

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this Scheme Document, the Scheme or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant, or other professional advisor.

If you have sold or transferred all your shares in China Baofeng (International) Limited, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

**(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)
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
CHINA BAOFENG (INTERNATIONAL) LIMITED**

Exclusive Financial Adviser to the Offeror



Independent Financial Adviser to the Independent Board Committee



Unless the context requires otherwise, capitalised terms used in this Scheme Document are defined under the section headed "Definitions" in Part I of this Scheme Document.

A letter from the Board is set out in Part IV of this Scheme Document. A letter from the Independent Board Committee, containing its advice to the Independent Shareholders in relation to the Proposal and the Scheme is set out in Part V of this Scheme Document. A letter from Somerley Capital Limited, being the Independent Financial Adviser to the Independent Board Committee, containing its advice to the Independent Board Committee in relation to the Proposal and the Scheme is set out in Part VI of this Scheme Document. An Explanatory Statement regarding the Scheme is set out in Part VII of this Scheme Document.

The actions to be taken by the Shareholders are set out in Part II of this Scheme Document.

Notices convening the Court Meeting to be held at 9:00 a.m. on Monday, 17 August 2020 and the EGM to be held at 11:00 a.m. on Monday, 17 August 2020 (or immediately after the conclusion or the adjournment of the Court Meeting) are set out in Appendix IV and Appendix V to this Scheme Document respectively. Whether or not you are able to attend the Court Meeting and/or EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at 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 later than the respective times and dates as stated under Part II – Actions to be taken of this Scheme Document. If the pink form of proxy is not so lodged, it may also be handed to the Chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it.

This Scheme Document is issued jointly by the Offeror and the Company.

The English language texts of this Scheme Document shall prevail over their respective Chinese texts for the purpose of interpretation. The Chinese texts are for reference only.

PRECAUTIONARY MEASURES FOR THE COURT MEETING AND THE EGM

Please see the notices of Court Meeting and EGM set out in Appendices IV and V to this Scheme Document for measures being taken to try to prevent and control the spread of the ongoing Novel Coronavirus (COVID-19) at the Court Meeting and the EGM, including:

- compulsory temperature checks and health declarations;
- compulsory wearing of surgical face masks; and
- no distribution of refreshments or corporate gift.

Any person who does not comply with any of the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue. The Company encourages the Shareholders to consider appointing the Chairman of the Court Meeting and/or the EGM as their proxy to vote on the relevant resolutions as an alternative to attending the Court Meeting and/or the EGM in person.

23 July 2020

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In this Scheme Document, 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;
“Announcement”	the joint announcement issued by the Company and the Offeror dated 21 June 2020 pursuant to Rule 3.5 of the Takeovers Code;
“Announcement Date”	21 June 2020, being the date of the Announcement;
“Approvals”	has the meaning ascribed to it under the section headed “4. Conditions of the Proposal and the Scheme” in the Explanatory Statement;
“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 authorised body(ies) or agency(ies) of any of the foregoing;
“Beneficial Owner”	any beneficial owner of the Shares;
“Board”	the board of Directors;
“Business Day”	a day, other than a Saturday, a Sunday or a public holiday, in Hong Kong or in the Cayman Islands;
“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;
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC;
“CCASS Participant”	person admitted to participate in CCASS as a participant;

“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 (2020 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time;
“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;
“Condition(s)”	the condition(s) to the implementation of the Proposal and the Scheme as set out in the section headed “4. Conditions of the Proposal and the Scheme” in the Explanatory Statement;
“Consents”	has the meaning ascribed to it under the section headed “4. Conditions of the Proposal and the Scheme” in the Explanatory Statement;
“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, which is to be held at Suite 3401, 34/F, Two Pacific Place, 88 Queensway Admiralty, Hong Kong at 9:00 a.m. on Monday, 17 August 2020, notice of which is set out in Appendix IV to this Scheme Document, or any adjournment thereof;
“Director(s)”	director(s) of the Company;
“Disclosure Period”	the period beginning from the date which is six months prior to the Announcement Date and ending with the Latest Practicable Date, both dates inclusive;

“Effective Date”	the date on which the Scheme, if approved at the Court Meeting and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the court order of the Grand Court sanctioning the Scheme and confirming the reduction of the issued share capital of the Company resulting from the cancellation of the Scheme Shares is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86(3) of the Companies Law, and which is expected to be Friday, 4 September 2020 (Cayman Islands time);
“EGM”	the extraordinary general meeting of the Company to be held at Suite 3401, 34/F, Two Pacific Place, 88 Queensway Admiralty, Hong Kong at 11:00 a.m. on Monday, 17 August 2020 (or immediately after the Court Meeting convened on the same day and place shall have been concluded or adjourned), notice of which is set out in Appendix V to this Scheme Document, or any adjournment thereof;
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof;
“Explanatory Statement”	the explanatory statement set out in Part VII of this Scheme Document and issued in compliance with the Rules of the Grand Court of the Cayman Islands 1995 (revised);
“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;
“HKSCC”	Hong Kong Securities Clearing Company Limited;
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC;

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Branch Share Registrar”	Union Registrars Limited, the Hong Kong branch share registrar and transfer office of the Company;
“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 the Proposal and the Scheme;
“Independent Financial Adviser”	Somerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee in relation to the Proposal and the Scheme;
“Independent Shareholder(s)”	the Shareholder(s) other than the Offeror and the Offeror Concert Parties. For the avoidance of doubt, Independent Shareholders include any member of the CLSA Group acting as a registered owner of Scheme Shares held on behalf of its non-discretionary investment clients;
“Investor Participant”	a person admitted to participate in CCASS as an investor participant;
“Last Trading Day”	17 June 2020, being the last trading day prior to the issuance of the Announcement;
“Latest Practicable Date”	20 July 2020, being the latest practicable date prior to the printing of this Scheme Document for ascertaining certain information contained herein;
“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 as the Grand Court on application of the Company and/or the Offeror may allow;

“Meeting Record Date”	Monday, 17 August 2020, or such other time and date as may be announced to the Shareholders, being the record date for the purpose of determining the entitlement of Shareholders to attend and vote at the Court Meeting and the EGM;
“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, whose registered office is located at Suite 3401, 34/F Two Pacific Place, 88 Queensway, Admiralty, Hong Kong, 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 Scheme Document, 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 withdrawal of the listing of the Shares from the Stock Exchange, on the terms and subject to the conditions set out in this Scheme Document;
“Registered Owner”	any owner of Shares (including without limitation a nominee, trustee, depositary or any other authorised custodian or third party) entered in the register of members of the Company;
“relevant securities”	has the meaning ascribed to it in the Takeovers Code;

“Scheme”	a scheme of arrangement under Section 86 of the Companies Law set out in Appendix III to this Scheme Document (subject to any modifications or additions or conditions as may be approved or imposed by the Grand Court and agreed to by the Offeror), involving the cancellation and extinguishment of all the Scheme Shares in exchange for the Cancellation Price, the reduction of the issued share capital of the Company and the increase of issued share capital of the Company to the amount prior to the cancellation and extinguishment of the Scheme Shares;
“Scheme Document”	this composite document, including each of the letters, statements, appendices and notices in it, as may be amended or supplemented from time to time;
“Scheme Record Date”	Friday, 4 September 2020, or such other time and date as may be announced to holders of Shares, being the record date for the purpose of determining the entitlements of Scheme Shareholders under the Scheme;
“Scheme Share(s)”	Share(s), other than those held by Fung Teng as at the Record Date;
“Scheme Shareholder(s)”	holder(s) of Scheme Share(s) as at the Scheme Record Date;
“SFC”	Securities and Futures Commission of Hong Kong;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“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 Code 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.

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified and other than references to the expected date of the Grand Court hearing of the petition to sanction the Scheme and to confirm the capital reduction and the Effective Date, which are the relevant date in the Cayman Islands. For reference only, Cayman Islands time is 13 hours behind Hong Kong time as at the date of this Scheme Document.

ACTIONS TO BE TAKEN BY SHAREHOLDERS

For the purpose of determining the entitlements of the Independent Shareholders to attend and vote at the Court Meeting and the entitlements of the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 12 August 2020 to Monday, 17 August 2020 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to attend and vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong Branch Share Registrar at Suites 3301-4, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong before 4:00 p.m. on Tuesday, 11 August 2020.

A **pink form** of proxy for use at the Court Meeting and a **white form** of proxy for use at the EGM are enclosed with this Scheme Document.

Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof in person, if you are an Independent Shareholder, we strongly urge you to complete and sign the enclosed **pink form** of proxy in respect of the Court Meeting, and if you are a Shareholder, we strongly urge you to complete and sign the enclosed **white form** of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong Branch Share Registrar at Suites 3301-4, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong. In order to be valid, the **pink form** of proxy for use at the Court Meeting should be lodged no later than 48 hours before the time appointed for holding the Court Meeting or any adjournment thereof, and the **white form** of proxy for use at the EGM should be lodged no later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy (or proxies) and you do not attend and vote at the Court Meeting and/or the EGM, you will still be bound by the outcome of the Court Meeting and the EGM if, among other things, the resolutions are passed by the requisite majorities of the Independent Shareholders or the holders of Shares (as the case may be). We therefore strongly urge you to attend and vote at the Court Meeting and the EGM in person or by proxy.

Voting at the Court Meeting and the EGM will be taken by poll as required under the Listing Rules and the Takeovers Code.

The Company and the Offeror will make an announcement in relation to the results of the Court Meeting and the EGM on Monday, 17 August 2020. If all the resolutions are passed at those meetings, further announcements will be made in relation to, among others, the results of the hearing of the petition to sanction the Scheme by the Grand Court and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange, in accordance with the requirements of the Listing Rules and the Takeovers Code.

ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE SHARES ARE HELD THROUGH TRUST OR DEPOSITED IN CCASS

The Company will not recognise any person as holding any Shares through any trust. If you are a Beneficial Owner whose Share(s) are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees), you should contact the Registered Owner and provide the Registered Owner with instructions and/or make arrangements with the Registered Owner in relation to the manner in which the Share(s) beneficially owned by you should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the Court Meeting and the EGM set by the Registered Owner in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner who wishes to attend the Court Meeting (as a Scheme Shareholder) and/or the EGM (as a Shareholder) personally, you should:

- (a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the EGM and, for such purpose, the Registered Owner may appoint you as its proxy; or
- (b) arrange for some or all of the Share(s) registered in the name of the Registered Owner to be transferred into your own name.

The appointment of a proxy (or proxies) by the Registered Owner at the Court Meeting and/or the EGM shall be in accordance with all relevant provisions in the articles of association of the Company.

In the case of the appointment of a proxy (or proxies) by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and no later than the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

Completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude the Registered Owner from attending and voting in person at the relevant meeting or any adjournment thereof. In the event that the Registered Owner attends and votes at the relevant meeting or any adjournment thereof after having lodged his forms of proxy, the returned form of proxy will be deemed to have been revoked.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with other CCASS Participants, regarding voting instructions to be given to such person(s) if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the EGM set by them, in order to provide such person with sufficient time to provide HKSCC Nominees with instructions or make arrangements with HKSCC Nominees in relation to the manner in which the Share(s) of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. The procedure for voting in respect of the Scheme by HKSCC Nominees with respect to the Shares registered under the name of HKSCC Nominees shall be in accordance with “An Operating Guide for Investor Participants”, the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

HKSCC Nominees may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS). However, for the purpose of calculating the “majority in number”, each such CCASS Participant who instructs HKSCC Nominees Limited to vote in favour of the Scheme shall be counted for the “majority in number” as a single Shareholder voting in favour of the Scheme, and, if applicable, each such CCASS Participant who instructs HKSCC Nominees Limited to vote against the Scheme shall be counted for the “majority in number” as a single Shareholder voting against the Scheme. HKSCC Nominees Limited itself, as opposed to instructing CCASS Participants, shall not be counted as a Shareholder for the purpose of the calculation of the “majority in number”.

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Shareholder of record, and thereby have the right to attend and vote at the Court Meeting (if you are an Independent Shareholder) and the EGM (as a Shareholder). You can become a Shareholder of record by withdrawing all or any of your Shares from CCASS and becoming a Registered Owner of such Shares. For withdrawal of Shares from CCASS and registration thereof, you will be required to pay to CCASS a withdrawal fee per board lot withdrawn, a registration fee for each share certificate issued, stamp duty on each transfer instrument and, if your Share(s) are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the Share(s) into your name so as to qualify to attend and vote at the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the Share(s) from CCASS and register them in your name.

EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE OFFEROR AND THE COMPANY STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE EGM. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAM, THE OFFEROR AND THE COMPANY URGE YOU TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, THE OFFEROR AND THE COMPANY ENCOURAGE YOU TO PROVIDE HKSCC NOMINEES WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC NOMINEES IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND THE EGM WITHOUT DELAY AND/OR WITHDRAWN FROM CCASS AND TRANSFERRED INTO YOUR NAME (AS DETAILED IN THE SECTION HEADED "ACTIONS TO BE TAKEN – ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE SHARES ARE HELD THROUGH TRUST OR DEPOSITED IN CCASS" ABOVE).

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNER(S), WE SHOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNER(S) ABOUT THE IMPORTANCE OF EXERCISING THEIR RIGHT TO VOTE.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER OR REGISTERED INSTITUTION IN SECURITIES, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISERS.

The expected timetable set out below is indicative only and may be subject to changes. Any changes to the timetable will be jointly announced by the Offeror and the Company by way of announcement(s) as and when necessary.

Hong Kong Time

(unless otherwise stated)

Date of despatch of this Scheme Document Thursday, 23 July 2020

Latest time for lodging transfers of Shares in
order to qualify for attending and voting at the
Court Meeting and the EGM 4:00 p.m. Tuesday, 11 August 2020

Register of members of the Company closed
for determination of entitlements of Scheme
Shareholders to attend and vote at the Court
Meeting and of Shareholders to attend and vote
at the EGM ^(Note 1) Wednesday, 12 August 2020 to
Monday, 17 August 2020
(both dates inclusive)

Latest time for lodging the **pink** forms of proxy
in respect of the Court Meeting ^(Note 2) 9:00 a.m., Saturday, 15 August 2020

Latest time for lodging the **white** forms of proxy
in respect of the EGM ^(Note 2) 11:00 a.m., Saturday, 15 August 2020

Meeting Record Date Monday, 17 August 2020

Court Meeting ^(Note 3) 9:00 a.m., Monday, 17 August 2020

EGM ^(Note 3) 11:00 a.m., Monday, 17 August 2020

Announcement of results of the Court Meeting
and the EGM Monday, 17 August 2020

Expected last day for dealing in the Shares on
the Stock Exchange Friday, 21 August 2020

Latest time for lodging transfers of Shares in
order to qualify for entitlements under
the Scheme 4:00 p.m., Wednesday, 26 August 2020

Register of members of the Company closed
for determining entitlements to qualify
under the Scheme ^(Note 4) from Thursday, 27 August 2020 onwards

Grand Court hearing of the petition to sanction
the Scheme and to confirm the capital reduction Thursday, 3 September 2020
(Cayman Islands time)

Announcement of the result of the Grand Court hearing to sanction the Scheme and to confirm the capital reduction	Friday, 4 September 2020
Scheme Record Date	Friday, 4 September 2020
Effective Date ^(Note 5)	Friday, 4 September 2020 (Cayman Islands time)
Announcement of the Effective Date and the withdrawal of the listing of the Shares on the Stock Exchange	Monday, 7 September 2020
Expected withdrawal of the listing of Shares on the Stock Exchange becomes effective ^(Note 6)	4:00 p.m. Monday, 7 September 2020
Latest time to despatch cheques for cash payment under the Scheme	Tuesday, 15 September 2020

Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

Notes:

- (1) The register of members of the Company will be closed during such period for the purpose of determining the entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the EGM. This book closure period is not for determining entitlements under the Scheme.
- (2) Forms of proxy should be lodged with the office of Hong Kong Branch Share Registrar, 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 no later than the times and dates stated above. In order to be valid, the **pink form** of proxy for the Court Meeting and the **white form** of proxy for the EGM must be lodged no later than the latest times and dates stated above. If the **pink form** of proxy is not so lodged, it may also be handed to the chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it. Completion and return of a form of proxy for the Court Meeting or the EGM will not preclude a Scheme Shareholder and Shareholder, respectively, from attending the relevant meeting and voting in person. In such event, the form of proxy will be deemed to have been revoked.
- (3) The Court Meeting and the EGM will be held at Suite 3401, 34/F, Two Pacific Place, 88 Queensway Admiralty, Hong Kong at the times and dates specified above. Please see the notice of Court Meeting set out in Appendix IV to this Scheme Document and the notice of EGM set out in Appendix V to this Scheme Document for details.
- (4) The register of members of the Company will be closed during such period for the purpose of determining Scheme Shareholders who are qualified for entitlements under the Scheme.
- (5) The Scheme will only become effective on this date if all the Conditions set out in the paragraph headed "4. Conditions of the Proposal and the Scheme" in the Explanatory Statement have been fulfilled or waived (as applicable).
- (6) If the Proposal becomes unconditional and the Scheme becomes effective, it is expected that the listing of the Shares on the Stock Exchange will be withdrawn after trading hours on this date.



