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

If you have sold or transferred all your shares in China New Economy Fund Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or the bank, stockbroker or other agent through whom the sale 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**

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

(Stock Code: 80)

CONTINUING CONNECTED TRANSACTIONS**AND****NOTICE OF EXTRAORDINARY GENERAL MEETING**

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

MIZUHO**Mizuho Securities Asia Limited**

A letter from the Board (as hereinafter defined) is set out on pages 4 to 25 of this circular. A letter from the Independent Board Committee (as hereinafter defined) to the Independent Shareholders (as hereinafter defined) is set out on page 26 of this circular and a letter from Mizuho Securities (as hereinafter defined) is set out on pages 27 to 38 of this circular.

A notice convening an extraordinary general meeting (“EGM”) of China New Economy Fund Limited to be held at 16th Floor, Chuang’s Tower, 30-32 Connaught Road Central, Hong Kong on Tuesday, 18 December 2012 at 10:00 a.m., is set out in this circular. Whether or not you are able to attend the EGM, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the office of the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM if you so wish.

30 November 2012

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DEFINITIONS

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

“Annual Cap(s)”	the proposed maximum aggregate amount of the fees payable to the Investment Manager per annum under the New Investment Management Agreement for each of the two years ending 31 December 2014, as defined in the section headed “Continuing Connected Transactions – New Investment Management Agreement – Annual Caps for the fees payable to the Investment Manager under the New Investment Management Agreement” below
“Articles”	the memorandum and articles of association of the Company, in force from time to time
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of directors of the Company
“Business Day”	any day other than a Saturday, a Sunday or a public holiday in Hong Kong on which banks in Hong Kong are open for normal banking business in Hong Kong provided that where, as a result of a number 8 typhoon signal or higher or a black rainstorm warning or other similar event in Hong Kong, the period during which banks in Hong Kong are open for normal banking business on any day are reduced, such day shall not be a Business Day unless the Directors may determine otherwise
“Company”	China New Economy Fund Limited, an exempted company incorporated in the Cayman Islands with limited liability on 1 February 2010
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at 16th Floor, Chuang’s Tower, 30-32 Connaught Road Central, Hong Kong on Tuesday, 18 December 2012 at 10:00 a.m. for the purpose of approving, among others, the entering into of the New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps by the Independent Shareholders

DEFINITIONS

“Existing Investment Management Agreement”	the investment management agreement entered into between the Company and the Investment Manager on 10 December 2010
“HK\$” or “HK Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company (comprising Mr. Siu Kam Chau, Professor Xu Yangsheng and Mr. Doyle Ainsworth Dally, being all the independent non-executive Directors) formed by the Company to advise the Independent Shareholders as to whether the entering into of the New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole
“Independent Financial Adviser” or “Mizuho Securities”	Mizuho Securities Asia Limited, a licensed corporation for Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the New Investment Management Agreement and the Annual Caps
“Independent Shareholders”	the Shareholders who are not required to abstain from voting at the EGM under the Listing Rules
“Investment Manager”	CITIC Securities International Investment Management (HK) Limited, a company incorporated in Hong Kong and licensed by the SFC to carry on Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO
“Latest Practicable Date”	27 November 2012, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Date”	the date on which dealings in the shares of the Company commenced, namely 6 January 2011
“Listing Document”	the listing document issued by the Company on 31 December 2010

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Net Asset Value”	the net asset value of the Company in total or (as the context requires) per Share calculated monthly in accordance with the Company’s accounting policies and the Articles
“New Investment Management Agreement”	the investment management agreement proposed to be entered into between the Company and the Investment Manager in relation to the provision of investment management services, that is on substantially the same terms as the Existing Investment Management Agreement, by the Investment Manager to the Company for the period from 1 January 2013 to 31 December 2014 subject to the approval of the Independent Shareholders at the EGM
“Placing Price”	HK\$1.03 per placing share (exclusive of brokerage of 0.5%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) pursuant to the placing of 303,000,000 Shares by the Company subject to the terms and conditions stated in the Listing Document
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	ordinary shares of the Company
“Shareholder(s)”	the registered holder(s) of the Share(s) from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America
“Valuation Date”	the last Business Day of each month or such other days as the Directors shall determine in their sole discretion as considered appropriate by the Board
“Waiver”	a waiver from strict compliance with the disclosure requirements under Rule 14A.42(3) of the Listing Rules in respect of the transactions contemplated under the Existing Investment Management Agreement for a period from the Listing Date to 31 December 2012
“%”	per cent.

LETTER FROM THE BOARD

CHINA NEW ECONOMY FUND LIMITED

中國新經濟投資有限公司

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

(Stock Code: 80)

Board of Directors

Executive Directors

Mr. WANG, Junyan (*Chief Executive Officer*)

Mr. LINDSAY, Craig Blaser (*Chairman*)

Mr. GU, Xu

Registered Office

PO Box 309, Umland House,

South Church Street,

George Town, Grand Cayman KY1-1104

Cayman Islands

Independent Non-executive Directors

Mr. SIU, Kam Chau

Professor XU, Yangsheng

Mr. DALLY, Doyle Ainsworth

Principal Place of Business

17/F, Chuang's Tower

30-32 Connaught Road Central

Central

Hong Kong

30 November 2012

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 29 November 2012.

The purposes of this circular, among others, are

- (i) to provide you with details regarding the New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps;
- (ii) to provide you with a letter from the Independent Board Committee setting out its advice and recommendation to the Independent Shareholders in respect of the New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps;
- (iii) to provide you with a letter from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the New Investment Management Agreement and the Annual Caps; and

LETTER FROM THE BOARD

- (iv) to set out the notice of the EGM at which ordinary resolutions will be proposed to consider and, if thought fit, approve the entering into of the New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps.

Under the Listing Rules, the Company is required to provide you with information reasonably necessary to enable you to make an informed decision as to whether to vote for or against the resolution(s) to be proposed at the EGM. This circular is also prepared for such purpose.

CONTINUING CONNECTED TRANSACTIONS – NEW INVESTMENT MANAGEMENT AGREEMENT

Background

Pursuant to the Existing Investment Management Agreement, the Company appointed the Investment Manager as its investment manager to provide the Company with investment management services for an initial period from the Listing Date to 31 December 2012. The Investment Manager is regarded as a connected person of the Company under Rule 21.13 of the Listing Rules. Accordingly, the services provided by the Investment Manager to the Company under the Existing Investment Management Agreement constituted continuing connected transactions of the Company. A Waiver was granted by the Stock Exchange to the Company in relation to the Existing Investment Management Agreement. Details of the Existing Investment Management Agreement and the Waiver are set out in the respective paragraphs entitled “The Investment Manager” and “Continuing Connected Transactions” in the section headed “Management and Administration of the Company” in the Listing Document.

As the Existing Investment Management Agreement will expire on 31 December 2012, the Company proposes, subject to the Independent Shareholders’ approval at the EGM, to enter into the New Investment Management Agreement with the Investment Manager in relation to the appointment of the Investment Manager which will take effect immediately following the expiration of the term of the Existing Investment Management Agreement to ensure continuity in the provision of investment management services to the Company.

Principal terms of the New Investment Management Agreement

The principal terms of the New Investment Management Agreement, among others, include:

Duration

From 1 January 2013 to 31 December 2014 unless terminated earlier by either party giving to the other party not less than 60 days’ prior written notice of termination¹.

¹ The notice period has been changed from 180 days under the Existing Investment Management Agreement to 60 days.

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Services to be provided

The Investment Manager shall provide investment management services to the Company under the New Investment Management Agreement in relation to managing, supervising and directing the investment, disposition and re-investment of the assets of the Company with full and complete discretion.

Management and performance fees

Under the New Investment Management Agreement, the Investment Manager will be entitled to:

- (a) a management fee accruing monthly at the annual rate of 1.8%² of the Net Asset Value on each Valuation Date and payable monthly in arrears, calculated and payable in Hong Kong dollars. The maximum amount of the management fee payable per annum by the Company to the Investment Manager for the investment management services provided pursuant to the New Investment Management Agreement shall not exceed HK\$4,200,000 for each of the two years ending 31 December 2014; and
- (b) a performance fee payable semi-annually in arrears and calculated at the rate of 20% of any net appreciation (after deduction of the management fees for the relevant period) in the Net Asset Value per Share on the immediately preceding Valuation Date, above the previous highest Net Asset Value per Share on any preceding Valuation Date in respect of which a performance fee was last paid (or where no performance has been paid, the aggregate Placing Price of the Shares subscribed at the Listing Date) multiplied by the number of Shares in issue at the time of calculating the performance fee. For the avoidance of doubt, in calculating the performance fee, only net appreciation in the Net Asset Value per Share resulting from the performance of the portfolio managed by the Investment Manager will be included and any net increase as a result of any capital reorganization activities of the Company such as share repurchase, placing, rights issue or issue of convertible notes will be excluded in calculating the net appreciation in the Net Asset Value per Share.

