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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 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 Baofeng (International) Limited (the “Company”), you should at once hand this circular together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

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China Baofeng (International) Limited **中國寶豐(國際)有限公司**

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3966)

CONNECTED TRANSACTION SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser

ALTUS CAPITAL LIMITED

A letter from the board of directors of China Baofeng (International) Limited (the “Company”) is set out on pages 4 to 13 of this circular. A letter from the Independent Board Committee (as defined herein) is set out on pages 14-15 of this circular. A letter from Altus Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders (as defined herein) of the Company, is set out on pages 16-28 of this circular. A notice convening the EGM (as defined herein) to be held at 9/F, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong on Tuesday, 17 July 2018 at 11:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM of the Company is also enclosed. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.baofengintl.com). Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Hong Kong branch share registrar and transfer office of the Company, Union Registrars Limited, at Suites 3301-4, 33/F, Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM (i.e. not later than Sunday, 15 July 2018 at 11:00 a.m.). Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so desire. References to time and dates in this circular are referring to Hong Kong time and dates.

26 June 2018

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DEFINITIONS

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

“Altus Capital”	Altus Capital Limited, a corporation licensed to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders in relation to the Subscription
“Articles of Association”	the articles of association of the Company (as amended from time to time)
“associates”	has the meaning ascribed to such term in the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday, a Sunday or a public holiday or a day on which a tropical cyclone warning No.8 or above or a “black rainstorm” warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which commercial banks are open for general banking business in Hong Kong
“Company”	China Baofeng (International) Limited (中國寶豐(國際)有限公司), a company incorporated in Cayman Islands with limited liability whose issued Shares are listed on the main board of the Stock Exchange
“Completion”	completion of the Subscription
“Completion Date”	the date on which Completion takes place
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be held at 9/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong on Tuesday, 17 July 2018 at 11:00 a.m. to consider and, if appropriate, to approve the resolution contained in the EGM Notice which is set out on pages EGM-1 to EGM-3 of this circular, or any adjournment thereof
“EGM Notice”	the notice convening the EGM set out on pages EGM-1 to EGM-3 of this circular
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency in Hong Kong
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors
“Independent Shareholders”	Shareholders other than the Subscriber and its associates
“Latest Practicable Date”	22 June 2018, being the latest practicable date for ascertaining certain information for inclusion in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People's Republic of China, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)

DEFINITIONS

“Specific Mandate”	the specific mandate to be sought from the Independent Shareholders at the EGM for the allotment and issue of the Subscription Shares upon Completion
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Fung Teng Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability and a controlling Shareholder
“Subscription”	the subscription for the Subscription Shares by the Subscriber pursuant to the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 24 May 2018 entered into between the Company and the Subscriber in respect of the Subscription
“Subscription Price”	HK\$2.60 per Subscription Share
“Subscription Share(s)”	96,150,000 Shares, being the Shares to be allotted and issued to the Subscriber subject to the terms of the Subscription Agreement
“Yinchuan Project”	the photovoltaic power generation project of the Group in Yinchuan City, Ningxia Hui Autonomous Region, the PRC
“%”	per cent.



China Baofeng (International) Limited

中國寶豐(國際)有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3966)

Executive Directors:

Mr. Dang Yanbao (*Chairman*)
Mr. Dang Zidong (*Chief executive officer*)
Mr. Liu Yuanguan
Mr. Gao Jianjun

Non-executive Directors:

Mr. Cheng Hoo
Mr. Chung Kin Shun, Jimmy

Independent Non-executive Directors:

Mr. Xia Zuoquan
Dr. Tyen Kan Hee, Anthony
Mr. Guo Xuewen

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Principal place of business
in Hong Kong:*

Suites 1301–1304, 13/F
Two Pacific Place
88 Queensway
Admiralty
Hong Kong

26 June 2018

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 24 May 2018 in relation to, among other things, the Subscription.

On 24 May 2018, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, the Subscription Shares at the Subscription Price on the Completion Date.

LETTER FROM THE BOARD

As at the date of the Subscription Agreement and the Latest Practicable Date, the Subscriber is a controlling Shareholder, holding 360,000,000 Shares, representing approximately 63.41% of the number of the issued Shares. Since the Subscriber is a connected person of the Company under the Listing Rules, the Subscription will constitute a connected transaction for the Company, and is subject to the announcement, reporting and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with, among other things, (i) details of the Subscription Agreement; (ii) the recommendation from the Independent Board Committee in respect of the Subscription; (iii) the letter of advice from Altus Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription; and (iv) the EGM Notice.

THE SUBSCRIPTION AGREEMENT

Date

24 May 2018

Parties

- (1) the Company as issuer; and
- (2) the Subscriber as subscriber.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Subscriber is an investment holding company incorporated in the British Virgin Islands with limited liability which is wholly owned by Mr. Dang Yanbao, chairman and executive Director of the Company. As at the date of the Subscription Agreement and the Latest Practicable Date, the Subscriber is a controlling Shareholder, holding 360,000,000 Shares, representing approximately 63.41% of the number of the issued Shares, accordingly, the Subscriber is a connected person of the Company under Chapter 14A of the Listing Rules.

Number of Subscription Shares

96,150,000 Subscription Shares, which represent approximately 16.94% of the number of issued Shares as at the Latest Practicable Date, and approximately 14.48% of the number of issued Shares as enlarged by the proposed allotment and issue of the Subscription Shares.

The Subscription Shares will be issued under the Specific Mandate to be granted by the Independent Shareholders in the EGM.

LETTER FROM THE BOARD

The Subscription Price

The Subscription Price is HK\$2.60 per Subscription Share, and the aggregate Subscription Price for all Subscription Shares shall be paid by the Subscriber to the Company in cash upon Completion. It represents:

- (i) a discount of approximately 13.33% to the closing price of HK\$3.00 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement;
- (ii) a discount of approximately 13.91% to the average closing price of approximately HK\$3.02 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to the date of the Subscription Agreement (including the date of the Subscription Agreement);
- (iii) a discount of 20.00% to the closing price of HK\$3.25 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (iv) a premium of approximately 52.05% to the net asset value per Share of approximately HK\$1.71 (based on the consolidated net assets of the Group as at 31 December 2017 attributable to the Shareholders and the number of issued Shares as at the Latest Practicable Date).

