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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)

**VERY SUBSTANTIAL ACQUISITION
ACQUISITION OF EQUIPMENT
AND
FINANCE LEASE ARRANGEMENTS
AND
ASSIGNMENT OF RECEIVABLES**

THE SALE AND PURCHASE AGREEMENT

The Board is pleased to announce that on 23 March 2019, Baofeng Photovoltaic (a wholly-owned subsidiary of the Company) as Purchaser entered into the Sale and Purchase Agreement with the Vendor, pursuant to which the Purchaser has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Equipment at the Consideration of RMB2,398,153,588 (tax inclusive) (equivalent to approximately HK\$2,808,142,375).

The Equipment is a set of photovoltaic power generation equipment which has been leased to the Purchaser by the Vendor since its acquisition of the Equipment and has been used by the Group in the Project for the photovoltaic business operations of the Group since the commencement of the Project in 2016.

THE FINANCE LEASE ARRANGEMENTS

On 23 March 2019, Baofeng Photovoltaic as Lessee entered into the Finance Lease Agreement with the Lessor, pursuant to which the Lessor has conditionally agreed to pay RMB1,700,000,000 (equivalent to approximately HK\$1,990,632,319) of the Consideration to the Vendor, upon which it will take ownership of the Equipment. The Lessor will lease back the Equipment to the Lessee for the Principal Lease Amount of RMB1,700,000,000 to be paid by monthly instalments (plus interests) commencing after a grace period which will expire by 28 January 2021, with the last payment to be made by 28 January 2031. From the Lease Commencement Date up to the end of the grace period, the Lessee will only have to pay interests on the Principal Lease Amount but will not have to make repayments of the Principal Lease Amount.

The indebtedness and obligations of the Lessee under the Finance Lease Agreement will be guaranteed by the Company and secured by a charge over the entire equity interest in the Purchaser, by a charge over all receivables arising from the income of the Project from time to time (other than the amount of Tariff Adjustment Receivables already assigned by the Purchaser), and by a charge over all power generation equipment and ancillary facilities used in the Project, in favour of the Lessor.

THE ASSIGNMENT AGREEMENT

As an ancillary arrangement to the Proposed Acquisition, on 23 March 2019, the Purchaser and the Vendor also entered into the Assignment Agreement, pursuant to which the Vendor has agreed that within one (1) month after receiving the First Payment of the Consideration from the Lessor, it will pay an amount of RMB300,000,000 (equivalent to approximately HK\$351,288,056) to the Purchaser in cash, and in return the Purchaser has agreed to assign the Tariff Adjustment Receivables in the amount of RMB300,000,000 to the Vendor effective on the date the Purchaser receives the aforesaid cash payment.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) of the Sale and Purchase Agreement and of the Finance Lease Arrangements exceed 100%, each of the Sale and Purchase Agreement and the Finance Lease Arrangements constitutes a very substantial acquisition of the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Whilst one or more of the applicable percentage ratios (as defined under the Listing Rules) of the Assignment Agreement exceed 5% but all are below 25%, the Assignment Agreement, being a transaction ancillary to the Proposed Acquisition, is classified under Chapter 14 of the Listing Rules by reference to the larger percentage ratios of the Proposed Acquisition, and is subject to the reporting, announcement and shareholders' approval requirements thereunder.

GENERAL

The EGM will be convened to consider and, if thought fit, to pass the resolutions to approve the Sale and Purchase Agreement, the Finance Lease Arrangements, the Assignment Agreement and the transactions respectively contemplated thereunder. A circular containing, among other things, (i) further details of the Sale and Purchase Agreement, the Finance Lease Arrangements, the Assignment Agreement and the transactions respectively contemplated thereunder; (ii) a notice of the EGM; and (iii) other information required under the Listing Rules, is expected to be despatched by the Company to the Shareholders on or before 15 April 2019.

INTRODUCTION

The Board is pleased to announce that on 23 March 2019, (i) Baofeng Photovoltaic (a wholly-owned subsidiary of the Company) as Purchaser entered into the Sale and Purchase Agreement with the Vendor in relation to the sale and purchase of the Equipment; (ii) Baofeng Photovoltaic as Lessee entered into the Finance Lease Arrangements with the Lessor to finance the purchase of the Equipment; and (iii) the Purchaser and the Vendor entered into the Assignment Agreement in relation to the assignment of the RMB Three Hundred Million Tariff Adjustment Receivables for cash.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are set out as follows:

Date

23 March 2019

Parties

- (1) Baofeng Photovoltaic as the Purchaser; and
- (2) the Vendor.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Subject matter

Subject to the terms and conditions of the Sale and Purchase Agreement, the Purchaser has agreed to purchase and the Vendor has agreed to sell the Equipment.

Consideration

The Consideration for the Equipment is RMB2,398,153,588 (tax inclusive) (equivalent to approximately HK\$2,808,142,375), which shall be payable by the Purchaser to the Vendor in the manner set out below:-

- (i) the first payment (the "**First Payment**") of RMB1,000,000,000 (equivalent to approximately HK\$1,170,960,187) will be paid by the Lessor directly to the Vendor pursuant to the Finance Lease Agreement, and thereby the Purchaser will be deemed to have fulfilled its obligation to make the First Payment;

- (ii) the second payment (the “**Second Payment**”) of RMB700,000,000 (equivalent to approximately HK\$819,672,131) will be paid by the Lessor directly to the Vendor pursuant to the Finance Lease Agreement, and thereby the Purchaser will be deemed to have fulfilled its obligation to make the Second Payment; and
- (iii) the balance of RMB698,153,588 (equivalent to approximately HK\$817,510,056) (the “**Third Payment**”) will be settled by way of assignment of the benefit of the Tariff Adjustment Receivables (details of which are set out in the section headed “**INFORMATION ON THE PROJECT AND THE EQUIPMENT**” in this announcement) in the corresponding amount of RMB698,153,588 (the “**Consideration Tariff Adjustment Receivables**”) by the Purchaser to the Vendor, which will take effect on the date payment of the First Payment is made.

