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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a 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 Heng Fai Enterprises Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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Heng Fai Enterprises Limited

恒輝企業控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 185)

**PROPOSED CAPITAL REDUCTION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

A letter from the Board is set out on pages 3 to 8 of this circular.

A notice convening the extraordinary general meeting (the "EGM") of Heng Fai Enterprises Limited to be held at Club Lusitano, 24th Floor, 16 Ice House Street, Central, Hong Kong on Thursday, 28 August 2014 at 10:00 a.m. (or as soon thereafter as the AGM to be held at 9:30 a.m. on the same day and at the same place shall have been concluded or adjourned) is set out on pages 9 to 10 of this circular.

Shareholders of the Company are advised to read the notice of EGM. Whether or not you intend to attend the meeting in person, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon as soon as possible and in any event no later than 48 hours before the time appointed for the time fixed for holding of the EGM or the adjourned meeting thereof as the case may be. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof (as the case may be) should you so wish.

29 July 2014

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DEFINITIONS

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

“Accumulated Losses”	the accumulated realized losses of the Company standing in the accounts of the Company as at 31 March 2014
“AGM”	the annual general meeting of the Company to be held at Club Lusitano, 24th Floor, 16 Ice House Street, Central, Hong Kong on Thursday, 28 August 2014 at 9:30 a.m.
“Articles of Association”	the articles of association of the Company
“Board”	the board of directors of the Company
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Company”	Heng Fai Enterprises Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Court”	the Court of First Instance of the High Court of Hong Kong
“Director(s)”	director(s) of the Company
“Effective Date”	the date upon which the Proposed Capital Reduction becomes unconditional and effective
“EGM”	the extraordinary general meeting of the Company to be held at Club Lusitano, 24th Floor, 16 Ice House Street, Central, Hong Kong on Thursday, 28 August 2014 at 10:00 a.m. (or as soon thereafter as the AGM to be held at 9:30 a.m. on the same day and at the same place shall have been concluded or adjourned)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Latest Practicable Date”	24 July 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information for the purpose of inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
“Proposed Capital Reduction”	the proposed reduction of the credit standing to the share capital account of the Company by an amount of HK\$800,000,000
“Registrar”	the Registrar of Companies in Hong Kong
“Share(s)”	share(s) in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Share Option Scheme”	the share option scheme adopted by the Company in the annual general meeting held on 28 August 2013
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent



Heng Fai Enterprises Limited

恒輝企業控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 185)

Executive Directors:

Chan Heng Fai (*Managing Chairman*)
Chan Tong Wan (*Managing Director*)
Chan Yoke Keow

Registered and principal office:

24/F., Wyndham Place,
40–44 Wyndham Street,
Central, Hong Kong

Non-executive Directors:

Lam, Lee G. (*Vice-Chairman*)
Fong Kwok Jen
Teh Wing Kwan

Independent non-executive Directors:

Chan King Fai
Tan Choon Seng
Wong Dor Luk, Peter
Wong Tat Keung

29 July 2014

To the Shareholders

Dear Sir or Madam,

PROPOSED CAPITAL REDUCTION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

On 17 July 2014, the Board announced that it proposes to put forward a proposal for the Proposed Capital Reduction for approval by the Shareholders by way of a special resolution at the EGM. The purpose of this circular is to provide you with information relating to, among other things, details of the Proposed Capital Reduction and a notice of the EGM.

LETTER FROM THE BOARD

PROPOSED CAPITAL REDUCTION

The Proposed Capital Reduction involves the elimination an amount of HK\$800,000,000 standing to the credit of the Company's share capital account. The credit arising from the Proposed Capital Reduction will be applied to offset the entire Accumulated Losses of HK\$650,820,000 as at 31 March 2014 with the remaining balance of such credit of HK\$149,180,000 to be transferred to a capital reduction reserve account of the Company.

EFFECTS OF THE CAPITAL REDUCTION

As at 31 March 2014, the Company has an issued and paid-up share capital of HK\$970,951,000. Upon the completion of the Proposed Capital Reduction and assuming no further Shares has been issued from the Latest Practicable Date to the Effective Date, the Company will have an issued and paid-up share capital of HK\$170,951,000.

The Proposed Capital Reduction, if effected, will be utilized to offset the Accumulated Losses of HK\$650,820,000 in full with the remaining balance of such credit arising from the Proposed Capital Reduction of HK\$149,180,000 to be transferred to a capital reduction reserve account of the Company.

Based on the audited financial statements of the Company for the year ended 31 March 2014, the Company had total Accumulated Losses of HK\$650,820,000 as at 31 March 2014.

