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East Step International Holdings Limited

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)

**JOINT ANNOUNCEMENT ON
THE (1) PROPOSED PRIVATISATION OF
CHINA BAOFENG (INTERNATIONAL) LIMITED
BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW OF
THE CAYMAN ISLANDS)
(2) PROPOSED WITHDRAWAL OF LISTING OF CHINA BAOFENG
(INTERNATIONAL) LIMITED
(3) ESTABLISHMENT OF THE INDEPENDENT BOARD COMMITTEE
AND
(4) RESUMPTION OF TRADING IN SHARES**

Exclusive Financial Adviser to the Offeror



INTRODUCTION

The respective directors of the Offeror and the Company jointly announce that on 17 June 2020 after trading hours, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law.

TERMS OF THE PROPOSAL

The proposal will be implemented by way of the Scheme which will provide that, if the Scheme becomes effective, the Scheme Shares will be cancelled in exchange for HK\$2.60 in cash for each Scheme Share. Under the Scheme, the total consideration payable for the cancellation of the Scheme Shares will be payable by the Offeror.

The Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.

As at the date of this joint announcement, the authorised share capital of the Company is HK\$8,000,000 divided into 800,000,000 Shares, of which 663,846,000 Shares are in issue. As at the date of this joint announcement, (i) the Offeror does not own any Shares, but the Offeror Concert Parties (including, for the avoidance of doubt, Mr. Dang ZD) hold in aggregate 464,120,000 Shares (representing approximately 69.91% of the issued share capital of the Company) of which, (a) Fung Teng holds 456,150,000 Shares, and (b) Mr. Dang ZD holds 7,970,000 Shares, respectively, and (ii) the Scheme Shares comprise 207,696,000 Shares (representing approximately 31.29% of the issued share capital of the Company), of which, an aggregate of 199,726,000 Shares are held by the Independent Shareholders (representing approximately 30.09% of the issued share capital of the Company), and 7,970,000 Shares are held by Mr. Dang ZD (being a member of the Offeror Concert Parties). Upon the Scheme having become effective, the Offeror and Fung Teng will hold 207,696,000 Shares (representing approximately 31.29% of the issued share capital of the Company) and the remaining 456,150,000 Shares (representing approximately 68.71% of the issued share capital of the Company), respectively.

Further, the Offeror and the Offeror Concert Parties (including without limitation Mr. Dang ZD but except Shares held by the CLSA Group on behalf of non-discretionary investment clients) will abstain from voting at the Court Meeting.

As at the date of this joint announcement, there are no outstanding options or warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

Under the Scheme, the issued share capital of the Company will, on the effective date of the Scheme, be reduced by cancelling and extinguishing the Scheme Shares, and forthwith upon such reduction, the issued share capital of the Company will be increased to its former amount by the issuance to the Offeror at par of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The credit created arising in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid to the Offeror.

The implementation of the Proposal and the Scheme will be conditional upon the fulfilment or waiver, as applicable, of all the Conditions as described in the section headed "Conditions of the Proposal and the Scheme" below, which include, among others, the approval of the Scheme (by way of poll) by (a) Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and (b) the number of votes cast at the Court Meeting against such resolution is not more than 10%. All of the Conditions must be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal and the Scheme will lapse.

CONFIRMATION OF FINANCIAL RESOURCES

On the basis of the cancellation price of HK\$2.60 per Scheme Share and there are 207,696,000 Scheme Shares in issue as at the date of this joint announcement, the total amount required to satisfy the consideration payable for the cancellation of all the Scheme Shares is HK\$540,009,600.

The Offeror intends to finance the Proposal with its own internal resources. CLSA is satisfied that sufficient financial resources are available to the Offeror for satisfying its obligations in respect of full implementation of the Proposal and the Scheme.

INDEPENDENT BOARD COMMITTEE

An Independent Board Committee, which comprises all the non-executive Directors who have no direct or indirect interest in the Proposal, namely, Mr. Cheng Hoo, Mr. Chung Kin Shun, Jimmy, Mr. Xia Zuoquan, Dr. Tyen Kan Hee, Anthony and Mr. Guo Xuewen, has been established by the Board to make a recommendation to the Independent Shareholders as to whether the terms of the Proposal and the Scheme are, or are not, fair and reasonable and as to voting at the Court Meeting and at the extraordinary general meeting of the Company.

