THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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, 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.

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 AND NOTICE OF EXTRAORDINARY GENERAL MEETING

A letter from the board of directors of China Baofeng (International) Limited (the "**Company**") is set out on pages 6 to 28 of this circular.

A notice convening the EGM (as defined in this circular) to be held at 14/F, China Building, 29 Queen's Road Central, Central, Hong Kong on Tuesday, 30 April 2019 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, 28 April 2019 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.

Hong Kong, 11 April 2019

CONTENTS

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

"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 circular
"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 Arrangements, 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 with its schedule dated 23 March 2019 entered into between the Lessor and the Lessee 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 circular
"First Instalment"	has the meaning ascribed to it under the section headed "**Lease payments, interests, handling fee and deposit**" in this circular
"First Payment"	has the meaning ascribed to it under the section headed "**Consideration**" in this circular
"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

"Latest Practicable Date"	9 April 2019, being the latest practicable date prior to the bulk printing of this circular for ascertaining certain information contained herein
"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 circular
"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
"Lighting Product Business"	the sales of lighting products, including portable lighting products, shades for the lamps and furniture set and other home accessory products, by the Group
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"NDRC"	the National Development and Reform Commission of the PRC
"NEA"	the National Energy Administration of the PRC
"Photovoltaic Power Generation Business"	the photovoltaic power generation business of the Group in the PRC
"PRC"	the People's Republic of China, for the purpose of this circular, 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 circular
"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 circular
"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 circular
"Second Payment"	has the meaning ascribed to it under the section headed "**Consideration**" in this circular
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"SGCC"	the State Grid Corporation of China
"Shares"	shares of the Company
"Shareholders"	holders of the Shares
"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 RMB1,060 million in aggregate (before accounting adjustments) in the books of Baofeng Photovoltaic as at 31 December 2018
"Third Payment"	has the meaning ascribed to it under the section headed "**Consideration**" in this circular
"United States" or "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 purposes only*

Note: In this circular, conversion of RMB into HK$ is based on the exchange rate of HK$1.00 to RMB0.856. The exchange rates have been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts in RMB or HK$ were or may have been exchanged at this or any other rates or at all.

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

11 April 2019

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION
ACQUISITION OF EQUIPMENT AND
FINANCE LEASE ARRANGEMENTS AND
ASSIGNMENT OF RECEIVABLES
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 25 March 2019 in relation to the Sale and Purchase Agreement, the Finance Lease Arrangements and the Assignment Agreement in relation to the proposed acquisition of the Equipment.

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 purpose of this circular is to provide you with (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.

THE SALE AND PURCHASE AGREEMENT

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

Date

23 March 2019

Parties

(i) Baofeng Photovoltaic as the Purchaser; and

(ii) 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$2,801,581,294), 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$1,168,224,299) 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$817,757,009) 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$815,599,986) (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 circular) 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. 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. As whether and when the SGCC will settle the Consideration Tariff Adjustment Receivables for whatever reasons is beyond the control of the Purchaser and the Vendor has no right to claim against the Purchaser, the Vendor will essentially bear the risks associated with the collection and recovery of the Consideration Tariff Adjustment Receivables after the assignment.

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 setout 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 circular, in particular:-

(i) The Group had negotiated with the Vendor regarding the renewal of the Existing Lease, and the Vendor showed reluctance due to the prolonged period for recovery of investment costs and low investment returns from the lease of the Equipment based on the annual rental under the Existing Lease, and would rather dispose of the Equipment. The Company would have concerns on whether another party acquiring the Equipment from the Vendor would be willing to lease the Equipment to the Group or whether such new owner may increase the rental substantially. 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$661.6 million for each of the three years ended 31 December 2018, respectively, accounting for approximately 32.5%, 55.9% and 59.8% 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$559.3 million for each of the three years ended 31 December 2018, respectively, accounting for approximately 93.8%, 95.1% and 98.7% 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 Lease Term, 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) For illustration purposes only, based on the estimated total amount of lease payments (including interests) under the Finance Lease (details of which are set out in the section headed "**THE FINANCE LEASE ARRANGEMENTS**" in this circular), the estimated average annual lease payments and interests under the Finance Lease through the Lease Term would be approximately RMB217.0 million as compared to the annual rental payment of RMB90 million under the Existing Lease (assuming that the rental remains unchanged). However, the aforesaid comparison applies only throughout the Lease Term. Following the completion of the Lease Term and up to the end ofthe useful life of the Equipment, there will be no further payments under the Finance Lease as compared to the rental payments for the continued leasing of the Equipment, and the commercial risks and uncertainties in relation to the operation of the Project regarding the renewal of or increase in rental of the Existing Lease can be eliminated.

(v) 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 circular), 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$2,801,581,294) includes value-added tax in the amount of RMB330,779,805.24 (equivalent to approximately HK$386,425,006.12), which will be paid by the Purchaser. Such amount of value-added tax represents the Purchaser's tax assets under the PRC law which 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$2,415,156,288.27).

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

(i) the Purchaser as Lessee; and

(ii) 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$1,985,981,308)) 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$1,985,981,308) (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 the 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 Lease Term, the interest rates under the Finance Lease will be correspondingly adjusted.

For reference purpose only (assuming that Delivery takes place in April 2019) and subject to the actual benchmark interest rates, as at the Latest Practicable Date, 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$215.68 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$602.69 million); and (iii) the total amount of lease payments (including interests) is estimated to be approximately RMB2,400.52 million (equivalent to approximately HK$2,804.35 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$238,317,757), 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$23,831,776), 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:

(i) 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;

(ii) the Lessor having received the duly executed Sale and Purchase Agreement from the Lessee;

(iii) 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);

(iv) 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

(v) the shareholder of the Lessee and the Lessee having provided a letter of undertaking to the Lessor that (a) 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 (b) 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 the 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 the Lessee is entitled (save for the amount of the 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 pre-condition to the receipt of the Tariff Adjustment Receivables accrued since the on-grid connection of the Project) for its entire output capacity of 390 megawatt, although no deadline was imposed by the Vendor or committed by the Group as to such enlisting of the Project. 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 entire Principal Lease Amount of RMB1,700,000,000 x *(output of the Project not enlisted/ 390 megawatt)*

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 5/10,000 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 Lease Term, 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 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 Lease Term, 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 cash flow 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$350,467,290) 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. 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. As whether and when the SGCC will settle the RMB Three Hundred Million Tariff Adjustment Receivables for whatever reasons is beyond the control of the Purchaser and the Vendor has no right to claim against the Purchaser, the Vendor will essentially bear the risks associated with the collection and recovery of the RMB Three Hundred Million Tariff Adjustment Receivables after the assignment. 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 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 Latest Practicable Date, assuming that Delivery takes place in April 2019, 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 Latest Practicable Date, 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 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. The Group had negotiated with the Vendor regarding the renewal of the Existing Lease, and the Vendor showed reluctance due to the prolonged period for recovery of investment costs and low investment returns from the lease of the Equipment based on the annual rental under the Existing Lease, and would rather dispose of the Equipment. The Company would have concerns on whether another party acquiring the Equipment from the Vendor would be willing to lease the Equipment to the Group or whether such new owner may increase the rental substantially. 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 through the operation of the Project accounted for approximately 59.8% of the Group's total revenue for the year ended 31 December 2018 and approximately 98.7% of the Group's total segment profit for the same period. For the year ended 31 December 2018, approximately 92.6% of the revenue of the Photovoltaic Power Generation Business of the Group amounting to HK$612.7 million was generated by the 350 megawatt output capacity of the Project. As at 31 December 2018, the net book value of the infrastructure in relation to the 350 megawatt output capacity of the Project owned by the Group amounted to approximately HK$100.1 million. 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 Lease Term, 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 Lease Term, 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) For illustration purposes only, based on the estimated total amount of lease payments (including interests) under the Finance Lease (details of which are set out in the section headed "**THE FINANCE LEASE ARRANGEMENTS**" in this circular), the estimated average annual lease payments and interests under the Finance Lease through the Lease Term would be approximately RMB217.0 million as compared to the annual rental payment of RMB90 million under the Existing Lease (assuming that the rental remains unchanged). However, the aforesaid comparison applies only throughout the Lease Term. Following the completion of the Lease Term and up to the end of the useful life of the Equipment, there will be no further payments under the Finance Lease as compared to the rental payments for the continued leasing of the Equipment, and the commercial risks and uncertainties in relation to the operation of the Project regarding to the renewal of or increase in rental of the Existing Lease can be eliminated.