As a result of the assignment of the Consideration Tariff Adjustment Receivables, beneficial ownership of the Consideration Tariff Adjustment Receivables will be transferred to the Vendor, and the Purchaser’s only obligation will be to pay the corresponding amount(s) of the Consideration Tariff Adjustment Receivables received by it (on the Vendor’s behalf) from SGCC to the Vendor within ten (10) business days of each receipt, until the entire amount of RMB698,153,588 is paid off. After such assignment, the Vendor will bear the risks associated with the collection and recovery of the Consideration Tariff Adjustment Receivables. In the event that the Purchaser fails to receive any amount of the Consideration Tariff Adjustment Receivables due to PRC policy or other reasons beyond the control of the Purchaser, the Purchaser will not be obliged to pay such amount to the Vendor and the Vendor shall have no right to claim any damages against the Purchaser.

The settlement of the Third Payment by way of assignment of the Consideration Tariff Adjustment Receivables is beneficial to the Group as it involves no actual cash outflow from the Group and the uncertainty associated with the collection and recovery of such receivables will be eliminated. Therefore, the Directors consider that the terms in respect of the assignment of the Consideration Tariff Adjustment Receivables to the Vendor are fair and reasonable and on normal commercial terms.

The Consideration was determined after arm's length negotiations between the Purchaser and the Vendor taking into account factors including (a) the original costs of the Equipment paid by the Vendor for its acquisition in 2016, being approximately RMB2,217.74 million (tax inclusive) and the finance costs incurred by the Vendor since 2016 in association with its acquisition of the Equipment, being approximately RMB456.48 million; (b) the total rental payments paid by the Group to the Vendor for leasing the Equipment since 2016, being approximately RMB270.00 million; and (c) those bases as set out in the section headed **“REASONS FOR AND BENEFITS OF ENTERING INTO THE SALE AND PURCHASE AGREEMENT, THE FINANCE LEASE ARRANGEMENTS AND THE ASSIGNMENT AGREEMENT”** in this announcement, in particular:-

- (i) If the Group becomes the owner of the Equipment, the commercial risks and uncertainties that the Existing Lease may not be renewed upon expiry or that the rental may be increased upon renewal of the Existing Lease can be eliminated.
- (ii) The Equipment is a major component of the Project but does not itself generate any revenue or profit. The Equipment being used in the operation of the Project, together with other equipment and components of the Project and the approval for on-grid connection issued by SGCC, enable the Project to generate revenue from photovoltaic business activities. During the three years of use of the Equipment by the Group in the Project, the Project had generated revenue of approximately HK\$198.6 million, HK\$534.6 million and HK\$355.5 million for each of the two years ended 31 December 2017 and the six months ended 30 June 2018, respectively, accounting for approximately 32.5%, 55.9% and 63.5% of the Group's total revenue for the corresponding periods, respectively. In addition, the Project had generated profit (before tax) of approximately HK\$156.9 million, HK\$465.5 million and HK\$316.4 million for each of the two years ended 31 December 2017 and the six months ended 30 June 2018, respectively, accounting for approximately 93.8%, 95.1% and 98.9% of the Group's total segment profit for the corresponding periods, respectively.
- (iii) The Equipment has been leased by the Vendor to the Purchaser ever since it was acquired by the Vendor in brand new condition in 2016. Considering that the Equipment has a useful life of 25 years, after deducting the three years of use by the Group itself since first leasing the Equipment in May 2016 and following the completion of the term of the Finance Lease, the Group expects to further enjoy about 10 years of useful life of the Equipment without any further payment of finance payments or rent.

- (iv) Furthermore, as negotiated with the Vendor as an ancillary arrangement to the Proposed Acquisition, the Vendor has agreed to accept the assignment of the RMB Three Hundred Million Tariff Adjustment Receivables and payment of the same amount of cash to the Purchaser on a dollar for dollar basis without discount (descriptions of this arrangement are set out in the section headed “**THE ASSIGNMENT AGREEMENT**” in this announcement), which will help improve the Group’s cash flow and eliminate the uncertainty associated with the collection and recovery of such receivables. Such assignment renders the Proposed Acquisition more favourable and worthwhile to the Group.

In light of the above, the Directors consider that the amount of the Consideration is fair and reasonable and on normal commercial terms.

The Company intends to finance the Consideration by (i) the Finance Lease Arrangements; and (ii) the Consideration Tariff Adjustment Receivables.

For reference, the Consideration of RMB2,398,153,588 (equivalent to approximately HK\$2,808,142,375) includes value-added tax in the amount of RMB330,779,805.24 (equivalent to approximately HK\$387,329,982.72), which will be paid by the Purchaser and can be used to offset future value-added taxes payable arising from the Project, such as the sales of electricity. The amount of the Consideration before tax is thus RMB2,067,373,782.76 (equivalent to approximately HK\$2,420,812,391.99).

Conditions precedent

The taking effect of the Sale and Purchase Agreement is subject to the satisfaction of the following conditions:

- (i) the approval of the Sale and Purchase Agreement by the Shareholders;
- (ii) the obtaining of all necessary consents, approvals, permits and authorisations from any relevant regulatory authorities in Hong Kong (including the Stock Exchange) and the PRC and any other relevant third parties (if so required) in respect of the transactions contemplated under the Sale and Purchase Agreement; and

(iii) the satisfaction of all conditions precedent under the documents in relation to the Finance Lease Arrangements (save for those in relation to the satisfaction of conditions precedent under the Sale and Purchase Agreement).