The Directors (excluding members of the Independent Board Committee) believe that the terms of the Proposal and the Scheme are fair and reasonable and in the interests of the Shareholders as a whole. Mr. Dang YB and Mr. Dang ZD, being the Offeror Concert Parties, have abstained voting from on the relevant resolutions at the relevant Board meeting.

INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE

An independent financial adviser will be appointed (with the approval of the Independent Board Committee) to advise the Independent Board Committee in connection with the Proposal and the Scheme. Further announcement will be made by the Company after such appointment in accordance with the requirements of the Takeovers Code.

DESPATCH OF SCHEME DOCUMENT

The Scheme Document containing, inter alia, further details of the Proposal and the Scheme, the expected timetable, an explanatory statement as required under the Companies Law and the rules of the Grand Court, information regarding the Company, recommendations from the Independent Board Committee with respect to the Proposal and the Scheme, a letter of advice from the independent financial adviser to the Independent Board Committee, a notice of the Court Meeting and a notice of an extraordinary general meeting of the Company, together with the relevant forms of proxy in relation thereto, will be despatched to the Shareholders as soon as practicable and in compliance with the requirements of the Takeovers Code, the Companies Law, the Grand Court and other applicable laws and regulations.

WITHDRAWAL OF LISTING OF SHARES

Upon the Scheme becoming effective, it is anticipated that listing of the Shares on the Stock Exchange will be withdrawn. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange immediately following the Scheme becoming effective.

IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who has acted in concert with the Offeror in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

TRADING HALT AND RESUMPTION

At the request of the Company, trading in the Shares on the Stock Exchange was halted with effect from 9:00 a.m. on 18 June 2020 pending the release of this joint announcement.

An application has been made by the Company to the Stock Exchange for the resumption of trading of the Shares on the Stock Exchange with effect from 9:00 a.m. on 22 June 2020.

WARNINGS

Shareholders and potential investors should be aware that the implementation of the Proposal and the Scheme is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their licensed securities dealer or registered institution in securities, bank manager, solicitor or other professional advisers.

The availability of the Proposal to persons who are not resident in Hong Kong may be affected by the laws of the relevant jurisdictions in which they are located or of which they are citizens. Persons who are not resident in Hong Kong should inform themselves about, and observe, any applicable legal or regulatory requirements of their jurisdictions. Further details in relation to overseas Shareholders will be contained in the Scheme Document.

This joint announcement is not intended to and does not constitute, or form part of, any offer to sell or subscribe for or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Proposal or otherwise, nor shall there be any sale, issuance or transfer of securities of the Company in any jurisdiction in contravention of applicable law. The Proposal will be made solely through the Scheme Document, which will contain the full terms and conditions of the Proposal, including details of how to vote in favour of the Proposal. Any acceptance or other response to the Proposal should be made only on the basis of information in the Scheme Document or any other document by which the Proposal is made.

INTRODUCTION

On 17 June 2020 after trading hours, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of the Scheme Shares and, in consideration therefor, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange.

If the Proposal is approved and implemented, under the Scheme, the share capital of the Company will, on the effective date of the Scheme, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror.

TERMS OF THE PROPOSAL

The Scheme

The Scheme will provide that, if the Scheme becomes effective, the Scheme Shares will be cancelled and, in consideration therefor, each Scheme Shareholder will be entitled to receive HK\$2.60 in cash for each Scheme Share so cancelled. Under the Scheme, the total consideration payable for the cancellation of the Scheme Shares will be payable by the Offeror.

The Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.

The Cancellation Price represents:

- a premium of approximately 27.5% over the closing price of HK\$2.04 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 52.0% over the average closing price of approximately HK\$1.71 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

- a premium of approximately 42.9% over the average closing price of approximately HK\$1.82 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 39.0% over the average closing price of approximately HK\$1.87 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- a premium of approximately 36.8% over the average closing price of approximately HK\$1.90 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- a premium of approximately 30.7% over the average closing price of approximately HK\$1.99 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day; and
- a discount of approximately 5.5% over the audited consolidated net asset value per Share of approximately HK\$2.75 as at 31 December 2019, based on the exchange rate of RMB1:HK\$1.1154.