The Subscription Price was determined with reference to the prevailing market price and the recent trading volume of the Shares and was negotiated on an arm's length basis between the Company and the Subscriber.

In determining the Subscription Price, the Company has taken into account that: (i) there is a decreasing trend of the Share price and the historical trading volume was low within one year prior to the date of the Subscription Agreement; and (ii) the discounts of the Subscription Price on the date of the Subscription Agreement and the last five trading days immediately prior to the date of the Subscription Agreement are in line with the average discounts given by other comparable companies listed on the main board of the Stock Exchange which conducted share subscriptions by connected persons within one year prior to the date of the Subscription Agreement. As such, the Directors (including the independent non-executive Directors after considering the advice of Altus Capital) considered that the Subscription Price is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

The aggregate nominal value of the Subscription Shares is HK\$961,500 and the net issue price per Subscription Share is approximately HK\$2.59.

Ranking of Subscription Shares

The Subscription Shares, when issued and fully paid, will rank *pari passu* in all respects among themselves and with the issued Shares as at the Completion Date.

LETTER FROM THE BOARD

Conditions of the Subscription

Completion is subject to the following conditions:

- (a) the Board having approved the terms and authorised the execution of and performance by the Company of its obligations under the Subscription Agreement;
- (b) the Independent Shareholders having approved the terms and authorised the execution of and performance by the Company of its obligations under the Subscription Agreement;
- (c) the board of directors of the Subscriber having approved the terms and authorised the execution of and performance by the Subscriber of its obligations under the Subscription Agreement;
- (d) the Stock Exchange having granted the listing of, and permission to deal in, the Subscription Shares on the Stock Exchange;
- (e) the Company will be able to meet the public float requirement under the Listing Rules upon Completion;
- (f) all other necessary consents, approvals, permits or licences from the relevant governmental or regulatory authorities or other third parties in relation to the transactions contemplated under the Subscription Agreement having been obtained; and
- (g) the representations and warranties made by the Company where required to be repeated in accordance with the Subscription Agreement at Completion being materially true and accurate at the time of Completion, as though then made and the Company not otherwise being in material breach of its obligations under the Subscription Agreement.

Each of the conditions set out above is not waivable under any circumstances.

If the conditions set out above are not fulfilled on or before 27 September 2018, being the long stop date, the Subscription Agreement shall be terminated.

As at the Latest Practicable Date, conditions (a) and (c) have been fulfilled.

Completion

Completion shall take place within five (5) Business Days after the fulfilment of the conditions (or at such other time and place as designated by the Company).

APPLICATION FOR LISTING

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Subscription Shares.

LETTER FROM THE BOARD

REASONS FOR THE SUBSCRIPTION AND INTENDED USE OF PROCEEDS

The Group is principally engaged in (i) photovoltaic power generation in the PRC; and (ii) the sales of lighting products including portable lighting products, shades for the lamps and furniture set and other home accessory products.

As stated in the 2017 annual report of the Company, as at 31 December 2017, the interest-bearing bank borrowings of the Group that are provided by independent financial institutions and will become due within a year was HK\$275.5 million, and the interest rate is based on the Hong Kong Interbank Offered Rate. The net gearing ratio of the Group was 19% as at 31 December 2017 and the interest expenses for the financial year ended 31 December 2017 amounted to approximately HK\$9.4 million. In view of the potential increasing trend of the Hong Kong Interbank Offered Rate, the Directors considered that the Subscription would enable the Group to utilize the proceeds of the Subscription to repay the existing bank borrowings of the Group, hence reduces its finance costs, lowers the net gearing ratio, increases the profitability and strengthens the financial position of the Group.

The Directors has considered other alternative means of financing, including (i) debt financing from third party financial institutions; (ii) placing to third party investors; and (iii) rights issue.

The Company had approached 4 banks and 2 brokerage firms to (i) explore the possibility of seeking additional banking facility but the banks did not assess the risk of the photovoltaic power generation business of the Group in the PRC favourably and those firms would not accept pledged Shares as security; and (ii) explore the possibility to placing shares to independent third parties or raise new equity funds on a pro rata basis and were unable to secure underwriters.

Accordingly, (a) the Directors did not consider debt financing from third party financial institutions as a viable option with reason mentioned above; (b) as for the placing to third parties investors, after considering that placing agent would only procure the subscription on a best effort basis, the associated placing commission and similar dilution effect as the Subscription, the Directors did not consider placing is a favourable means of financing; and (c) as for rights issue, although each Shareholder would have the opportunity to participate in the rights issue to avoid dilution in shareholding, the Directors did not considered rights issue to be appropriate given that (i) the rights issue would be subject to market conditions; (ii) the associated costs (including underwriting commission) would be higher than alternative financing means; (iii) rights issue would involve a relatively longer timeframe for documentation preparation such as the prospectus; and (iv) there may be a more significant share dilution effect than the current dilution of approximately 14.48% if the public Shareholders do not participate in the rights issue.

After considering (i) the above alternative means of financing; (ii) that the fluctuation of the Share price may affect the loan-to-collateral ratio and thus leading to additional security to be provided for the existing interest-bearing loan in the principal amount of HK\$250.0 million; (iii) the dilution effect to the shareholding of the public Shareholders under the Subscription as mentioned above, the Directors (including the independent non-executive Directors after considering the advice of Altus Capital) consider that the terms of the Subscription Agreement and the proposed issue and

LETTER FROM THE BOARD

allotment of the Subscription Shares under the Specific Mandate are (i) fair and reasonable; (ii) on normal commercial terms; and (iii) are in the interests of the Company and the Shareholders as a whole.

The gross proceeds of the Subscription are estimated to be HK\$249,990,000, and the net proceeds of the Subscription (after deducting all applicable costs and expenses reasonably incurred in relation to the entering of the Subscription Agreement and the related documents) are estimated to be HK\$248,990,000 and all of the net proceeds are intended to be used for repayment of the existing interest-bearing loan in the principal amount of HK\$250.0 million. The loan in the principal amount of HK\$250.0 million is a short term revolving credit facility granted by Bank of Shanghai (Hong Kong) Limited pursuant to a facility letter entered into by the Company on 23 December 2016 as amended by a supplemental facility letter dated 19 May 2017. The loan will rollover at the end of the interest period (i.e. on a monthly basis) with the lender's approval. As at the Latest Practicable Date, the interest rate is Hong Kong Interbank Offered Rate plus 2.95% per annum. Each drawdown or rollover of each drawing of the loan shall be repaid on the last day of the interest period (i.e. on a monthly basis).