Implementation of the Proposed Capital Reduction will not result in diminution of any liability in respect of unpaid capital nor will it, of itself, involve the payment to the Shareholders of any amount of the credit arising from the Proposed Capital Reduction or return to the Shareholders of any paid-up share capital of the Company. There will be no change in the number of Shares held by Shareholders immediately before and after the completion of the Proposed Capital Reduction. In addition, the implementation of the Proposed Capital Reduction will also not, of itself, alter the underlying assets, liabilities, business operations, management or financial position of the Company or the proportionate interests or voting rights of the Shareholders of the Shares held by the Shareholders immediately prior to the Proposed Capital Reduction becoming effective, except for the expenses incurred by the Company in relation to the Proposed Capital Reduction.

Pursuant to the terms of the Share Option Scheme, the implementation of the Proposed Capital Reduction will not result in any adjustment to the (i) number of the Shares subject to an option under the Share Option Scheme; (ii) subscription price; or (iii) maximum number of Shares available for subscription in relation to the outstanding options granted under the Share Option Scheme. As at the Latest Practicable Date, no share options were granted by the Company under the Share Option Scheme. Save as aforesaid, the Company has no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

LETTER FROM THE BOARD

Set out below, for illustrative purpose only, is a simplified statement showing the proposed movement of the equity of the Company before and after the Proposed Capital Reduction taking effect, based on the Company's position as at 31 March 2014.

	Immediately before the Proposed Capital Reduction as at 31 March 2014 <i>HK\$'000</i>	Immediately after the Proposed Capital Reduction to a capital reduction reserve account <i>HK\$'000</i>	Immediately after setting off against Accumulated Losses as at 31 March 2014 <i>HK\$'000</i>
Share capital (<i>Note 2</i>)	970,951	170,951	170,951
Capital reduction reserve	–	800,000	149,180
Accumulated Losses	(650,820)	(650,820)	–
Total equity of the Company <i>(Note 3)</i>	320,131	320,131	320,131

Notes:

1. This table does not take into account of the expenses that will be incurred by the Company in relation to the Proposed Capital Reduction.
2. As at 22 May 2014, HK\$19,080,000 were credited to the issued share capital of the Company pursuant to the subscription of 53 million new Shares at HK\$0.36 each (as announced on 22 May 2014).
3. Total equity of the Company represents the total equity of Heng Fai Enterprises Limited only. The consolidated total equity of the Group as at 31 March 2014 was HK\$821,770,000.

CONDITIONS OF THE PROPOSED CAPITAL REDUCTION

The Proposed Capital Reduction is conditional upon the fulfillment of the following conditions:

- (i) all the Directors making a solvency statement in relation to the Proposed Capital Reduction in accordance with the Companies Ordinance;

LETTER FROM THE BOARD

- (ii) the passing of a special resolution by the Shareholders in the EGM approving the Proposed Capital Reduction;
- (iii) the publication of a notice of capital reduction in the Gazette and the newspapers in accordance with the Companies Ordinance;
- (iv) the delivery to the Registrar for registration of the solvency statement in relation to the Proposed Capital Reduction in accordance with the Companies Ordinance;
- (v) no application has been made to the Court for cancellation of the special resolution by members or creditors of the Company within a five-week period after the date of the special resolution approving the Proposed Capital Reduction or in the event of such application, the Court making an order to confirm the special resolution; and
- (vi) the registration of the relevant documents with the Registrar within the prescribed timeframe in accordance with the Companies Ordinance.

Assuming that all of the above conditions are fulfilled, it is expected that the Proposed Capital Reduction will become effective immediately following the registration of the relevant documents with the Registrar as referred to in condition (vi) above. A further announcement will be made informing the Shareholders of the Effective Date.

REASONS FOR THE PROPOSED CAPITAL REDUCTION

As at 31 March 2014, being the date to which the latest audited accounts of the Company were drawn up, the Company had the Accumulated Loss of HK\$650,820,000. The Accumulated Losses were mainly attributable to write-downs in the carrying values of investments, impairment losses for subsidiaries and the Company's operating costs incurred and accumulated in the past. Accordingly, the Board proposed that the resulting credit arising from the Proposed Capital Reduction to be applied to offset the entire Accumulated Losses of HK\$650,820,000 as at 31 March 2014 with the remaining balance of such credit to be transferred to a capital reduction reserve account of the Company.

The Proposed Capital Reduction, if implemented, would enable the Company to have a capital structure, which allows payments of dividends out of and/or undertake any corporate exercise, which may require the use of distributable reserves of the Company as and when the Board considers appropriate in the future.

Based on the reasons and the effects of the Proposed Capital Reduction set out above, the Directors consider that the Proposed Capital Reduction is in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

As the Proposed Capital Reduction is subject to satisfaction of conditions, it may or may not become effective. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company. At this stage, there can be no assurance that a dividend will be declared or paid in future even if the Proposed Capital Reduction has become effective. It should be noted that the dividend policy of the Company is subject to the financial performance, financial position, cash flows position and/or reinvestment needs of the Company in the future. Further announcement(s) will be made informing the Shareholders of the progress of the matter as and when appropriate.