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
Mr. Dang Zidong
Mr. Liu Yuanguan
Mr. Gao Jianjun

Registered office:

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

Non-executive Directors:

Mr. Cheng Hoo
Mr. Chung Kin Shun, Jimmy

Principal Place of Business in Hong Kong:

Suite 3401, 34/F
Two Pacific Place
88 Queensway Admiralty
Hong Kong

Independent Non-executive Directors:

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

Company Secretary:

Ms. Jiao Yingchen

23 July 2020

To the Shareholders

Dear Sir/Madam,

**(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)
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
CHINA BAOFENG (INTERNATIONAL) LIMITED**

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.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal and the expected timetable and to give you notice of the Court Meeting and the EGM (together with proxy forms in relation thereto). Your attention is also drawn to the letter from the Independent Board Committee set out in Part V of this Scheme Document, the letter from the Independent Financial Adviser set out in Part VI of this Scheme Document, the Explanatory Statement set out in Part VII of this Scheme Document and the terms of the Scheme set out in Appendix III to this Scheme Document.

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.

Cancellation Price

The Cancellation Price represents:

- a premium of approximately 7.9% over the closing price of HK\$2.41 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- 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, the financial information of the Group including the net assets value of the Group as at 31 December 2019 and with reference to other privatisation transactions in Hong Kong in recent years.

Dividends

The Company's ability to pay dividends is provided by its memorandum and articles of association and Cayman Islands law, which allows the Company to declare and pay dividends out of profits or, subject to being able to pay its debts as they fall due in the ordinary course of business and to approval by way of an ordinary resolution of Shareholders, its share premium account. Shareholders whose names appear on the register of members of the Company as at the record date for entitlement to dividend, if any, declared by the Company on or before the Effective Date will be entitled to receive such dividend (if any). The Company confirms that as at the Latest Practicable Date, (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 Latest Practicable Date, 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.

REASONS FOR, AND BENEFITS OF THE SCHEME AND THE PROPOSAL, AND THE OFFEROR'S INTENTION IN RELATION TO THE GROUP

You are urged to read carefully the section headed "10. Reasons for and Benefits of the Scheme and the Proposal" and the section headed "13. Intentions of the Offeror" in the Explanatory Statement in Part VII of this Scheme Document.

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 EGM.

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 full text of the letter from the Independent Board Committee in relation to recommendations with respect to the Proposal and the Scheme is set out in Part V of this Scheme Document.

INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE

Somerley Capital Limited has been appointed as the independent financial adviser (with the approval of the Independent Board Committee) to advise the Independent Board Committee in connection with the Proposal and the Scheme.

The full text of the letter from the Independent Financial Adviser is set out in Part VI of this Scheme Document.

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.

As at Latest Practicable Date, the Company was solvent and was not unable to pay its debts as they fall due and would not become unable to do so immediately after the Latest Practicable Date.

INFORMATION ON THE OFFEROR

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 (the controlling shareholder of the Company) 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 holding approximately 68.71% shareholding interest in 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 does not intend to retain its listing on the Stock Exchange and will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange conditional upon the Scheme becoming effective in accordance with Rule 6.15(2) of the Listing Rules. 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 expected timetable of the Scheme has been included in Part III of this Scheme Document.

IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The Scheme will lapse if any of the Condition has not been fulfilled or waived, as applicable, on or before the Long Stop Date. 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.

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 dealer or registered institution in securities, bank manager, solicitor or other professional advisers.

COURT MEETING AND EGM

Court Meeting

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications).

Scheme Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting. At the Court Meeting, Scheme Shareholders, present and voting either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative or by proxy, will be entitled to vote their Scheme Shares in favour of the Scheme or against it.

The Scheme is conditional upon, amongst other things, approval by a majority in number of the Scheme Shareholders representing 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative or by proxy at the Court Meeting. In addition, the Scheme must be approved (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, in the case of such Shareholders as are corporations, by their respective duly authorised representative 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 all the Independent Shareholders. For details of the Conditions, please refer to paragraph headed "4. Conditions of the Proposal and the Scheme" in the Explanatory Statement in Part VII of this Scheme Document.

In accordance with the Companies Law, the "75% in value" requirement, as described above, will be met if the total value of Scheme Shares being voted by the Scheme Shareholders present and voting either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative or by proxy in favour of the Scheme is at least 75% of the total value of the Scheme Shares voted by the Scheme Shareholders present and voting either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative or by proxy at the Court Meeting. In accordance with the Companies Law, the "majority in number" requirement, as described above, will be met if the number of Scheme Shareholders present and voting either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative or by proxy at the Court Meeting voting in favour of the Scheme exceeds the number of Scheme Shareholders present and voting either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative or by proxy at the Court Meeting voting against the Scheme. For the purpose of the Takeovers Code, only the number of Scheme Shares from Independent

Shareholders being so voted will count towards the “75% in value” requirement as Shareholders who are not Independent Shareholders (except in respect of Shares held on behalf of non-discretionary investment clients of the CLSA Group) will be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code.

Notice of the Court Meeting is set out in Appendix IV to this Scheme Document. The Court Meeting will be held at 9:00 a.m. (Hong Kong time) on Monday, 17 August 2020 at Suite 3401, 34/F, Two Pacific Place, 88 Queensway Admiralty, Hong Kong.

EGM

The EGM will be held at 11:00 a.m. (Hong Kong time) (or immediately following the adjournment or conclusion of the Court Meeting).

All Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, at the EGM with respect to (i) the special resolution by Shareholders to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; and (ii) the ordinary resolution by Shareholders to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and to apply the credit arising in the Company’s books of accounts 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.

The special resolution described under (i) in the paragraph above will be passed if 75% of the votes cast by such Shareholders as being entitled to do so, vote in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative, or by proxy, at the EGM are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if at least a simple majority of the votes cast in favour of the ordinary resolution by the Shareholders as being entitled to do so, vote either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative, or by proxy, at the EGM.

At the EGM, a poll will be taken and each Shareholder present and voting, either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative or by proxy, will be entitled to vote all of his/her/its Shares in favour of (or against) the special resolution and/or the ordinary resolution. Alternatively, such Shareholder may vote some of their Shares in favour of the special resolution and/or the ordinary resolutions and any or all of the balance of their Shares against the special resolution and/or the ordinary resolution (and vice versa).

Fung Teng and Mr. Dang ZD have undertaken that if the Scheme is approved at the Court Meeting, they will cast the votes in respect of those Shares held by them in favour of the resolutions to be proposed at the EGM.

Notice of the EGM is set out in Appendix V to this Scheme Document. The EGM will be held at 11:00 a.m. (Hong Kong time) (or so soon thereafter as the Court Meeting convened for the same day and place shall have been concluded or adjourned) on 17 August 2020 at Suite 3401, 34/F, Two Pacific Place, 88 Queensway Admiralty, Hong Kong.

Assuming that the Conditions are fulfilled or waived (as applicable), it is expected that the Scheme will become effective on or before Friday, 4 September 2020 (Cayman Islands time). Further announcements will be made giving details of the results of the Court Meeting and EGM and, if all the resolutions are passed at those meetings, the results of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Scheme Record Date, the Effective Date, and the date of withdrawal of the listing of Shares on the Stock Exchange.

Your attention is drawn to “19. Court Meeting and EGM” in the Explanatory Statement in Part VII of this Scheme Document.

OVERSEAS SHAREHOLDERS

Your attention is drawn to the section headed “16. Overseas Shareholders” in the Explanatory Statement in Part VII of this Scheme Document.

ACTIONS TO BE TAKEN

Your attention is drawn to “Actions to be taken” in Part II of this Scheme Document and the section headed “22. Summary of actions to be taken” in the Explanatory Statement in Part VII of this Scheme Document.