For the loan in the principal amount of HK\$250.0 million, (i) HK\$244.0 million has been used in the development of the Yinchuan Project; and (ii) HK\$6.0 million has been used as administrative expense of the Group.

As at the Latest Practicable Date, save as disclosed below, the Company has not entered into any agreement, arrangement or understanding, and does not have any intention to (i) acquire any new business or material operating assets; and (ii) to dispose or downsize of any of its existing business.

On 30 June 2016, the Group obtained the approval for ongrid connection from Ningxia branch company of the State Grid Corporation of China in respect of the Yinchuan Project with a capacity of 390 megawatt. The Yinchuan Project was operating at a maximum output capacity of 350 megawatt for the year ended 31 December 2016. Since December 2017, the Group has commenced the development of its own infrastructure for additional 30 megawatt output capacity of the photovoltaic power generation, and it is expected that in 2018, the photovoltaic power generation output capacity from the Yinchuan Project would reach 380 megawatt. In order to fully utilise the 390 megawatt photovoltaic power generation output capacity granted, the Group will continue to develop its own infrastructure and purchase equipment for the Yinchuan Project. As such, it is expected that the photovoltaic power generation business in the PRC would continue to develop.

In addition, the Group will continue its lighting products business, and in 2018, the Group will continue to adopt the cost control strategy to maintain the profitability of the lighting products business.

The Company will regularly review its business strategy, and depending on the performance of its existing business and if any suitable business opportunity arise, the Company may consider acquisition of new business or disposal of existing business so as to strengthen the financial position of the Company and generate long term return to the Shareholders.

LETTER FROM THE BOARD

FUND RAISING ACTIVITIES BY THE COMPANY IN THE PAST TWELVE MONTHS

The Directors confirm that the Company has not conducted any fund raising activity involving the issue of its equity securities in the 12 months immediately preceding the date of the Subscription Agreement.

The Company has performed an analysis on the working capital requirements of the Group for the 12 months from the date of this circular. Assuming that (i) there is no material change to the political, legal, fiscal, market or economic conditions in the areas in which the existing businesses of the Group take place; (ii) there is no material adverse change of the existing businesses of the Group; and (iii) the full repayment of the loan in the principal amount of HK\$250.0 million plus interest upon Completion, and after taking into account (i) the bank balances and cash of the Group of approximately HK\$60.7 million as at 31 December 2017; (ii) the amount of cash used in the Group's operating activities for the year ended 31 December 2017 of approximately HK\$138 million; (iii) annual general working capital requirement of the Group with reference to that incurred for the year ended 31 December 2017 of approximately HK\$592 million; and (iv) budgeted capital expenditure for the development of the 40 megawatt photovoltaic power generation output capacity in the Yinchuan Project as at the Latest Practicable Date of approximately HK\$275 million, the Group will be able to fund its operation needs for the next 12 months from the date of this circular.

As at the Latest Practicable Date, after taking into account the current funding needs of the Group in the coming 12 months, the Company has no intention to conduct any further equity issues.

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion, assuming that no further Shares have been issued or repurchased before Completion:

Changes in shareholding structure of the Company

	As at the Latest Practicable Date		Immediately after Completion (assuming that no further Shares have been issued or repurchased before Completion)	
	<i>Number of shares</i>	<i>Approximate %</i>	<i>Number of shares</i>	<i>Approximate %</i>
The Subscriber	360,000,000	63.41	456,150,000	68.71
Public Shareholders	207,696,000	36.59	207,696,000	31.29
Total	567,696,000	100	663,846,000	100

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

As at the date of the Subscription Agreement and the Latest Practicable Date, the Subscriber is a controlling Shareholder, holding 360,000,000 Shares, representing approximately 63.41% of the number of the issued Shares. Since the Subscriber is a connected person of the Company under the Listing Rules, the Subscription will constitute a connected transaction for the Company, and is subject to the announcement, reporting and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Subscriber is an associate of Mr. Dang Yanbao, Mr. Dang Yanbao is considered to have a material interest in the Subscription and has abstained from voting on the Board resolution of the Company to approve the Subscription Agreement and the transactions contemplated thereunder. Save as disclosed, no other Director has a material interest in the Subscription and therefore has abstained from voting on the board resolution of the Company to approve the Subscription Agreement and the transactions contemplated thereunder.

ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been established to give a recommendation to the Independent Shareholders as to whether the terms of the Subscription Agreement, together with the proposed issue and allotment of the Subscription Shares under the Specific Mandate are (i) on normal commercial terms or better; (ii) fair and reasonable; (iii) are in the interests of the Company and the Shareholders as a whole, and to give a recommendation as to voting at the EGM. Altus Capital, a corporation licensed to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activity under the SFO has been appointed as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

EGM

The EGM Notice is set out on pages EGM-1 to EGM-3 of this circular.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the relevant connected transaction is required to abstain from voting on the relevant resolution at the EGM. The Subscriber and its associates shall be required to abstain from voting on the resolution of the Company in approving (i) the Subscription Agreement and the transactions contemplated thereunder at the EGM; and (ii) the grant of the Specific Mandate.

Save as disclosed and to the best knowledge, information and belief of the Directors, no other Shareholder has a material interest in the Subscription and is required to abstain from voting on the resolution of the Company in approving (i) the Subscription Agreement and the transactions contemplated thereunder at the EGM; and (ii) the grant of the Specific Mandate.

LETTER FROM THE BOARD

A form of proxy for the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Hong Kong branch share registrar and transfer office of the Company, Union Registrars Limited, at Suites 3301-4, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM (i.e. not later than Sunday, 15 July 2018 at 11:00 a.m.). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM, or any adjournment thereof, should you so wish.

VOTING BY WAY OF POLL

Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the EGM will be taken by poll except where the chairman decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, the chairman of the EGM will demand a poll for each and every resolution put forward at the EGM pursuant to Article 66 of the Articles of Association. An announcement of the results of the poll will be published by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 July 2018 to 17 July 2018, both dates inclusive, for the purpose of ascertaining Shareholders' entitlement to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the office of the Hong Kong branch share registrar and transfer office of the Company, Union Registrars Limited, at Suites 3301-4, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, not later than 4:30 p.m. on 11 July 2018.