(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 Proposed Acquisition and the Finance Lease Arrangements are preferred to the continued leasing of the Equipment, and 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 2018 were as follows:

	For the year ended 31 December	
	2018	**2017**
	HK$'000	*HK$'000*
	(audited)	(audited)
Revenue	661,612	534,628
Segment profit	559,308	465,454

As at 31 December 2018, the unaudited net book value of the Equipment amounted to approximately RMB1,756.53 million (equivalent to approximately HK$2,052.02 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 NDRC) 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 relevant regulatory requirements and procedures are summarised as follows:

Eligibility/Pre-requisites: According to the Interim Measures for the Administration of Additional Subsidies for Renewable Energy Tariff (No.102 [2012] of the Ministry of Finance)《可再生能源電價附加補助資金管理暫行辦法》(財建[2012]102號), to be eligible to be enlisted on the Subsidy Catalogue, a project must fulfill the following pre-requisites: (1) falling within the scope of subsidy under the Notice of the Ministry of Finance, the NDRC and the NEA on Issuing the Interim Measures for the Administration of the Collection and Use of the Renewable Energy Development Fund《(財政部　國家發展改革委　國家能源局關於印發〈可再生能源發展基金徵收使用管理暫行辦法〉的通知》); (2) completion of the review, approval and filing procedures in accordance with the relevant requirements, and obtaining the approval confirmation from the NEA; and (3) compliance with the renewable energy pricing policies of PRC and the feed-in-tariff being approved by the competent PRC authority.

Application procedures: The project company shall register as an on-grid power generation enterprise on the stipulated online platform and fill in all required data and information. The NEA would examine the information provided while the SGCC would examine the information on the construction and operation of the project. The registration will be completed upon clearance by the NEA and the SGCC. Thereafter, the on-grid power generation enterprise shall report the data and information in relation to its operation of power generation every month and wait for the SGCC to announce details in relation to the application for the upcoming batch of the Subsidy Catalogue.

Approval process: The on-grid power generation enterprise should submit application and supporting materials to the financial, pricing and energy competent authorities at provincial level. Such provincial competent authorities will, after review, report to the Ministry of Finance, NDRC and NEA. The Ministry of Finance, the NDRC and the NEA would review the application materials and enlist the project in the Subsidy Catalogue should it fulfill the relevant requirements. The Ministry of Finance will, based on factors such as renewable energy tariff additional income and subsidies applications of the on-grid power generation enterprise, allocate the subsidies to the SGCC, which will then make settlements with the on-grid power generation enterprise according to the Feed-in-Tariff rate and the actual amount of on-grid electricity purchased.

The Group has become entitled to the Tariff Adjustment Receivables since the on-grid connection of the Project in June 2016. 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. As of 31 December 2018, the Tariff Adjustment Receivables had in aggregate accrued to a total of approximately RMB1,060 million (before accounting adjustments) in the books of Baofeng Photovoltaic.

In March 2017, the Company completed the registration for the Project on the stipulated online platform and continued to make regular report on the data and information of the Project as required. The latest update was made in May 2018 and was approved by the platform. The Group would apply for the Project to be enlisted one-off on the upcoming batch of the Subsidy Catalogue when it is open for application, which is the pre-condition to the settlement of the Tariff Adjustment Receivables and is administrative in nature. The SGCC has not yet announced when application for the upcoming batch of the Subsidy Catalogue will be open, so the exact time for application by the Group is uncertain. The Group will apply as soon as practicable once the application is open. For similar reasons, the expected date of approval by the SGCC is also uncertain. For reference only, based on the situations of the previous two batches of the Subsidy Catalogue, the SGCC approval process may range from 6 months to 12 months, depending on the SGCC's decision.

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. Whilst the timing of settlement of the Tariff Adjustment Receivables by the SGCC is uncertain and may vary depending on, amongst other things, the size and locations of the projects, the Company expects that settlement of the Tariff Adjustment Receivables will be received from SGCC gradually after the Project is enlisted on 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 Latest Practicable Date, 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.

FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION ON THE GROUP

Earnings

For illustration purpose only, upon completion of the Proposed Acquisition (assuming that it takes place in April 2019), the earnings of the Group for the financial year ended 31 December 2019 will be affected by (i) additions of interest expenses and amortisation charges of handling fee under the Finance Lease Agreement, which would amount, in aggregate, to approximately RMB70.5 million; (ii) additions of depreciation charges in respect of the Equipment; (iii) additions of imputed interest arising from the accounting treatment of discounting the present value of the Consideration payable, which is recognised at the present value of the Consideration Tariff Adjustment Receivables and the RMB Three Hundred Million Tariff Adjustment Receivables; (iv) possible tax impacts from the above effects; and (v) a reduction in pro-rata lease expenses of RMB51.7 million in connection with the leasing of the Equipment from the Vendor.

Assets and Liabilities

Upon completion of the Proposed Acquisition, the fixed assets of the Group will be increased by the initial cost (i.e. being the acquisition cost) of the Equipment taking into account the present value of the Consideration payable, which is recognised at the present value of the Consideration Tariff Adjustment Receivables and the RMB Three Hundred Million Tariff Adjustment Receivables. The liabilities of the Group will be increased by the amount of borrowing from the Lessor under the Finance Lease Agreement and the amount of the Consideration payable to the Vendor.

Upon the assignment of the Consideration Tariff Adjustment Receivables and the RMB Three Hundred Million Tariff Adjustment Receivables to the Vendor, such receivables will continue to be recognised as assets in the consolidated financial statements of the Group, and the corresponding amount due to the Vendor will be recognised as liabilities in the consolidated financial statements of the Group. The Consideration Tariff Adjustment Receivables and RMB Three Hundred Million Tariff Adjustment Receivables will not be derecognised in the consolidated financial statements of the Group upon assignment to the Vendor as the receipt from SGCC and the payment to the Vendor are at gross amounts. The amounts to be recognised will be confirmed and verified by the payment records of the Group and receipts issued by the Vendor.

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.

EGM

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

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Shareholders or any of their respective associates have any material interest in the Sale and Purchase Agreement, the Finance Lease Arrangements and/or the Assignment Agreement. As such, no Shareholders are required to abstain from voting on the relevant resolutions at the EGM.

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, 28 April 2019 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.

RECOMMENDATION

The Directors consider that the Sale and Purchase Agreement, the Finance Lease Arrangements, the Assignment Agreement and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to 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

1. THREE-YEAR FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for the years ended 31 December 2016, 2017 and 2018 were disclosed in the following documents which have been published on the HKExnews website (www.hkexnews.hk) and the Company's website (www.baofengintl.com):

- Announcement of annual results of the Company for the year ended 31 December 2018 published on 29 March 2019.
- Annual report of the Company for the year ended 31 December 2017 published on 20 April 2018.
- Annual report of the Company for the year ended 31 December 2016 published on 11 April 2017.

2. STATEMENT OF INDEBTEDNESS

As at close of business on 28 February 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, apart from intra-group liabilities, normal trade and other payables, the Group did not have any outstanding borrowings, debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, bank overdrafts, other borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills), or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantee or material contingent liabilities.

As at 28 February 2019, the Group as lessee had outstanding contractual lease payments (being an undiscounted amount having taken into account all embedded option and assessment under HKFRS 16) for the remainder of the relevant lease terms amounting to approximately HK$29,847,000 in aggregate.

3. WORKING CAPITAL

The Directors are of the opinion that, in the absence of unforeseeable circumstances, after taking into account the present available resources, the internally generated funds, the completion of the Proposed Acquisition, the Finance Lease Agreement, and the assignment of the RMB Three Hundred Million Tariff Adjustment Receivables, the Group will have sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS

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 lamps and furniture sets and other home accessory products.

For the Photovoltaic Power Generation Business, the Board expects the Project to be registered in the upcoming batch of the Reusable Energy Tariff Subsidy Catalogues (可再生能源電價附加資金補助目錄). If successful, the Board expects to receive settlements of tariff adjustment receivables from the PRC Government, which will improve the liquidity of the Group.

As disclosed in the section of "**REASONS FOR AND BENEFITS OF ENTERING INTO THE SALE AND PURCHASE AGREEMENT, THE FINANCE LEASE ARRANGEMENTS AND THE ASSIGNMENT AGREEMENT**" in the Letter from the Board in this circular, after taking into account the factors set out in that section, the Directors consider that the Proposed Acquisitions is beneficial for the Group as it would allow the Group to sustain its profitability with the continued operation and development of its Photovoltaic Power Generation Business in the long term.

The Group will continue to leverage the knowledge and experiences of its management to evaluate and seek appropriate opportunities for the further expansion of the Group's established Photovoltaic Power Generation Business and identify opportunities with reasonable returns in the photovoltaic power generation industry. The Group intends to focus on and further direct resources to develop its Photovoltaic Power Generation Business in accordance with the national policies. The Group will continue to look for opportunities to further strengthen its capabilities and expertise in this segment, including but not limited to participation in the photovoltaic poverty alleviation program and other national or regional photovoltaic programs to achieve sustainable development of its Photovoltaic Power Generation Business. The Board believes that the Photovoltaic Power Generation Business will continue to be the Group's main growth driver, and the strategic development of the Photovoltaic Power Generation Business is for the benefit of the Shareholders as a whole.