The Cancellation Price has been determined on a commercial basis after taking into account the prices of the Shares traded on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years.

The Company confirms that as at the date of this joint announcement, (a) it has not declared any dividend, the record date of which falls on or after the expected date of despatch of the Scheme Document; and (b) it does not have any intention to make, declare or pay any future dividend or make other distributions.

Total consideration and confirmation of financial resources

On the basis of the cancellation price of HK\$2.60 per Scheme Share and there are 207,696,000 Scheme Shares in issue as at the date of this joint announcement, the total amount required to satisfy the consideration payable for the cancellation of all the Scheme Shares is approximately HK\$540,009,600.

The Offeror intends to finance the Proposal with its internal resources. CLSA, the exclusive financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for satisfying its obligations in respect of the full implementation of the Proposal and the Scheme.

CONDITIONS OF THE PROPOSAL AND THE SCHEME

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all the Scheme Shareholders, subject to the fulfilment or waiver (as applicable) of the following Conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting;
- (b) the approval of the Scheme (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are cast either in person or by proxy at the Court Meeting; provided that the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by the Independent Shareholders;
- (c)
 - (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at an extraordinary general meeting of the Company to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares; and
 - (ii) after the above reduction of share capital, the passing of an ordinary resolution by the Shareholders at an extraordinary general meeting of the Company to approve and give effect to, immediately thereafter, the increase of the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and the application of the credit arising in the Company's books of accounts as a result of the aforesaid reduction of share capital to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror;
- (d) the Grand Court's sanction of the Scheme (with or without modifications) and its confirmation of the reduction of the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;
- (e) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 to 17 of the Companies Law in relation to the reduction of the issued share capital of the Company;

- (f) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals (together, the “**Approvals**”) in connection with the Proposal and the Scheme having been obtained from, given by or made with or by (as the case may be) the relevant Authorities, in the Cayman Islands, Hong Kong, the PRC and/or any other relevant jurisdictions and remaining in full force and effect without variation, up to and at the time when the Scheme becomes effective;
- (g) all necessary statutory or regulatory requirements or obligations in all relevant jurisdictions having been complied with and no requirement or obligation having been imposed by any Authorities which is not provided for, or is in addition to requirements provided for, in any relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;
- (h) all necessary consents (“**Consents**”) which may be required for the implementation of the Proposal or the Scheme under any existing contractual obligations of the Group being obtained or waived by the relevant party(ies), where any failure to obtain such consent or waiver would have a material adverse effect on the business, assets or liabilities of the Group;
- (i) no Authority in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry, or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Proposal, the Scheme or the implementation in accordance with their respective terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or the implementation in accordance with their respective terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Proposal and the Scheme; and
- (j) since the date of this joint announcement, in the reasonable opinion of the Offeror, there having been no adverse change in the business, assets, financial or trading positions, profits or prospects of the Group (to an extent which is material in the context of the Group taken as a whole or in the context of the Proposal or the Scheme).

The Offeror reserves the right to waive the conditions set out in paragraphs (f), (g), (h), (i) and/or (j) above either in whole or in part, either generally or in respect of any particular matter. Conditions (a), (b), (c), (d) and (e) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal or the Scheme. All of the above Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal and the Scheme will lapse. The Company has no right to waive any of the Conditions. With regard to the Conditions set out under paragraphs (f) to (h) above, as at the date of this joint announcement, neither the Offeror nor the Company is aware that any of the Approvals and Consents is required, nor there is any non-compliance with all necessary statutory or regulatory requirements or obligations in connection with the Proposal and the Scheme.

Shareholders and potential investors should be aware that the implementation of the Proposal and the Scheme is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their licensed securities dealers or registered institutions in securities, bank manager, solicitor or other professional advisers.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of this joint announcement, the authorised share capital of the Company is HK\$8,000,000 divided into 800,000,000 Shares, of which 663,846,000 Shares are in issue. As at the date of this joint announcement, (i) the Offeror does not own any Shares, but the Offeror Concert Parties (including, for the avoidance of doubt, Mr. Dang ZD) hold in aggregate 464,120,000 Shares (representing approximately 69.91% of the issued share capital of the Company), of which, (a) Fung Teng holds 456,150,000 Shares, and (b) Mr. Dang ZD holds 7,970,000 Shares, respectively, and (ii) the Scheme Shares comprise 207,696,000 Shares (representing approximately 31.29% of the issued share capital of the Company), of which, an aggregate of 199,726,000 Shares are held by the Independent Shareholders (representing approximately 30.09% of the issued share capital of the Company), and 7,970,000 Shares are held by Mr. Dang ZD (being a member of the Offeror Concert Parties).