RECOMMENDATION

The Directors (including the independent non-executive Directors after considering the advice of Altus Capital) consider that although the Subscription is not in the ordinary and usual course of the business of the Group, the terms of the Subscription Agreement, together with the proposed issue and allotment of the Subscription Shares under the Specific Mandate are (i) on normal commercial terms; (ii) fair and reasonable so far as the Independent Shareholders are concerned; and (iii) in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the grant of the Specific Mandate.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 14 to 15 of this circular which contains its recommendation to the Independent Shareholders in relation to the Subscription after taking into account the advice from Altus Capital, and the letter from Altus Capital as set out on pages 16 to 28 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the terms of the Subscription.

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

Yours faithfully,
For and on behalf of the Board
China Baofeng (International) Limited
Dang Yanbao
Chairman and Executive Director



China Baofeng (International) Limited

中國寶豐(國際)有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3966)

26 June 2018

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE

We refer to the circular of the Company (the “Circular”) dated 26 June 2018 of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to give a recommendation to the Independent Shareholders as to whether the terms of the Subscription Agreement, together with the proposed issue and allotment of the Subscription Shares under the Specific Mandate are (i) on normal commercial terms or better; (ii) fair and reasonable; (iii) are in the interests of the Company and the Shareholders as a whole, and to give a recommendation as to voting at the EGM.

We wish to draw your attention to the letter from the Board and the letter of advice from Altus Capital as set out in the Circular. Having considered the terms of the Subscription Agreement and the transactions contemplated thereunder and the advice given by Altus Capital, we are of the opinion that although the Subscription is not in the ordinary and usual course of the business of the Group, the terms of the Subscription Agreement, together with the proposed issue and allotment of the Subscription Shares under the Specific Mandate are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve (i) the Subscription Agreement and the transactions contemplated thereunder and (ii) the grant of the Specific Mandate.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Xia Zuoquan
Independent non-executive Director

Dr. Tyen Kan Hee, Anthony
Independent non-executive Director

Mr. Guo Xuewen
Independent non-executive Director

LETTER FROM ALTUS CAPITAL

The following is the text of a letter of advice from Altus Capital to the Independent Board Committee and the Independent Shareholders in respect of the Subscription and the Specific Mandate, which has been prepared for the purpose of incorporation in this circular.

ALTUS

Altus Capital Limited
21 Wing Wo Street
Central, Hong Kong

26 June 2018

*To the Independent Board Committee and
the Independent Shareholders*

China Baofeng (International) Limited
Suites 1301-1304, 13/F
Two Pacific Place
88 Queensway
Admiralty, Hong Kong

Dear Sirs,

CONNECTED TRANSACTION SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Subscription Agreement, together with the proposed issue and allotment of the Subscription Shares are (i) on normal commercial terms or better; (ii) fair and reasonable; (iii) in the interests of the Company and the Independent Shareholders as a whole, and to advise as to voting at the EGM. Details of which are set out in the "Letter from the Board" contained in this circular of the Company dated 26 June 2018 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 24 May 2018, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, 96,150,000 Subscription Shares at HK\$2.60 per Share on the Completion Date. The Subscription Shares represent (i) approximately 16.94% of the number of issued Shares as at the Latest Practicable Date and (ii) approximately 14.48% of the number of issued Shares as enlarged by the allotment and issue of the Subscription Shares. They will rank *pari passu* in all respects among themselves and with the issued Shares as at the Completion Date.

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LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Subscriber is a controlling Shareholder, holding 360,000,000 Shares, representing 63.41% of the number of the issued Shares. Since the Subscriber is a connected person of the Company under the Listing Rules, the Subscription will constitute a connected transaction for the Company, and is subject to the announcement, reporting and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Tyen Kan Hee, Anthony, Mr. Xia Zuoquan and Mr. Guo Xuewen, has been established to consider the Subscription and to advise the Independent Shareholders as to whether the terms of the Subscription Agreement together with the proposed issue and allotment of the Subscription Shares under the Specific Mandate are (i) on normal commercial terms or better; (ii) fair and reasonable; (iii) in the interests of the Company and the Independent Shareholders as a whole, and to advise how to vote in respect of the ordinary resolution to be proposed at the EGM approving the Subscription and the Specific Mandate (the "**Resolution**"), taking into account the recommendation of the independent financial adviser.

THE INDEPENDENT FINANCIAL ADVISER

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Subscription Agreement together with the proposed issue and allotment of the Subscription Shares under the Specific Mandate are (i) on normal commercial terms or better; (ii) fair and reasonable; (iii) in the interests of the Company and the Independent Shareholders as a whole, and our recommendation as to how the Independent Shareholders should vote in respect of the Resolution.

We have not acted as financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, we have no relationship or interest with the Company or any other parties that could reasonably be regarded as relevant to our independence. Given that remuneration for our engagement to opine on the Subscription and the Specific Mandate is at market level and not conditional upon successful passing of the Resolution, and that our engagement is on normal commercial terms, we are independent of the Company.

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BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others (i) the Subscription Agreement; (ii) the Company's announcement dated 24 May 2018; and (iii) the 2017 annual report of the Company ("**2017 Annual Report**"). We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Group (the "**Management**").

We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management were reasonably made after due and careful enquiry and were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular. We have no reason to believe that any such statements, information, opinions or representations are untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render them untrue, inaccurate or misleading.

We consider that we have been provided with, and have reviewed, sufficient information to reach an informed view and provide a reasonable basis for our opinion. We have not, however, conducted an independent investigation into the business, financial conditions and affairs or future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background of the Group

We refer to the 2017 Annual Report. The Group is principally engaged in (i) the investment, construction and operation of photovoltaic power generation projects ("**Photovoltaic Power Generation Business**"); and (ii) the sales of lighting products, including portable lighting products, shades for the lamps and furniture sets and other home accessory products ("**Lighting Products Business**"). The Group plans to (i) focus on its Photovoltaic Power Generation Business and evaluate and seek for appropriate opportunities for its further expansion; and (ii) control costs to maintain the profitability of its Lighting Products Business.

Set out below is a summary of the Group's operating results and financial position extracted from the 2017 Annual Report.