Upon satisfaction of all of the above conditions precedent, the Existing Lease will be automatically terminated.

Delivery

Within 30 days after the First Payment has been made, the Vendor and the Purchaser shall confirm the date of Delivery, which will take place at the current location of the Equipment. On the date of Delivery, the Vendor and the Purchaser will appoint respective representatives to jointly carry out stocktake, inspection and handover of the Equipment and sign a list of items to be delivered, including but not limited to all relevant documents and records (whether written or digital or in any other form) related to the Equipment.

THE FINANCE LEASE ARRANGEMENTS

The principal terms of the Finance Lease Agreement are set out as follows:

Date

23 March 2019

Parties

- (1) the Purchaser as Lessee; and
- (2) the Lessor.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Lessor and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Subject matter

Subject to the terms and conditions of the Finance Lease Agreement, the Lessor has agreed to pay the First Payment and the Second Payment (amounting in aggregate to RMB1,700,000,000 (equivalent to approximately HK\$1,990,632,319)) of the Consideration to the Vendor, upon which the Lessor will take ownership of the Equipment, and lease back the Equipment to the Lessee for the principal amount of RMB1,700,000,000 to be paid by the Lessee by monthly payments (plus interests).

Lease term

The term of the Finance Lease (the “**Lease Term**”) will commence on the Lease Commencement Date and end on the date of the last payment to be made by 28 January 2031.

Lease payments, interests, handling fee and deposit

Lease payments

The principal lease amount is RMB1,700,000,000 (equivalent to approximately HK\$1,990,632,319) (the “**Principal Lease Amount**”), which amount will be paid by the Lessor directly to the Vendor by two instalments according to the payment notice by the Lessor and the Vendor and no later than 11 July 2019. The amount of the first instalment is RMB1,000,000,000 (the “**First Instalment**”) and that of the second instalment is RMB700,000,000 (the “**Second Instalment**”).

During the grace period from the Lease Commencement Date up to its expiry by 28 January 2021, only interests will be payable by the Lessee on a monthly basis. After the grace period and for the remaining Lease Term, the Principal Lease Amount and interests will be payable by the Lessee by monthly instalments.

The abovementioned interests will be calculated on a daily basis based on an annual interest rate which is a floating rate calculated based on the benchmark interest rate for loans over 5 years as promulgated by the People’s Bank of China on the date of payment of the First Instalment (in respect of interests payable during the grace period) and the Lease Commencement Date (in respect of interests payable after the grace period) increased by 22%. Where the People’s Bank of China makes adjustment to the benchmark interest rate for loans of the same duration during the term of the Finance Lease Agreement, the interest rates under the Finance Lease will be correspondingly adjusted.

For reference purpose only and subject to the actual benchmark interest rates, as at the date of this announcement, the applicable annual interest rate is 5.978%. On this basis, (i) the amount of interests payable during the grace period is estimated to be approximately RMB184.62 million (equivalent to approximately HK\$216.18 million); (ii) the amount of interests payable after the grace period and for the remaining Lease Term is estimated to be approximately RMB515.90 million (equivalent to approximately HK\$604.10 million); and (iii) the total amount of lease payments (including interests) is estimated to be approximately RMB2,400.52 million (equivalent to approximately HK\$2,810.91 million). These estimated amounts are subject to change depending on the actual date of the Lease Commencement Date.

Handling fee

A handling fee of RMB204,000,000 (equivalent to approximately HK\$238,875,878), representing 12% of the Principal Lease Amount, is payable by the Lessee to the Lessor by twelve (12) equal instalments. The first instalment of such handling fee is payable before the date on which the Lessor pays the First Instalment to the Vendor. Thereafter, payments shall be made every three months.

Deposit

An interest-free guarantee deposit of RMB20,400,000 (equivalent to approximately HK\$23,887,588), representing 1.2% of the Principal Lease Amount, is payable by the Lessee to the Lessor before the Lessor makes any payment of the Principal Lease Amount to the Vendor. The deposit will be used to offset the corresponding amount of the last lease payment(s) payable, provided that there has been no breach by the Lessee.

The lease payments, interests, handling fee and deposit will be funded by the Group's internal resources and the cash obtained from the assignment of the RMB Three Hundred Million Tariff Adjustment Receivables to the Vendor.

The lease payments, interests, handling fee and deposit were determined after arm's length negotiations between the Lessee and the Lessor. In comparison with the interest rates, rates of handling fee and the annualised total finance lease costs of various other PRC finance lease transactions entered into by Hong Kong listed groups, the terms of the Finance Lease are comparable to the terms of those other finance lease transactions. Therefore, the Directors consider that the terms in respect of the lease payments, interests, handling fee and deposit under the Finance Lease Agreement are fair and reasonable and on normal commercial terms.

Conditions precedent to payment of the First Instalment and the Second Instalment by the Lessor

The Lessor shall be obliged to pay the First Instalment upon satisfaction of all of the following conditions:

- (1) the Lessor having received documentary proof from the Lessee in respect of the completion of the formalities for the charge over the entire equity interest in the Lessee provided by the Chargor in favour of the Lessor;
- (2) the Lessor having received the duly executed Sale and Purchase Agreement from the Lessee;
- (3) the Lessor having received supporting documents from the Lessee showing that the Lessee has opened a supervisory account with Hua Xia Bank (for the receipt by the Lessee of electricity charges and Tariff Adjustment Receivables);
- (4) the Lessor having received from the Lessee a list of all assets of the Equipment proposed to be acquired by the Lessee from the Vendor pursuant to the Sale and Purchase Agreement; and
- (5) the shareholder of the Lessee and the Lessee having provided a letter of undertaking to the Lessor that (i) within ten (10) working days after the receipt of the Tariff Adjustment Receivables for the Project, they will provide the Lessor with a certificate showing that 25% of the total investment amount of the Project, i.e. RMB681,000,000, has been fully paid-up, and the bank payment records for payment of the construction funds in relation to the Project; and (ii) the investment injected into the Lessee by its shareholder is genuine and provided other than by incurring debts, and the shareholder will not withdraw its investment or draw funds from the Lessee.