RECOMMENDATION

Two of the Directors, namely Mr. Dang YB and Mr. Dang ZD are Offeror Concert Parties, and thus they had abstained from voting on the relevant resolutions at the relevant Board meeting. While the remaining 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, it is recommended that the Independent Shareholders should carefully consider the views and recommendations of the Independent Board Committee, whose views and recommendations are set out in the letter from the Independent Board Committee in Part V of this Scheme Document.

REGISTRATION AND PAYMENT

Your attention is drawn to the section headed “17. Registration and Payment” in the Explanatory Statement in Part VII of this Scheme Document.

TAXATION AND INDEPENDENT ADVICE

Your attention is drawn to the section headed “18. Taxation” in the Explanatory Statement in Part VII of this Scheme Document.

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.

FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from the Independent Financial Adviser, as set out in Parts V and VI of this Scheme Document, respectively, the Explanatory Statement as set out in Part VII of this Scheme Document, the Appendices to this Scheme Document, the Scheme as set out in Appendix III to this Scheme Document, the notice of Court Meeting as set out in Appendix IV to this Scheme Document and the notice of EGM as set out in Appendix V to this Scheme Document. In addition, a **pink form** of proxy for the Court Meeting and a **white form** of proxy for the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of Shares.

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

**China Baofeng (International) Limited****中國寶豐(國際)有限公司***(incorporated in the Cayman Islands with limited liability)***(Stock Code: 3966)***Members of Independent Board Committee:*

Mr. Cheng Hoo
Mr. Chung Kin Shun, Jimmy
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

23 July 2020

To the Independent Shareholders

Dear Sir or Madam,

**(1) PROPOSAL FOR THE 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)
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
CHINA BAOFENG (INTERNATIONAL) LIMITED**

We refer to the scheme document dated 23 July 2020 jointly issued by the Offeror and the Company in relation to the Proposal (the “**Scheme Document**”) of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings as used in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to make a recommendation to the Independent Shareholders in respect of the Scheme, details of which are set out in Parts IV and VII of the Scheme Document.

Somerley Capital Limited, the Independent Financial Adviser, has been appointed with our approval, to advise us in connection with the Scheme. The details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in Part VI of the Scheme Document.

The letter from the Independent Financial Adviser states that it considers the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned, and advises the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve and implement the Proposal.

We, the Independent Board Committee, having considered the terms of the Proposal and having taken into account the opinion of the Independent Financial Adviser, and in particular the factors, reasons and recommendations as set out in its letter in Part VI of the Scheme Document, considers that, as far as the Independent Shareholders are concerned, the terms of the Proposal are fair and reasonable.

Accordingly, we recommend:

- (a) at the Court Meeting, the Independent Shareholders to vote in favour of the resolutions to approve the Scheme; and
- (b) at the EGM, the Shareholders to vote in favour of (i) the special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares, (ii) the ordinary resolution 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 to apply the credit arising in the Company's books of accounts 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.

We wish to draw the attention of the Independent Shareholders to (i) the letter from the Board as set out in Part IV of the Scheme Document; (ii) the letter from the Independent Financial Adviser, which sets out the factors and reasons taken into account in arriving at its recommendation to the Independent Board Committee, as set out in Part VI of the Scheme Document; and (iii) the Explanatory Statement as set out in Part VII of the Scheme Document.

Yours faithfully,

The Independent Board Committee

Cheng Hoo
Non-executive Director

Chung Kin Shun, Jimmy
Non-executive Director

Xia Zuoquan
Independent non-executive Director

Tyen Kan Hee, Anthony
Independent non-executive Director

Guo Xuewen
Independent non-executive Director

Set out below is the letter of advice from the Independent Financial Adviser, Somerley Capital Limited, to the Independent Board Committee, which has been prepared for the purpose of inclusion in this Scheme Document.



SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

23 July 2020

To: the Independent Board Committee

Dear Sirs,

**(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); AND
(2) PROPOSED WITHDRAWAL OF LISTING OF CHINA BAOFENG
(INTERNATIONAL) LIMITED**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Proposal and the Scheme. Details of the Proposal and the Scheme are set out in the Scheme Document dated 23 July 2020, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On 17 June 2020 (after trading hours), the Offeror requested the Board to put forward the 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 of the Cancellation Price to the Scheme Shareholders 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, 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. Upon the Scheme becoming effective, it is anticipated that the listing of the Shares on the Stock Exchange will be withdrawn.

The Independent Board Committee comprising all non-executive Directors, namely Mr. Cheng Hoo and Mr. Chung Kin Shun, Jimmy, and all independent non-executive Directors, namely Mr. Xia Zuoquan, Dr. Tyen Kan Hee, Anthony and Mr. Guo Xuewen, has been established to advise 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. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee in these regards.

We are not associated with the Company, the Offeror or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Proposal and the Scheme. During the past two years, there have been no engagements between the Group and Somerley Capital Limited. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Scheme Document; (ii) the annual reports of the Company for the three years ended 31 December 2017, 2018 and 2019; and (iii) the material change statement set out in Appendix I to the Scheme Document, together with the future prospects of the Group, which we have discussed with the management of the Group (the “**Management**”).

We have relied on the information and facts supplied by the Company and the opinions expressed by the Management and the Directors, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have further assumed that all representations contained or referred to in the Scheme Document were true at the time they were made and at the date of the Scheme Document. Shareholders will be informed by the Offeror and the Company as soon as reasonably possible if there is any material change to such representations after the date of the Scheme Document until the date of the Court Meeting and the EGM. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Offeror or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them; nor have we carried out any independent verification of the information supplied.

We have not considered the tax and regulatory implications on the Independent Shareholders in connection with the Proposal and the Scheme since these are particular to their individual circumstances. In particular, Independent Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on security dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE PROPOSAL

Set out below is a summary of the terms of the Proposal and the Scheme which are set out in detail in the “Letter from the Board”, the “Explanatory Statement” and Appendix III contained in the Scheme Document. Independent Shareholders are encouraged to read the Scheme Document and the appendices in full.

1. Cancellation Price of HK\$2.60 per Scheme Share

Under the Scheme, the Scheme Shares (being all the Shares other than those held by Fung Teng at the Record Date) will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive the Cancellation Price, being HK\$2.60 in cash for each Scheme Share cancelled.

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

As stated in the “Letter from the Board” contained in the Scheme Document, the Cancellation Price has been determined on a commercial basis after taking into account the prices of the Shares traded on the Stock Exchange, the financial information of the Group including the net assets value (“NAV”) of the Group as at 31 December 2019 and with reference to other privatisation transactions in Hong Kong in recent years.

2. Conditions of the Proposal

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 a number of Conditions as set out in the “Explanatory Statement” contained in the Scheme Document, including, among other things, the following principal Conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative or by proxy at the Court Meeting;
- (b) the approval of the Scheme (by way of poll) by the Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the 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 the Independent Shareholders present and voting either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative or by proxy at the Court Meeting voting 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 75% of the votes cast by the Shareholders present and voting in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative or by proxy at the EGM to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares, and (ii) after the above reduction of issued share capital, the passing of an ordinary resolution by the Shareholders at the EGM 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 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; and
- (d) the Grand Court's sanction of the Scheme (with or without modifications) and its confirmation of the reduction of the issued 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.

The Conditions stated above cannot be waived in any event while certain of the other Conditions can be waived by the Offeror either in whole or in part. The Company has no right to waive any of the Conditions. 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 Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (being 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), failing which the Proposal and the Scheme will lapse. As at the Latest Practicable Date, none of the Conditions has been fulfilled or waived.

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange conditional upon the Scheme becoming effective. A detailed timetable of the Proposal is included in the Scheme Document. It is presently expected that the Scheme will become effective on 4 September 2020 (Cayman Islands time), and the withdrawal of listing of the Shares will happen on 7 September 2020.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations with regard to the Proposal and the Scheme, we have taken into account the following principal factors and reasons:

1. Information and prospects of the Group

(i) *Information on the background of the Group*

The Company, incorporated in the Cayman Islands, was listed on the Main Board of the Stock Exchange on 20 July 2012. The Group is principally engaged in the operation of photovoltaic power generation projects (the “**Photovoltaic Power Generation Business**”) and sales of lighting products, shades for the lamps, furniture sets and other home accessory products (the “**Lighting Products Business**”).

(ii) *Financial information of the Group*

Details of the financial information of the Group are set out in Appendix I to the Scheme Document. We have reviewed such financial information and other financial reports of the Company and discussed with the Management the financial information of the Group. Details of the Group’s historical financial information are set out below.

