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CHINA NEW ECONOMY FUND LIMITED

中國新經濟投資有限公司

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

(Stock Code: 80)

PROPOSED RIGHTS ISSUE OF 97,353,899 RIGHTS SHARES ON THE BASIS OF ONE (1) RIGHTS SHARE FOR EVERY EIGHT (8) EXISTING SHARES HELD ON THE RECORD DATE WITH BONUS ISSUE ON THE BASIS OF THREE (3) BONUS SHARES FOR EVERY ONE (1) RIGHTS SHARE TAKEN UP UNDER THE RIGHTS ISSUE

UNDERWRITER TO THE RIGHTS ISSUE



中天證券有限公司
CHINA SKY SECURITIES LIMITED

PROPOSED RIGHTS ISSUE WITH BONUS ISSUE

The Company proposes to raise approximately HK\$48.7 million, before expenses, by way of Rights Issue of 97,353,899 Rights Shares at the subscription price of HK\$0.50 per Rights Share on the basis of one (1) Rights Share for every eight (8) existing Shares held on the Record Date and payable in full on acceptance with Bonus Issue on the basis of three (3) Bonus Shares for every one (1) Rights Share taken up under the Rights Issue. The Company will provisionally allot to the Qualifying Shareholders one (1) Rights Share in nil-paid form for every eight (8) Shares in issue and held on the Record Date. The Rights Issue will not be available to the Prohibited Shareholders.

To qualify for the Rights Issue, all transfers of Shares must be lodged for registration with the Registrar by 4:30 p.m. on Tuesday, 27 February 2018. The register of members of the Company will be closed from Wednesday, 28 February 2018 to Monday, 5 March 2018, both dates inclusive, to determine the eligibility for the Rights Issue.

The Underwriter has conditionally agreed to underwrite the Rights Shares which have not been taken up. Accordingly, the Rights Issue is fully underwritten.

The estimated net proceeds from the Rights Issue will be approximately HK\$47.1 million. The Board intends to apply such proceeds from the Rights Issue for the repayment of loan in the sum of HK\$35,000,000 and partial repayment of coupon notes in the sum of HK\$31,500,000.

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 three (3) Bonus Shares for every one (1) Rights Share taken up under the Rights Issue.

On the basis of 97,353,899 Rights Shares to be issued under the Rights Issue, up to 292,061,697 Bonus Shares will be issued.

GENERAL

The Rights Issue is fully underwritten by the Underwriter. As the Rights Issue would increase neither the issued share capital nor the market capitalisation of the Company by more than 50%, the Rights Issue is not subject to Shareholders' approval under the Listing Rules. However, pursuant to the articles of association of the Company, the Bonus Issue will be subject to Shareholders' approval at the EGM.

A circular containing, among other things, further details of the Bonus Issue and a notice convening the EGM will be despatched by the Company to the Shareholders as soon as practicable in accordance with the Listing Rules.

WARNING OF THE RISK OF DEALINGS IN THE SHARES

Shareholders and potential investors should note the Underwriting Agreement contains provisions granting the Underwriter a right to terminate its obligations under the Underwriting Agreement upon occurrence of certain events and the Rights Issue and the Bonus Issue are conditional upon the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms. 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-entitlement basis commencing from Monday, 26 February 2018 and that dealing in Shares will take place 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 Wednesday, 21 March 2018), will accordingly bear the risk that the Rights Issue and the Bonus Issue cannot become unconditional and may not proceed.

The Company will send the Prospectus Documents to the Qualifying Shareholders and, the Overseas Letter together with the Prospectus, for information only, to the Prohibited Shareholders (if any) as soon as practicable.

PROPOSED RIGHTS ISSUE WITH BONUS ISSUE

Issue statistics

Basis of the Rights Issue with Bonus Issue:	One (1) Rights Share for every eight (8) existing Shares held on the Record Date and payable in full on acceptance, together with three (3) Bonus Shares for every one (1) Rights Share taken up. The aggregate effect of the Rights Issue and the Bonus Issue would be for every eight (8) existing Shares held on Record Date, four (4) 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 date of this announcement:	778,831,198 Shares
Number of Rights Shares:	97,353,899 Rights Shares
Number of Bonus Shares:	Up to 292,061,697 Bonus Shares to be issued to the Qualifying Shareholders, who elect to take up the Rights Issue, on the basis of three (3) Bonus Shares for every one (1) Rights Share taken up under the Rights Issue
Number of Rights Shares underwritten by the Underwriter:	97,353,899 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 1,168,246,794 Shares

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

The number of Rights Shares and Bonus Shares to be issued pursuant to the Rights Issue and Bonus Issue represent 50% of the issued share capital of the Company as at the date of this announcement and approximately 33.33% of the enlarged issued share capital of the Company immediately following the completion of the Rights Issue.

