21 November 2016 (the “Circular”) of the Company of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We have been appointed as the Independent Board Committee to consider the Rights Issue with the Bonus Issue and to advise the Independent Shareholders as to the fairness and reasonableness of the Rights Issue with the Bonus Issue and to recommend whether or not the Independent Shareholders should vote on the resolution to be proposed at the EGM to approve the Rights Issue with the Bonus Issue. Royal Excalibur Corporate Finance Company Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regards.

We wish to draw your attention to the letter from the Independent Financial Adviser as set out in the Circular which contains, inter alia, its advice and recommendation to us and the Independent Shareholders regarding the terms and conditions of the Rights Issue with the Bonus Issue and the Underwriting Agreement with the principal factors and reasons for its advice and recommendation.

Having taken into account the advice and recommendation of the Independent Financial Adviser, we consider that the terms of the Rights Issue with the Bonus Issue and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Furthermore, the Rights Issue with the Bonus Issue is in the interests of the Company and the Shareholders as a whole. Accordingly, we



**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Rights Issue with the Bonus Issue, the Underwriting Agreement and the respective transactions contemplated thereunder.

Yours faithfully,  
Independent Board Committee

**Mr. Lam Chun Ho**

**Mr. Faris Ibrahim  
Taha Ayoub**

**Mr. Pun Tit Shan**

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the full text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue with the Bonus Issue which has been prepared for the purpose of inclusion in the Circular.*

**ROYAL EXCALIBUR**  
CORPORATE FINANCE COMPANY LIMITED

ROYAL EXCALIBUR  
CORPORATE FINANCE COMPANY LIMITED  
Unit 1204, 12/F  
OfficePlus@Sheung Wan  
93-103 Wing Lok Street  
Sheung Wan, Hong Kong  
皇家駿溢財務顧問有限公司  
香港上環永樂街93-103號  
協成行上環中心12樓1204室

21 November 2016

*To the Independent Board Committee and the Independent Shareholders of  
China New Economy Fund Limited*

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE OF 333,784,800 RIGHTS SHARES ON  
THE BASIS OF THREE (3) RIGHTS SHARES FOR EVERY  
TWO (2) EXISTING SHARES HELD ON THE RECORD DATE WITH  
BONUS ISSUE ON THE BASIS OF TWO (2) BONUS SHARES  
FOR EVERY THREE (3) RIGHTS SHARES TAKEN UP  
UNDER THE RIGHTS ISSUE**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders of the Company in relation to the Rights Issue with the Bonus Issue, details of which are set out in the “Letter from the Board” (the “**Board’s Letter**”) in the Company’s circular issued to the Shareholders dated 21 November 2016 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 4 November 2016, the Board announced that the Company proposed, amongst others, to raise approximately HK\$166.9 million before expenses, by way of Rights Issue of 333,784,800 Rights Shares at the Subscription Price of HK\$0.50 per Rights Share on the basis of three (3) Rights Shares for every two (2) existing Shares held on the Record Date and payable in full on acceptance with Bonus Issue on the basis of two (2) Bonus Shares for every three (3) Rights Shares taken up under the Rights Issue. The Company will provisionally allot to the Qualifying Shareholders three (3) Rights Shares in nil-paid form for every two (2) Shares in issue and held on the Record Date. The Rights Issue will not be available to the Prohibited Shareholders.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Assuming no new Share being issued and/or repurchased by the Company on or before the Record Date, the total number of 556,308,000 new Shares, consisting of 333,784,800 Rights Shares and 222,523,200 Bonus Shares, will be issued and allotted representing (i) approximately 250% of the Company's existing issued share capital as at the Latest Practicable Date; and (ii) approximately 71.43% of the Company's issued share capital as enlarged by the issue of the Rights Shares and the Bonus Shares.

Since the Rights Issue with the Bonus Issue will increase the issued share capital of the Company by more than 50%, pursuant to Rule 7.24 of the Listing Rules, any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolution relating to the Rights Issue with the Bonus Issue at the EGM.

The Independent Board Committee of the Company comprising all the independent non-executive Directors, namely Mr. Lam Chun Ho, Mr. Faris Ibrahim Taha Ayoub and Mr. Pun Tit Shan has been established to advise the Independent Shareholders in respect of the Rights Issue with the Bonus Issue. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Rights Issue with the Bonus Issue are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, we have no relationship with and are not connected with the Directors, chief executives and substantial shareholders of the Company or any of their respective associates. We have no shareholding interest in and have not acted as an independent financial adviser and have not provided any other services to the Company during the past two years. Accordingly, we consider that we are eligible to give independent advice on the Rights Issue with the Bonus Issue.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true as at the date of the EGM. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Company, nor have we carried out any independent verification of the information provided by the Directors and management of the Company.

We have not considered the tax consequences on the Qualifying Shareholders arising from the subscription for, holding of or dealing in the Rights Shares and the Bonus Shares or otherwise, since these are particular to their own circumstances. We will not accept responsibility for any tax effect on, or liabilities of, any person resulting from the subscription for, holding of or dealing in the Rights Shares and the Bonus Shares or the exercise of any rights attaching thereto or otherwise. In particular, Qualifying Shareholders subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Rights Issue with the Bonus Issue and, if they are in any doubt, they should consult their own professional advisers.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the Rights Issue with the Bonus Issue, we have considered the following principal factors and reasons:

#### 1. Background information of the Company

##### *Principal Business*

The Company is an investment company listed under Chapter 21 of the Listing Rules. The investment objective of the Company is to achieve long-term capital appreciation through investing globally in both private and publicly listed enterprises that have demonstrated the ability to manufacture a product or deliver a service that is supported by the economies of mainland China, Hong Kong, Macau and Taiwan.

##### *Historical financial information*

Set out below is a summary of the audited financial results of the Company for the two years ended 31 December 2015, as extracted from the Company's annual report for the year ended 31 December 2015 (the "2015 Annual Report"), and the unaudited

<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b>
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financial results of the Company for both the six months ended 30 June 2015 and 30 June 2016, as extracted from the Company's interim report for the six months ended 30 June 2015 and 30 June 2016 respectively (the “**2015 Interim Report**” and “**2016 Interim Report**” respectively):

	<b>For the six months ended 30 June</b>		<b>For the year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>
	(unaudited)	(unaudited)	(audited)	(audited)
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
(Loss)/Profit and total comprehensive income for the period attributable to ordinary equity holders of the Company	55,388,335	62,345,811	(169,536,116)	136,337,823
	<b>As at 30 June</b>		<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>
	(unaudited)	(unaudited)	(audited)	(audited)
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Total assets	695,395,423	545,588,411	340,069,316	477,169,115
Total liabilities	220,006,923	30,751,188	15,386,255	24,677,703
Net assets	475,388,500	514,837,223	342,683,061	452,491,412

*Audited statement of comprehensive income for the two years ended 31 December 2015*

The Company recorded loss attributable to the equity holders of the Company of approximately HK\$169.5 million for the year ended 31 December 2015, representing a decrease as compared to the corresponding profit and total comprehensive income attributable to the equity holders of the Company of approximately HK\$136.3 million for the year ended 31 December 2014. Such decrease was mainly due to the net loss in fair value of HK\$194,087,185, which consisted of unrealized mark to market loss of HK\$200,671,330 offset by realized gain of HK\$6,584,145, taken on the investment positions in the portfolio.

*Unaudited statement of comprehensive income for the six months ended 30 June 2016*

The Company recorded profit and comprehensive income attributable to the equity holders of the Company of approximately HK\$55.4 million for the six months ended 30 June 2016, representing a decrease of approximately 11.16% as compared to that for the six months ended 30 June 2015.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*Unaudited statement of financial position as at 30 June 2016*

As at 30 June 2016, the Company recorded total assets, total liabilities and net assets of approximately HK\$695.4 million, HK\$220 million and HK\$475.4 million respectively, representing an increase of approximately 27.5%, 615.4% and a decrease of approximately 7.7% to the corresponding figures as at 30 June 2015 respectively.

### **2. Reasons for the Rights Issue with the Bonus Issue and proposed use of proceeds**

As advised by the management of the Company, the Company engages in various security trading activities as the Company is an investment company under Chapter 21 of the Listing Rules. As a result of trading in various listed securities through the margin account (the “**Margin Account**”) maintained with a securities broker of the Company, a margin payable due to this securities broker under the Margin Account amounted to approximately HK\$154 million (the “**Margin Payable**”) was outstanding as at the Latest Practicable Date.

As set out in the Board’s Letter, the estimated net proceeds from the Rights Issue of approximately HK\$159 million would be applied as to HK\$150 million for the repayment of the outstanding Margin Payable and as to the remaining balance of approximately HK\$9 million for general working capital of the Company. As advised by the management of the Company, currently there is no set timeframe with regard to the utilization of the general working capital of the Company. The management of the Company are of the view that the repayment of the Margin Payable could significantly reduce the interest expenses of the Company.

Other than the HK\$150 million repayment of the Margin Payable, the Company is obliged to redeem the note (the “**Note**”) issued to Pitta Income Fund up to an amount of HK\$8 million by October 2017. Further information on the Note is set out in the announcement of the Company dated 21 September 2016. As at the Latest Practicable Date, the Company has no plan to apply the funding of the Rights Issue for the repayment of the Note as the redemption date of the Note is not until October 2017. The Company also does not have any plan to conduct further rights issue or other fund raising activities as at the Latest Practicable Date.

As advised by the management of the Company, the interest rate charged by the securities broker on the Margin Payable depends on the loan-to-value ratio (the “**LTV**”), which is the ratio of a loan to the value of an asset purchased. The higher the LTV, the riskier the loan is for a lender and so the higher the interest rate will be charged by the lender. We were further advised by the management of the Company that the current LTV of the Margin Account is approximately 50% and the interest rate charged by the securities broker is approximately 10% per annum under this current LTV.

We note that if the Margin Payable remains unsettled, the Company shall incur a substantial interest expense which in turn shall have a negative impact on the earnings of the Company. The repayment of the Margin Payable from the net proceeds from the Rights Issue with the Bonus Issue shall save a significant amount of interest expense and the financial performance of the Company will be enhanced after the repayment of the Margin Payable.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The remaining part of the estimated net proceeds (i.e. approximately HK\$9 million) is intended for general working capital of the Company. Nevertheless, the cash and liquidity position of the Company would be improved.

Take into consideration of (i) the reduction in the Margin Payable and the corresponding interest savings to the Company after repayment of the Margin Payable from the proceeds of the Rights Issue with the Bonus Issue, (ii) the enhancement in the capital base of the Company and the improvement in the net assets and liquidity position of the Company, and (iii) the Rights Issue with the Bonus Issue is on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportional interests in the Company, and should the Qualifying Shareholders decide not to take up their entitlements under the Rights Issue with the Bonus Issue, they can sell the nil-paid Rights Shares in the market for economic benefit, we are of the view that the Rights Issue with the Bonus Issue and the intended utilization of the net proceeds from the Rights Issue with the Bonus Issue is fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

### 3. Financing alternatives

As disclosed in the Board's Letter, apart from the Rights Issue with the Bonus Issue, the Board had also considered other means of fund raising, including alternative means of equity financing (such as placing of new Shares and open offer) and debt financing. The Board, having considered the amount of funding required by the Company, the attractiveness of the Rights Issue with Bonus Issue and the par value of the Shares, considers that the current structure and the terms of the Rights Issue with the Bonus Issue to be fair and reasonable and it is in the best interest of the Shareholders as a whole as the Rights Issue would strengthen the capital base of the Company and improve its gearing ratio.

We have discussed with the management of the Company and were advised that the Board has considered other debt financing or borrowings as a means to replace the Margin Payable. However, taking into account that (i) other than the Margin Payable, the Company still has 7.5% coupon unlisted and unsecured notes at amortized cost of HK\$68,571,611 outstanding (according to the Company's 2016 Interim Report as at 30 June 2016); and (ii) it is the ultimate intention of the Company to reduce the gearing ratio and interest expenses of the Company so as to improve the overall financial performance of the Company, the Company did not approach any financial institutions, and thus did not proceed with such debt financing or borrowings.

According to the Company's 2016 Interim Report, the gearing ratio of the Company, defined as total debts divided by shareholders' equities, was 46.3% as at 30 June 2016, calculated as dividing the total debts of HK\$220,006,923 by the shareholders' equities of the Company of HK\$475,388,500. We also note that the gearing ratio will remain the same if the Company use other means of debt financing since the total debts and shareholders' equities of the Company will not change as a result. However, interest expenses would still be incurred to the Company. As compared to the other means of debt financing or borrowings, the equity fund raising method of the Rights Issue will effectively improve the gearing ratio to approximately 10.9%, details of which can be referred to the section "5. Financial effects of the Rights Issue with the Bonus Issue — (b) Gearing ratio" in this letter below. We also agree

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

with the intention of the Board to reduce the gearing ratio and interest expenses of the Company to a more favourable level to improve the rate of return of the Company's investment portfolio. Having considered that debt financing (i) could not improve the gearing ratio of the Company; (ii) could not ease the interest burden of the Company; and (iii) would incur future repayment obligations of the Company and might be subject to lengthy due diligence and negotiations as well as the pledge of assets by the Company, we consider that the Board's decision not to proceed with other debt financing or borrowings is in the interests of the Company and Shareholders as a whole.