The Lessor shall be obliged to pay the Second Instalment after satisfaction of the above conditions for payment of the First Instalment, and upon the Lessor having received documentary proof from the Lessee in respect of completion of registration of the charge over receivables arising from all income of the Project from time to time to which it is entitled (save for the amount of Tariff Adjustment Receivables already assigned to the Vendor or any other third party).

Early repayment and penalty

The Finance Lease Arrangements have been negotiated on, among others, the basis that the Project will apply to be enlisted on the upcoming batch of the Subsidy Catalogue (which is the prerequisite for the receipt of the Tariff Adjustment Receivables accrued since the on-grid connection of the Project) for its entire output capacity of 390 megawatt. While as advised by the Group's PRC legal advisor, the Project with its output capacity of 390 megawatt meets the conditions for applying to be enlisted on the Subsidy Catalogue, to address the Lessor's concern that the Project might become enlisted on the upcoming batch of the Subsidy Catalogue for an output capacity lower than 390 megawatt, the Finance Lease Agreement provides that in the aforesaid event, the Lessor may request the early repayment by the Lessee of part of the Principal Lease Amount as calculated below:-

The amount of the Principal Lease Amount to be early repaid shall be calculated as follows:

$$\begin{array}{l} \textit{The entire Principal Lease} \\ \textit{Amount of} \quad \quad \quad \times \quad \textit{(output of the Project not enlisted/390 megawatt)} \\ \textit{RMB 1,700,000,000} \end{array}$$

For early repayment of the Principal Lease Amount in full before the expiration of the Lease Term, at least thirty (30) working days' notice should be given to the Lessor and a fee equal to 2% of the Principal Lease Amount will apply. In addition, payment of all outstanding handling fees will be accelerated in the event of early repayment of the Principal Lease Amount.

For any amount due and unpaid by the Lessee, a daily penalty of 5/10000 of such unpaid amount shall be payable.

Ownership of the Equipment

The legal title of the Equipment will vest in the Lessor throughout the Lease Term, while the Lessee will be entitled to keep and use the Equipment.

Upon the expiry of the Lease Term and payment by the Lessee of the entire Principal Lease Amount and other payables and performance of its obligations under the Finance Lease Agreement, the Lessee shall have the right to acquire the legal title to the Equipment at an agreed nominal price of RMB1.

Insurance of the Equipment

During the term of the Finance Lease Agreement, the Lessee is required to at its own costs effect basic property insurance in respect of the Equipment with the Lessor as the beneficiary of the insurance. The insured amount shall not be less than RMB1,700,000,000 for the first year of the insurance, and the insurance shall thereafter be renewed annually for an insured amount of not less than the outstanding balance of the Finance Lease.

Securities and guarantee

To secure all indebtedness and obligations of the Lessee under the Finance Lease Agreement,

- (i) the Company has executed a guarantee;
- (ii) the Chargor (a wholly-owned subsidiary of the Company) has executed a charge over 100% equity interest in the Lessee held by it;
- (iii) the Lessee has executed a charge over all receivables arising from all income of the Project from time to time to which it is entitled, save for the amount of the Tariff Adjustment Receivables already assigned to the Vendor or any other third party (in respect of which the Lessee has also entered into a charge registration agreement with the Lessor); and
- (iv) the Lessee has executed a charge over all power generation equipment and its ancillary facilities used in the Project,

in favour of the Lessor.

The maximum liability of the Company pursuant to the corporate guarantee would be the total indebtedness and obligations of the Lessee under the Finance Lease Agreement, including the total lease payments, interests, handling fee and deposit payable by the Lessee as detailed in the section headed “**Lease payments, interests, handling fee and deposit**” above, and the costs that may be incurred by the Lessor in pursuing the liabilities due under the Finance Lease Agreement.

The terms in respect of default and release under each of the above guarantee and securities are summarised below:

- (i) *The corporate guarantee executed by the Company*

The guarantee executed by the Company shall be effective from the effective date of the Finance Lease Agreement until three years after the due date of all indebtedness of the Lessee under the Finance Lease Agreement.

During such period, should the Lessee fail to pay any amounts payable or to perform any obligations under the Finance Lease Agreement or to assume responsibility for any breach of the Finance Lease Agreement, the Company shall pay such unpaid amounts to the Lessor or undertake such obligations and responsibilities within five (5) working days after receiving the notice of the Lessor's claim or request.

(ii) *The charge over 100% equity interest in the Lessee executed by the Chargor*

The charge shall be effective from the date of completion of its registration until the Lessee has settled all amounts payable under the Finance Lease Agreement on time and in full in accordance with the terms thereunder, or the Lessor has realised the charged equity and been fully repaid under the Finance Lease Agreement, whichever is earlier. In the event of full settlement of all indebtedness under the Finance Lease Agreement, the Lessor shall issue a written notice of release of the charge and cooperate with the Chargor in completing the relevant release formalities.