(a) Financial performance

The following is a summary of the financial results of the Group for the three years ended 31 December 2017, 2018 and 2019 (extracted from the Company's 2018 and 2019 annual reports respectively).

	For the year ended 31 December				
	2019 (RMB'000) (Audited)	2018 (RMB'000) (Audited and restated) (Note 1)			2017 (RMB'000) (Audited and restated) (Note 1)
Revenue	885,407	918,514			829,515
Profit for the year	296,871	441,964			387,816
	2019 (RMB'000) (Audited)	2018 (RMB'000) (Audited and restated) (Note 1)	2018 HK\$'000 (before restatement) (Note 1)	2017 HK\$'000 (before restatement) (Note 1)	
Segment revenue:					
- Photovoltaic Power Generation Business	531,387	549,138	661,612	534,628	
- Lighting Products Business	354,020	369,376	445,031	421,695	
Segment profit/(loss) (note 2):					
- Photovoltaic Power Generation Business	353,240	464,225	559,308	465,454	
- Lighting Products Business	(1,050)	6,095	7,343	24,078	
Earnings per share	RMB0.4472	RMB0.7232	HK\$0.8713	HK\$0.7876	

Notes:

- Financial figures for 2018 are restated from HK\$ to RMB due to the change in functional and presentation currency of the Group in 2019. Segment revenue and profits and earnings per share for 2017 are stated in HK\$ as extracted from the 2018 annual report. For illustrative purpose, segment revenue and profits and earnings per share for 2018 stated in both RMB and HK\$ are set out in the table above.
- Figures represent the operating profits from each segment before deduction of unallocated income and expenses.

(1) Revenue

Revenue from the Photovoltaic Power Generation Business represents income from sales of electricity and tariff adjustment and revenue is recognised at a point in time when electricity is generated and transferred to customer. As stated in the 2019 annual report of the Company, revenue included tariff adjustment of approximately RMB386.7 million from the state grid company in the PRC based on the prevailing nationwide government policies on renewable energy for solar power plants.

Revenue from the Photovoltaic Power Generation Business in 2019 decreased by approximately 3.2% from 2018, mainly due to the decrease in number of sunny days during the year, affecting the output of electricity, and therefore both sales of electricity and tariff adjustment have decreased in 2019. As stated in the 2019 annual report of the Company, the Group has generated an aggregate of approximately 720.5 million kilowatt-hour (“kWh”) power in 2019, representing a decrease of approximately 5.7% from previous year.

As set out in the table above, revenue from the Photovoltaic Power Generation Business in 2018 increased by approximately 23.8%, mainly due to the addition of output capacity as a result of the development of infrastructure since December 2017 and its completion in 2018. The Group generated an aggregate of approximately 763.8 million kWh power in 2018, representing an increase of approximately 18% from 2017.

Revenue from the Lighting Products Business in 2019 dropped by approximately 4.2% as compared to 2018, mainly attributable to the additional tariff imposed by the United States and the fierce competition in the market. It is noted that there was an increase in revenue from the Lighting Products Business in 2018 as compared to 2017, largely due to the increased demand of lighting products in view of the expected increase of United States tariff to 25% in 2019.

(2) Net profit for the year

As set out above, net profit of the Company increased in 2018 but decreased in 2019. We understand from the Management that increase in profit for 2018 is mainly attributable to the revenue and gross profit increment during the year, in particular, the improvement in the performance of the Photovoltaic Power Generation Business which contributes to majority of net profit of the Group. The drop in net profit in 2019 was largely due to (i) a lower level of gross profit recorded during the year as affected by the revenue level; (ii) an increase in finance costs and handling charges as a result of the acquisition of a 350-megawatt photovoltaic power generation equipment and the ancillary facilities through the finance lease arrangement in May 2019; and (iii) increase in income tax expenses due to the expiry of a tax holiday of 3-year full exemption that was enjoyed by a subsidiary of the Company.

Overall, the increase in both revenue and net profit of the Group has stopped in recent financial year and business expansion has slowed down over the review period due to the unfavourable government policies in respect of the photovoltaic industry, which will be further discussed in the sub-section headed “(iii) Prospects of the Group” below. For the Lighting Products Business, revenue dropped in latest financial year and profit has been declining over the years as keen competition within the industry remains, with a segment loss recorded in 2019. During the past three financial years, the Group’s profits were mainly contributed by the Photovoltaic Power Generation Business which contributed to all the segment profits of the Group for the year ended 31 December 2019 (the Lighting Products Business recorded a segment loss), and approximately 98.7% and 95.1% of the total segment profits of the Group for the year ended 31 December 2018 and 2017 respectively.

(3) Earnings per share

Earnings per share for the years ended 31 December 2017, 2018 and 2019 were approximately HK\$0.7876 (equivalent to approximately RMB0.6831, calculated based on the restated profit for 2017 as stated in 2019 annual report of the Company and 567,696,000 Shares in issue as at 31 December 2017), RMB0.7232 and RMB0.4472 respectively. Movement in earnings per share of the Group is generally in line with the changes in the Group’s profit.

(4) Dividends

The Company did not declare any dividends from 2015 to 2018. An interim dividend of HK\$0.20 per Share was declared in 2019 with no final dividend declared. As set out in the section headed “Dividends” in the “Letter from the Board” contained in the Scheme Document, as at the Latest Practicable Date, the Company confirms that it does not have any intention to make, declare or pay any future dividend or make other distributions. Considering also the dividend payment history of the Company in the past five years and the intention of the Company not to make any future dividend or distributions, the Proposal provides an option for the Independent Shareholders to re-invest the proceeds from the Cancellation Price in income generating securities. Further analysis on the Cancellation Price are set out in other sections in this letter including the sections headed “4. Analysis of price performance and trading liquidity of the Shares”, “5. Peer company analysis” and “6. Privatisation precedents” of this letter below.

(b) Financial position

Set out below is a summary of the financial position of the Group as at 31 December 2017, 2018 and 2019 (as extracted from the Company’s 2018 and 2019 annual reports).

	As at 31 December			
	2019 RMB'000 <i>(Audited)</i>	2018 RMB'000 <i>(Audited and restated)</i> <i>(Note)</i>	2018 HK\$'000 <i>(Audited and before restatement)</i> <i>(Note)</i>	2017 HK\$'000 <i>(Audited and before restatement)</i> <i>(Note)</i>
Non-current assets	2,314,656	285,344	324,255	301,883
Current assets	<u>2,016,301</u>	<u>1,312,886</u>	<u>1,491,916</u>	<u>1,165,899</u>
Total assets	<u>4,330,957</u>	<u>1,598,230</u>	<u>1,816,171</u>	<u>1,467,782</u>
Current liabilities	136,532	137,912	156,718	496,004
Non-current liabilities	<u>2,555,179</u>	<u>204</u>	<u>232</u>	<u>50</u>
Total liabilities	<u>2,691,711</u>	<u>138,116</u>	<u>156,950</u>	<u>496,054</u>
Net current assets	1,879,769	1,174,974	1,335,198	669,895
Total equity	<u><u>1,639,246</u></u>	<u><u>1,460,114</u></u>	<u><u>1,659,221</u></u>	<u><u>971,728</u></u>

Note: Financial figures for 2018 are restated from HK\$ to RMB due to the change in functional and presentation currency of the Group in 2019. Financial figures for 2017 are extracted from the Company's 2018 annual report and stated in HK\$. For illustrative purpose, figures for 2018 stated in both RMB and HK\$ are set out in the table above.

As set out above, total equity of the Company increased over the years, mainly due to the profits generated during the relevant year in each of 2017, 2018 and 2019, reduced by declaration and payment of 2019 interim dividends.

As at 31 December 2019, total assets of the Group amounted to approximately RMB4.3 billion. Main assets of the Group include property, plant and equipment of approximately RMB2.3 billion (representing mainly the solar power plant owned by the Group), contract assets of approximately RMB1.5 billion, trade and other receivables of approximately RMB348.6 million and bank balances and cash of approximately RMB183.8 million. As at 31 December 2019, key liabilities of the Group include other borrowing (representing borrowing through finance lease arrangement in connection with acquisition of the 350-megawatt photovoltaic power generation equipment in 2019) of approximately RMB1.7 billion, amount due to a photovoltaic facilities provider of approximately RMB908.1 million and trade and other payables of approximately RMB77.6 million. We understand from the Management that majority of the assets (including, among other things, property, plant and equipment and contract assets) and liabilities (including, among other things, other borrowing and amount due to a photovoltaic facilities provider) of the Group were related to the Photovoltaic Power Generation Business. It is noted that there was a significant increase in the net assets from 2017 to 2018, as advised by the Management, it is mainly attributable to net profit for the year and the funding raising of approximately HK\$249.0 million through placing of shares under specific mandate in 2018. The significant increase in total assets and total liabilities from 2018 to 2019 is mainly due to the acquisition of the 350-megawatt photovoltaic power generation equipment in 2019.