In addition to debt financing, the Board also considered other means of equity financing such as placing of new Shares and open offer. However we are of the view that placing of new Shares would normally be conducted on a best efforts basis of which the success is not guaranteed and the size of any placing would not be sufficient to meet the funding requirement on this occasion. We also note that placing would only be available to certain placees who are not necessarily the existing Shareholders and would dilute the shareholding interests in the Company of the existing Shareholders.

Although an open offer is similar to a rights issue, an open offer would not provide an additional option to those Qualifying Shareholders who do not wish to take up their allotments to sell their provisionally allotted nil-paid Rights Shares. Furthermore, those Qualifying Shareholders who wish to increase their shareholding interests in the Company cannot acquire additional nil-paid Rights Shares in the market in the case of an open offer. We agree with the Board's view that rights issue would be more favourable and attractive to the Shareholders than open offer because of its higher degree of flexibility.

The Board also considered disposal of investments in the Company, but we consider that to fund the current funding needs of the Company, the disposal of a significant amount of the Company's current investment portfolio would be involved, and it would have a significant detrimental impact on the future earnings and returns of the Company.

Based on the above, we consider that (i) the Rights Issue with the Bonus Issue, in fully underwritten, can remove a certain degree of uncertainty as compared to other equity fund raising exercises such as placing in best effort method and offer all the Qualifying Shareholders an equal opportunity to participate; (ii) the Rights Issue with the Bonus Issue enables all Qualifying Shareholders to maintain their proportionate interests in the Company and avoid shareholding dilution; (iii) the Shareholders who do not wish to participate in the fund raising of the Company can dispose of their Rights Shares provisional allotments in the market in nil-paid form; and (iv) the Rights Issue with the Bonus Issue would strengthen the capital base of the Company and improve its gearing ratio. As such, we are of the view that the Rights Issue with the Bonus Issue is a suitable source of financing over the aforementioned financing alternatives and therefore is in the interests of the Company and its Shareholders as a whole.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 4. Principal terms of the Rights Issue with the Bonus Issue

The Company proposed to raise approximately HK\$166.9 million, before expenses, by way of the Rights Issue with the Bonus Issue and details are set out as follows:

Basis of the Rights Issue with the Bonus Issue	:	Three (3) Rights Shares for every two (2) existing Shares held on the Record Date and payable in full on acceptance, together with two (2) Bonus Shares for every three (3) Rights Shares taken up. The aggregate effect of the Rights Issue with the Bonus Issue would be for every two (2) existing Shares held on Record Date, five (5) new Shares would be issued to the Qualifying Shareholder should the Qualifying Shareholder elect to take up the Rights Shares.
Subscription Price	:	HK\$0.50 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	222,523,200 Shares
Number of Rights Shares	:	333,784,800 Rights Shares
Number of Bonus Shares	:	up to 222,523,200 Bonus Shares to be issued to the Qualifying Shareholders, who elect to take up the Rights Issue, on the basis of two (2) Bonus Shares for every three (3) Rights Share under the Rights Issue
Number of Rights Shares underwritten by the Underwriter	:	333,784,800 Rights Shares, being the total number of the Rights Shares under the Rights Issue
Number of Shares in issue upon completion of the Rights Issue with the Bonus Issue	:	up to 778,831,200 Shares

As at the Latest Practicable Date, the Company has no other derivatives, outstanding convertible note, warrants, options or other securities convertible into or exchangeable for any Shares. The Company also has no intention to issue or grant any warrants, options and/or convertible securities on or before the Record Date.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Subscription Price/Effective Subscription Price*

The Subscription Price is HK\$0.50 per Rights Share, payable in full on application and the effective subscription price (the “**Effective Subscription Price**”) after taking into consideration the Bonus Issue is HK\$0.30 per Rights Share. The Subscription Price represents:

- (i) a premium of approximately 14.9% over the closing price of HK\$0.435 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 47.5% over the theoretical ex-entitlement price of approximately HK\$0.339 per Share after the Rights Issue with the Bonus Issue based on the closing price of HK\$0.435 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 12.1% to the average closing price of HK\$0.446 per Share for the last five consecutive trading days including and up to the Last Trading Day;
- (iv) a discount of approximately 78.0% to the latest unaudited net asset value attributable to the Shareholders per Share of approximately HK\$2.27 as at 30 September 2016; and
- (v) a premium of approximately 29.9% over the closing price of HK\$0.385 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Effective Subscription Price of HK\$0.30 represents:

- (i) a discount of approximately 31.0% to the closing price of HK\$0.435 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 11.5% to the theoretical ex-entitlement price of approximately HK\$0.339 per Share after the Rights Issue with the Bonus Issue based on the closing price of HK\$0.435 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 32.7% to the average closing price of HK\$0.446 per Share for the last five consecutive trading days including and up to the Last Trading Day;
- (iv) a discount of approximately 86.8% to the latest unaudited net asset value attributable to the Shareholders per Share of approximately HK\$2.27 as at 30 September 2016; and
- (v) a discount of approximately 22.1% to the closing price of HK\$0.385 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Board's Letter, the Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the par value of each Share, the prevailing market price of the Shares, the financial position of the Company and having considered the future development and other investment opportunities of the Company. Taking into consideration of the theoretical ex-entitlement price per Share, in order to increase the attractiveness of the Rights Issue to the Qualifying Shareholders, the Directors consider that the proposed discount of the Subscription Price to the market price is appropriate and the Subscription Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole as each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company.

### *Analysis on the Subscription Price/Effective Subscription Price and the terms of the Rights Issue with the Bonus Issue*

In order to assess the fairness and reasonableness of the Subscription Price/Effective Subscription Price, we set out the following informative analysis for illustrative purposes. Taking into account that the Effective Subscription Price, which is based on the Subscription Price, better represents the aggregate effect of the Rights Issue with the Bonus Issue, we believe that the Effective Subscription Price is more relevant for the purpose of comparison and analysis and therefore we have adopted the Effective Subscription Price in the following analysis:

#### *(i) Review on Share prices*

We have reviewed the trading price of the Shares for the period from 2 November 2015, being approximately 12-month period prior to the date of the Underwriting Agreement (which is 4 November 2016), up to and including the Latest Practicable Date (the "**Review Period**"). The highest and lowest closing prices and

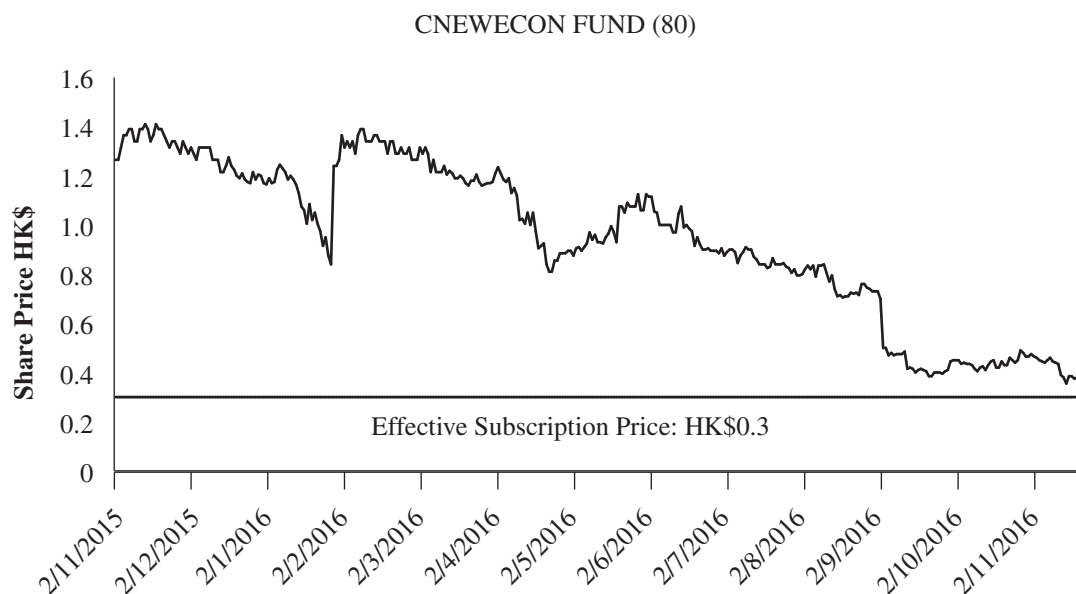
<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b>
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the monthly average daily closing prices of the Shares as quoted on the Stock Exchange in each month during the period are shown as follows:

<b>Month</b>	<b>Highest closing price (HK\$)</b>	<b>Lowest closing price (HK\$)</b>	<b>Average daily closing price (HK\$)</b>	<b>No. of trading days in each month</b>
<b>2015</b>				
November	1.34	1.215	1.28	21
December	1.24	1.16	1.19	22
<b>2016</b>				
January	1.19	0.81	1.01	20
February	0.97	0.855	0.91	18
March	1.125	0.93	1.05	21
April	1.075	0.895	0.96	20
May	0.91	0.825	0.87	21
June	0.865	0.79	0.82	21
July	0.795	0.7	0.73	20
August	0.5	0.385	0.44	22
September	0.45	0.395	0.43	21
October	0.49	0.42	0.45	19
November (up to and including the Latest Practicable Date)	0.46	0.375	0.399	14

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following chart illustrates the daily closing price per Share during the Review Period:



Source: the Stock Exchange web-site ([www.hkex.com.hk](http://www.hkex.com.hk))

During the Review Period, the average daily closing price of the Shares ranged from HK\$0.425 to HK\$1.28 per Share. The lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.375 per Share recorded on 14 November 2016 and HK\$1.34 per Share recorded on 3 November 2015 respectively. The highest closing price represented a premium of approximately 257.3% over the lowest closing price of the Shares, which may imply a significant volatility of the price of Shares during the Review Period. Furthermore, we note that the closing prices of the Shares showed a persistent sliding trend during the Review Period.

As illustrated in the above chart, the Effective Subscription Price of HK\$0.3 is below all closing prices per Share during the entire Review Period, and represents (i) a discount of approximately 65.1% to the average closing price of Shares of approximately HK\$0.86; (ii) a discount of approximately 20% to the lowest closing price of the Shares; and (iii) a discount of approximately 77.6% to the highest closing price of the Shares recorded during the Review Period.

We note that it is a common market practice that the subscription price of a rights issue normally represents a discount to the past and prevailing market prices of the relevant shares, in order to enhance the attractiveness of a rights issue exercise and to encourage the qualifying shareholders to participate in a rights issue and maintain their respective pro-rata shareholding interests for the future growth of the Company. Hence, we consider the fact that the Effective Subscription Price is lower than the prevailing market prices of the Shares is in line with general practice and is acceptable.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *(ii) Review on trading liquidity of the Shares*

The total volume of the Shares traded, average daily trading volume as compared to the total number of issued Shares as at end of each period/month during the Review Period are tabulated as follows:

Month	No. of trading days in each month	Total volume of the Shares traded	Average daily trading volume (the “Average Volume”) (Shares)	Number of issued Shares as at end of the period/month (Shares)	Average Volume to total number of issued Shares as at end of the period/month (%)
<b>2015</b>					
November	21	96,831,000	4,611,000	618,120,000	0.745972
December	22	71,840,000	3,265,455	618,120,000	0.528288
<b>2016</b>					
January	20	49,250,000	2,462,500	618,120,000	0.398385
February	18	12,750,000	708,333	927,180,000	0.076396
March	21	25,600,000	1,219,048	927,180,000	0.131479
April	20	213,900,000	10,695,000	927,180,000	1.153498
May	21	93,466,150	4,450,769	927,180,000	0.480033
June	21	49,850,000	2,373,810	1,112,616,000	0.213354
July	20	212,400,000	10,620,000	1,112,616,000	0.954507
August	22	802,350,000	36,470,455	1,112,616,000	3.277901
September	21	163,330,000	7,777,619	222,523,200	3.495195
October	19	14,560,001	766,316	222,523,200	0.344376
November (up to and including the Latest Practicable Date)	14	22,901,130	1,635,795	222,523,200	0.735112

*Source: the Stock Exchange web-site (www.hkex.com.hk)*

Save for August 2016 and September 2016, the volume of Shares traded during the entire Review Period was below 3% of the total number of issued Shares as at end of the period/month, which represents a relatively low liquidity in trading of Shares during the Review Period. As such, we concur with the Directors that it would be difficult to attract the Qualifying Shareholders to reinvest in the Company through the Rights Issue with the Bonus Issue if the Effective Subscription Price was not set at discount to the historical closing prices of the Shares.