In the event of any of the following circumstances, the Lessor shall have the right to dispose of, sell and auction the charged equity in accordance with the law and to use the proceeds from such sale or auction, together with the dividend distribution generated by the charged equity during the charge period (if any), to offset the secured indebtedness:

- (a) the Lessee fails to settle the amount of any instalment of the grace period interests, the Principal Lease Amount, default damages or other payments under the Finance Lease Agreement on time and in full;
- (b) the Lessee fails to pay the amounts payable to the Lessor on time and in full in accordance with the Finance Lease Agreement in the event that the Finance Lease Agreement is deemed invalid, revoked, terminated, or the Lessor declares that repayment of the indebtedness is accelerated pursuant to the Finance Lease Agreement or the relevant laws; or
- (c) the Chargor is in breach of the charge.

Any remaining proceeds after satisfaction of the indebtedness due to the Lessor shall be returned to the Chargor.

(iii) The charge over all receivables arising from all income of the Project from time to time executed by the Lessee

The charge shall be effective from the date of its execution until the Lessee has settled all amounts payable under the Finance Lease Agreement on time and in full in accordance with the terms thereunder, or the Lessor has realised the charged receivables and been fully repaid under the Finance Lease Agreement, whichever is earlier. In the event of full settlement of all indebtedness under the Finance Lease Agreement, the Lessor shall issue a written notice of release of the charge and cooperate with the Lessee in completing the relevant release formalities.

In the event of any of the following circumstances, the Lessor may enforce its right as chargee to realise the charged receivables to satisfy its claims:

- (a) the Lessee fails to repay any amounts due and payable under the Finance Lease Agreement in accordance with the terms thereunder;
- (b) the Lessee breaches any other provisions of the Finance Lease Agreement or of the charge; or
- (c) the Lessee is declared bankrupt, revoked or dissolved according to the law.

(iv) The charge over all power generation equipment and its ancillary facilities used in the Project executed by the Lessee

The charge shall be effective from the effective date of the charge until the Lessee has settled all amounts payable under the Finance Lease Agreement on time and in full in accordance with the terms thereunder, or the Lessor has realised the charged assets and been fully repaid under the Finance Lease Agreement, whichever is earlier. In the event of full settlement of all indebtedness under the Finance Lease Agreement, the Lessor shall issue a written notice of release of the charge and cooperate with the Lessee in completing the relevant release formalities.

During the period of the charge, if the Lessee breaches any provision of the Finance Lease Agreement, the Lessor shall have the right to enforce its right as chargee to (i) discount the charged assets to offset the liability for the relevant breach; or (ii) dispose of the charged assets through auction or sales and use the proceeds to satisfy its claims.

The Directors consider that the terms in respect of the securities and guarantee under the Finance Lease Arrangements are fair and reasonable and on normal commercial terms as they are in line with the market practice in respect of similar finance lease transactions.

Conditions precedent

The taking effect of the Finance Lease Agreement and other agreements under the Finance Lease Arrangements is subject to satisfaction of the following conditions:

- (i) the obtaining of all necessary consents, approvals, permits and authorisations from the Shareholders, the relevant regulatory authorities in Hong Kong and the PRC and any other third parties in respect of the Finance Lease Agreement and other documents in relation to the Finance Lease Arrangements (if so required); and
- (ii) the satisfaction of all conditions precedent set out in the Sale and Purchase Agreement (save for that in relation to the satisfaction of conditions precedent to the taking effect of the Finance Lease Arrangements).

Other arrangements

During the term of the Finance Lease Agreement, if due to significant changes to the applicable laws or regulations, the financial regulatory policies or the financial markets of the PRC, or due to the need to comply with requirements of any regulatory body or governmental department, the costs of the Lessor in providing (or maintaining) the Finance Lease is substantially increased, the Lessor's basis of calculation of the interests for the Finance Lease is changed, and/or the net profit of the Lessor from the Finance Lease is materially reduced, the Lessor shall have the right to reasonably set again the interest rates and its calculation basis or adjust the interest rate applicable period, in order to ensure that the rights and benefits of the Lessor under the Finance Lease Agreement are unaffected. If the aforesaid changes in laws or regulations or requirements of regulatory body or governmental department have retrospective effect, the Lessee shall compensate the Lessor accordingly for the increased costs and/or reduction in net profit. Where the Lessee disagrees with the aforesaid adjustment to the interests of the Finance Lease, and cannot reach agreement with the Lessor after negotiations for not more than ten (10) working days, the Lessee may terminate the Finance Lease Agreement, upon which the Lessee shall pay to the Lessor all outstanding principal amounts, interests due, agreed price for purchase of the Equipment and other amounts payable.

In the event that there is material variation to the Finance Lease Agreement, the Company will comply with the requirements of Rule 14.36 of the Listing Rules as appropriate.

THE ASSIGNMENT AGREEMENT

To maintain stable cashflow of the Purchaser, as an ancillary arrangement to the Proposed Acquisition, the Vendor and the Purchaser entered into the Assignment Agreement, the principal terms of which are set out as follows:

Date

23 March 2019

Parties

- (1) Baofeng Photovoltaic as the assignor; and
- (2) the Vendor as the assignee.

Subject matter

Subject to the terms and conditions of the Assignment Agreement, the Vendor has agreed that within one (1) month after receiving payment of the First Payment from the Lessor, it will pay an amount of RMB300,000,000 (equivalent to approximately HK\$351,288,056) to the Purchaser in cash, and in return the Purchaser has agreed to assign the Tariff Adjustment Receivables in the amount of RMB300,000,000 (the “**RMB Three Hundred Million Tariff Adjustment Receivables**”) to the Vendor effective on the date the Purchaser receives the aforesaid cash payment.