On the assumption that there is no change in the issued share capital of the Company from the date of this joint announcement to immediately before the completion of the Proposal, the table below sets out the shareholding structure of the Company as at the date of this joint announcement and immediately upon completion of the Proposal:

	As at the date of this joint announcement		Upon the completion of the Proposal	
	Number of Shares	%	Number of Shares	%
The Offeror				
East Step International Holdings Limited	–	–	207,696,000	31.29
The Offeror Concert Party (excluded from the Scheme Shares)				
Fung Teng ^{Note 1}	456,150,000	68.71	456,150,000	68.71
The Offeror Concert Party (included in the Scheme Shares)				
Mr. Dang ZD ^{Note 2}	<u>7,970,000</u>	<u>1.20</u>	<u>–</u>	<u>–</u>
Sub-total	<u>464,120,000</u>	<u>69.91</u>	<u>663,846,000</u>	<u>100</u>
Independent Shareholders	<u>199,726,000</u>	<u>30.09</u>	<u>–</u>	<u>–</u>
Total	<u>663,846,000</u>	<u>100</u>	<u>663,846,000</u>	<u>100</u>

Notes:

1. *Fung Teng, a company incorporated in the British Virgin Islands with limited liability, is an investment holding company with the entire issued share capital held by Mr. Dang ZW as at the date of this joint announcement. Mr. Dang ZW is a son of Mr. Dang YB who is the Chairman of the Company and an executive Director.*
2. *The 7,970,000 Shares held by Mr. Dang ZD will form part of the Scheme Shares and will be cancelled upon the Scheme becoming effective.*

On the assumption that there is no change in the issued share capital of the Company from the date of this joint announcement to immediately before the completion of the Proposal, following the effective date of the Scheme and the withdrawal of listing of the Shares on the Stock Exchange, the Offeror and Fung Teng will hold in aggregate 100% of the issued share capital of the Company.

As at the date of this joint announcement, there are no other options, warrants or convertible securities in respect of the Shares held, controlled or directed by the Offeror or the Offeror Concert Parties, or outstanding derivatives in respect of the securities of the Company entered into by the Offeror or the Offeror Concert Parties.

As at the date of this joint announcement, there is no outstanding other options, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

INDEPENDENT BOARD COMMITTEE

An Independent Board Committee, which comprises all the non-executive Directors who have no direct or indirect interest in the Proposal, namely, Mr. Cheng Hoo, Mr. Chung Kin Shun, Jimmy, Mr. Xia Zuoquan, Dr. Tyen Kan Hee, Anthony and Mr. Guo Xuewen, has been established by the Board to make a recommendation to the Independent Shareholders as to whether the terms of the Proposal and the Scheme are, or are not, fair and reasonable and as to voting at the Court Meeting and the extraordinary general meeting of the Company.

The Directors (excluding members of the Independent Board Committee) believe that the terms of the Proposal and the Scheme are fair and reasonable and in the interests of the Shareholders as a whole. Mr. Dang YB and Mr. Dang ZD, being members of the Offeror Concert Parties, have abstained from voting at the Board meeting on the relevant resolutions.

The Scheme Shareholders are reminded to carefully read the Scheme Document and the letter of advice from the independent financial adviser to the Independent Board Committee contained therein before making a decision.

INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE

An independent financial adviser will be appointed (with the approval of the Independent Board Committee) to advise the Independent Board Committee in connection with the Proposal and the Scheme. Further announcement will be made by the Company after such appointment in accordance with the requirements of the Takeovers Code.

REASONS FOR AND BENEFITS OF THE PROPOSAL

Challenging operating macro-economic environment for sales of lighting products and photovoltaic power generation business

The Group mainly engages in the photovoltaic power generation business and lighting products business.