### *(iii) Comparison with other rights issues*

In order to assess the fairness and reasonableness of the terms of the Rights Issue with the Bonus Issue, we compare the terms of the Rights Issue with the Bonus Issue to other rights issues conducted by other companies. We have reviewed all the proposed rights issues initially announced by other listed companies on the Stock Exchange in the three-month period ended on the date of the Underwriting Agreement (i.e. from 4 August 2016 to 4 November 2016) (the “**Reference Period**”) and identified an exhaustive list of eleven proposed rights issue

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

transactions (the “**Rights Issue Comparables**”). We considered the sample size to be fair and representative as the Rights Issue Comparables can reflect the latest market practice prior to the date of the Underwriting Agreement.

We consider that the Reference Period is adequate and appropriate given that (i) such period is sufficiently recent to demonstrate the prevailing market practice prior to the date of the Underwriting Agreement; and (ii) we were able to identify sufficient samples for comparison within such period. Independent Shareholders should note that the size, business nature, scale of operations and prospects of the Company are not exactly the same as those of the companies in the Rights Issue Comparables and we have not conducted any in depth investigation into the size, business nature, scale of operations and prospects of the companies in the Rights Issue Comparables. Nevertheless, given that this analysis is aiming at taking a general reference to the recent market practice in relation to the Effective Subscription Price of the Rights Issue with the Bonus Issue, we consider that our comparable analysis on the Effective Subscription Price without limiting to companies that are with similar size, business nature and scale of operations as that of the Company is fair and reasonable and useful for the Independent Shareholders’ reference. The table below summarises the details of the Rights Issue Comparables:

Rights Issue Comparables <i>(Note 1)</i>	Stock Code	Date of announcement	Basis of entitlement	Discount of subscription price to the closing price on the last trading day approximately (%) <i>(Note 2)</i>	Excess Application <i>(Y/N)</i>	Underwriting Commission (%)	Maximum dilution on the shareholding approximately (%) <i>(Note 3)</i>
GT Group Holdings Limited	263	09/08/2016	1 for 2	32.43	N	3.0	33.33
Chinese Food And Beverage Group Limited	8272	19/08/2016	9 for 1	45.83	Y	2.5	90.00
Tai United Holdings Limited	718	02/09/2016	2 for 1	4.76	Y	2.0	66.77
Chinlink International Holdings Limited	997	07/09/2016	5 for 1	76.19	Y	2.0	83.33
Sun Century Group Limited	1383	20/09/2016	3 for 1	20.00	Y	3.0	75.00
Advanced Card Systems Holdings Limited	2086	25/09/2016	1 for 8	26.00	Y	4.0	11.11
Eminence Enterprise Limited	616	13/10/2016	3 for 1	33.12	Y	1.0	75.00
Zhuguang Holdings Group Company Limited	1176	17/10/2016	1 for 3	39.39	Y	Undisclosed <i>(Note 4)</i>	25.00

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Rights Issue Comparables <i>(Note 1)</i>	Stock Code	Date of announcement	Basis of entitlement	Discount of subscription price to the closing price on the last trading day approximately (%) <i>(Note 2)</i>	Excess Application <i>(Y/N)</i>	Underwriting Commission (%) <i>(Note 6)</i>	Maximum dilution on the shareholding approximately (%) <i>(Note 3)</i>
Heng Tai Consumables Group Limited	197	21/10/2016	1 for 1	17.20	Y	3.5	50.00
Mason Financial Group Holding	273	28/10/2016	6 for 5 <i>(Note 5)</i>	45.40	Y	0.28 <i>(Note 6)</i>	58.68
MMG Limited	1208	01/11/2016	1 for 2	26.80	Y	2.75	33.33
Maximum				76.19		4.0	90.00
Minimum				4.76		1.0	11.11
Mean				33.37		2.64	54.31
Company			5 for 2 <i>(Note 7)</i>	31.00 <i>(Note 8)</i>	Y	3.5	71.43 <i>(Note 9)</i>

*Source: the Stock Exchange web-site (www.hkex.com.hk)*

*Notes:*

1. Enterprise Development Holdings Limited (stock code: 1808) published an announcement on 4 October 2016 in relation to, among other things, termination of the underwriting agreement and the proposed rights issue. As such, this transaction was excluded in our analysis of the Rights Issue Comparables.
2. Based on the figures disclosed in the initial announcements of the Rights Issue Comparables respectively.
3. Maximum dilution effect of each rights issue is calculated as: (number of rights shares)/((number of existing shares entitled for the rights shares under the basis of entitlement) + (number of rights shares)) X 100%.
4. The underwriting commission is not disclosed in the initial announcement of the Rights Issue Comparable.
5. The effect of a proposed bonus issue on the basis of one (1) bonus share for every ten (10) shares held by the Qualifying Shareholders after the completion of rights issue on the bonus issue record date is not included.
6. The underwriter will receive a fixed underwriting commission of HK\$8 million. The commission percentage has been calculated with the gross proceeds of the Right issue of HK\$2,876 million.
7. The figure reflects the aggregate effect of the Rights Issue with the Bonus Issue.
8. Discount of Effective Subscription Price to the closing price on the Last Trading Day.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

9. The maximum dilution effect of the Rights Issue with the Bonus Issue is calculated by the following formula:  $(3+2)/(2+(3+2)) \times 100\%$ , the result of which is 71.43%, with reference to the general formula in Note 3 above and the principal terms of the Rights Issue with the Bonus Issue.

As illustrated in the above table of the Rights Issue Comparables, the subscription prices of all of the Rights Issue Comparables are set at a discount to relevant market price, ranging from a discount of approximately 4.76% to a discount of approximately 76.19%, with a mean discount of approximately 33.37%. Although the Subscription Price represents a premium of approximately 14.9% over the closing price of HK\$0.435 per Share as quoted on Stock Exchange on the Last Trading Day, we note that after taking into account the effect of the Bonus Issue, the Effective Subscription Price would be HK\$0.30 per Rights Share, representing a discount of approximately 31.0% to the closing price of HK\$0.435 per Share as quoted on Stock Exchange on the Last Trading Day, which falls within the range of the relevant discounts of the Rights Issue Comparables and is slightly less than the relevant mean discount of the Rights Issue Comparables.

Having considered that (i) the solid funding needs for the repayment of the Margin Payable to improve the Company's gearing ratio and future performance; (ii) the discount of the Effective Subscription Price to the prevailing market price would attract and encourage the Qualifying Shareholders to participate in the Rights Issue with the Bonus Issue; and (iii) the set discount rate of the Effective Subscription Price to the closing price of HK\$0.435 per Share as quoted on Stock Exchange on the Last Trading Day falls within the range of the discount rate of Rights Issue Comparables and is slightly less than the relevant mean discount rate of the Rights Issue Comparables, we consider it is fair and reasonable for the Company to set the Effective Subscription Price at a discount to the closing price per Share as quoted on Stock Exchange on the Last Trading Day.

The underwriting commission was determined after arm's length negotiations between the Company and the Underwriter with reference to the prevailing market rate. As illustrated above, the underwriting commission charged by the respective underwriters of the Rights Issue Comparables ranged from 1.0% to 4.0% on funds raised. The commission charged by the Underwriter of 3.5% falls at the higher end but within the range of the Rights Issue Comparables. We were advised by the Company that the Company approached five financial institutions including the Underwriter concerning the Rights Issue with Bonus Issue. Out of the five firms, two have indicated that they are not interested in participating in underwriting the Rights Issue with the Bonus Issue and the other two firms quoted underwriting commission that is higher than the one offered by the Underwriter. As such, the Company could not find an underwriter for the Rights Issue with the Bonus Issue at better terms. In addition, the Underwriter was the underwriter to the rights issue of the Company completed in January this year and hence the Underwriter has a proven track record of successfully underwriting shares for the Company in the past. To the best of the Directors' knowledge, information and belief, the Underwriter and its ultimate beneficial owners are Independent Third Parties. Based on the above, we do not see

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

any incentive for the Company to negotiate terms that are unfavorable to itself for the underwriter's benefit. We are of the view that the underwriting commission paid to the Underwriter is fair and reasonable.

*(iv) Risk associated with the Rights Issue*

Shareholders and potential investors should note that the Rights Issue with the Bonus Issue is conditional upon, amongst other things, the fulfilment of the conditions set out under the section headed "Conditions of the Rights Issue with the Bonus Issue" in the Board's Letter. In particular, the Rights Issue with the Bonus Issue is subject to the Independent Shareholders' approval of the Rights Issue with the Bonus Issue at the EGM and the Underwriting Agreement not terminated by the Underwriter prior to the Latest Time for Termination. Accordingly, the Rights Issue with the Bonus Issue may or may not proceed. Shareholders and potential investors should exercise extreme caution when dealing with the Shares, and if they are in any doubt about their positions, they should consult their own professional advisers.

### **5. Financial effects of the Rights Issue with the Bonus Issue**

*(a) Earnings*

Save for the expenses relating to the Rights Issue with the Bonus Issue, the Rights Issue with the Bonus Issue will not have any immediate material impact to the earnings of the Company. However, as HK\$150 million of the net proceeds will be utilized to repay the Margin Payable, the Company's annual earnings will be increased by the saving in the interest expenses as a result of such settlement.

*(b) Gearing ratio*

According to the Company's 2016 Interim Report, the gearing ratio of the Company, defined as total debts divided by shareholders' equities, was 46.3% (31 December 2015: Nil), and apart from the Margin Payable, the Company also has an outstanding 7.5% coupon unlisted and unsecured notes at amortized cost of HK\$68,571,611 (31 December 2015: Nil). Based on the financial information provided in the Company's 2016 Interim Report and our independent work, upon the completion of the Rights Issue with the Bonus Issue, followed by the repayment of the Margin Payable in the amount of HK\$150,000,000, the amount of the total debts of the Company would decrease from HK\$220,006,923 to approximately HK\$70,006,923, while the shareholders' equities of the Company would increase from HK\$475,388,500 to approximately HK\$642,280,900 by the gross proceeds of the Rights Issue with the Bonus Issue of approximately HK\$166,892,400. As a result, the gearing ratio of the Company after the completion of the Rights Issue with the Bonus Issue and repayment of the Margin Payable would be approximately 10.9%, which indicates a substantial improvement on the financial position of the Company.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *(c) Liquidity Position and Working Capital*

According to the 2016 Interim Report, the Company had bank and cash balances of approximately HK\$31.4 million and a current liabilities of approximately HK\$151.4 million as at 30 June 2016. Immediately upon completion of the Rights Issue with the Bonus Issue, the current liabilities of the Company will decrease by approximately HK\$150 million, and the working capital of the Company will increase by HK\$9 million. Accordingly, the liquidity position and working capital of the Company would be improved as a result of the Rights Issue with the Bonus Issue.

### *(d) Net assets*

The effect on the unaudited pro forma net assets of the Company immediately after completion of the Rights Issue with the Bonus Issue are set out in Appendix II in this circular.

The net assets of the Company will be increased at the same magnitude of the net proceeds from the Rights Issue with the Bonus Issue immediately after the completion of the Rights Issue with the Bonus Issue. We are also of the view that the improvement of the net assets of the Company is in the interest of the Company and Shareholders, including both the Qualifying Shareholders and the Non-Qualifying Shareholders, as a whole.

## **6. Possible dilution to the shareholdings of the Shareholders**

All the Qualifying Shareholders are entitled to subscribe for the Rights Shares on the same basis. As illustrated in the section headed “Effects on shareholding structure” in the Board’s Letter, we note that the shareholding interests of the Qualifying Shareholders who elect to take up their respective entitlements in full under the Rights Issue with the Bonus Issue will remain unchanged upon the completion of the Rights Issue with the Bonus Issue. However, the shareholding interests of the Qualifying Shareholders who do not take up their respective entitlement under the Rights Issue with the Bonus Issue will be diluted upon the completion of the Rights Issue with the Bonus Issue up to a maximum of 71.43%.

The maximum dilution effect, as described above, measures the maximum reduction in the ownership percentage of the shareholders of a stock caused by the issuance of new shares, in this case the Rights Issue with the Bonus Issue. Maximum dilution effect would only be observed when no shareholders take up their respective entitlements under the rights issue, while dilution effect would be observed, not to its maximum, when at least one shareholder takes up his or her respective entitlement under the rights issue.

In order to assess the fairness and reasonableness of the Rights Issue with the Bonus Issue in terms of their maximum dilution effect, we have compared the maximum dilution effect of the Rights Issue with the Bonus Issue with that of Rights Issue Comparables.