The Company's management fee of 1.8% and performance fee of 20% under the New Investment Management Agreement fall within the market range and the use of net asset as a basis for calculation of performance fee is generally in line with other Chapter 21 companies listed on the Stock Exchange.

Based on the information on twenty-four other investment companies listed on the Stock Exchange under Chapter 21 of the Listing Rules ("**Comparable Companies**"), the management fee and performance fee of the investment managers of the Comparable Companies are charged based on different criteria as the structure and level of fees for investment managers are not standardized in the market. In fact, whether an investment fund

² The management fee has been changed from the annual rate of 2% under the Existing Investment Management Agreement to 1.8% of the Net Asset Value with an annual maximum amount of management fee set at HK\$4,200,000 for each of the two years ending 31 December 2014.

LETTER FROM THE BOARD

can charge certain level of investment management fee in whatever form and under whatever structure shall depend on whether investors accept such terms, as the investment management industry is in a reasonably competitive environment.

The investment objectives and profile of an investment fund shall be important considerations on whether certain performance fees can be charged. The Company is positioned for capital appreciation (as compared to other objectives such as steady yield or capital protection). Accordingly, an undemanding management fee coupled with relatively high performance fee based on capital appreciation is not an uncommon fee structure for investment funds with similar positioning.

Based on the information of the Comparable Companies, the market range for management fees charged based on net asset value ranged from 0.5% to 2% of net asset value. However, the investment objectives and profile of a number of the Comparable Companies are not similar to that of the Company and many of their investment managers do not have a background of a sizeable financial institution such as the CITIC Securities group for which the Investment Manager possesses. Both the management fee and the performance fee under the New Investment Management Agreement are capped, with the management fee capped at HK\$4.2 million per annum and the performance fee capped under the Annual Caps.

Historical caps and transaction records under the Existing Investment Management Agreement

The capped amount of the fees payable to the Investment Manager under the Existing Investment Management Agreement for each of the two years ended 31 December 2012 are set out below:

	Year ended 31 December	
	2011	2012
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
	16,700	21,000

Set out below is a summary of the aggregate amount of fees paid by the Company to the Investment Manager under the Existing Investment Management Agreement for the period from 6 January 2011 to 30 June 2012:

	Financial period from 6 January 2011 to 31 December 2011	For the six months ended 30 June 2012
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Management fees	5,220	2,455
Performance fees	—	—
Total	<u>5,220</u>	<u>2,455</u>

LETTER FROM THE BOARD

Annual Caps for the fees payable to the Investment Manager under the New Investment Management Agreement

The following table sets out the Annual Caps of the fees payable per annum to the Investment Manager under the New Investment Management Agreement for each of the two years ending 31 December 2014:

	Year ending 31 December	
	2013	2014
	(HK\$'000)	(HK\$'000)
Capped management fees	4,200	4,200
Performance fees	<u>7,400</u>	<u>20,400</u>
Annual Caps	<u><u>11,600</u></u>	<u><u>24,600</u></u>

The Annual Caps are determined based on the growth rates of the Net Asset Value of 40% in 2013 and 30% in 2014 respectively. Such growth rates are estimated with reference to the historical performance of key stock market indexes that have relatively high correlations with the Net Asset Value, including Hang Seng Index (“**HSI**”), Hang Seng China Enterprise Index (“**HSCFI**”) and Nasdaq Index. The historical volatility of the share prices of certain listed companies invested by the Company has also been made reference to.

The Company has a relatively short operating history and the Shares have commenced listing on the Stock Exchange for less than two years, since 6 January 2011. Accordingly, in determining the Annual Caps, the Directors consider that it is not appropriate to estimate the Company’s future net asset value based on the Company’s relatively short operating performance. Furthermore, investment return may be affected by a number of factors, including the returns and volatilities of the financial markets and individual investments.

LETTER FROM THE BOARD

A summary of the rates of annual return of HSI, HSCEI and Nasdaq Index for the period from year 2002 to year 2011 and the year-to-date return for the 10 months ended 31 October 2012 is set out below:

Year/Period	Annual/year-to-date return		
	HSI	HSCEI	Nasdaq Index
2002	-18.21%	13.24%	-31.53%
2003	34.92%	152.21%	50.01%
2004	13.15%	-5.55%	8.59%
2005	4.54%	12.42%	1.37%
2006	34.20%	93.99%	9.52%
2007	39.31%	55.94%	9.81%
2008	-48.27%	-51.06%	-40.54%
2009	52.02%	62.12%	43.89%
2010	5.32%	-0.79%	16.91%
2011	-19.97%	-21.71%	-1.80%
10 months ended 31 October 2012	17.40%	6.50%	14.28%
Highest annual return	52.02%	152.21%	50.01%
Lowest annual return	-48.27%	-51.06%	-40.54%

The rate of annual return of HSI, HSCEI and Nasdaq Index during the above period ranged from approximately -48.27% to 52.02%, -51.06% to 152.21% and -40.54% to 50.01%, respectively. In particular, the annual return for HSI in 2006 and 2007 increased by approximately 34.20% and 39.31%, respectively, and the annual return for HSCEI for those two years increased by approximately 93.99% and 55.94%, respectively. Having considered the fact that changes in the Net Asset Value may be subject to a diversity of factors, including the global economy, market sentiment and volatility, as well as the performance of the listed securities of companies in China, it is reasonable to consider the high side of the potential increase in Net Asset Value with reference to the historical return of indexes that may reflect the performance of securities of Chinese listed companies, including high or new technology companies in China when determining the Annual Caps. The estimated growth rates of the Net Asset Value of 40% in 2013 and 30% in 2014 are within the range of the annual returns of HSI, HSCEI and Nasdaq Index.

The growth rates of the Net Asset Value were estimated with reference to the historical performance of key stock market indexes as described above is merely assumed for the purpose of determining the Annual Caps and shall not be regarded as any indication directly or indirectly as to the Company's future revenue, profitability or net asset value.

LETTER FROM THE BOARD

REASONS FOR, AND BENEFITS OF THE ENTERING INTO OF THE NEW INVESTMENT MANAGEMENT AGREEMENT

The Company is an investment company under Chapter 21 of the Listing Rules. The Investment Manager is a licensed corporation to carry out regulated activities of advising on securities and asset management under the SFO. The Investment Manager has been appointed to act as the investment manager since the Listing Date. The Board is of the view that continuity for provision of investment management services by the Investment Manager is important for the management of the Company. The transactions contemplated under the New Investment Management Agreement will continue to be conducted in the ordinary and usual course of business of the Company.

The Directors (including the independent non-executive Directors) consider that:

- (a) the terms and conditions of the New Investment Management Agreement proposed to be entered into between the Company and the Investment Manager are negotiated on an arm's length basis and are on normal commercial terms that are fair and reasonable;
- (b) the Annual Caps are fair and reasonable; and
- (c) the transactions contemplated under the New Investment Management Agreement are in the ordinary and usual course of business of the Company and in the interest of the Company and the Shareholders as a whole.

IMPLICATION UNDER THE LISTING RULES

The Investment Manager is regarded as a connected person of the Company under Rule 21.13 of the Listing Rules. Accordingly, the provision of investment management services by the Investment Manager to the Company under the New Investment Management Agreement constitutes continuing connected transactions of the Company.

As the relevant percentage ratio for the transactions contemplated under the New Investment Management Agreement, on an annual basis, is more than 5%, the transactions contemplated under the New Investment Management Agreement constitute non-exempt continuing connected transactions under the Listing Rules. Accordingly, the New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps are subject to the reporting, announcement and Independent Shareholders' approval requirements.

As at the Latest Practicable Date, the Investment Manager is a wholly-owned subsidiary of CITIC Securities International Fund Management Limited ("CSIFM"). Shares in CSIFM are held by China Alpha Fund Management Ltd. as to 45% and CSIAMF (CL) Limited as to 55%. CSIAMF (CL) Limited is wholly-owned by CITIC Securities International Asset Management Limited, while China Alpha Fund Management Ltd. is wholly-owned by Mr. Wang Junyan, the chief executive officer and Director of the Company. Mr. Wang Junyan and Mr. Craig Blaser Lindsay are Directors of both the Company and the Investment Manager.

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Save as disclosed in relation to the interest of Mr. Wang and Mr. Lindsay in this circular, none of the Directors has a material interest in the entering into of the New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps.

According to the Articles of the Company, the Directors may vote and be counted in the quorum in the resolution approving any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive. Therefore, Mr. Lindsay is not required to abstain from voting in the board meeting of the Company concerning the entering into of the New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps. Mr. Wang, as one of the ultimate beneficial owners of the Investment Manager, had abstained from voting the relevant board resolutions concerning the entering into of the New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps.