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 three (3) Bonus Shares for every one (1) Rights Share taken up under the Rights Issue.

On the basis of 97,353,899 Rights Shares to be issued under the Rights Issue, up to 292,061,697 Bonus Shares will be issued.

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 (if any). To qualify for the Rights Issue, a Shareholder 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.

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 Tuesday, 27 February 2018. 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 (without PAL and EAF) and the Overseas Letter to the Prohibited Shareholders (if any) for their information only. 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 Thursday, 15 February 2018 to Thursday, 22 February 2018, 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 Wednesday, 28 February 2018 to Monday, 5 March 2018, both dates inclusive, to determine the eligibility of the Rights Issue and the Bonus Issue. No transfer of Shares will be registered during the above periods.

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\$0.125 per Right Share. The Subscription Price represents:

- (i) the par value of each Share of HK\$0.50;
- (ii) a premium of approximately 284.62% over the closing price of HK\$0.130 per Share as quoted on Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 290.63% over the theoretical ex-entitlement price of approximately HK\$0.128 per Share after the Rights Issue with Bonus Issue based on the closing price of HK\$0.130 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iv) a premium of approximately 278.79% over the average closing price of HK\$0.132 per Share for the last five consecutive trading days including and up to the Last Trading Day; and

- (v) a premium of approximately 72.41% over the latest unaudited net asset value attributable to the Shareholders per Share of approximately HK\$0.29 as at 31 December 2017.

The Effective Subscription Price of HK\$0.125 represents:

- (i) a discount of approximately 3.85% to the closing price of HK\$0.130 per Share as quoted on Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 2.34% to the theoretical ex-entitlement price of approximately HK\$0.128 per Share after the Rights Issue with Bonus Issue based on the closing price of HK\$0.130 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 5.30% to the average closing price of HK\$0.132 per Share for the last five consecutive trading days including and up to the Last Trading Day; and
- (iv) a discount of approximately 56.9% to the latest unaudited net asset value attributable to the Shareholders per Share of approximately HK\$0.29 as at 31 December 2017.

The theoretical ex-entitlement price per Share after completion of the Rights Issue and Bonus Issue is approximately HK\$0.128 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 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 prevailing trading prices of each Share which are below its par value and the availability of the Bonus Shares, the Directors consider that the Subscription Price, which represents a premium over the market price of each Share, is appropriate. Each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the Subscription Price in proportion to his/her/its existing shareholding in the Company. The Directors consider the Subscription Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Considering that the Shares have been trading on the Stock Exchange in the price range between HK\$0.117 and HK\$0.320 in the past 12 months prior to the Last Trading Day, the minimum Subscription Price of HK\$0.50, which is at a premium of approximately 284.62% over the closing price of HK\$0.130 per Share as quoted on Stock Exchange on the Last Trading Day would not be attractive to the Shareholders. The current structure of the Rights Issue together with the Bonus Issue would offer the Shareholders an opportunity to subscribe for further Shares at the Effective Subscription Price of HK\$0.125, which is at a discount of

approximately 3.85% to the closing price of HK\$0.130 per Share as quoted on Stock Exchange on the Last Trading Day. The Board considers that the issue of Bonus Shares in combination with the Rights Issue would increase the attractiveness of the Rights Issue to the Shareholders.

The Board considers the current structure to be in the best interests of the Company and Shareholders as a whole having considered the amount that needs to be raised to satisfy the funding needs of the Company and the current trading price of the Shares. The Subscription Price was determined based on the par value of the Shares of HK\$0.50 per Share, as the Companies Law of the Cayman Islands to which the Company is subject prohibits the issue of Shares at a price below the par value of the Shares without the sanction of the Cayman court.