As a result of such assignment, beneficial ownership of the RMB Three Hundred Million Tariff Adjustment Receivables will be transferred to the Vendor, and the Purchaser’s only obligation will be to pay the corresponding amount(s) of the RMB Three Hundred Million Tariff Adjustment Receivables received by it (on the Vendor’s behalf) from SGCC to the Vendor within ten (10) business days of each receipt, until the entire amount of RMB300,000,000 is paid off. After such assignment, the Vendor will bear the risks associated with the collection and recovery of the RMB Three Hundred Million Tariff Adjustment Receivables. In the event that the Purchaser fails to receive any amount of the RMB Three Hundred Million Tariff Adjustment Receivables due to PRC policy or other reasons beyond the control of the Purchaser, the Purchaser will not be obliged to repay such amount to the Vendor and the Vendor shall have no right to claim any damages against the Purchaser. To the extent practicable and permissible by law, the Purchaser will endeavour to cooperate with the Vendor in protecting the Vendor’s lawful rights in relation to the RMB Three Hundred Million Tariff Adjustment Receivables.

Conditions precedent

The taking effect of the Assignment Agreement is subject to the satisfaction of the following conditions:

- (i) the approval of the Assignment Agreement by the Shareholders;
- (ii) the obtaining of all necessary consents, approvals, permits and authorisations from any relevant regulatory authorities in Hong Kong (including the Stock Exchange) and the PRC and any other relevant third parties (if so required) in respect of the transactions contemplated under the Assignment Agreement; and
- (iii) the satisfaction of all conditions precedent under the Sale and Purchase Agreement.

CASH FLOW IMPACT OF THE PROPOSED ACQUISITION

It is expected that the Proposed Acquisition will result in (i) a total cash inflow of RMB300,000,000 (i.e. the amount to be received by the Vendor from the assignment of the RMB Three Hundred Million Tariff Adjustment Receivables) by the Purchaser; and (ii) a total cash outflow of approximately RMB2,604.52 million (i.e. the aggregate of the lease payments, interests to be accrued calculated based on the relevant benchmark rate as at the date of this announcement, the handling fee and the deposit payable by the Lessee under the Finance Lease Agreement as detailed in the section headed “**Lease payments, interests, handling fee and deposit**” above).

REASONS FOR AND BENEFITS OF ENTERING INTO THE SALE AND PURCHASE AGREEMENT, THE FINANCE LEASE ARRANGEMENTS AND THE ASSIGNMENT AGREEMENT

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 at the date of this announcement, the Company has no intention and has not entered into any agreement, understanding or arrangement to (i) acquire any new business or operating assets engaging in new business; or (ii) dispose of or downsize any of its existing businesses or operating assets engaging in the existing businesses. The lighting product business of the Group largely depends on the market in the US and the relevant products are subject to additional tariffs imposed by the US. Thus, while the Group is continuing to carry on its lighting product business, it will cautiously monitor and review the market situation of such business, including the trade war between the PRC and the US, for its business decisions in relation to the continued operation of the lighting product business.

The Directors consider that it is beneficial for the Group to purchase the Equipment pursuant to the Sale and Purchase Agreement and the Finance Lease Arrangements for the following reasons and on the following bases:

- (i) The Existing Lease is due to expire in May 2019. Under the Group's current operation arrangement of leasing the Equipment for its photovoltaic power generation business, such business is subject to the commercial risks and uncertainties that the Existing Lease may not be renewed upon expiry or that the rental may be increased upon renewal of the Existing Lease. If the Group becomes the owner of the Equipment, such commercial risks and uncertainties in relation to the rental of the Equipment can be eliminated.
- (ii) The photovoltaic power generation business of the Group through the operation of the Project accounted for approximately 55.9% of the Group's total revenue for the year ended 31 December 2017 and approximately 95.1% of the Group's total segment profit for the same period. For the year ended 31 December 2017, approximately 99.6% of the revenue of the photovoltaic power generation business of the Group amounting to HKD532.5 million was generated by the 350 megawatt output capacity of the Project. As at 31 December 2017, the net book value of the infrastructure in relation to the Project owned by the Group amounted to approximately HKD104.5 million. For the six months ended 30 June 2018, revenue from the operation of the Project accounted for approximately 63.5% of the Group's total revenue and approximately 98.9% of the Group's total segment profit for the same period. In the event that the Existing Lease could not be renewed, the operation and profitability of the Project will be severely hindered without the Equipment, and will result in written-down value of the infrastructure in relation to the Project owned by the Group. Since the photovoltaic power generation business has become the main driver of growth of the Group and the Equipment is of primary significance to such business, in order to maintain the Group's profitability, it is important for the Group to ensure sustainable and stable operation of the Project in the long run by securing the continued full operation of the Equipment.
- (iii) Although there will be finance costs during the term of the Finance Lease, the Group will at the same time no longer have to bear rental expenditure on the Equipment as well as the risks associated with the renewal of the Existing Lease as mentioned above. After paying off the Finance Lease at the end of its term, the Group will own the Equipment and will be able to use the Equipment without any further finance or rental payments. Considering that the Equipment has a useful life of 25 years, after deducting the three years of use by the Group itself since leasing in May 2016 and following the completion of the term of the Finance Lease, the Group expects to further enjoy about 10 years of useful life of the Equipment without any further payment of finance payments or rent, which will be conducive to profitability of the Group in the long run.

- (iv) The Company also estimates that during the term of the Finance Lease, in view of the saving of rental expenses of the Equipment, if the non-cash item of depreciation of the Equipment (which in any event is due to the Group's own use) is excluded from the consolidated financial statements of the Group, the Proposed Acquisition may already bring a positive impact on the Group's profitability.
- (v) When the Group is able to sustain its profitability with the continued operation and development of its photovoltaic power generation business in the long term, the Company expects that its ability to declare dividends will be enhanced which will be beneficial to the Shareholders.