The maximum dilution effect of the Rights Issue with the Bonus Issue of 71.43% falls within the range of Rights Issue Comparables (from approximately 11.11% to approximately 90.00%) but higher than the mean of the Rights Issue Comparables of approximately 54.31%,

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

as set out in the paragraph headed “Comparison with other rights issues” of the sub-section headed “Analysis on the Subscription Price/Effective Subscription Price and the terms of the Rights Issue with the Bonus Issue” in the section headed “Principal terms of the Rights Issue with the Bonus Issue” in this letter above. Nevertheless, we consider that the foregoing should be balanced against by the following factors:

- (i) the Rights Issue with the Bonus Issue would provide the necessary funding for the repayment of the Margin Payable as detailed in the section headed “Reasons for the Rights Issue with the Bonus Issue and proposed use of proceeds” above;
- (ii) the financial effect on the improvement on the gearing ratio and the Company’s earning performance, as a result of the Rights Issue with the Bonus Issue as detailed in the sections headed “Reasons for the Rights Issue with the Bonus Issue and proposed use of proceeds” and “Financial effects of the Rights Issue with the Bonus Issue” above;
- (iii) the Independent Shareholders are given the chance to express their views on the terms of the Rights Issue with the Bonus Issue and the Underwriting Agreement through their votes at the EGM;
- (iv) the Rights Issue with the Bonus Issue is on the basis that all Qualifying Shareholders have been offered equal opportunity to maintain their proportional shareholdings and participate in the capital base enlargement of the Company;
- (v) the Rights Issue with the Bonus Issue is on the basis that all Qualifying Shareholders have been allowed to participate in the growth of the Company;
- (vi) Qualifying Shareholders have the opportunity to sell their nil-paid Rights Shares in the market, subject to the then prevailing market conditions, should they wish so; and
- (vii) the inherent dilutive nature is general for all cases of rights issues.

Apart from the above factors, we also take into account of the ultimate intention of the Company to use HK\$150,000,000 from the net proceeds of the Rights Issue with the Bonus Issue to repay the Margin Payable of HK\$154 million so to improve the overall financial performance and position of the Company as stated above. If the Company proposed to use the mean of the maximum dilution effect of the Rights Issue Comparables of 54.31% (which is equivalent to approximately 1.19 rights shares for an existing share) as the benchmark for the Rights Issue, a total number of approximately 264,802,608 rights shares (based on the total issued Shares of 222,523,200 as the Latest Practicable Date) would be issued. If HK\$150,000,000 is to be raised by the Company to achieve the above objective, the subscription price of the rights shares would be set at approximately HK\$0.56 per rights share, which would be equivalent to a premium of approximately 28.73% over the closing price of HK\$0.435 per Share as quoted on the Stock Exchange on the Last Trading Day. We consider such premium is not attractive to the Underwriter and the Independent Shareholders and would render the Rights Issue a failure. Therefore, in order to raise the incentive of the Underwriter and to attract the Independent Shareholders to accept the Rights Shares so to achieve the

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company's objective, we consider a higher maximum dilution effect of the Rights Issue with the Bonus Issue so as to enable the Company to set the Effective Subscription Price at a discount is justifiable.

Based on the above, we are of the opinion that the potential dilution effect (maximum 71.43%) on the shareholding for the Qualifying Shareholders who decide not to accept the Rights Issue with the Bonus Issue is reasonable and acceptable, and in the interests of the Shareholders.

### **7. Recommendation**

Taking into consideration of the above mentioned principal factors and reasons, in particular the followings:

- (a) the overall improvement in the financial information of the Company including the enhancement in the cash and liquidity position and the reduction in the indebtedness of the Company;
- (b) the use of proceeds from the Rights Issue with the Bonus Issue to repay the Margin Payable of the Company could enable the Company to save interests and therefore improve the earnings situation of the Company;
- (c) the Rights Issue with the Bonus Issue is the most practicable fund raising method as compared to debt financing and/or placing of new Shares;
- (d) the Subscription Price is set at a premium of the market price such that the Effective Subscription Price would be a discount to the market price, enhancing the attractiveness of the Rights Issue with the Bonus Issue to encourage the Qualifying Shareholders to participate in the Rights Issue with the Bonus Issue;
- (e) the discount represented by the Effective Subscription Price to the closing price of HK\$0.435 per Share as quoted on Stock Exchange on the Last Trading Day of approximately 31.0% falls within the range of the relevant discounts of the Rights Issue Comparables and is slightly less than the relevant mean discount of the Rights Issue Comparables;
- (f) the Rights Issue with the Bonus Issue is on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportional interests in the Company; and
- (g) the underwriting commission of the Rights Issue with the Bonus Issue is fair and reasonable,

we, therefore, consider that the terms of the Rights Issue with the Bonus Issue are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

Committee to recommend the Independent Shareholders and we recommend the Independent Shareholders to vote in favour of the resolution(s) to approve the Rights Issue with the Bonus Issue to be proposed at the EGM.

Yours faithfully,  
For and on behalf of  
**Royal Excalibur Corporate Finance Company Limited**  
**Kevin Chan**  
*Director*

*Mr. Kevin Chan is a person licensed under the SFO to carry out type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Royal Excalibur Corporate Finance Company Limited and has over 18 years of experience in corporate finance industry.*

**A. FINANCIAL INFORMATION OF THE COMPANY**

The audited financial information of the Company for each of the three years ended 31 December 2013, 2014, and 2015 can be referred to the annual reports of the Company for the years ended 31 December 2013 (pages 50 to 95), 2014 (pages 46 to 103) and 2015 (pages 49 to 111), which were published on 22 April 2014, 24 April 2015 and 21 April 2016 respectively. The above-mentioned financial information are available on the Company's website at <http://www.chinaneweconomyfund.com/document/EW0080AR.PDF> (for the year ended 31 December 2013), <http://www.chinaneweconomyfund.com/document/EW00080-AR.pdf> (for the year ended 31 December 2014) and [http://www.chinaneweconomyfund.com/document/484\\_EW00080-AR.PDF](http://www.chinaneweconomyfund.com/document/484_EW00080-AR.PDF) (for the year ended 31 December 2015) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). The auditors of the Company have not issued any qualified opinion on the Company's financial statements for the financial years ended 31 December 2013, 2014 and 2015.

**B. STATEMENT OF INDEBTEDNESS**

As at the close of business on 31 October 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Company had outstanding borrowings comprise the following:

**Securities margin borrowings**

The total carrying amounts of the Company's outstanding secured securities margin borrowings as at 31 October 2016 were approximately HK\$159,611,000. Securities margin borrowings as at 31 October 2016 were unguaranteed and secured by the Company's listed equity securities investments.

**Notes payable**

The Company had an outstanding principal of notes payable of approximately HK\$79,300,000, which were unsecured and interest bearing at coupon rates of 7.5% to 8%.

At the close of business on 31 October 2016, except as disclosed in this section, the Company did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, loans, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, finance lease obligations, mortgages or charges, guarantees or other material contingent liabilities.

**C. WORKING CAPITAL STATEMENT**

The Directors are of the opinion that, after taking into account the present financial resources and the estimated net proceeds from the Rights Issue, the Company has sufficient working capital for at least twelve months from the date of this Circular in the absence of unforeseen circumstances.

**D. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Company since 31 December 2015, being the date to which the latest audited financial statements of the Company were made up.



**A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS OF THE COMPANY**

The following is the unaudited pro forma statement of adjusted net tangible assets of the Company (the “**Unaudited Pro Forma Financial Information**”) which has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules to illustrate the effects of the Rights Issue with the Bonus Issue on the unaudited net tangible assets of the Company as if the Rights Issue with the Bonus Issue had taken place on 30 June 2016.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only, based on the judgments and assumptions of the Directors, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of: (i) the financial position of the Company as at 30 June 2016 or any future date; or (ii) the net tangible assets per Share of the Company as at 30 June 2016 or any future date.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited net tangible assets of the Company as at 30 June 2016, as extracted from the published interim report of the Company for the six months ended 30 June 2016, and is adjusted for the effect of the Rights Issue with the Bonus Issue described below.

			Unaudited pro forma adjusted net tangible assets of the Company as at 30 June 2016 immediately upon completion of the Rights Issue with the Bonus Issue	Unaudited net tangible assets of the Company per Share before completion of the Rights Issue with the Bonus Issue	Unaudited pro forma adjusted net tangible assets of the Company per Share upon completion of the Rights Issue with the Bonus Issue
Unaudited net tangible assets of the Company as at 30 June 2016	Add: Estimated net proceeds from the Rights Issue				
HK\$'000 (Note 1)	HK\$'000 (Note 2)		HK\$'000	HK\$ (Note 3)	HK\$ (Note 4)
Based on the issue of 333,784,800 Rights Shares with 222,523,200 Bonus Shares					
475,389	159,301		634,690	HK\$2.14	HK\$0.81

*Notes:*

- The unaudited net tangible assets of the Company as at 30 June 2016 of approximately HK\$475,389,000 is extracted from the published interim report of the Company for the six months ended 30 June 2016.

2. The estimated net proceeds from the Rights Issue of approximately HK\$159,301,000 are based on the proceeds of approximately HK\$166,892,000 from the issue of 333,784,800 Rights Shares at the Subscription Price of HK\$0.50 per Rights Share after deduction of the estimated related expenses of approximately HK\$7,591,000.
3. The calculation is determined based on the unaudited net tangible assets of the Company as at 30 June 2016 of approximately HK\$475,389,000 divided by the number of Shares in issue of 222,523,200 as at the Latest Practicable Date and immediately before completion of the Rights Issue with the Bonus Issue.
4. The unaudited net tangible assets of the Company per Share upon completion of the Rights Issue with the Bonus Issue is arrived at on the basis that (i) 222,523,200 Shares in issue as at the Latest Practicable Date and (ii) 333,784,800 Rights Shares and 222,523,200 Bonus Shares to be issued upon completion of the Rights Issue with Bonus Issue, were in issue assuming that the Rights Issue with the Bonus Issue had been completed on 30 June 2016.
5. For the purpose of preparation of the Unaudited Pro Forma Financial Information, the number of Shares presented above have been calculated and based after taking into account the share consolidation of every five ordinary shares of a par value of HK\$0.10 each into one consolidated share of a par value of HK\$0.50 which has become effective on 23 September 2016. No other adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Company entered into subsequent to 30 June 2016.

**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL  
INFORMATION**

*The following is the text of a report received from the Company's reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, prepared for the sole purpose of inclusion in this circular, in respect of the Unaudited Pro Forma Financial Information of the Company.*



31/F, Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the directors of China New Economy Fund Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of China New Economy Fund Limited (the “**Company**”) by the directors of the Company (“**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma net tangible assets of the Company as at 30 June 2016, and related notes (“**Unaudited Pro Forma Financial Information**”) as set out in Section A of Appendix II to the Company’s circular dated 21 November 2016 (the “**Circular**”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Section A of Appendix II to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of proposed Rights Issue with the Bonus Issue (as defined in the Circular) on the net tangible assets of the Company as if the Rights Issue with the Bonus Issue had taken place at 30 June 2016. As part of this process, information about the Company’s financial position has been extracted by the Directors from the Company’s condensed interim financial statements for the six months ended 30 June 2016, on which no audit or review report has been published.

**Directors’ responsibility for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 (“**AG 7**”) “*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

**Our independence and quality control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. Our firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting accountants' responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29 (7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (HKSAE) 3420 "*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*" issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Company as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2016 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Company, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29 (1) of the Listing Rules.

**HLB Hodgson Impey Cheng Limited**  
*Certified Public Accountants*

Hong Kong, 21 November 2016

## 1. RESPONSIBILITY STATEMENT

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

## 2. SHARE CAPITAL

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately after the approval of the Authorised Share Capital Increase but before the completion of the Rights Issue with the Bonus Issue and (iii) immediately after completion of the Rights Issue with the Bonus Issue are set out as follows:

### (i) As at the Latest Practicable Date

HK\$

*Authorised:*

<u>400,000,000</u>	Shares	<u>200,000,000.00</u>
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*Issued and fully paid:*

<u>222,523,200</u>	Shares	<u>111,261,600.00</u>
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### (ii) Immediately after the Authorised Share Capital Increase but before completion of the Rights Issue with the Bonus Issue

HK\$

*Authorised:*

<u>2,000,000,000</u>	Shares	<u>1,000,000,000.00</u>
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*Issued and fully paid:*

<u>222,523,200</u>	Shares	<u>111,261,600.00</u>
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**(iii) Immediately after completion of the Rights Issue with the Bonus Issue**

HK\$

*Authorised:*

<u>2,000,000,000</u>	Shares	<u>1,000,000,000.00</u>
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*Issued and fully paid:*

222,523,200	Shares	111,261,600.00
333,784,800	Rights Shares	166,892,400.00
<u>222,523,200</u>	Bonus Shares	<u>111,261,600.00</u>
<u>778,831,200</u>	Shares in total	<u>389,415,600.00</u>

All the existing Shares in issue are fully-paid and rank *pari passu* in all respects including all rights as to dividends, voting and return of capital. The Rights Shares and the Bonus Shares (when allotted, fully paid or credited as fully paid) will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Rights Shares and the Bonus Shares. Holders of the Rights Shares in their fully paid form and the Bonus Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Rights Shares and the Bonus Shares.

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 or Rights Shares or Bonus Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, the Company did not have any outstanding warrants, options or securities convertible into Shares.