Financial position of the Group is generally healthy with substantial net assets values over the past few years. The NAV per Share as at 31 December 2019 was approximately RMB2.47 (equivalent to approximately HK\$2.75 per Share), calculated based on the NAV of the Group of approximately RMB1.6 billion and 663,846,000 Shares in issue as at 31 December 2019. The Cancellation Consideration of HK\$2.60 per Scheme Share represents a discount of approximately 5.5% to the NAV per Share of the Company as at 31 December 2019.

(iii) Prospects of the Group

As stated in the 2019 annual report of the Company and advised by the Management, the Management is of the view that the photovoltaic industry in the PRC has currently reached the climax in terms of output capacity and installed capacity. We have reviewed information regarding the newly installed capacity of photovoltaic power generation in the PRC and noted that there has been a decrease on the newly installed capacity of photovoltaic power generation from 2017 to 2019, further details of which are set out in the paragraph below. As mentioned in the sub-section headed “(ii) Financial information of the Group” of this letter above, the development of new photovoltaic projects for the photovoltaic business is affected by the introduction of PRC government policies for the respective sector. Since 2018, the PRC government authorities have put forward several documents and notices (details as set out in the paragraphs below) to regulate the development of the industry.

It is noted in the 2019 annual report of the Company that there was notice in relation to photovoltaic power generation in 2018 jointly issued by the National Development and Reform Commission of the PRC, the Ministry of Finance of the PRC and the National Energy Administration of the PRC, aiming to prevent the disorganised industry development. Based on the statistics released by the National Energy Administration of the PRC, the newly installed capacity of photovoltaic power generation in the PRC decreased from approximately 53.06 million in 2017 to approximately 44.26 million in 2018. In 2019, policy has been published in relation to photovoltaic power generation (國家能源局關於2019年風電、光伏發電項目建設有關事項的通知 – 國能發新能[2019]49號), stating that there would be stringent regulations on state-subsidised projects to encourage industrial competitiveness. Under the new policy, projects would be competed for allocation of tariff. The policy introduced in 2019 also aims to lower the generation cost and electricity subsidy through price competition among market players. In other words, the difficulty in obtaining the subsidies has increased. According to the statistics released by the National Energy Administration of the PRC, the newly installed capacity of photovoltaic power generation in the PRC in 2019 decreased by approximately 31.6% as compared to 2018, possibly due to the change in policy on the subsidy of photovoltaic power generation in 2019, leading to expected lower rate of return for developing the capacity.

In 2020, administrative measures were published, indicating that any renewable energy generation projects which require subsidy are subject to requirement of competent authority of national energy and shall be included in the list of subsidised projects upon approval by power grid enterprises. Furthermore, several opinions on promoting the healthy development of non-hydro renewable energy power generation were issued by the PRC government authorities, which set out additional measures on providing the subsidies to renewable energy projects, imposing more stringent requirements on projects which are qualified for subsidies. As advised by the Management and as stated in the 2019 annual report of the Company, the photovoltaic project of the Group is not expected to be affected by the new policies in 2020, however, the project is still pending approval from the State Grid Corporation of China and the Group would receive subsidy in accordance with the new policies and measures once approval is obtained.

We discussed with the Management and noted that there are different policies (as set out above) introduced by the PRC government in the past two years setting out new requirements on the operations of photovoltaic power generation business, especially relating to the development of new photovoltaic power generation plants. These policies have been affecting all the industry players in the photovoltaic power generation sector. As such, the Management expects that there would be keener market competition within the photovoltaic power generation industry in the future, which may affect the future development of the Group.

According to the 2019 annual report of the Company, in order to cope with the less favourable policies issued by the PRC government in relation to the photovoltaic power generation industry, the Group will continue to enhance its internal controls to ensure relevant rules and regulations are complied. To reduce commercial risks and uncertainties of operations of the Group, the Group has purchased the set of photovoltaic power generation equipment in 2019 through finance lease arrangement. This is to ensure sustainable and stable operation of the Photovoltaic Power Generation Business in the long run.

For the Lighting Products Business, with United States as the major market for the Group's sales, the future development of such segment may continue to be adversely affected by the additional tariffs imposed by the United States due to uncertainty arising from the trade war between the United States and the PRC and intensified market competition.

Overall, the Management is of the view, and we concur, that the unstable policy environment in the PRC in respect of the photovoltaic power generation industry will continue to affect the Photovoltaic Power Generation Business, in particular, the increasing difficulty in obtaining subsidies for relevant projects, while the intensified relationship between the United States and the PRC causes uncertainties on the development of the Lighting Products Business. As advised by the Management, the Group will keep abreast of the industry trends and pay close attention to the legal and investment risks arising from new policies and undergo strategic transformation when necessary. The Group would also deploy its resources of the Lighting Products Business and shift the focus to other segments of the Group if the operating environment is becoming more competitive. The business outlook of the Group is dependent on overall market conditions and its ability to adapt to market changes in the respective sectors, and the overall operating environment of the Group is considered to be mixed and challenging and there remains uncertainty on the growth prospects of the Group in the short to medium term as reflected by the latest performance of the Group.

2. Background to and reasons for the Proposal

As set out in the section headed “10. Reasons for and benefits of the Scheme and the Proposal” in the “Explanatory Statement” contained in the Scheme Document, the Group has faced a challenging operating macro-economic environment for its two principal businesses. The Group’s photovoltaic power generation business, which is its major principal business, is operated in Yinchuan City, Ningxia Hui Autonomous Region, the PRC. The photovoltaic power generation industry is heavily regulated by the PRC government and the Group’s financial performance is dependent on the subsidy from Ministry of Finance of the PRC. These pose uncertainty on both the net profit and cash flow generating capabilities of the Company. At the same time, the Group has faced fierce market competition for its lighting products, especially in the United States portable lighting products market. With the trade war between the United States and the PRC commenced since 2018, the global trading environment becomes unfavourable to the Company. Further details of our analysis on the Group’s financial performance and prospects are set out in the section headed “1. Information and prospects of the Group” of this letter above.

In addition, the closing price of the Shares has dropped substantially over the past five years from the five-year high of HK\$6.2 on 15 December 2016 to HK\$2.04 on the Last Trading Day, which, together with the lack of market participants have affected the Company to raise equity financing through the listing platform. The liquidity of the Shares has been at a low level over a long period of time, which make it difficult for the Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also to dispose of a larger number of Shares when any event that has an adverse impact on the Company’s Share price occurs. Given the above, 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. The Proposal provides an opportunity for the Scheme Shareholders to immediately realise their investments at the Cancellation Price which represents a premium to the price at which the market had valued the Company. Further details on the comparison of the Cancellation Price and trading liquidity of the Shares are set out in the section headed “4. Analysis of price performance and trading liquidity of the Shares” of this letter below.