For the Lighting Products Business, it is expected that it will continue to be adversely affected by the intensified competition in its principal markets, rising costs of labour and raw materials, potential increased tariffs imposed by the United States and continuing trade dispute between United States and the PRC. In case the market competition continues to intensify, the Group would deploy its resources efficiently and shift the focus on other segments of the Group so that the Group will generate long term return to the Shareholders.

5. MANAGEMENT DISCUSSION AND ANALYSIS

Set out below are the management discussion and analysis of the Group for each of the three years ended 31 December 2018.

(a) For the year ended 31 December 2018

INDUSTRY OVERVIEW

Photovoltaic Power Generation Industry

The photovoltaic power generation market in the PRC had experienced a negative impact from a notice issued by the NDRC, the Ministry of Finance of the PRC and the NEA in relation to photovoltaic power generation in 2018 (關於二零一八年光伏發電有關事項的通知) (the "**2018 Notice**") on 31 May 2018 with immediate effect. Pursuant to the 2018 Notice, amongst others:

(1) the NEA will stop granting installation quota for ordinary utility scale solar farms in 2018;

(2) cuts to the feed-in tariffs of newly approved ordinary utility scale solar farms by RMB0.05 kilowatt per hour ("**kWh**") to RMB0.5/0.6/0.7/kWh in Zones I, II and III respectively; and

(3) cuts to the subsidy provided by the PRC government to newly approved distributed generation projects by RMB0.05/kWh to RMB0.32/kWh.

Notwithstanding the above, the 2018 Notice does not affect the Project, as the Project commenced operation prior to the publication of the 2018 Notice.

Portable Lighting Products Industry

The competition of the global portable lighting products industry in the 2018 remained fierce. The United States portable lighting products market, which is the principal market of the lighting products of the Group, has been highly saturated with numerous firms selling a diverse range of products manufactured both domestically and internationally.

In September 2018, the United States imposed additional 10% tariffs on about US$200 billion-worth of goods imported from the PRC which included lighting products. The tariff rate was originally scheduled to increase to 25% starting from 1 January 2019. Nonetheless, as at the Latest Practicable Date, the effective date for the increase is not finalised.

Should the increase in tariff comes into force, it is highly likely to have an adverse effect on the profitability of the Group's lighting products. It is likely that the trading environment between the United States and the PRC of the lighting products industry, and in fact other consumer products industries, will continue to be challenging. The Group will continue to observe the progress of this potential impact from time to time and make necessary arrangements to optimise the returns to the Shareholders as a whole and lessen any negative effect on its performance and results of operations.

BUSINESS REVIEW

For the year ended 31 December 2018, the business of the Group has been integrated into two segments, which are (i) the Photovoltaic Power Generation Business; and (ii) the Lighting Products Business.

Attributable to the contribution of the Photovoltaic Power Generation Business for the year under review, the Group's operation recorded an increase in in both revenue and profitability for the year ended 31 December 2018. For the year ended 31 December 2018, the Group's revenue increased by approximately 15.7% to approximately HK$1,106.6 million while profit attributable to the owners of the Company increased by approximately 19.1% to approximately HK$532.5 million.

Photovoltaic Power Generation Business

During the year under review, the Photovoltaic Power Generation Business continued to develop and brought profits to the Group. In respect of the 350 megawatt photovoltaic power generation output capacity of the Project, the major equipment of the Project was provided by Yinchuan Binhe New Energy Investment Development Co., Ltd* (銀川濱河新能源投資開發有限公司) through lease arrangement. In order to fully utilise the 390 megawatt photovoltaic power generation output capacity granted, the Group has commenced the development of its own infrastructure and purchased equipment for the Project since December 2017 and the development was completed in 2018. Accordingly, the photovoltaic power generation output capacity from the Project had been increased from 350 megawatt in 2017 to 390 megawatt by the end of 2018.

As confirmed by the SGCC, for the year ended 31 December 2018, the Group generated an aggregate of 763.8 million kWh power and the Photovoltaic Power Generation Business continued to be the main source of the revenue of the Group, accounting for approximately 59.8% (31 December 2017: 55.9%) of the Group's total revenue for the year ended 31 December 2018. In addition, the Photovoltaic Power Generation Business continued to be the key growth driver of the profit of the Group, contributing to approximately 98.7% of the Group's total segment profit for the year ended 31 December 2018 (31 December 2017: 95.1%).

The Group's revenue from the Photovoltaic Power Generation Business for the year ended 31 December 2018 was approximately HK$661.6 million, which represented an increase of approximately 23.8% from the revenue generated for the corresponding period in 2017 (31 December 2017: HK$534.6 million). The segment profit margin of the Photovoltaic Power Generation Business was approximately 84.5% for the year ended 31 December 2018 (31 December 2017: 87.1%), and the segment profit increased by approximately 20.2% to approximately HK$559.3 million 31 December 2017: HK$465.5 million).

Lighting Products Business

The Group's revenue from the Lighting Products Business for the year ended 31 December 2018 was approximately HK$445.0 million (31 December 2017: HK$421.7 million), contributing to approximately 40.2% (31 December 2017: 44.1%) of the Group's total revenue, and representing an increase of 5.5% from the revenue generated in the corresponding period in 2017. The increase was due to the increased demand of our lighting projects in view of the expected increase of US tariff to 25% in 2019. Nevertheless, due to the keen competition in the principal market of the lighting products of the Group and rising of operating expenses, the segment profit margin of Lighting Products Business decreased to approximately 1.6% for the year ended 31 December 2018 (31 December 2017: 5.7%) and the segment profit decreased by approximately 69.5% to approximately HK$7.3 million (31 December 2017: HK$24.1 million).

OUTLOOK AND PROSPECTS

Photovoltaic Power Generation Business

The Group would apply for the Project to be enlisted on the upcoming batch of the Subsidy Catalogue. If the application is successful, the Board expects to receive settlements of tariff adjustment receivables from the PRC Government, which will improve the liquidity of the Group.

In 2019, the Group would continue to leverage the knowledge and experiences of its management to evaluate and seek appropriate opportunities for the further expansion of the Group's established Photovoltaic Power Generation Business and identify opportunities with reasonable returns in the photovoltaic power generation industry. The Group intended to focus on and further direct resources to develop its Photovoltaic Power Generation Business in accordance with the national policies. The Group would continue to look for opportunities to further strengthen its capabilities and expertise in this segment, including but not limited to participation in the photovoltaic poverty alleviation program and other national or regional photovoltaic programs to achieve sustainable development of its Photovoltaic Power Generation Business. The Board believed that the Photovoltaic Power Generation Business would continue to be the Group's main growth driver, and the strategic development of the Photovoltaic Power Generation Business is for the benefit of the Shareholders as a whole.

Lighting Products Business

In 2019, it was expected that the Lighting Products Business would be adversely affected by the potential increased US tariff, intensified competition in its principal markets, rising costs of labour and raw materials. In case the market competition continues to intensify, the Group would deploy its resources efficiently and shift the focus on other segments of the Group so that the Group will generate long term return to the Shareholders.

FINANCIAL REVIEW

Segment Information

The Group reported its financial information by two segments: (i) Photovoltaic Power Generation Business; and (ii) Lighting Products Business. The table below is an analysis of the Group's revenue, segment profit and segment profit margin of its operation by segment for the year ended 31 December 2017 and 2018.

	For the year ended 31 December							
	2018				2017			
	Revenue *(HK$'000)*	% of Revenue	Segment Profit *(HK$'000)*	Segment profit margin *(%)*	Revenue *(HK$'000)*	% of Revenue	Segment Profit *(HK$'000)*	Segment profit margin *(%)*
Photovoltaic Power Generation	**661,612**	**59.8**	**559,308**	**84.5**	534,628	56	465,454	87.1
Sales of lighting products	**445,031**	**40.2**	**7,343**	**1.6**	421,695	44	24,078	5.7
Total	**1,106,643**	**100**	**566,651**	**51.2**	956,323	100	489,532	51.2

Revenue

During the year ended 31 December 2018, revenue of the Group was derived from the Photovoltaic Power Generation Business and Lighting Products Business amounting to approximately HK$1,106.6 million, representing an increase of approximately 15.7% from approximately HK$956.3 million for the year ended 31 December 2017. The increase in revenue was mainly attributable to revenue contribution from the Photovoltaic Power Generation Business.