	Year ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Revenue	956,323	611,057
Profit before interest and tax	468,533	148,699
Finance cost	(9,416)	(2,725)
Profit before tax	459,117	145,974
Profit for the year	447,102	141,545

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	As at 31 December	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	301,883	72,220
Current assets	1,165,899	705,765
– Bank balances and cash	60,661	316,345
Current liabilities	496,004	321,540
– Bank borrowings	275,500	250,000
Net current assets	669,895	384,225
Net assets	971,728	456,357

For the year ended 31 December 2017, the Group's revenue grew by approximately 57% year-on-year to approximately HK\$956.3 million while profit attributable to the owners of the Company increased by approximately 216% year-on-year to approximately HK\$447.1 million, mainly due to the full-year contribution of the Group's Photovoltaic Power Generation Business. However, we note that the Group incurred increased finance costs amounting to approximately HK\$9.4 million for the year ended 31 December 2017 (2016: HK\$2.7 million) mainly due to the interest expenses on bank borrowings, the proceeds of which were primarily used to support the development of the Photovoltaic Power Generation Business and general working capital for the Group's corporate office.

The Group's net current assets as at 31 December 2017 had increased by approximately 74.3% as compared to 31 December 2016 to approximately HK\$669.9 million. However, we note that as at the same date, cash and cash equivalents of the Group were approximately HK\$60.7 million, representing a decrease of approximately 81% from approximately HK\$316.3 million as at 31 December 2016. This was mainly due to the investment in additional output capacity of a photovoltaic project of the Group and cash pledged for bank borrowings and bills payable. We also note that the Group's current liabilities as at 31 December 2017 had increased by approximately 54.3% as compared to 31 December 2016 to approximately HK\$496.0 million. As stated in the 2017 Annual Report, the Group's net gearing ratio, calculated as bank borrowings and bills payable less cash and cash equivalents and pledged bank deposit divided by total equity, was 19% as at 31 December 2017 (31 December 2016: net cash).

As at 31 December 2017, the interest-bearing bank borrowings of the Group that will become due within a year was HK\$275.5 million (2016: HK\$250.0 million), among which HK\$250.0 million carries interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 2.95% per annum ("Loan A") (2016: HIBOR plus 3% per annum), HK\$19.5 million carries interest at HIBOR plus 1.7% per annum ("Loan B") and HK\$6.0 million carries interest at HIBOR plus 2.0% per annum ("Loan C"). We understand from the Management that as at the Latest Practicable Date, Loans B and C had been repaid. In addition, we have obtained the salient terms of Loan A and noted that as at 31 May 2018 (i.e. the latest practicable date for ascertaining the information prior to the date of the Circular), Loan A is the only outstanding interest-bearing bank borrowing (in other words, assuming no change to the outstanding principal amount and the interest rate, the Group will have to pay an interest of approximately HK\$830,000 per month). Since the loan is a short term revolving facility,

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it will be rollover at the end of interest period (i.e. monthly basis) with the lender's approval. The lender may, at its discretion and always subject to availability of funds, disagree to rollover the drawing at the end of an interest period and require repayment of the loan accordingly.

According to the 2017 Annual Report, the Group's primary sources of funding for the year ended 31 December 2017 included cash generated from its operating activities and bank borrowings. When considering the reason for the Subscription, we have also taken into account the bank balances and cash of the Group as at 31 December 2017, the amount of cash generated from the Group's operating activities and its general working capital requirement (including the payment schedule of Loan A and its related interest expense). While the Board is confident that the Group will have sufficient resources to meet its financial needs for its current operation, the 2017 Annual Report also states that since photovoltaic projects require substantial capital investments at initial stage, the Group may require new funding in case of pursuing new business opportunities. Taking into account the bank balances and cash of the Group of approximately HK\$60.7 million as at 31 December 2017, the amount of cash used in the Group's operating activities for the year ended 31 December 2017 of approximately HK\$138 million, its annual general working capital requirement of the Group with reference to that incurred for the year ended 31 December 2017 of approximately HK\$592 million and the budgetted capital expenditure for the development of the 40 megawatt photovoltaic power generation output capacity in the Yinchuan Project as at the Latest Practicable Date of approximately HK\$275 million as well as assuming (i) the source of revenue remained the same as the previous year; (ii) the major cost items of the Group remain stable in the next 12 months; (iii) no material change in the existing political, legal, fiscal, market or economic conditions in Hong Kong and any other places in which any member of the Group carry on or will carry on business and provide or will provide services; (iv) there will be no material change in the bases or rates of taxation in Hong Kong or in any other places in which any member of the Group operates or will operate or are incorporated; (v) there will be no material change in the inflation rate, interest rates or foreign currency exchange rates from those currently prevailing; (vi) there will be no other circumstances beyond the control of the Group, such as act of God, earthquake, wars, military incidents, the outbreak of epidemic diseases or natural disasters, terrorists' attack and labour disputes, which may have material and adverse impact on the Group's business and operating activities; (vii) the Group does not have any predetermined dividend distribution ratio and no dividend is proposed for the next 12 months from the date of the Circular; (viii) there will be no restriction or other issue which results in the Group not being able to carry the principal activities of the Group in and any other places in which any member of the Group carry on or will carry on business and provide or will provide services; and (ix) the full repayment of Loan A plus interest upon Completion, it is noted that the Group will be able to fund its operation needs for the next 12 months from the date of the Circular. However, should the Group pursue new business opportunities or require additional capital investment for its photovoltaic projects, new funding may be required. According to the Management, as at the Latest Practicable Date, after taking into account the current funding needs of the Group for its business operations and the completion of the Subscription, there is no requirement for additional capital expenditure requirement in the next 12 months from the date of the Circular and there is no new business opportunities being identified.

2. Reasons and benefits of the Subscription and use of proceeds

The Group intends to use the net proceeds of the Subscription amounting to approximately HK\$249.0 million to repay Loan A. In view of the potential increasing trend of HIBOR, on which the interest rate of Loan A would be based, the Directors considered the Group's capital structure as discussed in the paragraph above, that the Subscription would enable the Group to utilise the proceeds of the Subscription to repay Loan A, hence reduces its finance costs, lowers the net gearing ratio, increases the profitability and strengthens the financial position of the Group.

As described in the section headed "1. Background of the Group" above, we have obtained the salient terms of Loan A and noted (i) the outstanding interest-bearing bank borrowing amounts to approximately HK\$250 million as at 31 May 2018; and (ii) such loan is a short term revolving facility and will be rollover at the end of the interest period (i.e. monthly basis) with the lender's approval. The lender may, at its discretion and always subject to availability of funds, disagree to rollover the drawing at the end of an interest period and require repayment of the loan accordingly. Given the nature of Loan A as mentioned above, the amount of interest expense related to Loan A and the possible financial effects of the Subscription as described below, we are of the view that the use of proceeds for the Subscription is reasonable and practical.