As at the Latest Practicable Date, there was no arrangement under which future dividends are waived or agreed to be waived.

**3. DISCLOSURE OF INTERESTS****Director's and chief executive's interests in the Company**

As at the Latest Practicable Date, none of the Directors and chief executives of the Company and their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered the register referred

to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in the Listing Rules to be notified to the Company and the Stock Exchange.

#### **Interests and short positions of substantial Shareholders**

As at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares, debentures or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Company or had any options in respect of such Shares.

#### **4. DIRECTORS’ INTERESTS IN CONTRACT AND ASSETS**

As at the Latest Practicable Date, none of the Directors, directly or indirectly, had any interest in any assets which had since 31 December 2015 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to the Company, or were proposed to be acquired or disposed of by or leased to the Company.

As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Company.

#### **5. DIRECTORS’ SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had a service contract with the Company which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.

#### **6. MATERIAL CONTRACTS**

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company within the two years immediately preceding the Latest Practicable Date which are or may be material:

1. a placing agreement dated 16 July 2015 and entered into between the Company and Astrum Capital Management Limited in relation to the placing of up to 103,020,000 shares of HK\$0.1 each in the Company on a best efforts basis;



2. an underwriting agreement dated 23 November 2015 and entered into between the Company and the Underwriter (then known as Win Fung Securities Limited) in relation to the underwriting and other arrangements in respect of a rights issue of 309,060,000 rights shares of HK\$0.1 each in the Company on the basis of one rights share for every two shares held;
3. the custodian agreement entered into between the Company and Deutsche Bank AG, Hong Kong Branch for the provision of custody services in relation to securities and cash which the Company may deposit with the custodian from time to time;
4. the administration agreement entered into between the Company and Amicorp Hong Kong Limited for the provision of certain administrative services;
5. a placing agreement dated 13 June 2016 and entered into between the Company and Nuada Limited in relation to the placing of up to 185,436,000 shares of HK0.1 each in the Company on a best efforts basis; and
6. the Underwriting Agreement.

## 7. LITIGATION

The Company was not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against the Company as at the Latest Practicable Date.

## 8. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors, proposed directors or any of their respective associates had any interest in business which competes with or may compete with the business of the Company or had any other conflict of interests which any person has or may have with the Company.

## 9. EXPERTS AND CONSENTS

The following is the qualification of the experts who have been named in this circular or has given opinions, letter or advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Royal Excalibur Corporate Finance Company Limited	a corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activity as defined under the SFO
HLB Hodgson Impey Cheng Limited	Certified Public Accountants

As at the Latest Practicable Date, none of the above experts had any shareholding, directly or indirectly, in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.

As at the Latest Practicable Date, none of the above experts had any interest, direct or indirect, in the promotion of, or in any assets which since 31 December 2015, the date to which the latest published audited financial statements of the Company were made up, have been acquired or disposed of by or leased to, the Company, or are proposed to be acquired or disposed of by or leased to the Company.

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

#### **10. PARTIES INVOLVED IN THE RIGHTS ISSUE AND CORPORATE INFORMATION**

<b>Board of Directors</b>	Mr. GU Xu Mr. CHAN Cheong Yee Mr. LAM Chun Ho Mr. AYOUB Faris Ibrahim Taha Mr. PUN Tit Shan
<b>Head office and principal place of business</b>	Room 707, 7/F, New World Tower 1 16–18 Queen’s Road Central Central, Hong Kong
<b>Registered office</b>	P.O. Box 309, Uglan House, South Church Street, George Town, Grand Cayman KY1-1104, Cayman Islands
<b>Underwriter</b>	China Jianxin Financial Services Limited
<b>Legal advisers to the Company as to Hong Kong Law</b>	Michael Li & Co. 19/F, Prosperity Tower No. 39 Queen’s Road Central, Hong Kong
<b>Legal advisers to the Company as to Cayman Islands Law</b>	Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Central Hong Kong
<b>Independent Financial Adviser</b>	Royal Excalibur Corporate Finance Company Limited Unit 1204, 12/F Office Plus@Sheung Wan 93–103 Wing Lok Street Sheung Wan, Hong Kong

<b>Auditors</b>	HLB Hodgson Impey Cheng Limited 31/F Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong
<b>Principal banker</b>	DBS Bank (Hong Kong) Limited 73/F, The Center, 99 Queen's Road Central, Hong Kong
<b>Hong Kong share registrar and transfer office</b>	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
<b>Investment manager</b>	China Everbright Securities (HK) Limited 24/F., Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
<b>Custodian</b>	Deutsche Bank AG, Hong Kong Branch 52/F, International Commerce Centre 1 Austin Road West Kowloon, Hong Kong
<b>Administrator</b>	Amicorp Hong Kong Limited Rooms 2103–4, 21/F Wing On Centre 111 Connaught Road Central Hong Kong
<b>Authorised representatives</b>	Mr. Chan Cheong Yee Suite F, 29/F, Tower 10 South Horizons Apleichau Hong Kong  Mr. Tai Man Hin Tony Flat 10B, All Fit Garden 20 Bonham Road Hong Kong
<b>Company secretary</b>	Mr. Tai Man Hin Tony ( <i>CPA, ACA, FCCA</i> )

**Particulars of the Directors***(a) Name and address of Directors*

<b>Name</b>	<b>Address</b>
<i>Executive Directors</i>	
Mr. GU Xu	Room 703, No. 11 Lane 289 Ouyang Road, Hongkou District Shanghai, China
Mr. CHAN Cheong Yee	Suite F, 29/F, Tower 10 South Horizons Apleichau Hong Kong
<i>Independent Non-executive Directors</i>	
Mr. LAM Chun Ho	Flat C, 7/F, Block 1, Site 7 Whampoa Garden, Hung Hom Kowloon, Hong Kong
Mr. AYOUB Faris Ibrahim Taha	G/F Pokfulam Heights 86C Pok Fu Lam Road Hong Kong
Mr. PUN Tit Shan	Flat B, Ground Floor Block 3, Kent Court 137 Boundary Street Kowloon Tong, Kowloon Hong Kong

*(b) Profiles of Directors**Executive Directors*

**Mr. GU Xu (“Mr. Gu”)**, aged 52, was appointed as executive Director of the Company since 25 November 2010. Mr. Gu completed a bachelor’s degree majoring in Economics from Shanghai University of Finance and Economics (上海財經大學) in 1986. He further received a master’s degree majoring in Economics from the same university in 1989 and a master’s degree majoring in Business Administration awarded jointly by Fudan University (復旦大學) and The University of Hong Kong in 2003. Mr. Gu has accumulated 20 years’ experience in asset management, investment and financial management in both financial conglomerate and private company. From October 2006 to May 2008, Mr. Gu was the president and partner of 上海格雷特投資管理有限公司 (Create Capital Co., Ltd.) and he was responsible for

the management and investment decision making of a fund in the PRC. Since July 2009, Mr. Gu has been acting as the director of 河南農開投資基金管理有限責任公司 (Henan Agriculture Development Investment Fund Management Limited) and is responsible for the management and supervision of a fund named 河南農業開發產業投資基金 (Henan Agriculture Development Investment Fund). Since August 2010, Mr. Gu has been serving as the general manager of 上海宏華文化創業投資有限責任公司 (Shanghai Honghua Cultural Venture Investment Company Limited) (the “Honghua Fund”), a fund company targeting investment in culture industry in China. He is also the general manager and director of the investment manager of the Honghua Fund. Mr. Gu is also the chairman of the board of 上海東晟投資管理有限公司 (Shanghai Dongsheng Investment Management Co., Ltd.). Mr. Gu is currently the supervisor of 中海集裝箱股份有限公司 (China Shipping Container Lines Company Limited). He is also the president of 河南中原聯創投資基金管理有限責任公司 (Henan Zhong Yuan Lian Chuang Investment Fund Management Company Limited) and independent supervisor of 蘇州金融租賃股份有限公司 (Suzhou Financial Leasing Company Limited).

**Mr. CHAN Cheong Yee (“Mr. Chan”)**, aged 52, was appointed as an executive Director since 1 June 2013. Mr. Chan is one of the responsible officers of the Investment Manager. Mr. Chan is currently a licensed person to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 3 (leveraged foreign exchange trading) and type 9 (asset management) regulated activities under the SFO. Mr. Chan obtained a Bachelor of Science degree from the College of Business Administration of The University of South Florida in the United States of America. Mr. Chan is experienced in dealing in securities, fund management, corporate management, corporate finance and managing listed investment companies under Chapter 21 of the Listing Rules. Since June 2003, Mr. Chan joined China Innovation Investment Limited (1217.HK), an investment company listed on the Stock Exchange, as an executive director. Mr. Chan was appointed as an independent non-executive director of Bingo Group Holdings Limited (8220.HK), a company listed on the Growth Enterprise Market of the Stock Exchange, in August 2007, and was re-designated as an executive director of Bingo Group Holdings Limited in April 2009. Mr. Chan was appointed as an independent non-executive director of Agritrade Resources Limited (1131.HK), a company listed on the Stock Exchange, in June 2010. Mr. Chan was appointed as an executive director of China Investment and Finance Group Limited (1226.HK), an investment company listed on the Stock Exchange, in March 2011. Mr. Chan was appointed as an executive director of China Investment Development Limited (204.HK), an investment company listed on the Stock Exchange, in May 2012 and was appointed as an executive director of Capital VC Limited (2324.HK), an investment company listed on the Stock Exchange, in November 2012. Mr. Chan was appointed as an executive director of Alpha Returns Group PLC, an investment company listed on AIM of London Stock Exchange, in May 2013.

*Independent Non-executive Directors*

**Mr. LAM Chun Ho (“Mr. Lam”)**, aged 34, graduated from Hong Kong Baptist University with a bachelor degree of Business Administration in Accounting. Mr. Lam is an associate member of the Hong Kong Institute of Certificate Public Accountants and he has over 9 years’ experience in the field of auditing, financial reporting and financial management. Mr. Lam is currently a manager of a local corporate service company. Since 24 October 2014, Mr. Lam has been appointed as an independent non-executive director of China Wah Yan Healthcare Limited (648.HK), a company listed on the main board of the Stock Exchange.

**Mr. AYOUB Faris Ibrahim Taha (“Mr. Ayoub”)**, aged 37, was appointed as an independent non-executive Director since 1 February 2014. He is a member of the audit committee, nomination committee and remuneration committee of the Company. Mr. Ayoub holds a Master of Arts (Hons) in Economics & Political Science from University of Edinburgh. He has over 14 years’ experience in financial advisory and investments. Mr. Ayoub was an executive director in global principal investments & trading division of JP Morgan, Hong Kong. Since March 2012, he became the Managing Director of Cassia Investments Limited, which is a consumer focused investment firm specialising in lower middle-market companies across Asia.

**Mr. PUN Tit Shan (“Mr. Pun”)**, aged 55, has been appointed as an independent non executive Director since 8 April 2016. He is a member of the Audit Committee, Nomination Committee and the Remuneration Committee of the Company. Mr. Pun is currently the chief executive officer of Asia Wealth Securities Limited and the independent non-executive directors of Convoy Global Holdings Limited (1019.HK) since 9th May 2016 and CPMC Holdings Limited (906.HK) since 1st September 2016 respectively, who holds a master of business administration degree (with honour) from the University of Manchester. Mr. Pun is currently a licensed person to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 9 (asset management) regulated activities under the SFO. He has over 31 years of experience in the finance field, such as strategic dealing and arbitraging in the derivatives market, sales and marketing management in the primary and secondary equity market and sales and assets managing of high net-worth clients and investment advisory. From 1984 to 1989, Mr. Pun was a chief trader and dealing room manager of legacy Po Sang Bank Ltd., Hong Kong and was a vice president and senior dealer of Credit Suisse, Hong Kong from 1989 to 1993, both focusing on foreign exchange and precious metals trading. From 1993 to 1994, he was a manager of Po Sang Financial Investment Services Co., Ltd. From 1994 to 1996, he was appointed as directors of Po Sang Futures Ltd. and Chung Mao Commodities & Futures Ltd. From 1996 to 2003, he acted as vice president of Bank of China International Securities Ltd. looking after the stock options and the financial derivatives and the brokerage sales department. From 2003 to 2008, he was the responsible officer and director of Southwest Securities (HK) Brokerage Ltd. (formerly known as Tanrich Securities Co. Ltd.), Southwest Securities (HK) Asset Management Ltd. (formerly known as Tanrich Asset Management Ltd.), and Southwest Securities (HK) Futures Ltd. (formerly known as Tanrich Futures Ltd.).