The Company has established the Independent Board Committee to advise the Independent Shareholders on the terms and conditions of the New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps, and to advise the Independent Shareholders on how to vote, taking into account the advice from the Independent Financial Adviser. In this connection, the Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

INFORMATION OF THE COMPANY AND THE INVESTMENT MANAGER

The Company

The Company is an investment company 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.

LETTER FROM THE BOARD

Historical performance of the Company's investments for the year ended 31 December 2011 and for the six months ended 30 June 2012

Investment portfolio as at 31 December 2011 and their performance

(1) Listed equity securities – Hong Kong

Name of investment	Particular of issued shares held	Cost <i>HK\$'000</i>	Market value <i>HK\$'000</i>	Unrealized gain/(loss) recognized during the year ended 31 December 2011 <i>HK\$'000</i>	Dividend received/receivable during the year ended 31 December 2011 <i>HK\$'000</i>
Dongjiang Environment Company Limited	306,900 H shares of RMB1.00 each	7,886	7,519	(367)	–
HKT Trust and HKT Limited	1,200,000 ordinary shares of HK\$0.0005 each	5,436	5,460	24	–

(2) American Depositary Shares (“ADS”) – The United States

Name of investment	Number of ADS held	Cost <i>HK\$'000</i>	Market value <i>HK\$'000</i>	Unrealized gain/(loss) recognized during the year ended 31 December 2011 <i>HK\$'000</i>	Dividend received/receivable during the year ended 31 December 2011 <i>HK\$'000</i>
Renren Inc.	500,000	54,390	13,871	(40,519)	–

LETTER FROM THE BOARD

Investment portfolio as at 30 June 2012 and their performance

(1) Listed equity securities – Hong Kong

Name of investment	Particular of issued shares held	Cost HK\$'000	Market value HK\$'000	Unrealized gain/(loss) recognized during the six months ended 30 June 2012 HK\$'000	Dividend received/receivable during the six months ended 30 June 2012 HK\$'000
EPRO Limited	33,000,000 ordinary shares of HK\$0.01 each	24,750	25,740	990	–
Lenovo Group Limited	2,500,000 ordinary shares of HK\$0.025 each	16,716	16,325	(391)	–
HKT Trust and HKT Limited	2,500,000 ordinary shares of HK\$0.0005 each	13,106	15,175	2,045	50
China Mobile Limited	150,000 ordinary shares of HK\$0.1 each	11,795	12,713	918	–
Dongjiang Environment Company Limited	306,900 H shares of RMB1.00 each	7,886	9,974	2,455	–
Beijing Enterprises Holdings Limited	120,000 ordinary shares of HK\$0.1 each	5,510	5,556	46	54

(2) ADS – The United States

Name of investment	Number of ADS held	Cost HK\$'000	Market value HK\$'000	Unrealized gain/(loss) recognized during the six months ended 30 June 2012 HK\$'000	Dividend received/receivable during the six months ended 30 June 2012 HK\$'000
Renren Inc.	500,000	54,390	17,529	3,658	–
NetEase, Inc.	26,000	11,672	11,859	187	–
Baidu Inc.	8,000	7,422	7,134	(288)	–

LETTER FROM THE BOARD

(3) Listed debt securities – Singapore

Name of investment	Quantity	Cost <i>HK\$'000</i>	Market value <i>HK\$'000</i>	Unrealized gain/(loss) recognized during the six months ended 30 June 2012 <i>HK\$'000</i>	Yield per annum (%)	Maturity date	Interest received/ accrued during the six months ended 30 June 2012
China WindPower Group Limited	9,800,000	10,396	10,270	(126)	6.375	4 April 2014	100
Hero Asia Investment Limited (A wholly-owned subsidiary of China Longyuan Power Group Corporation Limited)	5,000,000	6,094	6,013	(81)	4.5	21 December 2013	27

Top 3 investments purchased for the year ended 31 December 2011

(1) Listed equity securities – Hong Kong

Name of investment	Number of shares purchased	Share price <i>HK\$</i>	Total consideration <i>HK\$'000</i>
Modern Education Group Limited	9,222,000	1.30	11,989
HKT Trust and HKT Limited	1,200,000	4.53	5,436

(2) ADS – The United States

Name of investment	Number of ADS purchased	Share price <i>US\$</i>	Total consideration <i>HK\$'000</i>
Renren Inc.	500,000	14.00	54,390

Top 3 investments purchased for the six months ended 30 June 2012

(1) Listed equity securities – Hong Kong

Name of investment	Number of shares purchased	Share price <i>HK\$</i>	Total consideration <i>HK\$'000</i>
EPRO Limited	33,000,000	0.75	24,750
China Mobile Limited	100,000	78.66	7,866

LETTER FROM THE BOARD

(2) *Listed debt securities – Singapore*

Name of investment	Quantity	Total consideration <i>HK\$'000</i>
Hero Asia Investment Limited (A wholly-owned subsidiary of China Longyuan Power Group Corporation Limited)	5,000,000	6,094

Top 3 realized loss for the year ended 31 December 2011

Name of investment	Realized loss <i>HK\$'000</i>
Modern Education Group Limited	1,673
Call option on Ctrip.com International, Ltd. 18 November 2011	227

Note: Only 2 investments with realized loss were made during the year ended 31 December 2011.

Top 3 realized gain for the year ended 31 December 2011

Name of investment	Realized gain <i>HK\$'000</i>
Ctrip.com International, Ltd.	2,306
Qihoo 360 Technology Co. Ltd.	865
E-Commerce China Dangdang Inc.	154

Top 3 realized gain for the six months ended 30 June 2012

Name of investment	Realized gain <i>HK\$'000</i>
Put option on HSCEI Index 30 May 12	281
Put option on HSCEI Index 28 June 12	205

Note: Only 2 investments with realized gain and no investment with realized loss were made during the period of the six months ended 30 June 2012.

LETTER FROM THE BOARD

The Investment Manager

The Investment Manager is a licensed corporation under the SFO to carry on Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

The directors

The background and experience of the directors of the Investment Manager are as follows:

YIN Ke

Mr. Yin Ke (殷可) was appointed as a director of the Investment Manager in May 2007. Mr. Yin is currently the chief executive officer, executive director and vice chairman of CITIC Securities International Company Limited, a wholly-owned subsidiary of CITIC Securities Company Limited (“**CITIC Securities**”), a leading investment bank based in China and listed on the Shanghai Stock Exchange (600030.SS) and the Main Board of the Stock Exchange (6030.HK).

Mr. Yin is the Vice Chairman of CITIC Securities. He also serves as a non-executive director of CITIC Pacific Ltd., a company listed on the Main Board of the Stock Exchange (267.HK), and a non-executive director of Dah Chong Hong Holdings Limited, a company listed on the Main Board of the Stock Exchange (1828.HK).

Mr. Yin previously worked as the assistant to the chief executive officer of the Shenzhen Stock Exchange from 1991 to 1992, responsible for assisting the chief executive officer for the development and day-to-day operation of the Shenzhen Stock Exchange; deputy general manager and executive director of Jun'an Securities Co., Ltd. from 1992 to 1998, executive director and responsible person of Jun'an Securities Co., Ltd. from 1998 to 1999, responsible for the investment banking, brokerage and overseas businesses and the overall management of the company; deputy chairman of the merger committee of Guotai Jun'an Securities Co., Ltd. from 1998 to 1999, responsible for coordinating the merger between Jun'an Securities Co., Ltd. and Guotai Securities Co., Ltd.; director of Guotai Jun'an Securities Co., Ltd. from 1999 to 2000, responsible for the strategic development of the company; president and executive director of China United Securities Co., Ltd. from 2000 to 2002, responsible for the overall management and business of the company; director and deputy general manager of CITIC Capital Holdings Limited from 2002 to 2007, responsible for the investment banking and private equity investment businesses of the company; non-executive director of CITIC Capital Holdings Limited from 2007 to 2009; director of ACT 360 Solutions Limited from 2000 to 2009, responsible for the business strategy of the company; independent director of CCB Principal Asset Management Co., Ltd. from 2005 to 2009; and director of Zhongxing Shenyang Commercial Building Group Co., Ltd. from 2006 to 2010. He obtained a masters degree in economics in 1991 from Zhejiang University.

Mr. Yin is currently a responsible officer of (i) CITIC Securities Brokerage (HK) Limited, a licensed corporation under the SFO to engage in Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities; (ii) CITIC Securities Corporate

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Finance (HK) Limited, a licensed corporation under the SFO to engage in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities; and (iii) CITIC Securities Futures (HK) Limited, a licensed corporation under the SFO to engage in Type 2 (dealing in futures contracts) regulated activity.

WANG Junyan (James)

Mr. Wang Junyan (王俊彦) was appointed as a director and responsible officer of the Investment Manager in August 2008. He is the founder of CITIC Securities Alpha Leaders Fund, China Alpha Fund, China Alpha II Fund, China Alpha Focus Fund and has over 15 years of securities investment experience in China and Hong Kong. Mr. Wang has been involved in investment banking, capital markets, direct investments and fund management in China and Hong Kong since the early 1990s.