Taking into account the sole purpose of the use of proceeds, we are of the view that the reasons for the Subscription is fair and reasonable.

In view of the bases and assumptions used by the Management when considering the working capital requirements of the Group for the next 12 months from the date of the Circular as described in the section headed "1. Background of the Group" above, we are of the view that the bases and assumptions used by the Management have been made after due and careful enquiry. Taking into account all the above, we are of the view that the reasons for the Subscription are fair and reasonable.

3. The Subscription Agreement

To assess the fairness and reasonableness of the terms of the Subscription Agreement, we have considered the following:

a. Principal terms of the Subscription Agreement

Date

24 May 2018

Parties

- (1) the Company as issuer; and
- (2) the Subscriber, a controlling Shareholder, as subscriber.

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Completion is subject to, amongst other conditions:

- (a) the Independent Shareholders having approved the terms and authorised the execution of and performance by the Company of its obligations under the Subscription Agreement; and
- (b) the Company being able to meet the public float requirement under the Listing Rules upon Completion.

96,150,000 Subscription Shares, which represent approximately 16.94% of the number of issued Shares as at the Latest Practicable Date, and approximately 14.48% of the number of issued Shares as enlarged by the proposed allotment and issue of the Subscription Shares.

The Subscription Shares will be issued under the Specific Mandate to be granted by the Independent Shareholders in the EGM and when issued and fully paid, will rank *pari passu* in all respects among themselves and with the issued Shares as at the Completion Date.

b. Subscription Price

The Subscription Price is HK\$2.60 per Subscription Share, and the aggregate Subscription Price for all Subscription Shares shall be paid by the Subscriber to the Company in cash upon Completion. It represents:

- (i) a discount of approximately 13.33% to the closing price of HK\$3.00 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement; and
- (ii) a discount of approximately 13.91% to the average closing price of approximately HK\$3.02 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to the date of the Subscription Agreement (including the date of the Subscription Agreement).

The Subscription Price was determined with reference to the prevailing market price and the recent trading volume of the Shares and was negotiated on an arm's length basis between the Company and the Subscriber.

To assess the fairness and reasonableness of the Subscription Price, we have reviewed the historical closing prices of the Shares as quoted on the Stock Exchange during the period from June 2017 up to and including the date of the Subscription Agreement (the "**Review Period**"). Saved for the Company announced its interim results for the six months ended 30 June 2017 and the final results for the year ended 31 December 2017, there were no other transactions entered into by the Company which would have any material adverse effect on the financial position or the operations of the Group during the Review Period. Accordingly, we are of the view that the Review Period, which covered almost 1 year prior to the date of the Subscription Agreement, would provide us with a fair and reasonable timeframe to assess the fairness and reasonableness of the Subscription Price.

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During the Review Period, the closing Share price fluctuated between HK\$4.68 per Share and HK\$3.00 per Share, with an average Share price of approximately HK\$3.77 per Share. We note that movement of the Share price did not appear to correlate with any announcements of the Company and shows a declining trend during the Review Period.

The table below sets out the monthly trading volume of the Shares and the percentages of such monthly trading volumes to the issued share capital of the Company during the period from 1 June 2017 up to and including the date of the Subscription Agreement.

	Monthly trading volume of the Shares <i>(Note 1)</i>	% of issued share capital of the Company <i>(Note 2)</i>	% of public float of the Company <i>(Note 3)</i>
2017			
June	3,226,000	0.57%	1.55%
July	988,000	0.17%	0.48%
August	4,124,000	0.73%	1.99%
September	5,960,000	1.05%	2.87%
October	1,884,000	0.33%	0.91%
November	2,122,000	0.37%	1.02%
December	786,000	0.14%	0.38%
2018			
January	5,056,000	0.89%	2.43%
February	2,086,000	0.37%	1.00%
March	9,882,000	1.74%	4.76%
April	2,676,000	0.47%	1.29%
May <i>(Note 4)</i>	842,000	0.15%	0.41%

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Notes:

1. Source: HKEx website
2. The calculation is based on the total monthly trading volume of the Shares divided by the total issued share capital of the Company as at the end of the respective months based on the Company's monthly return of equity issuer on movements in securities for the month.
3. The calculation is based on the the total monthly trading volume of the Shares divided by the total number of Shares held by public Shareholders as at the date of the Subscription Agreement, which was 207,696,000 Shares.
4. The monthly trading volume for May 2018 is that up to the date of the Subscription Agreement.

Notwithstanding the relatively low historical trading volume of the Shares, given its stability, and the declining trend of the share price as described above we consider the historical Share prices during the Review Period to be a fair and reasonable reference for the Subscription Price.

To assess whether the Subscription Price is acceptable, we have conducted a comparable analysis through identifying companies listed on the Main Board of the Stock Exchange (excluding companies under prolonged suspension or debt restructuring) during the Review Period which issued a circular regarding a connected transaction involving a share subscription by connected person(s) under specific mandate, excluding any transactions involving other aspects that may affect pricing considerations such as issues of consideration shares or convertible securities and issues involving whitewash waiver applications. We have also excluded transactions where the shares were issued at a premium to their closing price on the last trading day and average closing price over the last 5 consecutive trading days prior to/on the date of the relevant announcements, as we consider such issues to be the exception.

On this basis, we have identified 15 comparable companies (the "**Comparables**"), which we consider an exhaustive list of relevant comparable companies based on the abovementioned criteria. It should be noted that all the companies involved in the Comparables may have different principal activities, market capitalisation, profitability, and financial position as compared with those of the Company. Circumstances leading the Comparables to issue consideration shares may differ from that of the Company. The analysis is meant to be used as a general reference to similar types of transactions in Hong Kong, and we consider them to be one of the appropriate basis to assess the fairness and reasonableness of the Subscription Price.