From 2008 to 2015, he was the responsible officer of Haitong International Securities Co. Ltd, Haitong International Futures Ltd., and in the years of 2008 to 2014, he was also the responsible officer of Haitong International Assets Management Ltd. In January 2015 to September 2015, he was also the responsible officer of Haitong International Consultants Ltd of which the principal activities were engaged in asset management. From November 2015 to July 2016, He was the chief investment officer of Astrum Capital Management Limited. Currently, he is the vicechairman of Institute of Financial Analyst and Professional Commentator; a member of Lions Club of Hong Kong Shouson Hill and the honorary consultant of Hong Kong Ningxia Youth Association (香港寧夏青年會) since 2015. Mr. Pun was previously a board director of Hong Kong Futures Exchange Ltd. (1995–1999); aboard director of Hong Kong Stock Exchange Options Clearing House Ltd. (1997–2000); a membership committee member of Hong Kong Securities Institute (1998–2002); a panel member of Derivatives Market Consultative Panel (2000–2003); and a committee member of Hong Kong Securities Institute Professional Education Committee (2002–2004).

## 11. EXPENSES

The expenses in connection with the Rights Issue, including the underwriting commission and professional fees payable to lawyers, reporting accountants and financial printer, etc., are estimated to be approximately HK\$7.6 million and will be payable by the Company.

## 12. BINDING EFFECT

The Prospectus Documents and all acceptances of any offer or application contained in such documents, are governed by and shall be construed in accordance with the laws of Hong Kong. When an acceptance or application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

## 13. INVESTMENT OBJECTIVES, POLICIES AND RESTRICTIONS

Upon the listing of the Shares on the Stock Exchange on 6 January 2011, the Company has adopted an investment policy which, as stated in the prospectus (the “**Listing Document**”) of the Company for the listing of its Shares dated 31 December 2010, in accordance with the Listing Rules, for a period of three years from the date of Listing Document, may only be changed with the approval of the majority of Shareholders at a general meeting of the Company. After such period, on 23 January 2014, the Board adopted a new Investment policy in place of the old one which the Directors consider is in the best interests of the Company and the Shareholders as a whole in light of the latest development and current market situation. The investment objective and such policies are summarised below:

### Investment Objectives

The Company may invest its funds (including but not limited to surplus funds, funds or not designated for specific purpose, or any funds realised from realisation of any investment) (collectively the “**Company’s Funds**”) in such forms and terms in compliance with this investment policy and considered by the Board or any delegates of the Board to be appropriate through investing the Company’s Funds in diversified portfolio of investments products including listed or unlisted securities, unit trust funds, derivatives, futures, warrants, options, bonds or such other investments as the Board, or such committees or person as the Board may authorise, may decide from time to time, so as to achieve capital appreciation.

### Investment Policy

The investment policies of the Company shall be as follows:

- (i) **Forms of Investment:** The Company’s Funds may be invested in (i) equity securities, equity-related securities, cash deposits, fixed deposits, trusts, unit trusts, mutual funds, derivatives, futures, warrants, options, bonds or debt instruments (collectively, the “**Investment Tools**”) issued by listed or unlisted enterprises established and/or conducting business in or outside Hong Kong, or (ii) in the form of interests in private companies, establishment of a partnership or participation in unincorporated investments, or (iii) such other types of investments in accordance with the investment objective and policies adopted by the Company from time to time, subject to the requirements of the memorandum and articles of association of the Company and the Listing Rules;
- (ii) **Industries to be invested in:** The Company’s Funds shall normally be invested in the Investment Tools issued by any listed or unlisted companies engaged in different industries including, but not limited to, information technology, telecommunications, biological technology, manufacturing, service, property, internet-related business, financial services, entertainment business and hotel catering, which the Board, the research and operation team of the Company, the investment manager of the Company appointed from time to time, or such committees or person as the Board may authorise from time to time, consider to be of high growth potential or to be with significant potential return, and where appropriate and necessary, to invest in such Investment Tools issued by any listed or unlisted companies in such a variety of industries with a view to maintain a balance in the Company’s exposure to different industry sectors in order to minimise the impact on the Company in respect of any downturn in any particular sector in which the Company has investments; where it is not to the benefit of the Company to realise such investments and the market conditions are favourable, the Company may package such investments into equity and/or equity-related products to hedge against unfavourable conditions;



- (iii) **Factors to be considered in making particular investment:** The Company's Funds shall normally be invested in enterprises which are established in their respective fields and in which the Board, the research and operation team of the Company, the Investment Manager, or such committees or person as the Board may authorize from time to time, believes there are potential prospects for possible growth. In particular, the Company shall seek to identify enterprises with competitive products and concepts, strong management, high level of technical expertise and research and development capabilities, large potential markets, as well as management commitment to the long-term growth;
- (iv) **Investment in entities in recovery situation:** The Company's Funds may also be invested in companies or other entities which are considered by the Board, or such committees or person as the Board may authorise from time to time, as being special or in recovery situations on a case-by-case basis, such as companies in the course of recovery situations or the shares of which are trading below their net asset value per share, which may have potential to attain growth within the foreseeable future which may provide attractive returns to the Company;
- (v) **Additional factor in making investment decision:** Where possible (but not compulsory), the Company's Funds shall be invested in entities where there is a certain degree of synergy with other investee entities and where co-operation between such companies would be of mutual benefit to each other;
- (vi) **Term of investment:** The actual holding period of the Investment Tools shall be dependent on the return from investment, the prospect of the investee entities, and/or the potential of being listed on the Stock Exchange or other internationally recognised stock exchanges. The Company may, however, realise investments where the Board, the research and operation team of the Company, the Investment Manager, or such committees or person as the Board may authorise from time to time, believes that such realisation would be in the best interests of the Company and its shareholders as a whole or where the terms on which such realisation can be made are considered by the Board to be particularly favourable to the Company; and
- (vii) **Preservation of Company's Funds:** Before suitable investments are identified, the Company may seek to protect the capital value of the Company's Funds by placing the funds not deployed on deposits in Hong Kong Dollars or any currency with financial institutions in Hong Kong or investing in debt securities, money market instruments, bonds, treasury securities or other instruments denominated in any currency. The Company may also engage in transactions in options and futures which are traded on recognised securities exchanges, futures exchanges or other over-the-counter markets.

The investment policy above can be changed by a resolution of the Board without Shareholders' approval.

**Investment Restriction**

Under the articles of association of the Company and the Listing Rules, certain restrictions on investments are imposed on the Company:

- (i) the Company shall not make any investment which would expose the Company to unlimited liability;
- (ii) the Company shall not either by itself or through its wholly-owned subsidiaries (if any) or in conjunction with any connected person (as defined in the Listing Rules) take legal or effective management control of underlying investments and in no event, will the Company itself or through its wholly-owned subsidiaries (if any) invest in or own or control more than 30% (or such other percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers or other laws, regulations, rules, codes, orders or policies of other relevant jurisdictions as being the level of interest for triggering a mandatory general offer for all the interest in any of the investee companies or any other similar action or consequence) of the voting rights in any one company or body, except in relation to wholly-owned subsidiaries (if any) of the Company for the sole purpose of holding investments of the Company; and
- (iii) save in respect of cash deposits awaiting investment, the value of the Company's holding of investments issued by any one company or body shall not exceed 20% of the net asset value of the Company at the time the investment is made.

The Company has to comply with investment restrictions (ii) and (iii) above at all times while it remains as an investment company under Chapter 21 of the Listing Rules. The investment restriction (i) above can be changed by a resolution of the Board without Shareholders' approval. Save for the unlisted securities, as at the Latest Practicable Date, the Company has no present intention to invest in options, warrants, commodities, futures contracts or precious metals.

## 14. INVESTMENT PORTFOLIO

Details of all the Company's financial assets at fair value through profit or loss as at 31 December 2015 and 30 June 2016 respectively are as follows:

**At 30 June 2016***Listed Equity Securities — Hong Kong*

Name of investee	Place of incorporation	Particular of issued shares held	Proportion of investee's capital owned	Cost HK\$'000	Market value HK\$'000	Unrealised gain/(loss) recognised HK\$'000 (Note 1)	Net assets attributable to the Company (Note 2)	Dividend received/receivable during the Period HK\$'000	% of gross assets of the Company
(a) LEAP Holdings Group Limited	The Cayman Islands	70,000,000 ordinary shares of HK\$0.01 each	2.85%	26,250	50,400	24,150	HK\$4.74 million	—	7.25
(b) Luen Wong Group Holdings Limited	The Cayman Islands	8,120,000 ordinary shares of HK\$0.01 each	0.65%	2,111	44,660	42,549	HK\$0.52 million	—	6.42
(c) First Credit Finance Group Limited	Bermuda	180,000,000 ordinary shares of HK\$0.02 each	4.96%	32,574	43,020	10,446	HK\$44.96 million	—	6.19
(d) Town Health International Medical Group Limited	Bermuda	31,704,000 ordinary shares of HK\$0.01 each	0.41%	46,708	39,947	(6,761)	HK\$18.39 million	311	5.74
(e) RCG Holdings Limited	Bermuda	69,600,000 ordinary shares of HK\$0.04 each	4.57%	22,294	37,584	15,290	HK\$30.36 million	—	5.40
(f) Interactive Entertainment China Cultural Technology Investments Limited	Bermuda	289,800,000 ordinary shares of HK\$0.01 each	5.88%	40,297	33,327	(6,970)	HK\$73.05 million	—	4.79
(g) Convoy Global Holdings Limited (Formerly known as Convoy Financial Holdings Limited)	The Cayman Islands	93,564,000 ordinary shares of HK\$0.1 each	0.63%	47,221	32,747	(14,474)	HK\$31.09 million	—	4.71
(h) China Parenting Network Holdings Limited	The Cayman Islands	14,002,000 Ordinary shares of HK\$0.01 each	1.36%	19,463	32,205	12,742	RMB4.46 million	—	4.63

*Private Equity Fund — Cayman Islands*

Name of investee	Place of incorporation	Particular of issued shares held	Proportion of investee's capital owned	Cost HK\$'000	Market value HK\$'000	Unrealised gain/(loss) recognised HK\$'000 (Note 1)	Net assets attributable to the Company (Note 2)	Dividend received/receivable during the Period HK\$'000	% of gross assets of the Company
(i) Hydra Capital SPC	The Cayman Islands	3,750 shares of HK\$10,000 each	16.74%	37,500	41,368	3,868	HK\$41.37 million	—	5.95

*Private Equity — British Virgin Islands*

Name of investee	Place of incorporation	Particular of issued shares held	Proportion of investee's capital owned	Cost HK\$'000	Market value HK\$'000	Unrealised gain/(loss) recognised HK\$'000 (Note 1)	Net assets attributable to the Company (Note 2)	Dividend received/receivable during the Period HK\$'000	% of gross assets of the Company
(j) Gransing Financial Holdings Limited	British Virgin Islands	20 shares of US\$1 each	16.67%	31,619	32,000	381	HK\$12.45 million	—	4.60

**At 31 December 2015***Listed Equity Securities — Hong Kong*

Name of investee	Place of incorporation	Particular of issued shares held	Proportion of investee's capital owned	Cost HK\$'000	Market value HK\$'000	Unrealised gain/(loss) recognised HK\$'000 (Note 3)	Net assets attributable to the Company (Note 2)	Dividend received/receivable during the year HK\$'000	% of gross assets of the Company
Town Health International Medical Group Limited	Bermuda	31,704,000 ordinary shares of HK\$0.01 each	0.42%	46,621	50,409	3,789	HK\$19.23 million	83	14.82
China Parenting Network Holdings Limited	The Cayman Islands	14,002,000 ordinary shares of HK\$0.01 each	1.36%	19,463	33,325	13,862	RMB4.12 million	—	9.80
Convoy Financial Holdings Limited	The Cayman Islands	63,564,000 ordinary shares of HK\$0.1 each	0.43%	36,438	27,333	(9,105)	HK\$21.17 million	—	8.04
RCG Holdings Limited	Bermuda	69,600,000 ordinary shares of HK\$0.04 each	4.63%	22,294	18,444	(3,850)	HK\$30.76 million	—	5.42
AMCO United Holding Limited	Bermuda	31,430,000 ordinary shares of HK\$0.01 each	2.53%	17,042	15,558	(1,484)	HK\$6.17 million	—	4.57
Suncorp Technologies Limited	Bermuda	102,000,000 ordinary shares of HK\$0.0003 each	0.67%	24,990	12,546	(12,444)	HK\$4.18 million	—	3.69
China Wah Yan Healthcare Limited	Hong Kong	100,424,554 ordinary shares	3.84%	16,148	12,252	(3,896)	HK\$14.54 million	—	3.60

*Private Equity Funds — Cayman Islands*

Name of investee	Place of incorporation	Particular of issued shares held	Proportion of investee's capital owned	Cost HK\$'000	Market value HK\$'000	Unrealised gain/(loss) recognised HK\$'000 (Note 3)	Net assets attributable to the Company (Note 2)	Dividend received/receivable during the year HK\$'000	% of gross assets of the Company
Hydra Capital SPC	The Cayman Islands	3,750	16.74%	37,500	32,221	(5,279)	HK\$32.22 million	10,365	9.47
SBI China M&A Opportunities Fund SPC	The Cayman Islands	1,612	13.49%	12,897	12,070	(827)	HK\$12.07 million	—	3.55

*Private Equity — Hong Kong*

Name of investee	Place of incorporation	Particular of issued shares held	Proportion of investee's capital owned	Cost HK\$'000	Market value HK\$'000	Unrealised gain/(loss) recognised HK\$'000 (Note 3)	Net assets attributable to the Company (Note 2)	Dividend received/receivable during the year HK\$'000	% of gross assets of the Company
Sense Key Design Holdings Limited	Hong Kong	199	19.9%	25,000	25,000	—	HK\$1.28 million	—	7.35

*Notes:*

- (1) The unrealised gain/(loss) represented the changes in fair value of the respective investments during the Period.
- (2) The calculation of net assets attributable to the Company is based on the latest published interim/annual report of the respective investments as at the latest practicable date at the end of each reporting period.
- (3) The unrealised gain/(loss) represented the changes in fair value of the respective investments during the year ended 31 December 2015.