Mr. Wang completed a bachelor's degree from Zhongshan University in the PRC majoring in international trade in 1992 and a master's degree in Finance from the University of Hong Kong in 2003. On 1 November 2010, Mr. Wang was appointed as Adjunct Professor in the Department of Finance of the Chinese University of Hong Kong.

From August 1993 to October 1997, Mr. Wang served in various departments in J & A Securities Limited. In August 1993, he joined the international corporate finance department in its Shenzhen office and was engaged in international investment and corporate finance business. In 1994, he was appointed as chief representative of the overseas business unit and was responsible for the provision of trading and investment advisory services to Chinese companies and helping them raising money in the US. In 1995, Mr. Wang was promoted to the assistant general manager and was involved in the establishment of its brokerage, sales and corporate finance operations in Hong Kong.

From October 1997 to June 2007, Mr. Wang joined First Shanghai Group and held various senior positions during his tenure. Beginning in October 1997, he was first appointed as managing director of First Shanghai Securities Limited (formerly known as First Shanghai Capital Limited). From February 2000 to December 2006, he was further appointed as managing director of First Shanghai Financial Holding Limited, a wholly-owned financial services arm of First Shanghai Investments Limited (227.HK). Mr. Wang was responsible for the supervision and management of the overall operations of all kinds of financial services, including stockbroking, corporate finance, fund management, financial information services and e-finance. From January 2007 to June 2007, Mr. Wang was appointed as the chief investment officer of First Shanghai Fund Management Limited. During the period, he was responsible for managing and overseeing clients' investments according to their specific needs, monitoring the portfolio and assessing the relevant risks and evaluating the performance and objectives of the fund.

From December 1998 to December 2006, Mr. Wang was appointed as an executive director and a member of the investment committee of China Assets (Holdings) Limited (170.HK), one of the forerunners in direct equity investments in China, where he was responsible for identifying the private equity investments, overseeing the trading portfolio and evaluating the portfolio performance. China Assets (Holdings) Limited is managed by an investment manager namely China Assets Investment Management Limited ("CAIML"). For

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the period from October 2002 to January 2007, Mr. Wang was a director of CAIML. Mr. Wang was also an independent non-executive director of Yanzhou Coal Mining Company Limited (1171.HK), which he resigned on 20 May 2011. Mr. Wang is an independent non-executive director of China Aerospace International Holdings Limited (31.HK) and LIVZON Pharmaceutical Group Co. Ltd. (000513.SZ). On 28 June 2011, Mr. Wang was appointed as an independent non-executive director of Wumart Stores, Inc., of which the issued shares were listed on the Growth Enterprise Market (“GEM”) of the Stock Exchange until the transfer of listing from GEM to the Main Board of the Stock Exchange (1025.HK) on 30 June 2011.

Currently, Mr. Wang also holds a number of directorships in various funds, investment management companies and investment advisory companies.

Mr. Wang was appointed as the Chief Executive Officer of the Company on 28 July 2010 and has been a director of the Company since 1 February 2010.

Mr. Wang is a licensed person for Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO, and is a responsible officer of the Investment Manager.

LINDSAY, Craig Blaser

Mr. Craig Blaser Lindsay was appointed as a director and responsible officer of the Investment Manager in August 2008. Mr. Lindsay has over 30 years experience in the investment banking, proprietary trading and fund management industries. His expertise lies in areas of risk management, product accounting, financial reporting, regulatory and compliance and operations.

Mr. Lindsay graduated from the Bloomfield College in USA with a Bachelor of Arts degree in Accounting in 1976. He pursued further studies at the Rutgers University Graduate School of Business in USA and received his Master of Business Administration in Finance in 1979. Mr. Lindsay worked for Goldman, Sachs and Co from July 1980 to May 1996. During his 16 years of service at Goldman, Sachs and Co, Mr. Lindsay had worked in New York, Tokyo and London offices, in the areas of proprietary accounting and risk analysis and government bond control and mortgage backed securities control, business analysis, risk management and product accounting. From June 1996 to December 2003, Mr. Lindsay served as an executive vice president and chief financial officer at Tokai Asia Limited (later known as UFJ Investments Asia Limited) where he was mainly responsible for the review and decision making process of the asset management initiative and the handling and supervision of related accounting, operational, regulatory, compliance and legal requirements. From 2004 to 2006, Mr. Lindsay worked at Sattva Investment Advisors Limited as a principal and chief financial officer. Mr. Lindsay was appointed as director of The American Club Hong Kong on 1 January 2011 and Hong Kong Securities Institute on 7 December 2011.

Mr. Lindsay also holds a number of directorships in various funds, investment management companies and investment advisory companies. He was appointed as the Chairman of the Company on 28 July 2010 and has been a director of the Company since 1

LETTER FROM THE BOARD

February 2010. Mr. Lindsay is a licensed person for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO, and is a responsible officer of the Investment Manager and China Shenghai Investment Management Limited.

POON Chi Leong Harry

Mr. POON Chi Leong Harry (潘志良), was appointed as a director of the Investment Manager in February 2008.

Mr. Poon received a degree of Master of Business Administration from the University of Hong Kong in 2006. He is registered as a Certified Public Accountant (Practising) in the Hong Kong Institute of Certified Public Accountants.

From October 2004 to May 2006, Mr. Poon was employed as director, brokerage finance & operation in the brokerage-finance department of CITIC Capital Market Holdings Limited and was responsible for overseeing the operations, settlement, finance, accounting and regulatory reporting in areas of brokerage finance and operations. In May 2006, Mr. Poon's employment with CITIC Capital Market Holdings Limited was transferred to CITIC Securities International Company Limited as a result of group restructuring. He is currently the Head of Financial Control of CITIC Securities International Company Limited and is responsible for financial control, accounting, regulatory and management reporting.

HAN Jianchiu

Mr. HAN Jianchiu (韓劍秋) joined CITIC Securities International Company Limited as Managing Director, Head of Capital Management since October 2011. He has gained over 15 years of experience in the capital market and investment management. Having served at Chase Manhattan Bank (USA), AIG Financial Products (USA & HK), Canadian Imperial Bank of Commerce (Singapore), Simplex Capital Asia Ltd (USA), BOC International (HK), his last position held was Managing Director, Head of Fixed Income Department at China International Capital Corporation (HK). He graduated from the University of Science and Technology of China and obtained a PhD from Massachusetts Institute of Technology.

The portfolio managers

The Investment Manager has appointed two portfolio managers – one for the public equity portion of the portfolio and the other for the private equity portion. A description of the two portfolio managers and their experience is set out below:

YAN Kai Chi Danny

Mr. YAN Kai Chi Danny (甄啓智), was appointed as the portfolio manager for the public equity portion of the Company's assets from October 2011. Mr. Yan is responsible for monitoring the equities portfolio, identifying target companies and instruments for investment, performing valuation modelling and the execution of listed equities investments. Mr. Yan has over 18 years experience in fund management and finance related areas.

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Mr. Yan graduated from the University of Manitoba, Canada with a Bachelor of Arts degree (Applied Economics) in 1990. He also holds a Master of Business Administration degree from Andrew's University, USA in 1992. Mr. Yan is a chartered financial analyst.

From 1992 to 1994, Mr. Yan worked as an analyst of Trendsetter Financial Services Limited where he provided real-time investment commentaries on Reuters Terminals and regular macroeconomics research to the treasury department.

From 1994 to 1996, Mr. Yan worked as a senior economist of the treasury department of Long Term Credit Bank of Japan where he provided regular macroeconomics research to the bank's treasury department. He was also responsible for foreign exchange and money market dealing, advisory services to corporate and institutional clients, and managing in-house portfolios.

From December 1996 to June 2002, Mr. Yan worked as a manager of Hang Seng Investment Management Limited where he managed a number of SFC authorized funds, formulated investment strategy, regularly reviewed fund manager's performance and evaluated relative industrial or sector performance and participated in asset allocation and investment selection.

From June 2002 to March 2007, Mr. Yan worked in CITIC Capital Investment Management Limited, CITIC Securities Corporate Finance (HK) Limited and CITIC Capital Finance Limited where he co-managed a US\$30 million Greater China hedge fund, managed an in-house absolute return Greater China equities and derivatives portfolio, and had full discretion in managing US\$40 million portfolio and monitoring US\$100 million in-house equity assets.

From May 2007 to July 2008, Mr. Yan was licensed under Nikko Asset Management Hong Kong Limited where he worked with a team of portfolio managers to establish a Qualified Domestic Institutional Investor fund, designed investment process and obtained approval from the regulatory bodies, and formulated asset allocation and investment strategies.

From August 2008 to October 2011, Mr. Yan worked in Hai Tong Asset Management (HK) Limited, Taifook Asset Management Limited (now known as Haitong International Asset Management Limited), Taifook Investment Managers Limited (now known as Haitong International Investment Managers Limited) and Taifook Futures Limited (now known as Haitong International Futures Limited) where he had full discretion in managing several SFC authorized funds.