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Date of circular	Listed issuer	Stock code	Discount of the issue price to the closing price on	
			Last trading day prior to/on the date of the relevant announcement	Last 5 consecutive trading days prior to/on the date of the relevant announcement
30/04/2018	Frontier Services Group Limited	500	35.00%	30.70%
9/04/2018	Brockman Mining Limited	159	18.70%	16.10%
8/03/2018	China Dongxiang (Group) Co., Ltd	3818	8.16%	9.88%
6/03/2018	Beijing Enterprises Water Group Limited	371	1.50%	2.20%
5/02/2018	New Sports Group Ltd	299	21.88%	27.11%
30/01/2018	Hua Hong Semiconductor Limited	1347	18.56%	20.29%
19/12/2017	AKM Industrial Company Limited	1639	7.98%	7.29%
14/12/2017	Alibaba Health Information Technology Limited	241	4.31%	6.80%
17/11/2017	C&D International Investment Group Limited	1908	13.10%	11.88%
13/11/2017	Pak Tak International Limited	2668	21.40%	20.85%
27/10/2017	Beijing Sports and Entertainment Industry Group Limited	1803	21.01%	20.34%
13/10/2017	Ourgame International Holdings Limited	6899	0.00%	0.43%
4/10/2017	Truly International Holdings Limited	732	12.90%	13.50%
7/07/2017	Sunshine Oilsands Ltd.	2012	14.74%	18.75%
8/06/2017	China Financial Services Holdings Limited	605	6.85%	6.85%
		Maximum	35.00%	30.70%
		Minimum	0.00%	0.43%
		Average	13.74%	14.20%
	The Company		13.33%	13.91%

We note that the Company's discount to closing prices on the date of the Subscription Agreement and last five trading days prior to/on the date of the relevant announcement is within the range of those of the Comparables and close to the average of those Comparables, being discounts of 13.33% and 13.91% as compared to the average discounts of 13.74% and 14.20%, respectively.

Taken into account (i) the stability of the Company's historical trading volume during the Review Period; (ii) the historical trading prices during the Review Period showed a declining trend; and (iii) the Company's discount to the closing prices on the date of the Subscription Agreement and last five trading days prior to/on the date of the relevant announcement is within the range of those of the Comparables and close the average of those Comparables, we are of the view that the Subscription Price (at such pricing discount) is fair and reasonable.

4. Alternatives to the Subscription

We understand from the Management that they had approached 4 banks and 2 brokerage firms to (i) explore the possibility of taking out additional loans but the risks associated with the Group's Photovoltaic Power Generation Business were not regarded favourably and those firms would not accept pledged Shares as loan security; and (ii) explore the possibility to placing shares to independent third parties or raise new equity funds on a pro rata basis and were unable to secure underwriters at the Subscription Price at a favourable rate of underwriting commission. We further understand from the Management that fluctuation of the Share price may increase the loan-to-collateral ratio in respect of Loan A, as it is secured by pledged Shares, such that the Company would have to top-up the collateral within a certain number of days or default on Loan A. Accordingly, the Directors did not consider debt financing from third party financial institutions as a viable option with reason mentioned above. On the other hand, the Management, having considered the prevailing Share price, takes the view that the Subscription would enable the Group to pay off Loan A sooner than alternatives such as a rights issue or open offer and is therefore in the interests of the Company and the Shareholders as a whole.

Taking into account (i) the amount of gross proceeds to be raised by the Company through the Subscription; (ii) a shorter timeframe required to complete the Subscription as compared to the alternatives (such as rights issue or open offer); (iii) a more cost effective method to raise funds as compared to the alternatives (if available, such as, rights issue or open offer) which may not be at a favourable rate of underwriting commission; (iv) a less dilutive method to the Shareholders to raise funds, in the event the Company has to issue more new shares but at a further discount to the Subscription Price as required by the independent underwriter(s) so as to raise the same amount of gross proceeds as the Subscription; and (v) the Subscriber is willing to subscribe at the Subscription Price, we are of the view that (i) the Company had considered the alternatives, such as, pro rata issues and possible fund raising through independent investors instead of the Subscriber; and (ii) it is fair and reasonable for the Company to procure the Subscriber for the Subscription as compared to other alternative means of financing when there is no better alternative to the Subscription as mentioned above.

5. Financial effects of the Subscription

Upon Completion, it is expected that the cash position and net asset value of the Group will each be enhanced by the net proceeds of the Subscription amounting to approximately HK\$249.0 million, strengthening the financial position of the Group, enabling the Group to repay Loan A and once Loan A is repaid, avoiding any further finance costs associated with Loan A and improving the Group's gearing.

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6. Effects on shareholding structure

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion, assuming that no further Shares have been issued or repurchased before Completion:

	As at the Latest Practicable Date		Immediately after Completion (assuming that no further Shares have been issued or repurchased before Completion)	
	<i>Number of shares</i>	<i>Approximate %</i>	<i>Number of shares</i>	<i>Approximate %</i>
The Subscriber	360,000,000	63.41	456,150,000	68.71
Public Shareholders	207,696,000	36.59	207,696,000	31.29
Total	567,696,000	100.00	663,846,600	100.00

Taking into account the table above, the public shareholders' interest will be diluted from approximately 36.59% as at the Latest Practicable Date to approximately 31.29% immediately after Completion, representing a dilution of approximately 14.48%.

Having considered the reasons and benefits of the Subscription in the paragraph headed "2. Reasons and benefits of the Subscription"; the positive financial effects in the paragraph headed "5. Financial effects of the Subscription"; and that there are no better alternatives to the Subscription as stated in the paragraph headed "4. Alternatives to the Subscription", we consider such dilution of the public Shareholding by approximately 14.48% as acceptable.

RECOMMENDATIONS

Having considered the above principal factors, we are of the view that the terms of the Subscription Agreement together with the proposed issue and allotment of the Subscription Shares are (i) on normal commercial terms; (ii) fair and reasonable and that the Subscription and the grant of the Specific Mandate; and (iii) in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution approving the Subscription and the Specific Mandate at the EGM.

Yours faithfully
For and on behalf of
Altus Capital Limited
Jeanny Leung
Executive Director

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*Ms. Jeanny Leung (“**Ms. Leung**”) is a Responsible Officer of Altus Capital licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has about 30 years of experience in the corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions.*

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. DISCLOSURE OF INTERESTS

Directors and chief executive

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which 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 or chief executive was taken or deemed to have under such provisions of the SFO); or which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO; or which 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 as set out in Appendix 10 to the Listing Rules, were as follows:

Interests and short positions in the Shares, underlying Shares and debentures of the Company

Name of Director	Capacity and nature of interest	Number of shares (Note 1)	Percentage of the Company's issued share capital as at the Latest Practicable Date
Mr. Dang Yanbao (Note 2)	Interest of controlled corporation	456,150,000 (L)	80.35%
	Interest of controlled corporation	252,600,000 (S)	44.50%

Notes:

- The letter "L" denotes a long position in the interest in the share capital of the Company. The letter "S" denotes a short position in the interest in the share capital of the Company.