3. Information on the Offeror and its intention regarding the Company

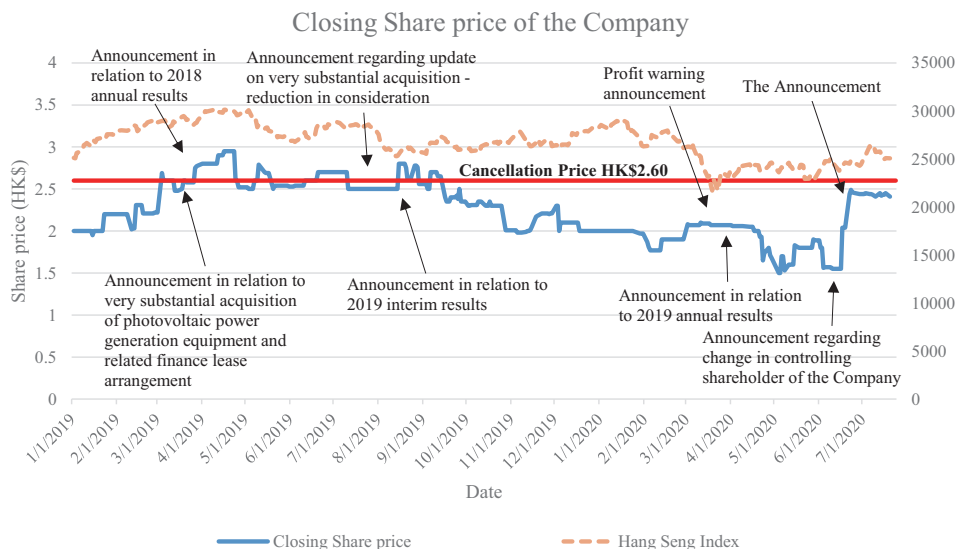
The Offeror is a limited liability company incorporated in Hong Kong and is held by Mr. Dang YB (the Chairman of the Company and an executive Director) and Fung Teng as to 51.22% and 48.78%, respectively. Mr. Dang ZW is a son of Mr. Dang YB and is the sole shareholder of Fung Teng, which is the controlling shareholder of the Company and is principally engaged in the business of investment holding. Mr. Dang ZD is the Chief Executive Officer of the Company, an executive Director, a director of the Offeror and a nephew of Mr. Dang YB. Fung Teng, Mr. Dang YB, Mr. Dang ZW and Mr. Dang ZD are parties acting in concert with the Offeror. Under the Scheme, Shares held by Mr. Dang ZD will form part of the Scheme Shares.

If the Proposal and the Scheme are successfully implemented, the Offeror intends that the Company will continue to carry on its existing business. Under current market conditions, the Offeror has no plans to effect any redundancies in respect of the employees of the Group (other than in the ordinary course of business). The Offeror and the Company have no intention to make any changes to the existing operation and business of the Group nor do they have any plans to redeploy any of the fixed assets of the Group after completion of the Scheme and the Proposal. However, the Offeror and the Company will continue to assess business opportunities for the Group as they arise.

4. Analysis of price performance and trading liquidity of the Shares

(i) Historical price performance of the Shares

In assessing the recent Share price performance, we consider a review period commencing from 1 January 2019 to the Latest Practicable Date would be useful for the Independent Shareholders in considering the Proposal and the Scheme. The Share price chart below illustrates the daily per Share closing prices from 1 January 2019 up to and including the Latest Practicable Date (the “Review Period”), and the comparison of the Share price performance with Hang Seng Index and the Cancellation Price.



Source: Bloomberg

During the Review Period (up to the Announcement Date), the Share price closed in a range of HK\$1.5 to HK\$2.95 per Share, with an average of approximately HK\$2.24 per Share. Approximately 80% of the trading days during the Review Period (up to the Announcement Date) saw a closing Share price below the Cancellation Price of HK\$2.60 per Scheme Share.

From January 2019 to mid-April 2019, the closing Share price demonstrated a general upward trend, reaching a highest of HK\$2.95 during 16 April 2019 to 23 April 2019. The performance of the Shares is generally in line with that of the Hang Seng Index during the same period. On 25 March 2019, the Company published the announcement in relation to a very substantial acquisition in relation to the photovoltaic power generation equipment and relevant finance lease arrangements. On 29 March 2019, the Company released its annual results announcement for the year ended 31 December 2018, showing an increase in profit of the Company of approximately 19.1% as compared to 2017. Subsequently, the closing Share price increased from HK\$2.58 per Share on 25 March 2019 to HK\$2.8 per Share on 1 April 2019.

During the period from 24 April 2019 to 16 August 2019, the closing Share prices fluctuated between HK\$2.5 per Share and HK\$2.8 per Share. During this period on 30 July 2019, the Company released an update of the very substantial acquisition in March 2019 on which the vendor has agreed to reduce the amount of the consideration due to the reduction of the value-added tax rate from 16% to 13% effective on 1 April 2019. On 16 August 2019, the Company released their interim results for the six months ended 30 June 2019. The results indicated a decrease in profit of the Company of approximately 22.4% as compared to the same period in 2018. Since then, the closing Share prices exhibited a general downward trend in the remaining period in 2019 and closed at HK\$2 per Share on 31 December 2019.

The closing Share price closed in a narrow range around HK\$2 per Share most of the time from January 2020 to mid-April 2020, despite (i) the release of a profit warning announcement on 19 March 2020, stating that a decrease in profit of the Group was expected for 2019 mainly due to an increase in depreciation expenses and finance costs, and increase in income tax expenses; and (ii) the publication of annual results for the year ended 31 December 2019 on 27 March 2020, showing a decrease in profit of approximately 32.8% from 2018. Starting from late-April 2020, the closing Share price experienced a descending trend and hit the lowest of HK\$1.5 per Share on 4 May 2020. The Share price then fluctuated in a range between HK\$1.5 per Share and HK\$1.89 per Share. On 11 June 2020, the Company announced a change in its controlling shareholder from Mr. Dang YB to Mr. Dang ZW.

It is noted that shortly before the announcement of the Proposal and the Scheme, closing Share price showed a significant increase of approximately 31.6% from HK\$1.55 per Share on 16 June 2020 to HK\$2.04 per Share on 17 June 2020, i.e. the Last Trading Day. The trading of the Company's shares was suspended from 9:00 a.m. on 18 June 2020 to 19 June 2020, pending the publication of the Announcement. The Announcement was published on 22 June 2020 (before trading hours) and trading of the Company's shares resumed on the same day. The closing Share price surged to HK\$2.44 per Share on 22 June 2020 (the first trading day after the release of the Announcement), representing an increase of approximately 19.6% compared to the closing price of HK\$2.04 on the Last Trading Day. The closing Share prices fluctuated between HK\$2.41 per Share and HK\$2.49 per Share afterwards and closed at HK\$2.41 per Share as at the Latest Practicable Date.

In view of the performance of the Share prices during the Review Period and before the publication of the Announcement, Independent Shareholders should be aware that the current Share price may not be sustained if the Scheme is not approved or otherwise lapses.

(ii) *Trading liquidity*

Set out in the table below are the monthly total trading volumes of the Shares and the percentages of such monthly total trading volumes to the total issued Share capital and total issued Shares in public float during the Review Period:

	Monthly total trading volume of the Shares <i>(Note 1)</i>	Approximate percentage of the monthly total trading volume of the Shares to the total issued Share capital <i>(Note 2)</i>	Approximate percentage of the monthly total trading volume of the Shares to the total issued Shares in public float <i>(Note 3)</i>
2019			
January	56,000	0.01	0.03
February	44,000	0.01	0.02
March	2,528,000	0.38	1.22
April	1,753,250	0.26	0.84
May	190,000	0.03	0.09
June	30,000	0.00	0.01
July	20,000	0.00	0.01
August	8,144,000	1.23	4.08
September	5,052,000	0.76	2.53
October	2,140,000	0.32	1.07
November	50,000	0.01	0.03
December	184,000	0.03	0.09
2020			
January	326,000	0.05	0.16
February	266,000	0.04	0.13
March	44,000	0.01	0.02
April	180,000	0.03	0.09
May	6,096,000	0.92	3.05
June <i>(Note 4)</i>	7,810,000	1.18	3.91
From 1 July up to the Latest Practicable Date	3,376,000	0.51	1.69

Notes:

1. Source: Bloomberg
2. The calculation is based on the monthly total trading volume of the Shares divided by the total issued Share capital of the Company at the end of each month (or at the Latest Practicable Date for July 2020).
3. The calculation is based on the monthly total trading volume of the Shares divided by the total issued Shares in public float at the end of each month (or at the Latest Practicable Date for July 2020).
4. Trading of the Shares was suspended from 18 June 2020 to 19 June 2020 pending the publication of the Announcement.

From the table above, in general, we note that the monthly total trading volume of the Shares (as a percentage to the total issued Shares in public float) was not active from 1 January 2019 up to the Announcement Date. The percentages of monthly total trading volumes of the Shares to the total issued Shares in public float were below 3% during such period except for August 2019 and May 2020. In August 2019, it is noted that trading with relatively large volume took place on 21, 22 and 26 August 2019, which was possibly due to the acquisitions of Shares by Mr. Dang ZD, an executive Director, during the relevant period involving a total of 7,970,000 Shares based on the shareholding disclosures published on the website of the Stock Exchange. In May 2020, it is noted that trading with relatively large volume took place on 27 and 28 May 2020, mainly attributable to the transactions of the Shares by the controlling shareholder, Fung Teng, on those two days as noted from the shareholding disclosures published on the website of the Stock Exchange. The aforesaid higher trading volume was attributed to sales and purchases by Mr. Dang ZD and Fung Teng which are not classified as public float in our analysis.