Mr. Yan is a licensed person for Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO.

Mr. Yan does not hold any directorship in any listed companies.

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SHU Ai

Mr. Shu Ai (舒埃) was appointed as the portfolio manager for the private equity portion of the Company's assets with effect from the Listing Date. Mr. Shu is responsible for monitoring the private equity portfolio, identifying target companies, assets and instruments for investment, performing valuation modelling and the execution of private equity investments. Mr. Shu has approximately 4 years experience in the securities investments and mutual funds management in China.

Mr. Shu graduated from Fudan University with a bachelor's degree in Science in 1998. He also holds a master degree in business administration from INSEAD in 2007.

From June 2004 to December 2006, Mr. Shu worked as an associate in McKinsey & Consulting Company Inc. Shanghai.

From 2007 to 2008, Mr. Shu worked as an associate in fixed income, currencies and commodities department and corporate principal investments, Merrill Lynch (Asia Pacific) Limited.

From December 2008 to March 2010, Mr. Shu worked as an associate director in Mount Kellett Capital (Hong Kong) Limited ("MKC") of the asset management company Mount Kellett Capital Management LP. MKC is a New York-based private equity firm.

Since April 2010, Mr. Shu has been working in CITIC Securities International Company Limited as a senior vice president of private equity.

Mr. Shu does not hold any directorship in any listed companies.

Decision making process

Same as the Existing Investment Management Agreement, under the New Investment Management Agreement, the Investment Manager has full and complete discretion to manage, supervise and direct the investment, disposition and reinvestment of the Company's assets, subject to (i) its responsibility for ensuring that trading and investment portfolio of the Company is managed in accordance with its investment objective and policies and investment restrictions and the Articles; and (ii) the overall supervision of the Directors.

At the Company level, a risk committee consisting of Mr. Wang, Mr. Lindsay and Mr. Doyle Dally has been formed to monitor the operational and portfolio risks to the Company. The risk committee monitors the Investment Manager, including reviewing whether the investment objective and policies and investment restrictions are followed by the Investment Manager. In case of any deviation, the risk committee will discuss deviations with the Investment Manager immediately and monitor remedial action. For all material deviations the risk committee will formulate recommendations to the Board on the appropriate remedial actions to be made. In formulating such recommendations the risk committee will also seek advice from the compliance adviser of the Company, China Everbright Capital Limited, on any applicable disclosure or reporting requirement relating to such deviations under the

LETTER FROM THE BOARD

Listing Rules, and make appropriate announcement if necessary. The risk committee will meet on a monthly basis or more regularly if a meeting is requested by any risk committee member.

Potential conflicts of interest

Currently the Investment Manager and their directors, officers and employees provide management services to a number of hedge funds, mutual funds and managed discretionary accounts with similar investment objectives to the Company.

From time to time, conflicts of interest may arise between the interest of the Company and those of other clients of the Investment Manager. In such situations, the Investment Manager will have regard to its obligations to the Company to act in the best interests of the Company, so far as is practicable having regard also to its obligations to the other clients.

Overlapping directors

Mr. Wang and Mr. Lindsay are directors of the Company and the Investment Manager and they are involved in the day-to-day operations of each of the Company and those companies managed by the Investment Manager. This may give rise to conflicts of interest.

As the overall interests of the Company and Investment Manager are aligned, the Directors are of the view that Mr. Wang and Mr. Lindsay will be able to act in the best interests of the Company and its Shareholders. In addition, all major decisions of each of these companies will be made by their respective board of directors of these companies as a whole and not at the sole discretion of Mr. Wang and/or Mr. Lindsay. In the case of the Company, apart from Mr. Wang and Mr. Lindsay, Mr. Gu Xu, (executive Director) and the independent non-executive Directors are also involved in making appropriate decisions on behalf of the Company. They are all competent and have sufficient expertise and knowledge to act for the best interest of the Company.

The independent non-executive Directors and the other executive Director, Mr. Gu Xu, also have the discretion to seek independent expert advice from external legal counsel or other professionals should they feel such advice would be advantageous.

Mr. Wang and Mr. Lindsay will maintain confidentiality in respect of the information of each of the funds managed by the Investment Manager. They are also aware of their obligations under the SFC's Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC that they are required to establish and ensure the integrity and security of all information relevant to the business operations of the respective entities.

In addition, in accordance with Rule 13.44 of the Listing Rules, the Articles provide that any Director will generally not vote on any board resolution approving a contract or arrangement or any other proposal in which the Director or his associate(s) has/have a material interest, except on certain issues provided by the Articles.

LETTER FROM THE BOARD

Allocation of investments

The Investment Manager reserves the right for itself, its associates and its clients to co-invest with the Company although any such co-investment will be made on terms no better than those in which the Company is investing. Similarly, the Investment Manager and its clients may also make investments in companies in which the Company holds investments or has previously invested. The Investment Manager shall, in any event, disclose to the Company any transaction involving investments in which the Company has invested or may reasonably be expected to invest before the Investment Manager enters into such transactions on its own account or on behalf of any third party client by giving a notice to the Board to that effect, provided always that the Investment Manager shall not be required to disclose information about its other clients, which is subject to client confidentiality.

To the extent that there is limited liquidity for the purchase or sale of securities falling within the investment objective of both the Company and those other clients of the Investment Manager, the Investment Manager may be in a conflict of interest in allocating the available purchase or sale opportunities among the Company and such other clients.

The compliance manual of the Investment Manager requires that the staff of the Investment Manager observe the following practices on order allocation:

- ensures all orders are allocated fairly and, where orders for a client and for another client are aggregated, or with an order for its own accounts, give priority to satisfying orders of clients, in any subsequent allocation if all orders cannot be filled;
- makes a record of the intended basis of allocation before a transaction is effected;
- ensures an executed transaction is allocated promptly in accordance with the stated intention;
- avoids excessive trading, taking into account the portfolio's stated objective; and
- execute orders on the best available terms, taking into account the relevant market at the time for the transactions of the kind and size concerned.

In practice, if it is deemed appropriate that the Company and any of the other clients of the Investment Manager intend to participate in the same investment opportunity, and the aggregate amount of intended investment desired by the portfolio managers of both the Company and the relevant client(s) exceeds the size that is actually available to the Investment Manager, the Investment Manager shall allocate the available investments amongst the Company and the relevant client(s) on a pro-rata basis depending on the respective size requested by each portfolio manager of the Company and each client and/or such other reasonable and equitable basis as the Investment Manager may consider appropriate in the circumstances.

The compliance manual of the Investment Manager also requires that the compliance officer of the Investment Manager performs regular review of order allocation to ensure all orders are allocated fairly.

LETTER FROM THE BOARD

EXTRAORDINARY GENERAL MEETING

Set out on pages 43 to 44 of this circular is a notice convening the EGM to be held at 16th Floor, Chuang's Tower, 30-32 Connaught Road Central, Hong Kong on Tuesday, 18 December 2012 at 10:00 a.m. at which ordinary resolutions will be proposed to the Independent Shareholders to consider and, if thought fit, approve by way of a poll the entering into of New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps.

Given that no connected person which is a party to the New Investment Management Agreement is a Shareholder and no Shareholder is considered to have material interest in the New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps, all Shareholders are eligible to vote on the ordinary resolutions to be proposed at the EGM in respect of the New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.chinaneweconomyfund.com>). Whether or not Shareholders are able to attend the EGM, they are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. To be valid, this form of proxy, together with the notarised power of attorney or other document of authorisation (if any), must be delivered to the office of the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the EGM.

An announcement on the results of the EGM will be made by the Company following the EGM in accordance with the Listing Rules.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 26 of this circular which contains its recommendation to the Independent Shareholders in relation to the entering into of New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps.

Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages 27 to 38 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the New Investment Management Agreement and the Annual Caps and the principal factors and reasons taken into account in arriving at its recommendation.

The Independent Board Committee, having considered the terms of the New Investment Management Agreement and the advice of the Independent Financial Adviser, is of the opinion that (i) the terms and conditions of the New Investment Management Agreement and the transactions contemplated thereunder are fair and reasonable, (ii) the Annual Caps are fair and reasonable, and (iii) the entering into of the New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent

LETTER FROM THE BOARD

Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions in respect of the entering into of New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps.

VOTING BY WAY OF POLL

Pursuant to Rule 13.39(4) of the Listing Rules and the Articles, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the chairman of the meeting will demand a poll for every resolution put to the vote of the EGM pursuant to Article 27.9 of the Articles. The results of the poll will then be announced by the Company in the manner prescribed under Rule 13.39(5) of the Listing Rules.