The Group's photovoltaic power generation business is operated in Yinchuan City, Ningxia Hui Autonomous Region, the PRC. Currently, the Group sells all power generated thereof to State Grid Ningxia Electric Power Co., Ltd. (國網寧夏電力有限公司). The photovoltaic power generation industry is heavily regulated by the PRC government and the Company's financial performance is dependent on the subsidy from Ministry of Finance, this poses uncertainty on both the net profit and cash flow generating capabilities of the Company.

The Group's lighting products business mainly involves the design and development of portable lighting products, lampshades, furniture set and other home accessory products. The Group subcontracts the manufacturing of its lighting products to manufacturers in the PRC and sells its lighting products to customers located in United States and Canada on ODM basis. The lighting products market competition remains fierce, especially in the United States portable lighting products market. With the United States – PRC trade war commenced since 2018, the global trading environment becomes unfavourable to the Company.

Declining share price performance

The share price has dropped substantially from its 5-year highest closing price of HK\$6.20 in December 2016 to the average closing price of HK\$1.99 for the last 180 consecutive trading days up to and including the Last Trading Day.

The continuous downward trend of the share price and lack of market participants have made it difficult to reflect the Company's fair value in the Hong Kong capital market, which the listing platform loses its appeal of raising equity financing to the Company.

Low trading liquidity

The liquidity of Shares has been at a low level over a long period of time. The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day is approximately 74,857 Shares per day, representing only approximately 0.01% of the issued Shares as at the date of this joint announcement. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company's share price occurs. Due to the relatively low liquidity in the trading of the Shares, the Offeror considers that the Company's current listing platform may no longer be able to serve as an effective fund-raising platform for the Company's business and future growth.

A good opportunity for Scheme Shareholder to realise investment for a premium

The cancellation price of HK\$2.60 per Scheme Share represents a premium of approximately 27.5% over the closing price of HK\$2.04 per Share on the Last Trading Day. The Cancellation Price also represents a premium of approximately 52.0%, 42.9% and 39.0% over the average closing prices of approximately HK\$1.71, HK\$1.82 and HK\$1.87 per Share for 30, 60 and 90 consecutive trading days up to and including the Last Trading Day, respectively. The Cancellation Price also represents a discount of approximately 5.5% over the audited consolidated net asset value per Share of approximately HK\$2.75 as at 31 December 2019, based on the exchange rate of RMB1:HK\$1.1154.

The Offeror believes that the Cancellation Price represents a premium to the price at which the market had valued the Company. This provides an opportunity for Scheme Shareholders to immediately realise their investments and redeploy their capital into other investment opportunities that they may consider more attractive in the current market environment.

INFORMATION ON THE COMPANY

The Company is an exempted company incorporated in the Cayman Islands with limited liability whose shares have been listed on GEM of the Stock Exchange since 20 July 2012 and was subsequently transferred to the Main Board of the Stock Exchange on 5 August 2015. The Group is principally engaged in the photovoltaic power generation business and the lighting products business.

INFORMATION ON THE OFFEROR AND THE OFFEROR CONCERT PARTIES

The Offeror is a limited liability company incorporated in Hong Kong and is held by Mr. Dang YB (the Chairman of the Company and an executive Director) and Fung Teng as to 51.22% and 48.78%, respectively.

Fung Teng, Mr. Dang YB, Mr. Dang ZW and Mr. Dang ZD are parties acting in concert with the Offeror.

Fung Teng is the controlling shareholder of the Company and is wholly owned by Mr. Dang ZW. Fung Teng is principally engaged in the business of investment holding.

Mr. Dang YB is the Chairman of the Company and an executive Director.

Mr. Dang ZW is the sole shareholder of Fung Teng and a son of Mr. Dang YB.

Mr. Dang ZD is the Chief Executive Officer of the Company, an executive Director, a director of the Offeror and also a nephew of Mr. Dang YB.

WITHDRAWAL OF LISTING OF SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange immediately following the Scheme becoming effective. The Scheme Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. A detailed timetable of the Scheme will be included in the Scheme Document, which will also contain, inter alia, further details of the Scheme.

IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

OVERSEAS SHAREHOLDERS

The making and implementation of the Proposal to Scheme Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders are located. Such Scheme Shareholders should inform themselves about and observe any applicable legal, tax or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders wishing to take any action in relation to the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction. Any acceptance by the Scheme Shareholders will be deemed to constitute a representation and warranty from such persons to the Offeror and the Company and their respective advisers that those laws and regulatory requirements have been complied with.

In the event that the despatch of the Scheme Document to overseas Scheme Shareholders is prohibited by any relevant law or regulation or may only be effected after compliance with conditions or requirements that the Directors regard as unduly onerous or burdensome (or otherwise not in the best interests of the Company or its Shareholders), the Scheme Document will not be despatched to such overseas Scheme Shareholders.

For that purpose, the Company may apply for any waivers as may be required by the Executive pursuant to Note 3 to Rule 8 of the Takeovers Code at such time. Any such waiver will only be granted if the Executive is satisfied that it would be unduly burdensome to despatch the Scheme Document to such overseas Scheme Shareholders. In granting the waiver, the Executive will be concerned to see that all material information in the Scheme Document is made available to such overseas Scheme Shareholders, as the case may be.

Scheme Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Proposal. It is emphasised that none of the Offeror, the Company and any of their respective directors, officers or associates or any other person involved in the Proposal accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Proposal.

SCHEME SHARES, MEETING OF SCHEME SHAREHOLDERS AND EXTRAORDINARY GENERAL MEETING OF THE COMPANY

As at the date of this joint announcement, the Offeror and the Offeror Concert Parties together hold an aggregate of 464,120,000 Shares, representing approximately 69.91% of the issued share capital of the Company. Save for the 7,970,000 Shares (representing approximately 1.20% of the issued share capital of the Company) held by Mr. Dang ZD, which will form part of the Scheme Shares, the remaining 456,150,000 Shares (representing approximately 68.71% of the issued share capital of the Company) will not constitute Scheme Shares. Further, the Offeror and the Offeror Concert Parties (including without limitation Mr. Dang ZD but except Shares held by the CLSA Group on behalf of non-discretionary investment clients) will abstain from voting at the Court Meeting.

The Offeror and, if required, each of the Offeror Concert Parties will undertake to the Grand Court that it or they (as the case may be) will be bound by the Scheme, so as to ensure that they will comply with and be subject to the terms and conditions of the Scheme.

All Shareholders will be entitled to attend the extraordinary general meeting of the Company and vote on (i) the special resolution to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares, and (ii) the ordinary resolution to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the credit arising as a result of the aforesaid reduction of issued share capital to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror. If the Scheme is approved at the Court Meeting, Fung Teng will undertake to cast the votes in respect of those Shares held by it in favour of the resolutions to be proposed at the extraordinary general meeting of the Company.

COSTS OF THE PROPOSAL

If the Independent Board Committee or the independent financial adviser to the Independent Board Committee does not recommend the Proposal and the Scheme, and the Scheme is not approved, all expenses incurred by the Company in connection therewith or with the Proposal shall be borne by the Offeror in accordance with Rule 2.3 of the Takeovers Code.

GENERAL

The Offeror has appointed CLSA as its exclusive financial adviser in connection with the Proposal. Accordingly, CLSA and relevant members of the CLSA Group are presumed to be acting in concert with the Offeror in accordance with class 5 of the definition of “acting in concert” in the Takeovers Code (except any Shares held on behalf of non-discretionary investment clients of the CLSA Group). As at the date of this joint announcement CLSA Group does not hold any Shares (except any Shares held on behalf of non-discretionary investment clients of the CLSA Group).

There are no arrangements (whether by way of option, indemnity or otherwise) in relation to the Shares between the Offeror or any of the Offeror Concert Parties and any other person which might be material to the Proposal.

There are no agreements or arrangements to which the Offeror is a party which relates to the circumstances in which they may or may not invoke or seek to invoke a pre-condition or a condition to the Proposal.

The Offeror and the Offeror Concert Parties have not borrowed or lent any Shares or any relevant securities of the Company as at the date of this joint announcement.

There is no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between the Offeror and (1) any Scheme Shareholder; and (2)(a) the Offeror Concert Parties, or (b) the Company, its subsidiaries or associated companies.