Gross profit and gross profit margin

During the year ended 31 December 2018, the gross profit of the Group increased by approximately 22.2% from approximately HK$513.3 million for the corresponding period in 2017 to approximately HK$627.3 million. The gross profit margin of the Group improved from approximately 53.7% for the year ended 31 December 2017 to approximately 56.7% for the corresponding period in 2018. The increase in both gross profit and gross profit margin of the Group for the period was attributable to the contribution of the Photovoltaic Power Generation Business while the gross profit margin of which was significantly higher compared with the Lighting Products Business.

Operating costs

During the year ended 31 December 2018, the total operating cost increased to approximately HK$106.1 million, representing an increase of approximately 12.7% from approximately HK$94.2 million for the corresponding period in 2017. The increase in operating cost was primarily due to rising staff costs and other operating expenses.

Finance costs

The Group recorded finance costs amounting to approximately HK$5.7 million for the year ended 31 December 2018 (31 December 2017: HK$9.4 million). The decrease in finance costs was primarily due to full repayment of bank borrowings during the year.

Profit attributable to owners of the Company

Profit attributable to owners of the Company of approximately HK$532.5 million was recorded for the year ended 31 December 2018, as compared with a profit of approximately HK$447.1 million attributable to owners of the Company for the corresponding period in 2017. Earnings per share was 87.13 HK cents for the year ended 31 December 2018, as compared with earnings per share of 78.76 HK cents for the corresponding period in 2017.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, cash and cash equivalents of the Group were approximately HK$82.5 million, representing an increase of 36.0% from approximately HK$60.7 million as at 31 December 2017. This was mainly due to release of pledged bank deposits after repayment of the corresponding bank borrowing and a decreased in bills payable.

For the year ended 31 December 2018, the Group's primary source of funding included cash generated from its operating activities, equity financing activities and bank borrowings.

As at 31 December 2018, the Group had no bank borrowing (31 December 2017: HK$275.5 million). The Group's current ratio (current asset divided by current liabilities) was 9.5 times as at 31 December 2018, which was improved from 2.4 times as at 31 December 2017.

CAPITAL STRUCTURE

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to the Shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of (i) net debt, which includes the bank borrowing, bills payable and cash and cash equivalents and pledged deposits; and (ii) equity attributable to owners of the Group, comprising issued capital and reserves. As at 31 December 2018, net gearing ratio was not presented as the Group had net cash (in excess of debt) (31 December 2017: 18.9%). This ratio is based on bank borrowings and bills payable less cash and cash equivalents and pledged bank deposit divided by total equity.

As at 31 December 2018, the Group had no interest-bearing bank borrowing (31 December 2017: HK$275.5 million), which carried interest at the Hong Kong Interbank Offered Rate ("**HIBOR**") plus 1.7% per annum to HIBOR plus 2.95% per annum).

As at 31 December 2018, bills payable amounting to RMB1.3 million (equivalent to approximately HK$1.5 million) (31 December 2017: RMB79.5 million (equivalent to approximately HK$95.8 million)) were secured by bank deposits of RMB1.3 million (equivalent to approximately HK$1.5 million) (31 December 2017: RMB79.5 million (equivalent to approximately HK$95.8 million)).

As at 31 December 2018, the Group's cash and cash equivalents were mainly held in Renminbi, US dollars and HK dollars.

PLACING OF SHARES UNDER SPECIFIC MANDATE

On 24 May 2018, the Company and Fung Teng Enterprises Limited ("**Fung Teng**"), a company wholly owned by Mr. Dang Yanbao, Chairman and executive Director of the Company, entered into a subscription agreement (the "**Subscription Agreement**") pursuant to which Fung Teng has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, 96,150,000 Shares (the "**Subscription Shares**") at HK$2.60 per Subscription Share (the "**Subscription**").

The closing price of the Shares on 24 May 2018, being the date on which the terms of the issue were fixed, was HK$3.00 per Share as quoted on the Stock Exchange. The aggregate nominal value of the Subscription Shares was HK$961,500 and the net issue price per Subscription Share was approximately HK$2.59.

As stated in the 2017 annual report of the Company, as at 31 December 2017, the interest-bearing bank borrowings of the Group that were provided by independent financial institutions and will become due within a year was HK$275.5 million, and the interest rate is based on HIBOR. The net gearing ratio of the Group was 18.9% 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 HIBOR, the Directors considered that the Subscription would enable the Group to utilise the proceeds of the Subscription to repay the existing bank borrowings of the Group, hence reduce its finance costs, lower the net gearing ratio, increase the profitability and strengthen the financial position of the Group.

The gross proceeds of the Subscription were 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) were HK$248,990,000 and all of the net proceeds were intended to be used for repayment of the existing interest-bearing loan in the principal amount of HK$250.0 million.

As at 31 December 2018, the loan of HK$250.0 million was fully repaid by the Company. On 20 July 2018, all the conditions precedent of the Subscription were fulfilled and the Subscription Shares have been allotted and issued to Fung Teng. The Directors shall review the capital structure regularly, taking into account the cost of capital and the associated risks. Based on recommendations of the Board, the Group will maintain an appropriate capital structure accordingly.

GROUP'S EMOLUMENT POLICY

The Directors' fees are determined by the Board as authorized by the Shareholders in the annual general meeting. The Board shall consider the recommendation of the remuneration committee of the Company (the "**Remuneration Committee**") with reference to the Directors' duties, responsibilities and performance and the results of the Group. Each executive Director may also receive a year-end bonus in respect of each financial year. The amount of such bonus will be determined by the Board with reference to the recommendation of the Remuneration Committee.

As at 31 December 2018, the Group had a total of nine (31 December 2017: nine) Directors and employed 214 (31 December 2017: 206) employees. Total staff costs, including Directors' emoluments, amounted to approximately HK$63.0 million for the year ended 31 December 2018 (31 December 2017: HK$48.6 million). The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. The Group also provided discretionary bonus, medical insurance and provident fund to employees. The Company adopted a share option scheme on 21 June 2012, under which the Company can grant options to, among others, employees of the Group to subscribe for Shares for rewarding them for their contributions to the Group and providing incentives to them to optimize their future contributions to the Group. Up to 31 December 2018, no share option had been granted under the share option scheme.

CONTINGENT LIABILITIES

As at 31 December 2018 and 31 December 2017, the Group did not have any contingent liability.

SIGNIFICANT INVESTMENTS

The Group has commenced the development of its own infrastructure for additional 40 megawatt output capacity of the photovoltaic power generation since December 2017 and the development had completed in 2018. For the year ended 31 December 2018, RMB77.7 million has been invested in this regard. The Group's revenue from the Photovoltaic Power Generation Business increased by approximately 23.8% to approximately HK$661.6 million for the year ended 31 December 2018, which was partly attributable to the addition of such 40 megawatt output capacity. Save as disclosed, the Group did not have any other significant investments as at 31 December 2018.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

In view of the positive development of the Photovoltaic Power Generation Business, the Group may from time to time consider appropriate opportunities for expansion of its photovoltaic power generation capacity through participation in or acquisition of new projects. Save as disclosed herein, there was no specific plan for material investments or capital assets as at 31 December 2018.

MATERIAL ACQUISITIONS OR DISPOSALS

During the year ended 31 December 2018, there was no material acquisition or disposal of subsidiaries, associated companies and joint ventures by the Group.

CHARGES ON ASSETS

As at 31 December 2018, bank deposits of RMB1.3 million (equivalent to approximately HK$1.5 million) (31 December 2017: RMB79.5 million (equivalent to approximately HK$95.8 million)) were pledged to a bank for issue of bills payable. The Group's land and buildings with carrying value of HK$0.7 million (31 December 2017: HK$0.8 million) were pledged to a bank to secure banking facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURE

During the year under review, a significant part of the revenue of the Group was denominated in Renminbi while the Group has transactions invoiced in US dollars and bank loans drawn down in HK dollars, and accordingly the Group was exposed to foreign exchange risk. Save as disclosed herein, the amounts of other foreign currencies involved in the Group's operation for the year ended 31 December 2018 were insignificant. The Group did not have a foreign currency hedging policy and did not employ any financial instrument for hedging purpose during the year ended 31 December 2018. However, the management monitored foreign exchange exposure closely to keep the net exposure to an acceptable level.

CAPITAL COMMITMENT

As at 31 December 2018, the Group's capital commitment amounted to approximately HK$15.2 million (31 December 2017: HK$44.8 million) in respect of property, plant and equipment contracted but not provided for.

(b) For the year ended 31 December 2017

INDUSTRY OVERVIEW

Photovoltaic Power Generation Industry

According to the 13th Five-Year Plan of Solar Power Development (the "**13th Five-Year Plan**") issued by the NEA in December 2016, an ambitious target has been set for the photovoltaic installed capacity to reach 105 gigawatt ("**GW**") by 2020. The NEA has set out nine focused areas in relation to solar power development, being:

(1) promotion of distributive mode of photovoltaic power generation and the application of the photovoltaic power generation;

(2) improving the layout of the photovoltaic power generation plants and to develop new photovoltaic power generation technology bases;

(3) developing various ways of poverty alleviation programmes by using solar energy;

(4) promoting industrialisation of solar thermal power generation;

(5) promoting solar heating in various geographical areas in the PRC;

(6) developing application of new energy microgrid;

(7) expedition of the innovation of technologies and improving the solar energy industry;

(8) improving the management of the solar energy industry and the service standards of such industry; and

(9) fostering the international cooperation in solar energy industry.