ADDITIONAL INFORMATION

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

Yours faithfully,
By Order of the Board
China New Economy Fund Limited
Craig Blaser Lindsay
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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)

30 November 2012

To the Independent Shareholders

Dear Sir/Madam

**CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

We refer to the circular (the “**Circular**”) issued by the Company to the Shareholders dated 30 November 2012 of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings herein.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of (i) the entering into of the New Investment Management Agreement and the transactions contemplated thereunder, and (ii) the Annual Caps, details of which are set out in the section headed “Letter from the Board” in the Circular to the Shareholders. Mizuho Securities has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same matters. A copy of the letter from Mizuho Securities containing its advice is set out in the section headed “Letter from Mizuho Securities Asia Limited” of the Circular.

Having considered the terms of the New Investment Management Agreement and the advice of Mizuho Securities, we consider that (i) the terms and conditions of the New Investment Management Agreement and the transactions contemplated thereunder are fair and reasonable, (ii) the Annual Caps are fair and reasonable, and (iii) the entering into of the New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the entering into of the New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps as set out in the notice of the EGM to be held on 18 December 2012.

Yours faithfully

Independent Board Committee

Siu Kam Chau

Xu Yangsheng

Dolye Ainsworth Dally

Independent Non-executive Directors

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

The following is the text of the letter of advice from Mizuho Securities Asia Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, in respect of the New Investment Management Agreement and the Annual Caps, which has been prepared for the purpose of inclusion in this circular.



MIZUHO

Mizuho Securities Asia Limited

12th Floor, Chater House,
8 Connaught Road Central, Hong Kong
Tel: 2685-2000 Fax: 2685-2410

30 November 2012

*To the Independent Board Committee
and the Independent Shareholders*

China New Economy Fund Limited

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of the New Investment Management Agreement and the Annual Caps. The entering into of the New Investment Management Agreement regarding the appointment of the Investment Manager which is a connected person of the Company for the period from 1 January 2013 to 31 December 2014 constitutes continuing connected transactions of the Company pursuant to the Listing Rules. Details of the New Investment Management Agreement and the Annual Caps are set out in the letter from the Board (the “**Letter from the Board**”) in the circular of the Company to its Shareholders dated 30 November 2012 (the “**Circular**”), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Our scope of work under this engagement is to assess whether the terms of the New Investment Management Agreement and the Annual Caps are on normal commercial terms that are fair and reasonable so far as the interests of the Independent Shareholders are concerned, and, from that perspective, whether the New Investment Management Agreement and the Annual Caps are in the interests of the Company and the Shareholders as a whole. We shall also comment on whether the New Investment Management Agreement is in the ordinary and usual course of business of the Company. It is not within our scope of work to opine on any other aspects of the New Investment Management Agreement. In addition, it is not within our terms of reference to comment on the commercial merits of the New Investment Management Agreement which is the responsibility of the Directors.

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

BASIS OF OUR OPINION

In arriving at our opinion, we have relied on the information, opinions and facts supplied, and representations made to us, by the Directors, advisers and representatives of the Company (including those contained or referred to in the Circular). We have also assumed that the information and representations contained or referred to in the Circular were true and accurate in all respects at the time they were made and continue to be so at the date of dispatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and senior management of the Company. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. We have been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs of the Company, the Investment Manager or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In forming our opinion, we have considered the following principal factors and reasons:

1. BACKGROUND

Pursuant to the Existing Investment Management Agreement, the Company appointed the Investment Manager as its investment manager to provide the Company with investment management services for an initial period from the Listing Date to 31 December 2012. The Investment Manager is regarded as a connected person of the Company under Rule 21.13 of the Listing Rules. Accordingly, the services provided by the Investment Manager to the Company under the Existing Investment Management Agreement constituted a continuing connected transaction of the Company. A Waiver was granted by the Stock Exchange to the Company in relation to the Existing Investment Management Agreement. Details of the Existing Investment Management Agreement and the Waiver are set out in the paragraphs entitled “The Investment Manager” in the section headed “Management and Administration of the Company” and “Continuing Connected Transactions” in the section headed “Management and Administration of the Company” in the Listing Document respectively.

As the Existing Investment Management Agreement will expire on 31 December 2012, the Company proposes, subject to the Independent Shareholder’s approval at the EGM, to enter into the New Investment Management Agreement with the Investment Manager in relation to the appointment of the Investment Manager which will take effect immediately following the expiration of the term of the Existing Investment Management Agreement to ensure continuity in the provisions of the investment management services to the Company.

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

Information about the Company

The Company is an investment company under Chapter 21 of the Listing Rules, and is listed on the Stock Exchange since 6 January 2011. 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 (“**Greater China**”).

Information about the Investment Manager

The Investment Manager is a licensed corporation under the SFO to carry on Type 4 (advising on securities) and Type 9 (asset management) regulated activities. Further details of the background and experience of the directors of the Investment Manager are set out in the paragraph headed “The Investment Manager” under the section headed “Information of the Company and the Investment Manager” in the Letter from the Board.

2. CONTINUING CONNECTED TRANSACTIONS – THE NEW INVESTMENT MANAGEMENT AGREEMENT

Set out below are the principal terms and pricing principles of the New Investment Management Agreement. More details of the New Investment Management Agreement are contained in the Letter from the Board.

Principal terms of the New Investment Management Agreement

The principal terms of the New Investment Management Agreement, among others, include:

Duration

The duration of the appointment of the Investment Manager is from 1 January 2013 to 31 December 2014 unless terminated earlier by either party giving to the other party not less than 60 days’ prior written notice of termination.

Services to be provided

The Investment Manager shall provide investment management services to the Company under the New Investment Management Agreement in relation to managing, supervising and directing the investment, disposition and re-investment of the assets of the Company.

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

Management and performance fees

Under the New Investment Management Agreement, the Investment Manager will be entitled to:

- (a) a management fee accruing monthly at the annual rate of 1.8% of the Net Asset Value on each Valuation Date and payable monthly in arrears, calculated and payable in Hong Kong dollars. The maximum amount of the management fee payable per annum by the Company to the Investment Manager for the investment services provided pursuant to the New Investment Management Agreement shall not exceed HK\$ 4,200,000 for each of the two years ending 31 December 2014; and
- (b) a performance fee payable semi-annually in arrears and calculated at the rate of 20% of any net appreciation (after deduction of the management fees for the relevant period, but prior to deduction of the performance fee) in the Net Asset Value per Share on the immediately preceding Valuation Date, above the previous highest Net Asset Value per Share on any preceding Valuation Date in respect of which a performance fee was last paid (or where no performance has been paid, the aggregate Placing Price of the Shares subscribed at the Listing Date) multiplied by the number of Shares in issue at the time of calculating the performance fee. For the avoidance of doubt, in calculating the performance fee, only net appreciation in the Net Asset Value per Share resulting from the performance of the portfolio managed by the Investment Manager will be included and any net increase as a result of any capital reorganization activities of the Company such as share repurchase, placing, rights issue or issue of convertible notes will be excluded in calculating the net appreciation in the Net Asset Value per Share.

As mentioned in the Letter from the Board, the Directors consider that the Company's management fee of 1.8% and performance fee of 20% under the New Investment Management Agreement fall within the market range and the use of net asset as a basis for calculation of performance fee is generally in line with the way of structuring performance fee by other investment companies listed pursuant to Chapter 21 of the Listing Rules on the Stock Exchange.

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

In assessing the fairness and reasonableness of the management fee and performance fee, we have reviewed the management fee and performance fee charged by the investment managers of the investment companies listed in Hong Kong under Chapter 21 of the Listing Rules (“**Listed Comparables**”), as disclosed in their respective prospectuses, announcements, circulars or annual reports, which are summarized below:

Stock code	Listed investment company	Management fee	Performance fee as a percentage to increase in net asset value (“NAV”) or profit before tax (“PBT”) or net profit	NAV/(net liabilities) as at 31 October 2012 <i>(approximately)</i>
2324	Capital VC Limited	HK\$40,000 per month	Nil	HK\$377 million
170	China Assets (Holdings) Limited	2.75% per annum on the aggregate cost of the investments 1% per annum of uninvested net assets	The aggregate of: (1) return on net assets performance bonus, which is calculated as follows:– (i) Nil on the first 10% return on net assets (ii) 15% x (Net profit minus 10% of net assets) on the next 10% return on net assets; (iii) 20% x (Net profit minus 20% of net assets) on the excess over 20% return on next assets; and (2) 20% of the net capital gains if net asset value as at the quarter day would be equal to or greater than 100% of the aggregate of the original subscription price of all outstanding shares in China Assets	US\$152 million
1062	China Development Bank International Investment Limited	HK\$400,000 per annum	Nil	HK\$1,038 million
721	China Financial International Investments Limited	0.75% of market value of the portfolio	5% of the appreciation in the market value of the portfolio above a 10% hurdle rate per annum	HK\$932 million
2312	China Financial Leasing Group Limited	HK\$70,000 per month	Nil	HK\$57 million
1217	China Innovation Investment Limited	HK\$300,000 per annum	10% of PBT, subject to maximum amount of HK\$1 million per annum	HK\$384 million
1226	China Investment and Finance Group Limited	HK\$250,000 per month	10% of increase in NAV	HK\$541 million
204	China Investment Development Limited	HK\$720,000 per annum	Nil	HK\$32 million