EXTRAORDINARY GENERAL MEETING

Set out on pages 9 to 10 of this circular is a notice convening the EGM which will be held at Club Lusitano, 24th Floor, 16 Ice House Street, Central, Hong Kong on Thursday, 28 August 2014 at 10:00 a.m. (or as soon thereafter as the AGM to be held at 9:30 a.m. on the same day and at the same place shall have been concluded or adjourned) at which a special resolution will be proposed for the purposes of considering and, if thought fit, approving the Proposed Capital Reduction.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder have material interest in the special resolution to be proposed at the EGM and accordingly, no Shareholder is required to abstain from voting in the EGM to approve the Proposed Capital Reduction.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to be present at the EGM, you are requested to complete the accompanying proxy form and return it at the Company's registered office in accordance with the instructions printed thereon as soon as possible, but in any event not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof (as the case may be) if you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, save for resolutions which relate purely to procedure or administrative matter to be voted by a show of hands, any vote of Shareholders at a general meeting must be taken by poll. The chairman of the meeting will therefore demand a poll for the resolution put to the vote of the EGM in accordance with the Articles of Association. An explanation of the procedures of conducting a poll is provided in the notes to the Notice of the EGM and details will be conveyed to the Shareholders at the EGM. The results of the poll shall be deemed to be the resolution of the general meeting in which the poll was demanded or required and the poll results will be published on the websites of Stock Exchange (www.hkexnews.hk) and the Company (www.hengfaienterprises.com) after the EGM.

LETTER FROM THE BOARD

CLOSURE OF REGISTER OF MEMBERS

In order to determine the identity of the members of the Company who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 26 August 2014 to Thursday, 28 August 2014 (both dates inclusive) during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the EGM, all relevant transfer documents accompanied by the relevant Share certificates must be lodged at the office of the Company's share registrar, Tricor Friendly Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Monday, 25 August 2014 for registration.

RECOMMENDATION

The Directors (including the independent non-executive Directors) believe that the Proposed Capital Reduction is in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all Shareholders should vote in favour of the special resolution to be proposed at the EGM.

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.

Yours faithfully,
By Order of the Board
Heng Fai Enterprises Limited
Chan Tong Wan
Managing Director

NOTICE OF EXTRAORDINARY GENERAL MEETING



Heng Fai Enterprises Limited 恒輝企業控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 185)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Heng Fai Enterprises Limited (the “Company”) will be held at Club Lusitano, 24th Floor, 16 Ice House Street, Central, Hong Kong on Thursday, 28 August, 2014 at 10:00 a.m. (or as soon thereafter as the annual general meeting of the Company convened to be held at 9:30 a.m. on the same day and at the same place shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as a special resolution of the Company:

SPECIAL RESOLUTION

“THAT:

- (a) conditional only upon the satisfaction of either one of the conditions set out in paragraph (b) of this special resolution and subject to any conditions imposed in accordance with paragraph (c) of this special resolution, the reduction of the amount standing to the credit of the share capital account of the Company by a sum equal to HK\$800,000,000 (“**Proposed Capital Reduction**”) be and is hereby approved and the directors of the Company (“**Directors**”) be and are hereby authorized to apply the credit arising from the Proposed Capital Reduction to a capital reduction reserve account of the Company and as the Directors think fit to use such reserve to set off against accumulated realised losses standing in the accounts of the Company;
- (b) the approval and authorisation set out in paragraph (a) of this special resolution shall be conditional upon either (i) there being no application (“**Application**”) to the Court of First Instance of the High Court of Hong Kong (“**Court**”) for cancellation of the approval of the Proposed Capital Reduction, set out in this special resolution, by members of the Company or creditors of the Company within five weeks of the date of this special resolution; or (ii) if any such Application is made, the Court making an order to confirm this special resolution;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (c) if such an Application is made and the Court makes an order to confirm this special resolution upon the Application, the approval and authorisation in paragraph (a) of this special resolution shall be subject to any conditions that may be imposed by the Court; and
- (d) the Company be and is hereby authorised generally to do all acts and things as may be necessary, desirable or expedient to implement or to give effect to the foregoing.”

By Order of the Board
Heng Fai Enterprises Limited
Chan Tong Wan
Managing Director

Hong Kong, dated 29 July, 2014

Registered office:

24th Floor
Wyndham Place
40–44 Wyndham Street
Central
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the EGM convened by the above notice (or its adjourned meeting) is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her/its behalf in accordance with the articles of association of the Company. A proxy need not be a member of the Company.
2. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority shall be deposited at the registered office of the Company in Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.
3. For the purpose of determining Shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 26 August 2014 to Thursday, 28 August 2014, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the EGM, unregistered holders of shares of the Company (the “Shares”) should ensure that all transfers of Shares accompanied by the relevant Share certificates and appropriate transfer forms must be lodged with the office of the Company’s Share Registrar, Tricor Friendly Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 25 August 2014.