As at the date of this joint announcement, there are no convertible securities, warrants or options in respect of the Shares held, controlled or directed by the Offeror or the Offeror Concert Parties, or outstanding derivatives in respect of the securities of the Company entered into by the Offeror or the Offeror Concert Parties. No irrevocable commitment to vote for or against the Scheme has been received by the Offeror or the Offeror Concert Parties, as at the date of this joint announcement.

Fung Teng, a member of the Offeror Concert Parties, acquired 2,730,000 Shares (representing approximately 0.41% of the total issued share capital of the Company as at the date of this joint announcement) on 27 May 2020 at a consideration of HK\$4,987,000 (representing an average price of approximately HK\$1.83 per Share) from an independent third party and subsequently disposed of the same amount of Shares on 28 May 2020 at a consideration of HK\$4,914,000 (representing a price of HK\$1.80 per Share) to another independent third party.

Save as disclosed above, neither the Offeror nor each of the Offeror Concert Parties (except in respect of Shares held on behalf of non-discretionary investment clients of the CLSA Group) has dealt in any Shares, convertible securities, warrants, options or derivatives in respect of the Shares in the six-month period prior to the date of this joint announcement.

DESPATCH OF SCHEME DOCUMENT

The Scheme Document containing, inter alia, further details of the Proposal and the Scheme, the expected timetable, an explanatory statement as required under the Companies Law and the Rules of the Grand Court, information regarding the Company, recommendations from the Independent Board Committee with respect to the Proposal and the Scheme, and the letter of advice from the independent financial adviser to the Independent Board Committee, a notice of the Court Meeting and a notice of an extraordinary general meeting of the Company, together with the relevant forms of proxy in relation thereto, will be despatched to the Shareholders as soon as practicable and in compliance with the requirements of the Takeovers Code, the Companies Law, the Grand Court and other applicable laws and regulations.

The Scheme Document will contain important information and the Scheme Shareholders are urged to carefully read the Scheme Document containing such disclosures before casting any vote at (or providing any proxy in respect of) the Court Meeting or the extraordinary general meeting of the Company.

DISCLOSURE OF DEALINGS

Associates of the Offeror and the Company (as defined in the Takeovers Code, including shareholders holding 5% or more of the relevant securities (as defined in paragraphs (a) to (d) in Note 4 to Rule 22 of the Takeovers Code) of the Offeror or the Company) are hereby reminded to disclose their dealings in any securities of the Company under Rule 22 of the Takeovers Code during the offer period commencing on the date of this.

In accordance with Rule 3.8 of the Takeovers Code, reproduced below is the full text of Note 11 to Rule 22 of the Takeovers Code:

“Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates of an offeror or the offeree company and other persons under Rule 22 and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant Rules. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7 day period is less than \$1 million.

This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.

Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.”

TRADING HALT AND RESUMPTION

At the request of the Company, trading in the Shares on the Stock Exchange was halted with effect from 9:00 a.m. on 18 June 2020 pending the release of this joint announcement.

An application has been made by the Company to the Stock Exchange for the resumption of trading of the Shares on the Stock Exchange with effect from 9:00 a.m. on 22 June 2020.

WARNING

This joint announcement is not intended to and does not constitute, or form part of, any offer to sell or subscribe for or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Proposal or otherwise, nor shall there be any sale, issuance or transfer of securities of the Company in any jurisdiction in contravention of applicable law. The Proposal will be made solely through the Scheme Document, which will contain the full terms and conditions of the Proposal, including details of how to vote in favour of the Proposal. Any acceptance or other response to the Proposal should be made only on the basis of information in the Scheme Document or any other document by which the Proposal is made.

Shareholders and potential investors should exercise caution when dealing in the Shares and any options or other rights in respect of them. Persons who are in doubt as to the action they should take should consult their licensed securities dealers or registered institutions in securities, bank manager, solicitor or other professional advisers.