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

Stock code	Listed investment company	Management fee	Performance fee as a percentage to increase in net asset value (“NAV”) or profit before tax (“PBT”) or net profit	NAV/(net liabilities) as at 31 October 2012 (approximately)
612	China Investment Fund Company Limited	HK\$150,000 per month	Nil	HK\$191 million
133	China Merchants China Direct Investments Limited	(i) 2.25% of book value for unlisted securities, (ii) 2.25% of book value for listed securities which are subject to a lock-up period, (iii) 1.75% of book value for listed securities which are one year after lock-up period lapses, (iv) 1.5% of book value for listed securities which are more than one year after the lock-up period lapses or which are purchased from the secondary market	8% of increase in NAV	HK\$3,446 million
339	Earnest Investments Holdings Limited	HK\$360,000 per annum	Nil	HK\$39 million
1160	Grand Investment International Limited	HK\$288,000 per annum	nil	HK\$52 million
428	Harmony Asset Limited	1.50% of NAV	10% of net profit	HK\$257 million
356	Incutech Investments Limited	HK\$150,000 per quarter	Nil	(HK\$21 million)
905	Mastermind Capital Limited	HK\$500,000 per annum	Nil	HK\$95 million
1227	National Investments Fund Limited	HK\$100,000 per month	Nil	HK\$140 million
1140	OP Financial Investments Limited	1.50% of NAV	10% of increase in NAV	HK\$1,440 million
810	Opes Asia Development Limited	2% of NAV	15% of increase in NAV	HK\$99 million
310	Prosperity Investment Holdings Limited	HK\$300,000 per month	Discretionary bonus may be paid if NAV as at the end of a financial year is higher than that as at the end of the previous financial year and the total management fee for such financial year is less than 1.9% of NAV. The aggregate amount of such discretionary bonus (if any) and the annual management fee shall not in any event exceed 1.9% of NAV.	HK\$285 million

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

Stock code	Listed investment company	Management fee	Performance fee as a percentage to increase in net asset value (“NAV”) or profit before tax (“PBT”) or net profit	NAV/(net liabilities) as at 31 October 2012 <i>(approximately)</i>
901	Radford Capital Investment Limited	HK\$100,000 per month	Nil	HK\$173 million
770	Shanghai International Shanghai Growth Investment Limited	0.5% of NAV per quarter	15% of the excess amount by which the net asset value as at the end of a financial year exceeds 115% of the net asset value as at the end of the previous financial year	US\$20 million
666	SHK Hong Kong Industries Limited	1.5% of NAV	20% of increase in NAV	HK\$1,160 million
768	UBA Investments Limited	1.5% of NAV	20% of PBT	HK\$108 million
913	Unity Investments Holdings Limited	HK\$100,000 per month	Nil	HK\$223 million
80	The Company (under the New Investment Management Agreement)	1.8% of NAV and not more than HK\$4.2 million per annum	20% of increase in NAV	HK\$242 million

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

We note that the management fee and performance fee of the investment managers of the Listed Comparables are charged based on different criteria as the structure and level of fees for investment managers are not standardized in the marketplace. As a matter of fact, whether an investment fund can charge certain level of investment management fee in whatever form and under whatever structure shall depend on whether investors accept such terms, as the investment management industry is in a reasonably competitive environment.

We note that the investment objectives and profile of an investment fund shall be important considerations on whether certain performance fees can be charged. In this connection, we note from the investment objectives and profile of the Company that the Company is positioned for capital appreciation (as compared to other objectives such as steady yield or capital protection), and as such, an undemanding management fee coupled with relatively high performance fee based on capital appreciation is not uncommon fee structure for investment funds with similar positioning.

In respect of the Listed Comparables, for management fees charged based on NAV, the rates ranged from 0.5% to 2% of NAV. We note that the investment objectives and profile of a number of the Listed Comparables are not similar to that of the Company and many of their investment managers do not have a background of a sizeable financial institution such as the CITIC Securities group for which the Investment Manager possesses. Furthermore, the performance fees charged by the investment managers of the Listed Comparables, based on NAV, ranged from 5% to 20% of the amount of increase in NAV. Having considered the above, and the fact that the management fee as well as the performance fee under the New Investment Management Agreement are not out of range of the fees charged by the investment managers of the Listed Comparables, we consider that the fee level charged under the New Investment Management Agreement is not excessive.

In arriving at our view, we have taken into account the fact that both the management fee and the performance fee under the New Investment Management Agreement are capped, with the management fee capped at HK\$4.2 million per annum and the performance fee capped under the Annual Caps as described below.

Furthermore, we note that that the terms of the New Investment Management Agreement are substantially the same as those of the Existing Investment Management Agreement, and that the management fees to be charged by the Investment Manager is reduced from 2% to 1.8% and subject to a maximum amount of HK\$4.2 million per annum. On the basis of the above analysis, we consider that the terms of the New Investment Management Agreement are fair and reasonable so far as the interests of the Independent Shareholders are concerned.

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

Historical transaction records under the Existing Investment Management Agreement

Set out below is a summary of the aggregate amount of fees paid by the Company to the Investment Manager under the Existing Investment Management Agreement for the period from 6 January 2011 to 30 June 2012:

	Financial period from 6 January 2011 to 31 December 2011 (HK\$'000)	For the six months ended 30 June 2012 (HK\$'000)
Management fees	5,220	2,455
Performance fees	<u>—</u>	<u>—</u>

No performance fees were received by the Investment Manager for the period from 6 January 2011 to 30 June 2012 as the Net Asset Values on the Valuation Dates during such period were lower than the amount of the Placing Price multiplied by the number of Shares in issue on the Listing Date.

Annual Caps for the fees payable to the Investment Manager under the New Investment Management Agreement

The following table sets out the Annual Caps of the fees payable per annum to the Investment Manager under the New Investment Management Agreement for each of the two years ending 31 December 2014:

	Year ending 31 December	
	2013 (HK\$'000)	2014 (HK\$'000)
Capped management fees	4,200	4,200
Performance fees	<u>7,400</u>	<u>20,400</u>
Total Annual Cap	<u><u>11,600</u></u>	<u><u>24,600</u></u>

We understand from the Company that the investment focus of the Company is in the technology sector, and products or services relating to the economies of Greater China. Given that there are a number of high-technology companies in Greater China listed on Nasdaq, the Company considers that the performance of the Company has relatively high correlations with the performances of Hang Seng Index (“**HSI**”), Hang Seng China Enterprise Index (“**HSCEI**”) and Nasdaq Index. As described in the Letter from the Board, the Annual Caps are determined based on the growth rates of the Net Asset Value of 40% in 2013 and 30% in 2014. Such growth rates are estimated with reference to the historical

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

performance of key stock market indexes that have relatively high correlations with the Net Asset Value, including HSI, HSCEI and Nasdaq Index. The historical volatility of the share prices of certain listed companies invested by the Company has also been made reference to.

The Company has a relatively short operating history and the Shares have commenced listing on the Stock Exchange for less than two years, since 6 January 2011. Accordingly, in determining the Annual Caps, the Directors consider that it is not appropriate to estimate the Company's future net asset value based on the Company's relatively short operating performance. Furthermore, investment return may be affected by a number of factors, including the returns and volatilities of the financial markets and individual investments.

We have reviewed the investment portfolio of the Company as at 30 June 2012, and note that the Company has invested in technology companies in China which are listed on the Stock Exchange and Nasdaq. In this connection, we have reviewed the rates of annual return of HSI, HSCEI and Nasdaq Index for the period from year 2002 to year 2011 and the year-to-date return for the 10 months ended 31 October 2012 ("**Review Period**"), which are summarised below:

Year/ Period	Annual/ year-to-date return		
	HSI	HSCEI	Nasdaq Index
2002	-18.21%	13.24%	-31.53%
2003	34.92%	152.21%	50.01%
2004	13.15%	-5.55%	8.59%
2005	4.54%	12.42%	1.37%
2006	34.20%	93.99%	9.52%
2007	39.31%	55.94%	9.81%
2008	-48.27%	-51.06%	-40.54%
2009	52.02%	62.12%	43.89%
2010	5.32%	-0.79%	16.91%
2011	-19.97%	-21.71%	-1.80%
10 months ended 31 October 2012	17.40%	6.50%	14.28%
Highest annual return	52.02%	152.21%	50.01%
Lowest annual return	-48.27%	-51.06%	-40.54%

We note that the rate of annual return of HSI, HSCEI and Nasdaq Index during the Review Period ranged from approximately -48.27% to 52.02%, -51.06% to 152.21% and -40.54% to 50.01%, respectively. In particular, the annual return for HSI in 2006 and 2007 increased by approximately 34.20% and 39.31%, respectively, and the annual return for HSCEI for those two years increased by approximately 93.99% and 55.94%, respectively. Having considered the fact that changes in the Net Asset Value may be subject to a diversity of factors, including the global economy, market sentiment and volatility, as well as the performance of the listed securities of companies in China, we concur with the view of the management of the Company that it is reasonable to consider the high side of the potential

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

increase in Net Asset Value with reference to the historical return of indexes that may reflect the performance of securities of Chinese listed companies, when determining the Annual Caps.