Furthermore, through the assignment of the RMB Three Hundred Million Tariff Adjustment Receivables to the Vendor, the Purchaser will be able to obtain RMB300,000,000 immediate cash, which will improve the cash flow of the Purchaser. At the same time, the uncertainty associated with the collection and recovery of the RMB Three Hundred Million Tariff Adjustment Receivables from SGCC will be eliminated.

In light of the above, the Directors consider that the terms of the Sale and Purchase Agreement, the Finance Lease Arrangements and the Assignment Agreement are fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PROJECT AND THE EQUIPMENT

The Equipment comprises the 350-megawatt photovoltaic power generation equipment, the ancillary facilities, the materials, products and accessories, which has been leased to the Purchaser by the Vendor since its acquisition of the Equipment and has been used by the Group in the Project for the photovoltaic business operations of the Group since the commencement of the Project in 2016. The Equipment is currently leased to the Group by the Vendor pursuant to the Existing Lease for a term of two years ending in May 2019 for an annual rental of RMB90 million (tax inclusive).

Approval for on-grid connection of the Project was issued by SGCC in June 2016 and the Project commenced the generation of photovoltaic power in July 2016. As at 31 December 2017, the Project was operating at an actual output capacity of 350 megawatt, which was generated mainly by the Equipment. The Group commenced the development of its own infrastructure and purchased equipment for the Project since December 2017 in order to fully utilise the 390 megawatt photovoltaic power generation output capacity granted by SGCC. The photovoltaic power generation output capacity from the Project had increased to 390 megawatt by the end of 2018. The Equipment is a major component of the Project but does not itself generate any revenue or profit. The Equipment being used in the operation of the Project, together with other equipment and components of the Project and the approval for on-grid connection issued by SGCC, enable the Project to generate revenue from photovoltaic business activities. The revenue and segment profit generated by the Project as a whole for the two financial years ended 31 December 2017 and the six months ended 30 June 2018 were as follows:

	For the six months ended 30 June 2018	For the year ended 31 December	
	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)
Revenue	355,465	534,628	198,635
Segment profit	316,407	465,454	156,928

As at 31 December 2018, the unaudited net book value of the Equipment amounted to approximately RMB1,756.53 million (equivalent to approximately HK\$2,056.83 million).

Under applicable regulations of the PRC, utility-scale solar farm projects constructed under the national quota are in principle entitled to receive Feed-in-Tariff (at a rate as determined by the National Development and Reform Commission of the PRC) on electricity generated after the solar farm projects are grid-connected. Renewable energy projects applying for such subsidies are reviewed by the PRC government, and qualified projects will be incorporated into the Subsidy Catalogue on a batch-by-batch basis. SGCC will settle the tariff with these solar farm projects which are enlisted on the Subsidy Catalogue according to the Feed-in Tariff rate and the actual amount of on-grid electricity purchased from the projects.

The Tariff Adjustment Receivables represent the portion of revenue receivable from SGCC arising from the difference between the amount of the Feed-in-Tariff rate (i.e. the feed-in-tariff regime currently implemented by the PRC Government for the provision of subsidy to the solar farm operators in the PRC by way of tariff adjustment) and the amount of the sale of electricity through the Project, which accrues monthly. The Group has become entitled to the Tariff Adjustment Receivables since the on-grid connection of the Project in June 2016, and as of 30 June 2018, the Tariff Adjustment Receivables had in aggregate accrued to a total of approximately RMB837 million (before accounting adjustments) in the books of Baofeng Photovoltaic. The Group would apply for the Project to be enlisted on the upcoming batch of the Subsidy Catalogue when it is open for application, which is the prerequisite for the settlement of the Tariff Adjustment Receivables and is administrative in nature. As advised by the Group's PRC legal advisor, the Project meets the conditions for applying to be enlisted on the Subsidy Catalogue and there are no actual legal obstacles to the Project being so enlisted. The Company expects that settlement of the Tariff Adjustment Receivables will be received from SGCC gradually after the Project is enlisted in the Subsidy Catalogue.

INFORMATION ON THE PARTIES

The Purchaser is a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company, and is principally engaged in the business of photovoltaic power generation.

The Chargor is a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. It is principally engaged in investment holding. As at the date of this announcement, it owns 100% equity interest in the Purchaser.

The Vendor is a company incorporated in the PRC which is principally engaged in construction and development of infrastructure; construction, operation and management of ancillary facilities; fixed assets investment; procurement, sales and finance leasing relating to photovoltaic power generation equipment.

The Lessor is a finance leasing company approved by the China Banking Regulatory Commission.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and the Lessor are independent of each other.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) of the Sale and Purchase Agreement and of the Finance Lease Arrangements exceed 100%, each of the Sale and Purchase Agreement and the Finance Lease Arrangements constitutes a very substantial acquisition of the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Whilst one or more of the applicable percentage ratios (as defined under the Listing Rules) of the Assignment Agreement exceed 5% but all are below 25%, the Assignment Agreement, being a transaction ancillary to the Proposed Acquisition, is classified under Chapter 14 of the Listing Rules by reference to the larger percentage ratios of the Proposed Acquisition, and is subject to the reporting, announcement and shareholders' approval requirements thereunder.

The EGM will be convened to consider and, if thought fit, to pass the resolutions to approve the Sale and Purchase Agreement, the Finance Lease Arrangements, the Assignment Agreement and the transactions respectively contemplated thereunder. A circular containing, among other things, (i) further details of the Sale and Purchase Agreement, the Finance Lease Arrangements, the Assignment Agreement and the transactions respectively contemplated thereunder; (ii) a notice of the EGM; and (iii) other information required under the Listing Rules, is expected to be despatched by the Company to the Shareholders on or before 15 April 2019.