Given the various policies in the 13th Five-Year Plan favourable to the development of the photovoltaic power generation industry, in 2017, the cumulative photovoltaic installed capacity has already reached 130 GW, which represents an approximately 68.0% increase from 2016 and the cumulative photovoltaic installed capacity already exceeded the target set by the NEA under the 13th Five-Year Plan.

Portable Lighting Products Industry

The competition of the global portable lighting products industry in 2017 remained fierce. The United States portable lighting market, which is the principal market of the lighting products of the Group, has been highly saturated with numerous firms selling a diverse range of products manufactured both domestically and internationally.

BUSINESS REVIEW

During the year ended 31 December 2017, the core business of the Group has been integrated into two major segments, which are (i) the Photovoltaic Power Generation Business; and (ii) the Lighting Products Business.

Attributable to the full-year contribution of the Photovoltaic Power Generation Business during the entire year 2017, the Group's operation delivered a strong improvement in both of revenue and profitability during the year ended 31 December 2017. For the year ended 31 December 2017, the Group's revenue grew by approximately 57% to approximately HK$956.3 million while profit attributable to the owners of the Company increased by approximately 216% to approximately HK$447.1 million.

Photovoltaic Power Generation Business

During the year ended 31 December 2017, the Photovoltaic Power Generation Business of the Group continued to develop and brought profits to the Group. The Project was operating at a maximum output capacity of 350 megawatt for the year ended 31 December 2016 with major equipment provided by Yinchuan Binhe New District Investment and Development (Group) Co., Ltd.* (銀川濱河新區投資發展(集團)有限公司) ("**YCB Investment**"), a state-controlled limited liability company in the PRC, through lease arrangement. In 2017, Yinchuan Binhe New Energy Investment Development Co., Ltd* (銀川濱河新能源投資開發有限公司), a wholly owned subsidiary of YCB Investment, continued to lease the major equipment to the Group for a term of two years. In order to fully utilise the 390 megawatt capacity granted by the Ningxia branch company of the SGCC and for preparation of the continuing development in the Photovoltaic Power Generation Business, the Group has commenced the development of its own infrastructure for additional 30 megawatt output capacity of the photovoltaic power generation since December 2017, and it is expected that in 2018, the photovoltaic power generation output capacity from the Project would reach 380 megawatt.

As confirmed by the SGCC, for the year ended 31 December 2017, the Group generated an aggregate of 647.2 million kWh power and the Photovoltaic Power Generation Business continued to be the main source of the revenue of the Group, accounting for approximately 56% (2016: 33%) of the Group's total revenue for the year. In addition, the Photovoltaic Power Generation Business continued to be the key growth driver of the profit of the Group, contributing approximately 95% of the Group's total segment profit for the year ended 31 December 2017.

The Group's revenue from Photovoltaic Power Generation Business for the year ended 31 December 2017 was approximately HK$534.6 million, which represented an increase of approximately 169% from the revenue generated for the year ended 31 December 2016 (2016: HK$198.6 million). The segment profit margin of Photovoltaic Power Generation Business was approximately 87.1% for the year ended 31 December 2017 (2016: 79.0%), and the segment profit increased approximately 197% to approximately HK$465.5 million (2016: HK$156.9 million).

Lighting Products Business

The Group's revenue from the Lighting Products Business for the year ended 31 December 2017 was approximately HK$421.7 million (2016: HK$412.4 million), contributing approximately 44% (2016: 67%) of the Group's total revenue, and representing a slight increase of 2% from the revenue generated in the corresponding period in 2016. Despite the keen competition in the principal market of the lighting products of the Group, with the Company's continuing efforts in cost control and improvement of the operating efficiency, the segment profit margin of Lighting Products Business increased to approximately 5.7% for the year ended 31 December 2017 from 2.5% in corresponding period in 2016 and the segment profit increased approximately 131% to approximately HK$24.1 million (2016: HK$10.4 million).

OUTLOOK AND PROSPECTS

Photovoltaic Power Generation Business

Driven by the strong incentive of the PRC Government to promote the use of renewable energy in accordance with the 13th Five-Year Plan, the photovoltaic power generation industry in the PRC continued to be under rapid development for the year ended 31 December 2017.

Given that (i) the additional output capacity of the Photovoltaic Power Generation Business; (ii) favourable policies of the PRC Government under the 13th Five-Year Plan; and (iii) the Group would continue to enjoy the favourable policy of the PRC Government of 100% exemption of enterprise income tax in the first three years since the commencement of operation of the power plants and 50% exemption in the following three years, the Board was positive on the prospect of the Photovoltaic Power Generation Business in 2018.

In 2018, the Group continued to leverage the knowledge and experiences of its management to evaluate and seek for appropriate opportunities for the further expansion of the Group's established Photovoltaic Power Generation Business and identify opportunities with reasonable returns in the photovoltaic power generation industry. The Group intended to focus on and further direct resources to develop its Photovoltaic Power Generation Business in accordance with the national policies. The Group continued to look for opportunities to further strengthen its capabilities and expertise in this segment, including but not limited to participation in the photovoltaic poverty alleviation program and other national or regional photovoltaic programs to achieve sustainable development of its Photovoltaic Power Generation Business. The Board believed that Photovoltaic Power Generation Business would continue to be the Group's main growth driver, and the strategic development of the Photovoltaic Power Generation Business is for the benefit of the Shareholders as a whole.

Lighting Products Business

Despite the Group's lighting products segment recorded an improvement in revenue and profitability for the year ended 31 December 2017, it is expected that the Lighting Products Business will be adversely affected by the intensified competition in its principal markets and rising costs of labour and raw materials.

Accordingly, in 2018, the Group will continue to adopt the cost control strategy to maintain the profitability of its Lighting Products Business. In case the market competition continued to intensify, the Group would deploy its resources efficiently and shift the focus on other segments of the Group so that the Group will generate long term return to the Shareholders.

FINANCIAL REVIEW

Segment Information

The Group reported its financial information by two segments: (i) photovoltaic power generation in the PRC; and (ii) sales of lighting products including portable lighting products, shades for the lamps and furniture sets and other home accessory products. The table below is an analysis of the Group's revenue, segment profit and segment profit margin of its operation by segment for the years ended 31 December 2016 and 2017:

	For the year ended 31 December							
	2017				2016			
	Revenue (HK$'000)	% of Revenue	Segment Profit (HK$'000)	Segment profit margin (%)	Revenue (HK$'000)	% of Revenue	Segment Profit (HK$'000)	Segment profit margin (%)
Photovoltaic Power Generation	**534,628**	**56**	**465,454**	**87.1**	198,635	33	156,928	79.0
Sales of lighting products	**421,695**	**44**	**24,078**	**5.7**	412,422	67	10,406	2.5
Total	**956,323**	**100**	**489,532**	**51.2**	611,057	100	167,334	27.4

Revenue

During the year ended 31 December 2017, revenue of the Group was derived from photovoltaic power generation and sales of lighting products amounting to approximately HK$956.3 million, representing an increase of approximately 57% from approximately HK$611.1 million for the year ended 31 December 2016. The significant increase in revenue was mainly attributable to the full-year contribution of the Photovoltaic Power Generation Business, which contributed approximately HK$534.6 million or 56% to the Group's revenue for the year.

Gross profit and gross profit margin

During the year ended 31 December 2017, the gross profit of the Group increased by approximately 135% from approximately HK$218.4 million for the year ended 31 December 2016 to approximately HK$513.3 million. The gross profit margin of the Group improved from approximately 35.7% for the year ended 31 December 2016 to approximately 53.7% for the year ended 31 December 2017. The significant increase in gross profit and gross profit margin of the Group for the year was attributable to the full-year contribution of the Photovoltaic Power Generation Business and the gross profit margin of which was significantly higher compared with the Lighting Products Business.

Operating costs

During the year ended 31 December 2017, the total operating costs increased to approximately HK$94.2 million, representing an increase of approximately 10% from HK$85.9 million for the year ended 31 December 2016. The increase in operating costs was primarily due to the full-year operation of the Photovoltaic Power Generation Business.

Finance costs

The Group recorded finance costs amounting to approximately HK$9.4 million for the year ended 31 December 2017 (2016: HK$2.7 million). The Group incurred such finance costs during the year 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.