The Effective Subscription Price is used as a reference point for the Shareholders in consideration of the Rights Issue and Bonus Issue. The Bonus Shares will be credited as fully paid at par by way of capitalisation of an amount of up to HK\$146,030,848.50 from the share premium account of the Company pursuant to the Bonus Issue. All Shares to be issued under the Rights Issue and Bonus Issue will be issued or credited as fully paid at par. Taking into account the legal opinion by the legal adviser to the Company as to Cayman Islands law, the Directors confirm that the current structure of the Rights Issue and Bonus Issue (including the Effective Subscription Price) would not result in the Company issuing Shares at a discount and would not violate the articles of association of the Company nor any applicable law in the Cayman Islands.

Basis of provisional allotments

The basis of the provisional allotment shall be one (1) Rights Share (in nil-paid form) for every eight (8) Shares held by the Qualifying Shareholders on the Record Date. Application for all or any part of a Qualifying Shareholder's provisional allotment shall be made by completing a PAL and lodging the same with remittance for the Rights Shares accepted for with the Registrar by 4:00 p.m. on Tuesday, 20 March 2018.

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 Wednesday, 28 March 2018 to those entitled thereto by ordinary post at their own risk.

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. 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 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.

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 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 Company's Hong Kong branch share registrar and transfer office, 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 Tuesday, 27 February 2018.

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).

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms and the Bonus Shares (in their fully-paid form) on the Stock Exchange as well as compliance with the stock admission requirement of HKSCC, the Rights Shares in both their nil-paid and fully paid forms and the Bonus Shares in their fully-paid form will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of the dealings in the Rights Shares in both their nil-paid and fully-paid forms and the Bonus Shares in their fully-paid form or such other dates as may be determined by HKSCC.

Dealing in the Rights Shares in both their nil-paid and fully-paid forms and the Bonus Shares in their fully-paid form will be in the existing board lots of 20,000 Rights Shares. Dealing in the Rights Shares and the Bonus Shares will be subject to the payment of the stamp duty and other applicable fees and charges in Hong Kong.

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 Thursday, 29 March 2018 to Monday, 23 April 2018 (both dates inclusive). Shareholders should note that matching of the sale and purchase of odd lots of the 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.

UNDERWRITING ARRANGEMENT

Underwriting Agreement

Date: 23 January 2018 (after trading hours)

Underwriter: China Sky Securities Limited

Number of Rights Pursuant to the Underwriting Agreement, the Underwriter has
Shares underwritten: conditionally agreed to underwrite the Rights Shares which have
not been taken up (the “**Untaken Shares**”). Accordingly, the
Rights Issue is fully underwritten.

The Company will pay the Underwriter an underwriting commission of 1.5% of the aggregate Subscription Price in respect of the 97,353,899 underwritten Rights Shares for which the Underwriter has agreed to subscribe or the subscription of which the Underwriter has agreed to procure, 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 date of this announcement, the Underwriter is not beneficially interested in any Shares in its own capacity. As at the date of this announcement, 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 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 as a whole 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
- (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 as a whole whether or not ejusdem generis with any of the foregoing; or

- (6) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of any of the Underwriter, a material omission in the context of the Rights 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 this 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 passing of all necessary resolution(s) by the Board approving the Rights Issue and the Bonus Issue and the transactions contemplated hereunder by no later than the Prospectus Posting Date;
- (2) 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;
- (3) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and the Overseas Letter 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;

- (4) 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;
- (5) the passing of the necessary resolution(s) at the EGM to approve the Bonus Issue (including but not limited to the allotment and issue of the Bonus Shares) by the Shareholders and the transactions contemplated thereunder;
- (6) the compliance with and performance of all the undertakings and obligations of the Company under the Underwriting Agreement;
- (7) the obligations of the Underwriter becoming unconditional and that the Underwriting Agreement is not terminated in accordance with its terms;
- (8) the compliance with and performance of all the undertakings and obligations of the Underwriter under the Underwriting Agreement; and
- (9) there being no event occurred prior to the Latest Time for Termination which would render the warranties of the Company untrue and incorrect.

Neither of the Company nor the Underwriter may waive conditions (1) to (5) and (7) to (9) stated above. The Underwriter may waive the condition stated in (6) 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.