2. Mr. Dang Yanbao, the chairman and an executive Director of the Company, is the sole shareholder and a director of Fung Teng Enterprises Limited and is therefore deemed to be interested in 456,150,000 Shares in which Fung Teng Enterprises Limited is interested under the SFO, among which 252,600,000 Shares were pledged in favour of Bank of Shanghai (Hong Kong) Limited as a security for a revolving credit facility up to a maximum aggregate amount of HK\$250,000,000 provided to the Company by Bank of Shanghai (Hong Kong) Limited.

Interests and short positions in shares, underlying shares and debentures of the associated corporations of the Company

Name of Director	Name of associated corporation	Capacity and nature of interest	Number of share(s)	Percentage of the associated corporation's issued share capital as at the Latest Practicable Date
Mr. Dang Yanbao (Note 3)	Fung Teng Enterprises Limited	Beneficial owner	1 (L)	100%

Notes:

3. As at the Latest Practicable Date, Mr. Dang Yanbao is the sole shareholder and a director of Fung Teng Enterprises Limited, which is the holding company of the Company. As such, Mr. Dang Yanbao is interested in the shares of Fung Teng Enterprises Limited by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest and short position which any such Director or chief executive of the Company was taken or deemed to have under such provisions of the SFO); or entered in the register of interests required to be kept by the Company pursuant to Section 352 of the SFO; or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or proposed Directors was a director or employee of a company which had an interest or short position in the Shares or 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.

Interests in assets

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017 (being the date to which the latest published audited financial statements of the Group were made up).

Interests in contract or arrangement

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

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group other than contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective close associates was interested in any business which competes or is likely to compete either directly or indirectly with the Group's business.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up.

6. EXPERT AND CONSENT

The following are the qualifications of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Altus Capital	a corporation licensed to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017 (being the date to which the latest published audited financial statements of the Group were made up).

As at the Latest Practicable Date, the above expert did not have any shareholding in any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9 a.m. to 6 p.m. on Monday to Friday, excluding public holidays, at the principal office of the Company at Suites 1301-1304, 13/F Two Pacific Place, 88 Queensway, Admiralty, Hong Kong, from the date of this circular up to and including the date of the EGM:

- (i) the Subscription Agreement;
- (ii) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 14 to 15 of this circular;
- (iii) the letter from Altus Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 16 to 28 of this circular; and
- (iv) the letters of consent referred to under the section headed "Expert and Consent" in this appendix.



China Baofeng (International) Limited

中國寶豐(國際)有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3966)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “Meeting”) of China Baofeng (International) Limited (the “Company”) will be held at 9/F, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong on Tuesday, 17 July 2018 at 11:00 a.m. for considering and, if thought fit, passing, with or without amendments, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

1. “THAT:

- (a) the subscription agreement dated 24 May 2018 entered into between the Company as issuer and Fung Teng Enterprises Limited as subscriber in respect of the subscription of 96,150,000 shares of the Company (a copy of which has been produced to this meeting marked “A” and initialed by the chairman of this meeting for the purpose of identification) (the “Subscription Agreement”) and the transactions contemplated thereunder (the “Subscription”), be and are hereby approved, confirmed and ratified;
- (b) the directors of the Company (the “Directors”) be and are hereby authorised to sign and execute such documents and do all such acts and things which in their opinion may be necessary, desirable or expedient to carry out or give effect to transactions mentioned in paragraph 1(a) above;
- (c) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting permission to deal in the Subscription Shares (as defined in the Subscription Agreement) to be allotted and issued pursuant to the terms and conditions of the Subscription Agreement, the Directors be and are hereby granted a specific mandate (the “Specific Mandate”) to allot and issue 96,150,000 ordinary shares of HK\$0.01 each in the share capital of the Company, provided that the Specific Mandate shall be in addition to and shall not prejudice nor revoke the existing general mandate granted to the Directors by the shareholders of the Company in the annual general meeting of the Company held on 25 May 2018 and the general mandate contained in ordinary resolution 5 of the annual general meeting; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (d) the Directors be and are hereby authorised to sign and execute such documents and do all such acts and things which in their opinion may be necessary, desirable or expedient to carry out or give effect to transactions mentioned in paragraph 1(c) above.”

By Order of the Board
China Baofeng (International) Limited
Dang Yanbao
Chairman and Executive Director

Hong Kong, 26 June 2018

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
3. To be valid, the instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the office of the Hong Kong branch share registrar and transfer office of the Company, Union Registrars Limited, at Suites 3301-4, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not less than 48 hours before the time appointed for holding the Meeting (i.e. not later than Sunday, 15 July 2018 at 11:00 a.m.) or any adjournment thereof.
4. No instrument appointing a proxy shall be valid after expiration of 12 months from the date named in it as the date of its execution, except at an adjourned meeting or on a poll demanded at the Meeting or any adjournment thereof in cases where the Meeting was originally held within 12 months from such date.
5. Where there are joint holders of any shares, any one of such joint holders may vote at the Meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the Meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
6. Completion and delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the Meeting if the member so wish and in such event, the instrument appointing a proxy should be deemed to be revoked.

NOTICE OF EXTRAORDINARY GENERAL MEETING

7. The transfer books and register of members of the Company will be closed from Thursday, 12 July 2018 to Tuesday, 17 July 2018, both days inclusive. During such period, no share transfers will be effected. In order to qualify for attending the Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the office of the Hong Kong branch share registrar and transfer office of the Company, Union Registrars Limited, at Suites 3301-4, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 11 July 2018.
8. All the resolution set out in this notice will be decided by poll.
9. A form of proxy for use at the Meeting is enclosed.
10. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 8:00 a.m. on the date of the Meeting, the Meeting will be postponed. The Company will post an announcement on the website of Company at www.baofengintl.com and on the HKEx news website of the Stock Exchange at www.hkexnews.hk to notify Shareholders of the date, time and place of the rescheduled Meeting.
11. References to time and dates in this notice are to Hong Kong time and dates.