Profit attributable to owners of the Company

Profit attributable to owners of the Company was approximately HK$447.1 million for the year ended 31 December 2017, increased by approximately 216% from approximately HK$141.5 million profit for the year ended 31 December 2016.

The Group's net profit margin rose from 23.2% for the year ended 31 December 2016 to 46.8% for the year ended 31 December 2017. Earnings per share increased from HK27.29 cents per share for the year ended 31 December 2016 to HK78.76 cents per share for the year ended 31 December 2017.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, cash and cash equivalents of the Group were approximately HK$60.7 million, representing an approximately decrease of 81% from approximately HK$316.3 million as at 31 December 2016. This was mainly due to the investment in additional output capacity of the Project and cash pledged for Loan B (as defined below), Loan C (as defined below) and bills payable.

For the year ended 31 December 2017, the Group's primary sources of funding included cash generated from its operating activities and bank borrowings.

As at 31 December 2017, the Group had total bank borrowing of HK$275.5 million (2016: HK$250 million). The Group's current ratio (current asset divided by current liabilities) was 2.4 as at 31 December 2017, improved from 2.2 as at 31 December 2016. Considering the Group's current level of cash and bank balances and expected improvement in cash inflow from operation, the Board is confident that the Group will have sufficient resources to meet its financial needs for its current operations. Since photovoltaic projects require substantial capital investments for developing and constructing photovoltaic power plants at initial stage, the Group may require new funding in case of pursuing new business opportunities.

CAPITAL STRUCTURE

The Group managed its capital to ensure that entities in the Group would be able to continue as a going concern while maximising the return to Shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remained unchanged from prior years. The capital structure of the Group consists of (i) net debt, which includes the bank borrowings, bills payable and net cash and cash equivalents and pledged deposits; and (ii) equity attributable to owners of the Group, comprising issued capital and reserves. As at 31 December 2017, net gearing ratio was 19% (31 December 2016: net cash). This ratio is based on bank borrowings and bills payable less cash and cash equivalents and pledged bank deposit divided by total equity.

As at 31 December 2017, the interest-bearing bank borrowings of the Group that would become due within a year was HK$275.5 million (2016: HK$250.0 million). All of the interest-bearing bank borrowings of the Group as at 31 December 2017 were in HK dollars and 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**"). As of 31 December 2017 and 31 December 2016, Loan A is secured by a pledge of 252,600,000 ordinary shares of HK$0.01 each of the Company (the "**Shares**") held by Fung Teng Enterprises Limited ("**Fung Teng**"), which is wholly-owned by Mr. Dang Yanbao, the Chairman and executive Director of the Company. Loan B and Loan C were raised during the year ended 31 December 2017 which is secured by a bank deposit of RMB20,000,000 (equivalent to HK$24,096,000) and RMB5,700,000 (equivalent to HK$6,868,000), respectively, as at 31 December 2017. As at 31 December 2017, bills payable amounting to RMB79,500,000 (equivalent to HK$95,783,000) (2016: nil) were secured by bank deposits of RMB79,500,000 (equivalent to HK$95,783,000).

As at 31 December 2017, the Group's cash and cash equivalents were mainly held in Renminbi, US dollars and HK dollars.

The Board reviewed the capital structure regularly, taking into account the cost of capital and the associated risks. Based on recommendations of the management of the Group, the Group would balance its overall capital structure accordingly.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities.

SIGNIFICANT INVESTMENTS

The Group had commenced the development of its own infrastructure for additional 30 megawatt output capacity of the photovoltaic power generation since December 2017 and as at 31 December 2017, RMB131.5 million had been invested in this regard. No revenue nor profits was recognised during the year ended 31 December 2017 for such investment but it was expected that such investment would contribute to the revenue of the Group for the year ending 31 December 2018.

Save as disclosed above, the Group did not have any other significant investments as at 31 December 2017.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

In view of the positive development of the Photovoltaic Power Generation Business, the Group might from time to time consider appropriate opportunities for expansion of its photovoltaic power generation capacity through participation in or acquisition of new projects. Save as aforesaid, there was no specific plan for material investments or capital assets as at 31 December 2017.

MATERIAL ACQUISITIONS OR DISPOSALS

During the year ended 31 December 2017, there was no material acquisition or disposal of subsidiaries, associated companies and joint ventures by the Group.

CHARGES ON ASSETS

As at 31 December 2017, bank deposits of RMB25,700,000 (equivalent to HK$30,964,000) (2016: nil) are pledged to a bank to secure bank borrowings of the Group and bank deposits of RMB79,500,000 (equivalent to HK$95,783,000) (2016: nil) are pledged to a bank for issue of bills payable. The Group's land and buildings with carrying value of HK$768,000 (31 December 2016: HK$844,000) was pledged to a bank to secure banking facilities granted to the Group. As at 31 December 2017, the Group had a general banking facility which was secured by the Group's land and building with carrying amount of approximately HK$768,000 (2016: HK$844,000).

FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2017, a significant part of the revenue of the Group was denominated in Renminbi while the Group has transactions invoiced in US dollars and bank loans drawn down in HK dollars, and accordingly the Group was exposed to foreign exchange risk.

Save as disclosed herein, the amounts of other foreign currencies involved in the Group's operation for the year ended 31 December 2017 were insignificant. The Group did not have a foreign currency hedging policy and did not employ any financial instrument for hedging purpose during the year ended 31 December 2017. However, the management monitored foreign exchange exposure closely to keep the net exposure to an acceptable level.

CAPITAL COMMITMENT

As at 31 December 2017, the Group had capital commitment of approximately HK$44.8 million (2016: HK$58.8 million) in respect of the acquisition of property, plant and equipment contracted but not provided for.

GROUP'S EMOLUMENT POLICY

The Directors' fees are subject to Shareholders' approval at general meetings. Other emoluments, if any, are determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Group.

Each Director may also receive a year-end bonus in respect of each financial year. The amount of such bonus will be determined by the Remuneration Committee. As at 31 December 2017, the Group employed a total of nine Directors and 206 employees. Total staff costs, including Directors' emoluments, amounted to approximately HK$48.6 million for the year ended 31 December 2017 (2016: HK$43.3 million). The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. The Group provided discretionary bonus, medical insurance and provident fund. None of the Directors entered into any arrangement under which a Director has waived or agreed to waive any emoluments.

The Company adopted a share option scheme on 21 June 2012, under which the Company can grant options to, among others, employees of the Group to subscribe for Shares with a view to rewarding them for their contributions to the Group and giving incentives to them for optimising their future contributions to the Group. Up to the date of the annual report 2017 of the Company, no share option had been granted under such share option scheme.

(c) For the year ended 31 December 2016

INDUSTRY OVERVIEW

Photovoltaic Power Generation Industry

The global photovoltaic power industry experienced a robust growth in 2016 attributable to the growing awareness for environmental protection and the improved cost and production efficiency in solar power system. Being one of the top four major markets for global solar power installation in 2016, the PRC was dedicated to establish a low-carbon energy infrastructure and to develop its clean energy industry. In 2016, the PRC's cumulative photovoltaic power generation capacity had experienced rapid growth and new photovoltaic capacity of 34.54 GW was commissioned, representing approximately 128% growth compared to the installation of 15.13 GW of capacity in 2015. the PRC's solar energy capacity was expected to continue to grow at a compound annual growth rate ("**CAGR**") of 16.9% from 2017 to 2021. It was believed that a favourable regulatory environment, advances in technology and the government support for environmental protection would continue to contribute to the growth of the photovoltaic power industry in the PRC. Under the Strategic Plan of Energy Development (2014-2020) issued by the State Council in June 2014, China targeted to install a cumulative photovoltaic power generation capacity of 100GW by 2020. In addition, the 13th Five Year Plan for the Development of Electricity was jointly issued by the NDRC and the NEA on 7 November 2016. It was targeted that photovoltaic generation capacity would be more than 105GW by 2020. At the same time, local governments would also provide subsidies to photovoltaic power generation projects. The maturity of photovoltaic technology in the PRC had led to a decrease in manufacturing cost and has contributed to the sustainable development of the whole photovoltaic power industry value chain. As photovoltaic technology is environment-friendly and pollution-free, it also contributes to the PRC's drive to reduce carbon emissions.

Portable Lighting Products Industry

The development in the global portable lighting products industry appeared to be lackluster due to the increase in competition as well as manufacturing costs. The United States portable lighting market, the principal market of the Group's lighting products, had been highly saturated with numerous firms selling a diverse range of products manufactured both domestically and internationally. The manufacturing costs for lighting products had been high due to the growth in prices of raw materials and increased labour costs in the PRC.

BUSINESS REVIEW

During the year ended 31 December 2016, the core business of the Group had been integrated into two major segments, namely (i) the Photovoltaic Power Generation Business; and (ii) the Lighting Products Business.