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\$47.1 million, which would be applied for: (i) the repayment of a loan due and payable in March 2018 in the sum of HK\$35,000,000; and (ii) the partial repayment of coupon notes due and payable in April 2018 in the sum of HK\$31,500,000. The repayment would take place as soon as the Rights Issue is completed. The Company will consider realising its investments to raise further funds for settlement of the balance of the principal sum of the coupon notes which remains outstanding after the partial repayment.

As the net proceeds of the Rights Issue will be applied towards repayment of debts in its entirety, there will be no remaining sum available to be applied towards satisfying the funding needs of the Company for the next 12 months. As at the date hereof, 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, or should any funding needs arise in the next 12 months, the Company may consider other funding methods to finance such investment and/or any such funding needs.

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\$1.6 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, given that the subscription price is above the closing prices of the Shares, 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. Should the Qualifying Shareholders decide not to take up their entitlements under the Rights Issue with the Bonus Issue, they can choose to dispose of their Rights Shares provisional allotments in the market in nil-paid form for economic benefit.

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 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, 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 has also considered to perform a share capital reduction which involves reduction of par value of the Shares. However, such exercise involves the filing of a petition to the Grand Court of the Cayman Islands for an order to approve a shareholders' special resolution in favour of the share capital reduction which is a time-consuming procedure that can take up to several months. Under the circumstances, there may not be sufficient time for such exercise to be completed in time to meet the funding needs of the Company and accordingly was not considered as a viable option to the Company. The Board does not rule out the possibility of performing a share capital reduction in the future.

As 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 returns through capital appreciation and dividend. Accordingly, the Directors do not consider realising the existing investments of the Company to satisfy its funding needs to be a priority when considering the various options of fund-raising methods. As mentioned above, the estimated net proceeds from the Rights Issue of approximately HK\$47.1 million will not be sufficient to cover the intended use of proceeds for the repayment of a loan and coupon notes in the aggregate sum of approximately HK\$66.5 million in its entirety, the Directors have therefore considered realising only a relatively small portion of the existing investments of the Company to settle the remaining portion of the amounts to be due under the coupon notes.

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 a whole 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 advantages and feasibility of the Rights Issue with Bonus Issue as compared to the other methods of fund-raising and the par value of the Shares, considers that the current structure and the terms of the Rights Issue and 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.

The Company has approached 5 financial institutions including the Underwriter concerning the Rights Issue with Bonus Issue based on the current proposed structure. Out of the 5 institutions, the Underwriter quoted the lowest underwriting commission rate. Taking into account the foregoing alternative fund-raising methods considered and that the Underwriter provided the most favourable terms for the Rights Issue, the Board is of the view that the Underwriter is the most suitable candidate for acting as the underwriter to the Rights Issue.

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.

EXPECTED TIMETABLE OF THE RIGHTS ISSUE AND THE BONUS ISSUE

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

Despatch date of circular with notice and form of proxy for the EGM	Monday, 5 February 2018
Latest time for lodging transfer of shares to qualify for attendance and voting at EGM	4:30 p.m. on Wednesday, 14 February 2018
Closure of register of members of the Company (both days inclusive)	Thursday, 15 February to Thursday, 22 February 2018
Latest time for lodging forms of proxy for the purpose of the EGM	10:00 a.m. on Tuesday, 20 February 2018
Record date for attendance and voting at the EGM	Thursday, 22 February 2018
Expected date and time of the EGM	10:00 a.m. on Thursday, 22 February 2018
Announcement of poll results of EGM	Thursday, 22 February 2018
Last day of dealings in shares on a cum-rights basis	Friday, 23 February 2018
First day of dealings in shares on an ex-rights basis	Monday, 26 February 2018
Latest time for the shareholders to lodge transfer of shares in order to qualify for the Rights Issue and Bonus Issue	4:30 p.m. on Tuesday, 27 February 2018
Closure of register of members of the Company (both days inclusive)	Wednesday, 28 February to Monday, 5 March 2018
Record Date for determining entitlements to the Rights Issue	Monday, 5 March 2018
Despatch of the Prospectus Documents	Tuesday, 6 March 2018
First day of dealings in nil-paid Rights Shares	9:00 a.m. on Thursday, 8 March 2018
Latest time for splitting nil-paid Rights Shares	4:30 p.m. on Monday, 12 March 2018