DEFINITIONS

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

“Assignment Agreement”	the agreement entered into between the Purchaser and the Vendor on 23 March 2019 pursuant to which the Purchaser has agreed to assign the RMB Three Hundred Million Tariff Adjustment Receivables to the Vendor for RMB300,000,000 cash
“Baofeng Photovoltaic”, “Purchaser” or “Lessee”	Ningxia Baofeng Photovoltaic Power Generation Company Limited* (寧夏寶豐光伏發電有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Board”	the board of Directors

“Chargor”	Ningxia Baofeng Electric Power Operation Management Co., Ltd.* (寧夏寶豐電力運營管理有限公司) (formerly known as Shenzhen Qianhai Baofeng New Energy Development Co., Ltd* (深圳前海寶豐新能源發展有限公司)), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Company”	China Baofeng (International) Limited (中國寶豐(國際)有限公司), a company incorporated in the Cayman Islands with limited liability whose issued shares are listed on the main board of the Stock Exchange (Stock Code: 3966)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the total consideration for the Equipment under the Sale and Purchase Agreement
“Consideration Tariff Adjustment Receivables”	has the meaning ascribed to it under the section headed “ Consideration ” in this announcement
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Delivery”	the completion of the sale and purchase of the Equipment pursuant to the Sale and Purchase Agreement upon which the ownership of the Equipment is delivered by the Vendor to the Purchaser
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purposes of, among other matters, considering and, if thought fit, approving the Sale and Purchase Agreement, the Finance Lease Agreement, the Assignment Agreement and the transactions respectively contemplated thereunder
“Equipment”	the subject matter of the Sale and Purchase Agreement, being the 350-megawatt photovoltaic power generation equipment, the ancillary facilities, the materials in stock, products and accessories of the Project

“Existing Lease”	the lease agreement entered into between the Purchaser and the Vendor on 2 May 2017 pursuant to which the Equipment is leased to the Purchaser
“Finance Lease”	the finance lease contemplated under the Finance Lease Arrangements
“Finance Lease Agreement”	the finance lease agreement dated 23 March 2019 entered into between the Lessor and the Lessee with its schedule in relation to the Finance Lease Arrangements
“Finance Lease Arrangements”	the Finance Lease Agreement and the security documents referred to in the section headed “ Securities and guarantee ” in this announcement
“First Instalment”	has the meaning ascribed to it under the section headed “ Lease payments, interests, handling fee and deposit ” in this announcement
“First Payment”	has the meaning ascribed to it under the section headed “ Consideration ” in this announcement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Lease Commencement Date”	the date of Delivery (or as otherwise agreed by the Lessor and the Lessee)
“Lease Term”	has the meaning ascribed to it in the section headed “ Lease term ” in this announcement
“Lessor”	Huaxia Financial Leasing Co., Ltd. (華夏金融租賃有限公司), a finance leasing company approved by the China Banking Regulatory Commission
“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 announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Principal Lease Amount”	has the meaning ascribed to it in the section headed “ Lease payments, interests, handling fee and deposit ” in this announcement
“Project”	the 390-megawatt photovoltaic project located at the mining area in Hongdunzi, Yinchuan, Ningxia, the PRC operated by the Group
“Proposed Acquisition”	the proposed acquisition of the Equipment by the Purchaser pursuant to the Sale and Purchase Agreement
“RMB”	Renminbi, the lawful currency of PRC
“RMB Three Hundred Million Tariff Adjustment Receivables”	has the meaning ascribed to it under the section headed “ THE ASSIGNMENT AGREEMENT ” in this announcement
“Sale and Purchase Agreement”	the agreement dated 23 March 2019 entered into between the Purchaser and the Vendor in relation to the sale and purchase of the Equipment
“Second Instalment”	has the meaning ascribed to it under the section headed “ Lease payments, interests, handling fee and deposit ” in this announcement
“Second Payment”	has the meaning ascribed to it under the section headed “ Consideration ” in this announcement
“SGCC”	the State Grid Corporation of China
“Shareholders”	holders of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidy Catalogue”	the Reusable Energy Tariff Subsidy Catalogue (可再生能源電價附加資金補助目錄)

“Tariff Adjustment Receivables”	the tariff adjustment receivables payable by SGCC to which the Group is entitled in connection with the supply of electricity through the Project which, for reference purpose, accrued to approximately RMB837 million in aggregate (before accounting adjustments) in the books of Baofeng Photovoltaic as at 30 June 2018
“Third Payment”	has the meaning ascribed to it under the section headed “ Consideration ” in this announcement
“US”	the United States of America
“Vendor”	Yinchuan Binhe New Energy Investment Development Co., Ltd* (銀川濱河新能源投資開發有限公司), a company incorporated in the PRC
“%”	per cent

* For identification purpose only

Note: In this announcement, conversion of RMB into HK\$ is based on the exchange rate of HK\$1.00 to RMB0.854. The exchange rates have been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts in RMB or HK\$ were or may have been exchanged at this or any other rates or at all.

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

Hong Kong, 25 March 2019

As at the date of this announcement, the executive Directors of the Company are Mr. Dang Yanbao, Mr. Dang Zidong, Mr. Liu Yuanguan and Mr. Gao Jianjun; the non-executive Directors are Mr. Cheng Hoo and Mr. Chung Kin Shun, Jimmy and the independent nonexecutive Directors are Mr. Xia Zuoquan, Dr. Tyen Kan Hee, Anthony and Mr. Guo Xuewen.