DEFINITIONS

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

- “acting in concert” has the meaning ascribed to it in the Takeovers Code and “concert party(ies)” shall be construed accordingly;
- “associates” has the meaning ascribed to it in the Takeovers Code;
- “Authority(ies)” government, quasi-governmental and/or governmental body(ies), statutory or regulatory body(ies), court(s), or designated authorized body(ies) or agency(ies) of any of the foregoing;
- “Board” the board of directors of the Company;
- “Cancellation Price” the cancellation price of HK\$2.60 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme;
- “CLSA” CLSA Capital Markets Limited, the exclusive financial adviser to the Offeror in connection with the Proposal. CLSA is a corporation licensed to conduct Type 4 (advising on securities), and Type 6 (advising on corporate finance) regulated activities under the SFO, an indirectly wholly-owned subsidiary of CITIC Securities Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6030);
- “CLSA Group” CLSA and persons controlling, controlled by or under the same control (with the meanings ascribed to such terms in the Takeovers Code) as CLSA;
- “Companies Law” the Companies Law (as revised) of the Cayman Islands, as consolidated and revised;
- “Company” China Baofeng (International) Limited, an exempted company incorporated in the Cayman Islands with limited liability and the Shares of which are listed and traded on the main board of the Stock Exchange;

“Conditions”	the conditions to the implementation of the Proposal and the Scheme as set out in the section headed “Conditions of the Proposal and the Scheme” of this joint announcement;
“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the Grand Court at which the Scheme will be voted upon;
“Director(s)”	director(s) of the Company;
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate thereof;
“Fung Teng”	Fung Teng Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability, of which the issued share capital is wholly owned by Mr. Dang ZW;
“Grand Court”	the Grand Court of the Cayman Islands;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	the independent board committee of the Company established by the Board to make a recommendation to the Independent Shareholders in respect of, among others, the Proposal and the Scheme;
“Independent Shareholders”	the Shareholders other than the Offeror and the Offeror Concert Parties;
“Last Trading Day”	17 June 2020, being the last trading day prior to the issue of this joint announcement;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;

“Long Stop Date”	16 October 2020 or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct;
“Mr. Dang YB”	Mr. Dang Yanbao, the Chairman of the Company and an executive Director;
“Mr. Dang ZD”	Mr. Dang Zidong, the Chief Executive Officer of the Company, an executive Director, a director of the Offeror and also a nephew of Mr. Dang YB;
“Mr. Dang ZW”	Mr. Dang Ziwei, sole shareholder of Fung Teng and a son of Mr. Dang YB;
“Offeror”	East Step International Holdings Limited, a company incorporated in Hong Kong with liability limited, of which the issued share capital is owned as to 51.22% by Mr. Dang YB and 48.78% by Fung Teng, respectively;
“Offeror Concert Party(ies)”	any party(ies) acting in concert or presumed to be acting in concert with the Offeror under the definition of “acting in concert” under the Takeovers Code, including Fung Teng, Mr. Dang YB, Mr. Dang ZW and Mr. Dang ZD;
“PRC”	The People’s Republic of China, but for the purpose of this joint announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan;
“Proposal”	the proposal for the privatisation of the Company by the Offeror by way of the Scheme and the restoration of the share capital of the Company to the amount immediately before the cancellation of the Scheme Shares, on the terms and subject to the conditions set out in this joint announcement;
“Record Date”	the appropriate record date to be announced for determining entitlements under the Scheme;
“relevant securities”	has the meaning ascribed to it in the Takeovers Code;

“Scheme”	the scheme of arrangement under Section 86 of the Companies Law involving the cancellation of all the Scheme Shares;
“Scheme Document”	the scheme document of the Company and the Offeror to be issued to all Shareholders containing, inter alia, further details of the Proposal and Scheme together with the additional information specified in the section of this joint announcement headed “Despatch of Scheme Document” above;
“Scheme Share(s)”	Share(s), other than those held by Fung Teng, in issue as at the Record Date;
“Scheme Shareholder(s)”	Holder(s) of Scheme Share(s) as at the Record Date;
“Share(s)”	ordinary share(s) of par value HK\$0.01 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs; and
“trading day”	a day on which the Stock Exchange is open for the business of dealings in securities.

By Order of the Board
East Step International Holdings Limited
Siu Sik Yin
Director

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

Hong Kong, 21 June 2020

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

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this joint announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this joint announcement have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement, the omission of which would make any statement in this joint announcement misleading.

As at the date of this joint announcement, the directors of the Offeror are Mr. Dang Zidong and Ms. Siu Sik Yin.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this joint announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this joint announcement have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement, the omission of which would make any statement in this joint announcement misleading.