Last day of dealings in nil-paid Rights Shares	Thursday, 15 March 2018
Latest time for acceptance of, and payment for, the Rights Shares and application for excess Rights Shares	4:00 p.m. on Tuesday, 20 March 2018
Latest time to terminate the Underwriting Agreement and for the Rights Issue to become unconditional	5:00 p.m. on Wednesday, 21 March 2018
Announcement of results of the Rights Issue	Tuesday, 27 March 2018
Certificates for fully paid Rights Shares and Bonus Issue to be despatched on or before	Wednesday, 28 March 2018
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	Wednesday, 28 March 2018
Designated broker starts to stand in the market to provide matching services for odd lots of Shares	Thursday, 29 March 2018
Commencement of dealings in fully-paid Rights Shares and Bonus Issue	9:00 a.m. on Thursday, 29 March 2018
Last day for the designated broker to provide for odd lot matching	Monday, 23 April 2018

All times stated in this announcement refer to Hong Kong times. Dates stated in this announcement 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.

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 date of this announcement		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 %
Wang Xin	114,246,628	14.67	114,246,628	9.78	171,369,940	14.67
The Underwriter and its sub-underwriter(s) and subscriber(s) procured by the Underwriter (if any) (Note)	–	–	389,415,596	33.33	–	–
Public Shareholders	664,584,570	85.33	664,584,570	56.89	996,876,854	85.33
Total	778,831,198	100.00	1,168,246,794	100.00	1,168,246,794	100.00

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.

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activities in the past twelve months from the date of this announcement.

GENERAL

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.

The Rights Issue is fully underwritten by the Underwriter. As the Rights Issue would increase neither the issued share capital nor the market capitalisation of the Company by more than 50%, the Rights Issue is not subject to Shareholders' approval under the Listing Rules. However, pursuant to the articles of association of the Company, the Bonus Issue will be subject to Shareholders' approval at the EGM.

A circular containing, among other things, further details of the Rights Issue, the Bonus Issue and a notice convening the EGM will be despatched by the Company to the Shareholders as soon as practicable in accordance with the Listing Rules.

WARNING OF THE RISKS OF DEALINGS IN THE SHARES AND NIL-PAID RIGHTS SHARES

The Shares will be dealt in on an ex-rights basis from Monday, 26 February 2018. Dealings in the Rights Shares in the nil-paid form will take place from Thursday, 8 March 2018 to Thursday, 15 March 2018 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated, the Rights Issue will not proceed. Any Shareholder or other person contemplating transferring, selling or purchasing the Shares and/or Rights Shares in their nil-paid form who is in any doubt about his/her/its position is recommended to consult his/her/its professional adviser. Any Shareholder or other person dealing in Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) and any person dealing in the nil-paid Rights Shares during the period from Thursday, 8 March 2018 to Thursday, 15 March 2018 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed.

TERMS AND DEFINITIONS

“associates”	has the meaning ascribed to this term under the Listing Rules
“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 three (3) Bonus Shares for every one (1) Rights Share 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
“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
“Director(s)”	director(s) of the Company
“EAF(s)”	the excess application form(s) for the excess Rights Shares
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and approve the Bonus Issue the transactions contemplated thereunder
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“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
“Last Trading Day”	23 January 2018, being the last trading day for the Shares before the publication of this announcement
“Latest Lodging Date”	4:30 p.m. on 27 February 2018 as the latest time for lodging transfer of Shares in order to qualify for the Rights Issue

“Latest Time for Acceptance”	4:00 p.m. on 20 March 2018 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 next 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
“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”	6 March 2018 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”	5 March 2018, 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)”	97,353,899 new Shares proposed to be offered to the Qualifying Shareholders for subscription on the basis of one (1) Rights Share for every eight (8) existing Shares held on the Record Date and payable in full on acceptance pursuant to the Rights Issue
“Share(s)”	existing share(s) of HK\$0.50 each in the 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
“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 Sky Securities Limited, a licensed corporation to carry out Type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

“Underwriting Agreement”	the underwriting agreement dated 23 January 2018 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.

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

Hong Kong, 23 January 2018

As at the date of this announcement, the Board comprises Mr. GU Xu and Mr. CHAN Cheong Yee as executive Directors, Mr. Faris Ibrahim Taha AYOUB, Mr. LAM Chun Ho, Mr. PUN Tit Shan and Mr. CHONG Ching Hoi as independent non-executive Directors.