The estimated growth rates of the Net Asset Value of 40% in 2013 and 30% in 2014 are within the range of the annual returns of HSI, HSCEI and Nasdaq Index. Furthermore, we note that HSCEI had achieved approximately 93.99% and 55.94% annual returns during 2006 and 2007 respectively. In this connection, we consider that the Annual Caps are reasonably determined.

We would highlight that pursuant to the New Investment Management Agreement, the performance fees to be charged by the Investment Manager shall be based on the appreciation of the Net Asset Value per Share, and the Annual Caps shall function as caps only for the performance fees. The Annual Caps might serve to reduce the effective rate of 20% of the performance fees based on the increase in Net Asset Value per Share. The key commercial term in respect of the performance fee is the rate of 20% of increase in Net Asset Value rather than the Annual Caps. The Annual Caps based on the estimated growth rates of the Net Asset Value of 40% in 2013 and 30% in 2014 respectively are considered not excessive in absolute term considering the volatility of the relevant equity indexes and the fact that the Annual Caps shall not change the key commercial term of 20% of increase in Net Asset Value, from the perspective of the shareholders of the Company.

3. REASONS FOR, AND BENEFITS OF THE ENTERING INTO OF THE NEW INVESTMENT MANAGEMENT AGREEMENT

We note the explanations regarding the reasons for and benefits of the entering into of the New Investment Management Agreement as contained in the Letter from the Board, which we discuss below.

The Investment Manager is a licensed corporation to carry out regulated activities of advising on securities and asset management under the SFO. The Investment Manager has been appointed to act as the investment manager since the Listing Date. The Board is of the view that continuity for provision of investment management services by the Investment Manager is important for the management of the Company. The transactions contemplated under the New Investment Management Agreement will continue to be conducted in the ordinary and usual course of business of the Company.

Furthermore, the Directors (including the independent non-executive Directors) consider that:

- (a) the terms and conditions of the New Investment Management Agreement proposed to be entered into between the Company and the Investment Manager are negotiated on an arm's length basis and are normal commercial terms that are fair and reasonable; and
- (b) the transactions contemplated under the New Investment Management Agreement are in the ordinary and usual course of business of the Company and in the interest of the Company and the Shareholders as a whole.

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

Having considered the fact that it is a requirement pursuant to Chapter 21 of the Listing Rules that any companies listed under that Chapter has to appoint an investment manager, we are of the view that the transactions contemplated under the New Investment Management Agreement are in the ordinary and usual course of business of the Company.

We note further that, as the Company commenced its listing on the Stock Exchange for less than two years up to this stage, there might be advantages of continuity of the Investment Manager.

4. OPINION

Having considered the principal factors and reasons described above, we are of the opinion that the New Investment Management Agreement are on normal commercial terms, and the terms of the New Investment Management Agreement, together with the Annual Caps thereunder are fair and reasonable as far as the interests of the Independent Shareholders are concerned, and, from that perspective, the New Investment Management Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the entering into of the New Investment Management Agreement and the transactions contemplated thereunder, and the Annual Caps.

Yours faithfully,
For and on behalf of
MIZUHO SECURITIES ASIA LIMITED
Kelvin S. K. Lau
Managing Director
Equity Capital Markets & Corporate Finance

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material 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. INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

Interests and short positions of Directors and chief executives of the Company

As at the Latest Practicable Date, none of the Directors and the chief executives of the Company had an 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 (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director and chief executive is taken or deemed to have under such provisions of the SFO), or (b) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, or (c) were required to be entered into the register pursuant to section 352 of the SFO.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Interests and short positions in Shares of substantial Shareholders

So far as is known to the Directors and the chief executives of the Company, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to Section 336 of the SFO, or who were, 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 the Company.

Name of Shareholder	Capacity	Number of direct interest	Number of indirect interest	Percentage of the existing issued share capital of the Company (Note 1)
Tam Siu Ki	Beneficial Owner	30,600,000(L)	–	10.10%

Notes:

- The percentage of shareholding was calculated on the basis of the Company's total issued shares of 303,000,000 Shares as at the Latest Practicable Date.

Save as disclosed above, the Directors and chief executives of the Company were not aware of any persons (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had any interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to section 336 of the SFO, or who was, directly or indirectly, interested in 10% or more of the normal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

4. OTHER DISCLOSURE OF INTERESTS AND DEALINGS IN SECURITIES OF THE COMPANY

- (a) As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have been since 31 December 2011, being the date to which the latest published audited financial statements of the Company were made up, 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.
- (b) Save as disclosed in this circular, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the business of the Company.

5. DIRECTORS' SERVICE AGREEMENT

As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors had any existing or proposed service contract with the Company which is not expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation).

6. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinions, letters or advice which are contained in this circular:

Name	Qualification	Nature of opinion/ letter/advice
Mizuho Securities	a licensed corporation under the SFO to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities	Letter of advice to the Independent Board Committee and the Independent Shareholders

As at the Latest Practicable Date, Mizuho Securities did not have any shareholding in the Company nor did they have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company. Further, Mizuho Securities did not, directly or indirectly, have any interest in any assets which have been, since 31 December 2011, being the date to which the latest published audited accounts of the Company were made up, 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.

Mizuho Securities has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its opinion/letter/advice and/or references to its name, in the form and context in which it respectively appears.

7. LITIGATION

As at the Latest Practicable Date, the Company was not engaged in any litigation or arbitration or claims of material importance which is known to the Directors to be pending or threatened by or against either the Company.

8. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material change in the financial or trading position of the Company since 31 December 2011, being the date to which the latest audited financial statements of the Company were made up.

9. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in any business which competed or was likely to compete, either directly or indirectly, with that of the Company.

10. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 10:00 a.m. to 5:00 p.m. (except Saturdays and public holidays) at the principal place of business of the Company in Hong Kong at 17th Floor, Chuang's Tower, 30-32 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) this circular;
- (b) the memorandum of association of the Company and the Articles;
- (c) the New Investment Management Agreement;
- (d) the Existing Investment Management Agreement;
- (e) the letter from the Independent Board Committee, the texts of which are set out on page 26 of this circular;
- (f) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which are set out on pages 27 to 38 of this circular; and
- (g) the written consent referred to under the section headed "Experts and Consents" in this Appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING

CHINA NEW ECONOMY FUND LIMITED

中國新經濟投資有限公司

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

(Stock Code: 80)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China New Economy Fund Limited (the “**Company**”) will be held at 16th Floor, Chuang’s Tower, 30-32 Connaught Road Central, Hong Kong on Tuesday, 18 December 2012 at 10:00 a.m. for the purpose of, to consider, approve and authorize the following matters.

Unless otherwise indicated, capitalized terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 30 November 2012 (the “**Circular**”).

ORDINARY RESOLUTIONS

To consider and, if thought fit, to pass with or without modifications the following as ordinary resolutions:

- 1(a) (i) the entering into of the New Investment Management Agreement (a copy of which has been produced to this meeting marked “A” and initialled by the chairman of this meeting for the purpose of identification) and the transactions contemplated thereunder, details of which are more particularly described in the Circular, be and are hereby approved and confirmed; and
 - (ii) the Directors be and are hereby authorized for and on behalf of the Company to sign, and where required, to affix the common seal of the Company to any documents, instruments or agreements, to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the New Investment Management Agreement as they may in their discretion consider to be desirable and in the interest of the Company and its shareholders as a whole, and to do any acts and things deemed by him to be necessary, expedient or desirable in order to give effect to and implement the New Investment Management Agreement.
- 1(b) (i) the Annual Caps as set out in the section headed “Letter from the Board” of the Circular be and are hereby approved; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (ii) the Directors be and are hereby authorized to do all such acts, matters and things as they may in their discretion consider necessary, expedient or desirable to give effect to and implement the Annual Caps.

By Order of the Board
China New Economy Fund Limited
Craig Blaser Lindsay
Chairman

Hong Kong, 30 November 2012

Notes:

- (1) A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed.
- (2) In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority notarially certified, must be deposited at the office of the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited's registered office at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting.
- (3) All resolutions at the meeting will be taken by poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules
- (4) The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

The Directors of the Company as at the date of this notice are Mr. WANG Junyan, Mr. LINDSAY Craig Blaser and Mr. GU Xu as executive directors, Mr. SIU Kam Chau, Professor XU Yangsheng and Mr. DALLY Doyle Ainsworth as independent non-executive directors.