A brief description of the business and financial information of the investments is as follows:

- (a) LEAP Holdings Group Limited (“**LEAP Holdings GP**”) is principally engaged in provision of foundation works and ancillary services and construction wastes handling. The audited profit attributable to shareholders of LEAP Holdings GP for the year ended 31 March 2016 was approximately HK\$29,225,000 and the audited net assets attributable to shareholders of LEAP Holdings GP as at 31 March 2016 was approximately HK\$166,461,000. The fair value of the investment in LEAP Holdings GP is based on quoted market bid prices.
- (b) Luen Wong Group Holdings Limited (“**Luen Wong GP**”) is principally engaged in provision of civil engineering works and investment holding. The unaudited profit attributable to shareholders of Luen Wong GP for the three months ended 30 June 2016 was approximately HK\$3,703,000 and the unaudited net assets attributable to shareholders of Luen Wong GP as at 30 June 2016 was approximately HK\$79,950,000. The fair value of the investment in Luen Wong GP is based on quoted market bid prices.

- (c) First Credit Finance Group Limited (“**First Credit**”) is principally engaged in money lending business which provides customers with a wide range of loan products and services to meet their financial needs. The unaudited profit attributable to shareholders of First Credit for the six months ended 30 June 2016 was approximately HK\$14,643,390 and the unaudited net assets attributable to shareholders of First Credit as at 30 June 2016 was approximately HK\$906,408,322. The fair value of the investment in First Credit is based on quoted market bid prices.
- (d) Town Health International Medical Group Limited (“**Town Health**”) is principally engaged in healthcare business investment; provision and management of medical, dental and other healthcare care related services; investments and trading in properties and securities. The unaudited profit attributable to shareholders of Town Health for the six months ended 30 June 2016 was approximately HK\$54,239,000 and the unaudited net assets attributable to shareholders of Town Health as at 30 June 2016 was approximately HK\$4,501,188,000. The fair value of the investment in Town Health is based on quoted market bid prices.
- (e) RCG Holdings Limited (“**RCG Holdings**”) is principally engaged in the provision of biometric and Radio Frequency Identification products and solution services. The audited profit attributable to shareholders of RCG Holdings for the year ended 31 December 2015 was approximately HK\$156,498,000 and the audited net assets attributable to shareholders of RCG Holdings as at 31 December 2015 was approximately HK\$664,602,000. The fair value of the investment in RCG Holdings is based on quoted market bid prices.
- (f) Interactive Entertainment China Cultural Technology Investments Limited (“**IE China**”) is principally engaged in (i) mobile internet cultural business and provision of IT services; (ii) provision of hospitality and related services in Australia; (iii) provision of medical diagnostic and health check services; (iv) provision of integral marketing services; (v) money lending business; and (vi) assets investments business. The unaudited loss attributable to shareholders of IE China for the six months ended 30 June 2016 was approximately HK\$98,791,000 and the unaudited net assets attributable to shareholders of IE China as at 30 June 2016 was approximately HK\$1,241,673,000. The fair value of the investment in IE China is based on quoted market bid prices.
- (g) Convoy Global Holdings Limited (“**Convoy**”) is principally engaged in the independent financial advisory (“**IFA**”) business, money lending business, proprietary investment business, asset management business, corporate finance advisory services and securities dealing business and investment holdings. The unaudited profit attributable to shareholders of Convoy for the six months ended 30 June 2016 was approximately HK\$7,916,000 and the unaudited net assets attributable to shareholders of Convoy as at 30 June 2016 was approximately HK\$4,963,533,000. The fair value of the investment in Convoy is based on quoted market bid prices.

- (h) China Parenting Network Holdings Limited (“**China Parenting**”) is principally engaged in online platform focusing on the Children-Babies-Maternity market in China to provide marketing and promotional service and e-commerce business. The unaudited profit attributable to shareholders of China Parenting for the six months ended 30 June 2016 was approximately RMB20,597,000 and the unaudited net assets attributable to shareholders of China Parenting as at 30 June 2016 was approximately RMB326,720,000. The fair value of the investment in China Parenting is based on quoted market bid prices.
- (i) Hydra Capital SPC (“**Hydra Capital**”) is an exempted company incorporated with limited liability and registered as a segregated portfolio company under the laws of the Cayman Islands established for the purpose of making investments on behalf of its portfolio holders. Hydra Capital has engaged a manager to make day-to-day decisions regarding the management of its investments. The manager has appointed an investment manager to manage and invest the assets of the investment portfolio on a discretionary basis. The investment manager is a company incorporated in Hong Kong with limited liability principally engaged in the provision of investment advisory, funds dealing, introducing brokers and asset management service. The investment portfolio of Hydra Capital is currently focused on making investments in internet-related and mobile-applications-related industries. The fair value of the investment in Hydra Capital is stated as net asset value.
- (j) Gransing Financial Holdings Limited (“**Gransing Holdings**”) is principally engage in provision of quality brokerage, corporate finance, asset management and financial adviser services to institutional and individual investors through its subsidiaries. The fair value of the investment in Gransing Holdings is stated as recent arm’s length market transactions.

The top three investments with realised gain and loss for the Period are summarised as below:

**Top three realised gain for the Period**

Name of investment	Realised gain <i>HK\$’000</i>
Amco United Holding Ltd.	9,328
Luen Wong Group Holdings Ltd.	9,305
Gameone Holdings Ltd.	1,904

**Top three realised loss for the Period**

<b>Name of investment</b>	<b>Realised loss</b> <i>HK\$'000</i>
Smartac Group China Holdings Ltd.	2,657
ICO Group Ltd.	1,860
Sky Light Holdings Ltd.	364

**15. DISTRIBUTION POLICY**

The Company's investment objective is to achieve long-term capital appreciation and, accordingly, the Company's investment portfolio is not expected to generate significant income. It is therefore not expected that the Company will have significant (if any) dividend income after expenses available for distribution by way of dividend and therefore the Company does not expect to declare dividend. Any declaration of distributions will be made at the discretion of the Directors and may be either from profit, reserves of the Company (including share premium account) or any amount lawfully available for distribution.

**16. FOREIGN EXCHANGE POLICY**

The Company's investments may be denominated in currencies other than Hong Kong dollars. As such, it may receive income, or make payments in foreign currency and is therefore subject to exchange rate fluctuations. The PRC's system of foreign exchange administration imposes significant restrictions on the ability of enterprises located in the PRC to purchase, retain and make outward remittance of foreign currency. The relevant rules governing exchange control relating to the inflow and outflow of foreign exchange are contained primarily in the Regulations of Foreign Exchange Control (as amended) promulgated on 29 January 1996 and effected on 1 April 1996. In summary, all foreign exchange receipts (from capital injection or sales) must be deposited in the foreign exchange account opened with the designated bank approved to operate foreign exchange business by State Administration of Foreign Exchange ("SAFE"). Foreign exchange under current account items (such as dividends and profits) can be remitted abroad upon presentation of necessary documents, including auditor's report, capital verification report, foreign exchange registration certificate and tax certificates as well as other documents requires by SAFE. Foreign exchange under capital account items (such as interest and repatriation of capital) may be remitted abroad upon presentation of necessary documents and subject to approval of SAFE. The Company may also enter into hedging transactions to seek to reduce risk associated with currency exchange rate.



## 17. TAXATION

### General

The taxation of income and capital gains of the Company is subject to the fiscal law and practice of Hong Kong. The following summary of the anticipated tax treatment generally applicable to the Company in Hong Kong is based on current law and practice subject to changes therein and does not constitute legal or tax advice. Prospective investors should consult their own professional advisers on the tax implications of investing, holding or disposing of Shares or of exercising any rights attached to them under the laws of the jurisdiction in which they are liable to taxation.

### Hong Kong

The Company will be subject to tax in Hong Kong if it carry on business in Hong Kong and derive Hong Kong sourced profits from such business. In that case, the Company will be subject to profits tax, currently imposed at a rate of 16.5% on any profits (including interest) which arise in or are derived from Hong Kong. Capital gains and offshore profits are not taxable. In this regard, profits derived from the offshore disposal of shares listed or registered outside Hong Kong may in certain circumstances be considered as derived from outside Hong Kong and would, therefore, not attract a Hong Kong profits tax liability. Under current law and practice, no tax will be payable by the Company in Hong Kong in respect of dividends paid by the Company. Gains arising on the sale of shares will be subject to profits tax where derived by certain persons carrying on a trade, profession or business of share dealing in Hong Kong. Hong Kong stamp duty, currently at the rate of 0.1% of the consideration or its value will be payable by the buyer on every purchase, and also by the seller on every sale, of shares (that is, a total of 0.2% is currently payable on a typical sale and purchase transaction). In addition a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares.

### Cayman Islands

The government of the Cayman Islands will not, under the existing legislation, impose any income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax upon the Company or the Shareholders. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties. The Company has obtained an undertaking from the Governor-in-Cabinet of the Cayman Islands that, in accordance with section 6 of the Tax Concessions Law (1999 revision) of the Cayman Islands, for a period of 20 years from the date of the undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable, (i) on or in respect of the Shares, debentures or other obligations of the Company, or (ii) by way of the withholding in whole or in part of a payment of dividend or other distribution of income or capital by the Company to its members or a payment of principal or interest or other sums due under a debenture or other obligation of the

Company. No stamp duty is payable in the Cayman Islands on transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

## PRC

The information set out below is a summary of the principal areas of the PRC taxation and fees which are likely to be relevant to the investments of the Company in the PRC.

### Income Tax

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), which was promulgated on 16 March 2007, the income tax for both domestic and foreign-invested enterprises has been at the same rate of 25% effective since 1 January 2008. Business Tax Pursuant to the Provisional Regulations of the PRC on Business Tax (中華人民共和國營業稅暫行條例) enacted by the State Council on 13 December 1993 and enforced on 1 January 1994 and which was later amended in November 2008 and became enforceable on 1 January 2009 and its Implementation Rules on the Provisional Regulations of the PRC on Business Tax (中華人民共和國營業稅暫行條例實施細則) issued by the Ministry of Finance on 25 December 1993, which was later amended in 2008 (enforceable on 1 January 2009) and amended in 2011 (enforceable on 1 November 2011), business tax is imposed on income derived from the furnishing of specified services and transferring of immovable property or intangible property at rates ranging from 3% to 20%, depending on the activity.

## 18. BORROWING POWERS

Generally the Company will not exceed aggregate borrowings of 100% of the latest available net asset value of the Company at the time of any borrowing. Subject thereto, the Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of the Company or of any third party. Where the Directors believe it is in the best interests of the Company, the above borrowing restrictions may be altered without Shareholders' approval.

## 19. INFORMATION ON THE INVESTMENT MANAGER

(a) Set out below is the information of the investment manager of the Company:

China Everbright Securities (HK) Limited  
24/F., Lee Garden One  
33 Hysan Avenue  
Causeway Bay  
Hong Kong

The Investment Manager is a company incorporated in Hong Kong with limited liability and a licensed corporation under the SFO authorised to carry out regulated activities of type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management).

(b) The full names, addresses and descriptions of the directors of the Investment Manager is as follows:

<b>Name</b>	<b>Address</b>
Mr. Li Bingtao	24/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Mr. Cheung Pang To	24/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Mr. So Hin Pong	24/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Mr. Ho Chi Ho	24/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong

The biographies of the directors of the Investment Manager are as follows:

#### **Li Bingtao**

Mr. Li is the Director of China Everbright Securities (HK) Limited. He joined China Everbright Securities (HK) Limited on 13 October 2014. Mr. Li holds several degrees including a Master of Arts from New York University. Mr. Li started his financial career at Lianhe Securities in 2001, and worked for Washington Mutual and JP Morgan Chase Bank later on. From April 2009 to March 2014, Mr. Li served at China Securities Regulation Committee, and joined Everbright Securities Company Limited in April 2014. On 24 September 2014, Mr. Li has become the Executive Director and Chief Executive Officer of China Everbright Securities International Limited. Mr. Li also holds the CFA and FRM designation.