Benefiting from the impressive development in the Photovoltaic Power Generation Business, the Group's operation delivered a strong improvement of its profitability during the year 2016. For the year ended 31 December 2016, the Group's revenue grew by approximately 57% to approximately HK$611.1 million mainly attributable to the revenue contribution from the Photovoltaic Power Generation Business which commenced operation in the second half of 2016. Profit attributable to the owners of the Company increased by approximately 8.8 times to approximately HK$141.5 million for the year ended 31 December 2016 mainly attributable to the profit contribution and high profit margin of the Photovoltaic Power Generation Business.

Photovoltaic Power Generation Business

During the year ended 31 December 2016, the Group made remarkable achievement in expanding its scope of operation into the clean energy sector of the PRC through strategic planning and organic development of its Photovoltaic Power Generation Business. Since the first half of 2016, the Group has participated in the Project and built its photovoltaic power generation plant with facilities provided by Yinchuan Binhe New District Investment and Development (Group) Co., Ltd.* (銀川濱河新區投資發展(集團)有限公司), through lease arrangement. On 30 June 2016, the Group obtained the approval for on-grid connection from Ningxia branch company of the SGCC in respect of the Project with a capacity of 390 megawatt ("**MW**") and the Group has commenced photovoltaic power generation since July 2016. As confirmed by the SGCC, for the six months ended 31 December 2016, the Group generated an aggregate of 243.5 million kWh power and the Photovoltaic Power Generation Business became the Group's significant revenue stream, accounting for approximately 33% of the Group's total revenue for the year. With only six months' operation, the Photovoltaic Power Generation Business had already become the key growth driver of the Group's profit, contributing approximately 94% of the Group's total segment profit for the year.

The Group's revenue from photovoltaic power generation for the year ended 31 December 2016 was approximately HK$198.6 million. The segment profit margin of photovoltaic power generation was approximately 79.0%. As the Group did not engage in the Photovoltaic Power Generation Business in the year ended 31 December 2015, no comparative figures for such period are available.

Lighting Products Business

During the year ended 31 December 2016, the manufacture of lighting products supplied by the Group was outsourced to independent contract manufacturers in the PRC. With the continuing increase in costs of labour and raw materials in the PRC, the costs from the contract manufacturers for the Group's lighting products remained high. North America was the principal market of the Group's lighting products. Due to keen competition in such market, prices of the Group's products have traded at a low level. As a result, the profit and profit margin of the Group in this segment continued to drop in year 2016 although the Group recorded a mild growth in revenue from this segment. The Group's revenue from sales of lighting products for the year ended 31 December 2016 was approximately HK$412.4 million (2015: HK$389.7 million), contributing approximately 67% (2015: 100%) of the Group's total revenue. The segment profit margin of Lighting Products Business decreased to 2.5% for the year ended 31 December 2016 from 5.8% in previous year.

OUTLOOK AND PROSPECTS

Photovoltaic Power Generation Business

Photovoltaic Power Generation Business Driven by the PRC government's (the "**PRC Government**") dedication to establishing a low-carbon system, promoting the use of renewable energy and implementing a series of supportive policies, the solar energy industry in the PRC has been developing rapidly in recent years. For 2016, the Group's Photovoltaic Power Generation Business delivered remarkable results by developing an installed capacity of approximately 390MW. The Directors remain positive and are full of confidence for the Group's Photovoltaic Power Generation Business in 2017.

With the PRC Government promoting the development of the solar energy industry through favorable initiatives, the Group believed the entire solar industry will continue to thrive. The NEA has launched the Frontrunner Program since 2015 with the aim to selecting highly efficient solar enterprises with cost and technology competitive advantages to deploy cutting-edge technologies in building solar projects in pilot provinces, facilitating the use of advanced solar products and enhancing the overall technology level of the solar industry. In the long run, this program will push forward technological advancement, facilitate healthy growth and accelerate improvement of the solar industry.

In accordance with the implementation of national poverty alleviation strategies, the NDRC and NEA jointly announced the opinions on the Implementation of Solar Poverty Alleviation Program (the "**Opinion**") in March 2016, which stated that solar energy was suitable for deploying in household, village and larger scale centralised power plants, considering it is clean, environmental friendly, technologically reliable and able to generate stable revenue. Pursuing solar poverty alleviation programs in areas with more bountiful solar resources is believed to conform to the strategies of poverty alleviation and development of clean and low-carbon energy, while favorable for growth of solar energy industry and raise the income of poor households and accordingly, the application of photovoltaic power generation in poverty alleviation will be supported by the PRC Government. Ningxia is one of the core districts for the implementation of photovoltaic poverty alleviation policies as captured by the Opinion.

In 2017, being an emerging solar energy industry player, the Group continued to leverage the knowledge and experiences of its management to evaluate and seek for appropriate opportunities for the further expansion of the Group's established Photovoltaic Power Generation Business and identify opportunities with reasonable returns in the solar power industry. Standing firmly on the success of the Project, the Group intends to focus on and further direct resources to develop of its Photovoltaic Power Generation Business in accordance with the national policies. The Group continued to look for opportunities to further strengthen its capabilities and expertise in this segment, including but not limited to participation in the poverty alleviation program and other national or regional photovoltaic programs to achieve sustainable development of its Photovoltaic Power Generation Business. The Directors believed that Photovoltaic Power Generation Business would continue to be the Group's main growth driver, and the strategic development of the Photovoltaic Power Generation Business is for the benefit of the Shareholders as a whole.

Lighting Products Business

The Group's lighting products segment recorded a significant downturn in profitability in the previous years and it was expected that the Lighting Products Business of the Group will continue to be negatively affected by the keen competition in its principal markets and rising costs of labour and raw materials. Accordingly in the coming year, the Group will use its best endeavor to implement stringent cost control measures so as to improve profit margin of its Lighting Products Business. With a view to achieve better return to the Shareholders, the Group would integrate its resources strategically and may place less importance on the Lighting Products Business going forward.

FINANCIAL REVIEW

Segment Information

The Group reported its financial information by two segments: (i) photovoltaic power generation in the PRC; and (ii) sales of lighting products including portable lighting products, shades for the lamps and furniture sets and other home accessory products. The table below is an analysis of the Group's revenue, segment profit and segment profit margin of its operation by segment for the years ended 31 December 2015 and 2016:

	For the year ended 31 December							
	2015				2016			
	Revenue (HK$'000)	% of Revenue	Segment Profit (HK$'000)	Segment profit margin (%)	Revenue (HK$'000)	% of Revenue	Segment Profit (HK$'000)	Segment profit margin (%)
Photovoltaic Power Generation	**198,635**	**33**	**156,928**	**79.0**	–	–	–	–
Sales of lighting products	**412,422**	**67**	**10,406**	**2.5**	389,740	100	22,721	5.8
Total	**611,057**	**100**	**167,334**	**27.4**	389,740	100	22,721	5.8

Revenue

During the year ended 31 December 2016, revenue of the Group was derived from photovoltaic power generation and sales of lighting products amounting to approximately HK$611.1 million, representing an increase of approximately 57% from approximately HK$389.7 million for the year ended 31 December 2015. The significant increase in revenue was mainly attributable to the commencement of the Photovoltaic Power Generation Business in the second half of the year ended 31 December 2016, which contributed approximately HK$198.6 million or 33% to the Group's revenue for the year.

Gross profit and gross profit margin

During the year ended 31 December 2016, the gross profit of the Group increased by approximately 183% from approximately HK$77.2 million for the year ended 31 December 2015 to approximately HK$218.4 million. The gross profit margin of the Group improved from approximately 19.8% for the year ended 31 December 2015 to approximately 35.7% for the year ended 31 December 2016. The significant increase in gross profit and gross profit margin of the Group for the year was attributable to contribution of the Photovoltaic Power Generation Business and the gross profit margin of which was higher compared with the Lighting Products Business.

Operating costs

During the year ended 31 December 2016, the total operating costs increased to approximately HK$85.9 million, representing an increase of approximately 48% from HK$58.2 million for the year ended 31 December 2015. The increase in operating costs was primarily due to operating expenses in developing the Photovoltaic Power Generation Business.

Finance costs

The Group recorded finance costs amounting to approximately HK$2.7 million for the year ended 31 December 2016 (2015: nil). The Group incurred such finance costs during the year mainly due to the drawdown of bank loans, the proceeds of which were primarily used to support the development of the Photovoltaic Power Generation Business.

Profit attributable to owners of the Company

Profit attributable to owners of the Company was approximately HK$141.5 million for the year ended 31 December 2016, significantly increased by 8.8 times from approximately HK$14.4 million profit for the year ended 31 December 2015. The Group's net profit margin rose from 3.7% for the year ended 31 December 2015 to 23.2% for the year ended 31 December 2016. Earnings per share increased significantly from HK3.01 cents per share for the year ended 31 December 2015 to HK27.29 cents per share for the year ended 31 December 2016.