**So Hin Pong**

Mr. So is the Director and the Head of Customer Services of China Everbright Securities (HK) Limited. He joined China Everbright Securities (HK) Limited on 12 June 2001. Mr. So attained Diploma in Finance awarded by the Chinese University of Hong Kong. Mr. So has 30 years of working experience in Hong Kong financial industry. Mr. So is the Responsible Officer of China Everbright Securities (HK) Limited and its associates holding licence for carrying on types 1, 2, 3, 4, 5, 6 and 9 regulated activities pursuant to the SFO.

**Cheung Pang To**

Mr. Cheung is the Managing Director and the Head of Sales of China Everbright Securities (HK) Limited. He joined China Everbright Securities (HK) Limited on 11 June 2001. Mr. Cheung attained Bachelor of Business Administration in 1988 and a Master's degree in Business Administration in 1996. Mr. Cheung has over 22 years of working experience in the Hong Kong financial industry. Mr. Cheung is the Responsible Officer of China Everbright Securities (HK) Limited and its associates holding licence for carrying on types 1, 2, 3, 4, 5 and 9 regulated activities pursuant to the SFO. Before joining China Everbright Securities (HK) Limited, he worked for Sun Hung Kai & Co., Ltd. for over 12 years.

**Ho Chi Ho**

Mr. Ho is the Director of China Everbright Capital Limited and China Everbright Securities (HK) Limited. He joined China Everbright Capital Limited on 20 June 2005. Mr. Ho graduated from the Chinese University of Hong Kong in 1996 with a bachelor degree in Business Administration. Mr. Ho has been in the corporate finance industry for over 16 years. Mr. Ho is the Principal and the Responsible Officer for carrying on types 1, 4, 6 regulated activities pursuant to the SFO of China Everbright Capital Limited and China Everbright Securities (HK) Limited. Prior to joining China Everbright Capital Limited, Mr. Ho worked for Guotai Junan Capital Limited and First Shanghai Capital Limited as their senior management.

- (c) None of the Directors, the directors of the Investment Manager, any investment adviser or any distribution company, or any associate of any of those persons, is or will become entitled to receive any part of any brokerage charged to the Company, or any re-allowance of other types on purchases charged to the Company.
- (d) On 18 December 2013, the Company has entered into the agreement (the “**Investment Management Agreement**”) with the Investment Manager, pursuant to which the Investment Manager has agreed to provide non-discretionary investment management services to the Company for a period of three years from 1 January 2014 to 31 December 2016. The maximum aggregate fee payable by the Company to the Investment Manager under the Investment Management Agreement will not exceed HK\$960,000 per annum. The Investment Manager will provide non-discretionary investment management services to the Company under the Investment Management Agreement including: (i) identifying, reviewing and evaluating

investment and divestment opportunities for the Company and negotiating the terms of such investment and divestment for the Company in accordance with the investment policies of the Company and directions from the Investment Committee of the Company; (ii) providing investment recommendations to the Investment Committee and assisting the Investment Committee in structuring acquisitions and disposals; (iii) executing investment and divestment decisions of the Company in accordance with the instructions of the Investment Committee; and (iv) providing general administrative services.

## 21. CUSTODIAN

Deutsche Bank AG, Hong Kong Branch, whose address is at 52/F, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, was appointed as the custodian in relation to the investments which the Company may from time to time deposit with the custodian.

The Company had terminated the custodian agreement with HSBC Institutional Trust Services (Asia) Limited effective on 2 August 2015 and appointed Deutsche Bank AG, Hong Kong Branch (the “**Custodian**”) as its new custodian. The custodian agreement with Deutsche Bank AG, Hong Kong Branch (the “**Custodian Agreement**”) was effective and will continue to be in force until terminated by either the Company or the Custodian by giving the other party not less than one month’s advance notice in writing.

Pursuant to the Custodian Agreement, the Company will pay the Custodian a monthly fee of the higher of (a) the net asset value of the Company at valuation day equal to the rate 0.02% per annum, or (b) USD2,500 per month.

## 22. RISK FACTORS OF INVESTING IN THE COMPANY

The Company is an investment company and its funds will be invested globally in both private and publicly listed enterprises that have demonstrated the ability to manufacture a product or deliver a service that is supported by the economies of mainland China, Hong Kong, Macau and Taiwan. These investments will be subject to market fluctuations and the risks inherent in all investments. Investors should also be aware that the Company’s income and its net assets value may be adversely affected by external factors beyond the control of the Company. As a result, the Company’s operating results and its net assets value may go down as well as up, subject to, among other factors, the prevailing market condition.

## 23. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Tai Man Hin Tony (CPA, ACA, FCCA) who is a fellow member of The Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.
- (b) The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

**24. DOCUMENTS FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours in any weekday (excluding Saturdays, Sundays and public holidays) at the office of the Company at Room 707, 7/F, New World Tower 1, 16–18 Queen’s Road Central Hong Kong, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the years ended 31 December 2014 and 2015 and the interim report of the Company for the six months ended 30 June 2016;
- (c) the letter issued by the reporting accountants regarding the unaudited pro forma financial information as set out in appendix II of this circular;
- (d) the written consents referred to in the paragraph headed “Experts and Consents” in this appendix;
- (e) the letter from the Independent Board Committee;
- (f) the letter from the Independent Financial Adviser;
- (g) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix; and
- (h) this circular.

**NOTICE OF EGM**

**CHINA NEW ECONOMY FUND LIMITED**

**中國新經濟投資有限公司**

*(Incorporated in the Cayman Islands as an exempted company with limited liability)*

**(Stock code: 80)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (“EGM”) of China New Economy Fund Limited (the “**Company**”) will be held at 5/F., Euro Trade Centre, 13–14 Connaught Road Central, Hong Kong at 10:00 a.m. on Wednesday, 14 December 2016 for the purpose of considering and, if thought fit, passing the following resolutions with or without amendments as resolutions of the Company:

**SPECIAL RESOLUTION**

1(a). “**THAT** the existing Article 45.2 in the articles of association of the Company (the “**Articles of Association**”) be deleted in its entirety and substituted therefor with the following:

“45.2 Except as otherwise provided by the rights attached to Shares, or as otherwise determined by the Directors, all dividends and distributions in respect of Shares of a particular Class and/or Series shall be declared and paid according to the Net Asset Value of the Shares of the Class and/or Series that a Member holds, or, in such other proportions as may be determined by Ordinary Resolution of the Members particularly. If any Share is issued on terms providing that it shall rank for dividend or distribution as from a particular date, that Share shall rank for dividend or distribution accordingly.”

1(b). “**THAT** the existing Article 46.1 in the Articles of Association be deleted in its entirety and substituted therefor with the following:

“46.1 The Directors may capitalise any sum standing to the credit of any of the Company’s reserve accounts (including share premium account and capital redemption reserve) or any sum standing to the credit of profit and loss account or otherwise available for distribution and to appropriate such sum to Members of any Class and/or Series in the proportion in which such sum would have been divisible amongst them and the same been a distribution of profits by way of dividend, or, in such other proportions as may be determined by Ordinary Resolution of the Members particularly, and to apply such sum on their behalf in paying up in full unissued Shares for allotment and distribution credited as fully paid-up to an amongst them in the proportion(s) aforesaid. In such event the Directors shall do all acts and things required to give effect to such capitalisation, with full power to the Directors to make such provisions as they think fit for the case of Shares becoming distributable in fractions (including provisions whereby the benefit of fractional entitlements accrue to the Company rather than to the Members concerned). The Directors may authorise any person to enter into an agreement with the Company, on behalf of all of the Members

## NOTICE OF EGM

interested, providing for such capitalisation and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.”

### ORDINARY RESOLUTIONS

1. **“THAT**

- (a) the increase of the authorised share capital of the Company from HK\$200,000,000 divided into 400,000,000 shares of par value of HK\$0.50 each (each a **“Share”**) to HK\$1,000,000,000 divided into 2,000,000,000 Shares by the creation of an additional 1,600,000,000 unissued Shares (the **“Authorised Share Capital Increase”**) be and is hereby approved; and
- (b) any one Director be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him/her/them to be incidental to, ancillary to or in connection with the matters contemplated in and for completion of the Authorised Share Capital Increase.”

2. **“THAT**

- (a) subject to the passing of (i) the special resolution 1; (ii) the ordinary resolutions 1 and 3 below; and (iii) conditional upon fulfillment of the conditions of the Underwriting Agreement (as defined below), the Rights Issue (as defined below) and the transactions contemplated thereunder be and are hereby approved;

For the purpose of this resolution, **“Rights Issue”** means the proposed issue by way of rights issue of 333,784,800 Shares (the **“Rights Shares”**) at a subscription price of HK\$0.50 per Rights Share to the qualifying shareholders (the **“Qualifying Shareholders”**) of the Company whose names appear on the date by reference to which entitlement under the Rights Issue will be determined (other than those shareholders (the **“Prohibited Shareholders”**) with registered addresses outside Hong Kong whom the Directors, after making relevant enquiry, consider their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) in the proportion of three (3) Rights Shares for every two (2) Shares then held and otherwise pursuant to and subject to the fulfillment of the conditions set out in the underwriting agreement (the **“Underwriting Agreement”** including all supplemental agreements relating thereto) (a copy of which have been produced to the EGM marked **“A”** and signed by the chairman of the EGM for the purpose of identification) dated 4 November 2016 and made between the Company and China Jianxin Financial Services Limited as underwriter (the **“Underwriter”**);



## NOTICE OF EGM

- (b) any Directors be and is hereby authorised to allot and issue the Rights Shares (in their nil-paid form and fully-paid forms) pursuant to and in connection with the Rights Issue notwithstanding the same may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Directors be and are hereby authorised to make such exclusions or other arrangements in relation to fractional entitlements and/or Prohibited Shareholders as they deem necessary, desirable or expedient having regard to any restrictions or obligations under the Articles of Association or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong;
  - (c) the entering into the Underwriting Agreement and the transactions contemplated thereunder (including but not limited to the arrangements for taking up of the unsubscribed Rights Shares, if any, by the Underwriter and/or such subscriber(s) to be procured by the Underwriter) be and are hereby approved, confirmed and ratified; and
  - (d) any Director be and is hereby authorised to sign and execute such documents, instruments and agreements (whether under common seal or not) and to do all such acts or things deemed by him/he/them to be incidental to, ancillary to or in connection with the matters contemplated under the Underwriting Agreement, the Rights Issue and/or the Bonus Issue as he/she/they may in his/her/their absolute discretion consider necessary, desirable or expedient to give effect to the Underwriting Agreement, the Rights Issue and/or the Bonus Issue and the issue of the Rights Shares and the Bonus Shares and the implementation of all transactions contemplated thereunder, including but not limited to the issue and allotment of Rights Shares and Bonus Shares and to agree with such variation, amendment or waiver as, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole.”
3. **“THAT** subject to the passing of the special resolution 1 and the ordinary resolutions 1 and 2 above:
- (a) the issue (the **“Bonus Issue”**) by way of bonus Shares (the **“Bonus Shares”**), credited as fully paid, to the first registered holders of the fully-paid Rights Shares on the basis of two (2) Bonus Shares for every three (3) fully-paid Rights Shares taken up in accordance with the terms and conditions as set out in the circular of the Company dated 21 November 2016 be and is hereby confirmed and approved and any Directors be and is hereby authorised to allot and issue the Bonus Shares pursuant to or in connection with the Bonus Issue notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the existing shareholders of the Company and, in particular, the Directors be and are hereby authorised to make such exclusion or other arrangements in relation to fractional entitlements or Prohibited Shareholders as they deem necessary, desirable or expedient having regard to any restrictions or

## NOTICE OF EGM

obligations under the Articles of Association or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; and

- (b) any Directors be and is hereby authorised to sign and execute such documents and do all such acts and things as they consider necessary, desirable or expedient in connection with the Bonus Issue and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Bonus Shares and appropriation of such sum from the contributed surplus account or any other reserves of the Company as permitted under the Companies Law (2013 Revisions as amended) in paying up in full the Bonus Shares.”

For and on behalf of the Board of  
**China New Economy Fund Limited**  
**GU Xu**

*Chairman, Chief Executive Officer and Executive Director*

Hong Kong, 21 November 2016

*Registered office:*

P.O. Box 309, Uglund House,  
South Church Street, George Town,  
Grand Cayman KY1-1104,  
Cayman Islands

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

Room 707, 7/F, New World Tower 1  
16–18 Queen’s Road Central  
Central, Hong Kong

*Notes:*

1. A member of the Company entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and to vote on his behalf. A proxy need not be a member of the Company. A member may appoint any number of proxies to attend in his stead.
2. Where there are joint registered holders of any share, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon must be deposited with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority.
4. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish, and in such event, the instrument appointing the proxy shall be deemed to be revoked.
5. Save for any resolution(s) approving the procedural and administrative matters, any voting of the EGM should be taken by poll.