LIQUIDITY AND FINANCIAL RESOURCES

The Group was in a good financial position during the year ended 31 December 2016. As at 31 December 2016, cash and cash equivalents of the Group were approximately HK$316.3 million, representing an increase of 14.8 times from approximately HK$20.0 million as at 31 December 2015. This was mainly due to the fund raised from share placings and drawdown of short-term bank borrowings during the year.

For the year ended 31 December 2016, the Group's primary sources of funding included cash generated from its operating activities, equity financing activities and bank borrowings.

As at 31 December 2016, the Group had total bank borrowing of HK$250 million (2015: Nil). The Group's current ratio (current asset divided by current liabilities) was 2.2 times as at 31 December 2016, which was comparable to 2.4 times as at 31 December 2015. Considering the Group's current level of cash and bank balances and expected improvement in cash inflow from operation, the Board is confident that the Group will have sufficient resources to meet its financial needs for its current operations. Since photovoltaic projects require substantial capital investments for developing and constructing photovoltaic power plants at initial state, the Group may require new funding in case of developing new business opportunities.

CAPITAL STRUCTURE

The Group managed its capital to ensure that entities in the Group would be able to continue as a going concern while maximising the return to Shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remained unchanged from prior years. The capital structure of the Group consists of net debt, which include the bank borrowing, net of cash and cash equivalents and equity attributable to owners of the Group, comprising issued capital and reserves. Gearing ratio is not presented as our Group had net cash (in excess of debt) as at 31 December 2016.

As at 31 December 2016, the interest-bearing bank borrowing of the Group that will become due within a year was HK$250.0 million (2015: nil).

As at 31 December 2016, the Group's cash and cash equivalents were mainly held in Renminbi, US dollars and HK dollars.

The Directors review the capital structure regularly, taking into account the cost of capital and the associated risks. Based on recommendations of the management of the Group, the Group would balance its overall capital structure accordingly.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities.

SIGNIFICANT INVESTMENTS

The Group commenced the development of the Project during the year ended 31 December 2016. The Group did not have any other significant investments as at 31 December 2016.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

In view of the positive development of the Photovoltaic Power Generation Business, the Group may from time to time consider appropriate opportunities for expansion of its photovoltaic power generation capacity through participation in or acquisition of new projects. Save for the Project, there was no specific plan for material investments or capital assets as at 31 December 2016.

MATERIAL ACQUISITIONS OR DISPOSALS

During the year ended 31 December 2016, there was no material acquisition or disposal of subsidiaries and associated companies by the Group.

CHARGES ON ASSETS

As at 31 December 2016, the Group had a general banking facility of HK$5,000,000 (2015: HK$5,000,000) which was secured by the Group's land and building with carrying amount of approximately HK$844,000 (2015: HK$920,000).

FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2016, a significant part of the revenue of the Group was denominated in Renminbi while the Group has transactions invoiced in US dollars and bank loans drawn down in HK dollars, and accordingly the Group was exposed to foreign exchange risk.

Save as disclosed herein, the amounts of other foreign currencies involved in the Group's operation for the year ended 31 December 2016 are insignificant. Our Group did not have a foreign currency hedging policy during the year ended 31 December 2016. However, the management monitored foreign exchange exposure closely to keep the net exposure to anacceptable level.

CAPITAL COMMITMENT

As at 31 December 2016, the Group had capital commitment of approximately HK$58.8 million in respect of the acquisition of property, plant and equipment contracted but not provided for.

GROUP'S EMOLUMENT POLICY

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments, if any, are determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Group. Each Director may also receive a year-end bonus in respect of each financial year. The amount of such bonus will be determined by the Remuneration Committee.

As at 31 December 2016, the Group employed a total of nine Directors and 189 employees. Total staff costs, including Directors' emoluments, amounted to approximately HK$43.3 million for the year ended 31 December 2016 (2015: HK$33.5 million). The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. The Group provided discretionary bonus, medical insurance and provident fund. The Company adopted a share option scheme on 21 June 2012, under which the Company can grant options to, among others, employees of the Group to subscribe for shares of the Company with a view to rewarding them for their contributions to the Group and giving incentives to them for optimising their future contributions to the Group. Up to the date of the annual report 2016 of the Company, no share option had been granted under such share option scheme.

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 OF DIRECTORS AND CHIEF EXECUTIVE

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 total issued Shares as at the Latest Practicable Date
Mr. Dang Yanbao *(Note 2)*	Interest of controlled corporation	456,150,000 (L)	68.71%

Notes:

1. The letter "L" denotes a long 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.

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 shares	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.

3. DIRECTORS' 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 INTEREST

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. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had 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 2018 (being the date to which the latest published audited financial statements of the Group were made up).

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.

6. 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 2018, being the date to which the latest published audited financial statements of the Group were made up.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claim of material importance and, so far as the Directors are aware, no litigation or claim of material importance was pending or threatened against any member of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) were entered into by the Group within two years immediately preceding the date of this circular which are or may be material:

(a) the subscription agreement dated 24 May 2018 entered into between the Company and Fung Teng Enterprises Limited, a company wholly-owned by Mr. Dang Yanbao, Chairman and executive Director of the Company pursuant to which Fung Teng conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 96,150,000 Shares at HK$2.60 per Share;

(b) the Sale and Purchase Agreement;

(c) the agreements under the Finance Lease Arrangements; and

(d) the Assignment Agreement.

9. GENERAL

(a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business of the Company in Hong Kong is at Suites 1301–1304, 13/F Two Pacific Place, 88 Queensway, Admiralty, Hong Kong.

(b) The Hong Kong branch share registrar and transfer office of the Company is Union Registrars Limited, at Suites 3301-4, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.

(c) The company secretary of the Company is Ms. Jiao Yingchen, who is an associate member of The Institute of Chartered Secretaries and Administrators of London and the Hong Kong Institute of Chartered Secretaries.

(d) Unless otherwise stated, in the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 6:00 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:

(a) the memorandum and articles of association of the Company;

(b) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(c) this circular; and

(d) the announcement of annual results of the Company for the year ended 31 December 2018 and the annual reports of the Company for each of the two years ended 31 December 2016 and 31 December 2017.

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 OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of China Baofeng (International) Limited (the "**Company**") will be held at 14/F, China Building, 29 Queen's Road Central, Central, Hong Kong on Tuesday, 30 April 2019 at 11:00 a.m. for considering and, if thought fit, passing, with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**:

(a) the Sale and Purchase Agreement (as defined and described in the circular of the Company dated 11 April 2019) and the transactions contemplated thereunder be and are hereby approved, confirmed and/or ratified; and

(b) any one director of the Company be and is hereby authorised for and on behalf of the Company to sign, seal, execute, perfect, perform, deliver all such agreements, instruments, documents and deeds, and do all such acts, matters and things and take all such steps as they may in their discretion consider necessary, desirable or expedient to implement and/or to give effect to the Sale and Purchase Agreement and the transactions contemplated thereunder as they may in their discretion consider to be desirable and in the interests of the Company."

2. "**THAT**:

(a) each agreement under the Finance Lease Arrangements (as defined and described in the circular of the Company dated 11 April 2019), namely the Finance Lease Agreement, the Schedule to the Finance Lease Agreement, the Guarantee Agreement, the Share Charge Agreement, the Receivables Charge Agreement, the Registration of Receivables Charge Agreement and the Equipment Charge Agreement, and the transactions contemplated thereunder be and are hereby approved, confirmed and/or ratified; and

(b) any one director of the Company be and is hereby authorised for and on behalf of the Company to sign, seal, execute, perfect, perform, deliver all such agreements, instruments, documents and deeds, and do all such acts, matters and things and take all such steps as they may in their discretion consider necessary, desirable or expedient to implement and/or to give effect to each agreement under Finance Lease Arrangements and the transactions contemplated thereunder as they may in their discretion consider to be desirable and in the interests of the Company."

3. "**THAT**:

(a) the Assignment Agreement (as defined and described in the circular of the Company dated 11 April 2019) and the transactions contemplated thereunder be and are hereby approved, confirmed and/or ratified; and

(b) any one director of the Company be and is hereby authorised for and on behalf of the Company to sign, seal, execute, perfect, perform, deliver all such agreements, instruments, documents and deeds, and do all such acts, matters and things and take all such steps as they may in their discretion consider necessary, desirable or expedient to implement and/or to give effect to the Assignment Agreement and the transactions contemplated thereunder as they may in their discretion consider to be desirable and in the interests of the Company."

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

Hong Kong, 11 April 2019

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, 28 April 2019 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.

7. All the resolutions set out in this notice will be decided by poll.

8. A form of proxy for use at the Meeting is enclosed.

9. 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.

10. References to time and dates in this notice are to Hong Kong time and dates.