Before the suspension of trading of the Shares from 18 June 2020 to 19 June 2020, an increase in trading volume of the Shares was noted on 17 June 2020. Trading volume of the Shares surged after publication of the Announcement on 22 June 2020 with the total monthly trading volume of Shares increasing to 7,810,000 Shares in June 2020 (representing approximately 3.9% of the total issued Shares in public float), with 3,794,000 Shares traded on 22 June 2020 (the trading day immediately after publication of the Announcement).

Given the relatively thin trading volume in the Shares since 2019, if the Shareholders wish to sell a significant number of Shares within a short period in the market, it is possible that a downward pressure would be exerted on the market price of the Shares. The higher level of trading volume subsequent to the Announcement may not, in our view, be sustained if the Proposal lapses. Therefore, the Proposal provides an opportunity for the Shareholders, especially those holding a large block of Shares, to dispose of their holdings at a fixed cash price if they so wish.

(iii) Cancellation Price comparisons

The Cancellation Price of HK\$2.60 per Scheme Share in cash represents:

- (a) 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;
- (b) 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;
- (c) 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;
- (d) 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;
- (e) 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;
- (f) 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;
- (g) a premium of approximately 7.9% over the closing price of HK\$2.41 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (h) a discount of approximately 5.5% to the audited consolidated NAV per Share of approximately HK\$2.75 as at 31 December 2019, calculated based on the NAV of the Group of approximately RMB1,639.2 million (based on the exchange rate of RMB1:HK\$1.1154) and the 663,846,000 Shares in issue as at 31 December 2019.

In summary, the Cancellation Price of HK\$2.60 per Scheme Share represents premia in a range of approximately 27.5% to 52.0% over the closing Share prices for different periods before the Last Trading Day, which is considered favourable to the Independent Shareholders.

The Cancellation Price also represents a discount of approximately 5.5% to the audited consolidated NAV per Share as at 31 December 2019, which is considered to be reasonable as further discussed in the section headed “5. Peer company analysis” in this letter below.

5. Peer company analysis

As mentioned in the section headed “1. Information and prospects of the Group” of this letter above, the Group is principally engaged in the Photovoltaic Power Generation Business and the Lighting Products Business, with the Photovoltaic Power Generation Business contributing to major part of revenue and substantial part of profits of the Group in 2017 to 2019, and the Lighting Products Business recorded a segmental loss for the year ended 31 December 2019. We note that the Lighting Products Business contributed to certain portion of the Group’s revenue. However, the Photovoltaic Power Generation Business contributed to over 95% of the Group’s total segmental profits in the years ended 31 December 2017 and 2018, and contributed to all the Group’s segmental profits for the year ended 31 December 2019. Furthermore, majority of the assets and liabilities of the Group as at 31 December 2019 were related to the Photovoltaic Power Generation Business. Given such significant domination in terms of profits and book values, we consider that the Photovoltaic Power Generation Business is more relevant for assessment of the terms of the Proposal, especially we are performing analysis based on the two commonly used ratios, namely the price-to-earnings (“P/E”) ratio and the price-to-book (“P/B”) ratio. In addition, the closing market capitalisation of the Company was approximately HK\$1,354.2 million as at the Last Trading Day. Accordingly, for comparison purpose, we have conducted a search, on a best effort basis, for companies listed on the Main Board of the Stock Exchange (the “Comparable Companies”) which (a) based on their latest published annual reports available as at the date immediately before the Latest Practicable Date, are principally engaged in power generation with photovoltaic power and/or solar power-related projects; and (b) had a closing market capitalisation below HK\$7 billion (about 5 times the closing market capitalisation of the Company as at the Last Trading Day) as at the Latest Practicable Date, which, in our view, excludes those companies operating in the industry with much larger scale as they may be valued with different valuation multiples. The Comparable Companies set out in the table below represent an exhaustive list of companies comparable to the Group based on the above criteria. The comparison of the P/E ratio and the P/B ratio of the Scheme with those of the Comparable Companies is set out below.

PART VI	LETTER FROM THE INDEPENDENT FINANCIAL ADVISER
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Comparable Companies	Principal activities <i>(Note 1)</i>	Revenue attributable to the power generation with photovoltaic power and/or solar power-related projects % <i>(Note 2)</i>	Market capitalisation HK\$ million <i>(Note 3)</i>	Historical P/E <i>(Approximate times)</i> <i>(Note 3)</i>	Historical P/B <i>(Approximate times)</i> <i>(Note 3)</i>
GCL New Energy Holdings Limited (stock code: 451.HK)	Operation and maintenance of solar power plants	100%	2,288.8	4.5	0.2
Kong Sun Holdings Limited (stock code: 295.HK)	Development and operation of solar photovoltaic power plants	81.5%	733.3	N/A <i>(Note 4)</i>	0.1
	The Cancellation Price			5.2 <i>(Note 5)</i>	0.9 <i>(Note 6)</i>

Notes:

1. The information is based on Bloomberg and the website of the Stock Exchange.
2. Revenue proportion attributable to the power generation with photovoltaic power and/or solar power-related projects is calculated based on the information of 2019 as set out in the 2019 annual report of GCL New Energy Holdings Limited and Kong Sun Holdings Limited respectively.
3. The market capitalisations, historical P/Es and P/Bs of the Comparable Companies are extracted from Bloomberg as at the Latest Practicable Date.
4. The historical P/E is unavailable due to recorded loss attributable to equity holders according to the latest annual report of the respective Comparable Company.
5. The implied P/E of the Cancellation Price is calculated based on the Cancellation Price of HK\$2.60 per Scheme Share and the earnings per Share of the Company for the year ended 31 December 2019 of approximately RMB0.4472 (equivalent to approximately HK\$0.4988 based on the exchange rate of RMB1:HK\$1.1154 for illustrative purposes).
6. The implied P/B of the Cancellation Price is calculated based on the Cancellation Price of HK\$2.60 per Scheme Share and the NAV per Share of the Company as at 31 December 2019 of approximately RMB2.4693 per Share (equivalent to approximately HK\$2.7543 per Share based on the exchange rate of RMB1:HK\$1.1154 for illustrative purposes).

We have identified two Comparable Companies based on our aforesaid criteria. As set out in the table above, Kong Sun Holdings Limited is loss making in the latest financial year, and the historical P/E of GCL New Energy Holdings Limited was approximately 4.5 times. The implied P/E of the Company at the Cancellation Price of approximately 5.2 times is higher than the historical P/E of GCL New Energy Holdings Limited. In terms of historical P/Bs, the Comparable Companies had a historical P/B of approximately 0.1 times and 0.2 times respectively. The implied P/B of the Cancellation Price as discussed above of approximately 0.9 times is higher than the historical P/Bs of those of the Comparable Companies.

As set out above, only two Comparable Companies were identified. However, since they represent the companies satisfying our selection criteria and are considered to be comparable to the Group, we consider the comparison of the Proposal with the Comparable Companies are relevant to the Independent Shareholders' assessment of the Cancellation Price. Based on the above analysis of the Comparable Companies, we are of the view that the Cancellation Price is fair and reasonable as far as the Independent Shareholders are concerned. It shall be noted that our opinion on the Proposal, including, among other things, the Cancellation Price, is formed after considering all the factors under this section headed "Principal factors and reasons considered". Analysis on the Cancellation Price is also set out in other sections of this letter, including "4. Analysis of price performance and trading liquidity of the Shares" and "6. Privatisation precedents" of this letter.

6. Privatisation precedents

We have compared the Proposal and the Scheme to privatisation proposals of other companies listed on the Main Board of the Stock Exchange announced since 1 January 2018 and up to the Latest Practicable Date, excluding privatisation proposals which were not/yet to be approved (or, where applicable, required acceptance level were not or yet to be achieved) or without a cash cancellation consideration (the "**Privatisation Precedents**"), which represents an exhaustive list of privatisation proposals we were able to identify from the Stock Exchange's website satisfying the above selection criteria. The table below illustrates the premia/discounts represented by the cancellation consideration/offer price over/to the respective last trading day and respective last 30 days, 60 days, 90 days, 120 days and 180 days average share prices in respect of such privatisation proposals. The Privatisation Precedents set out below provide a comparison between the cancellation consideration/offer price and the then prevailing market prices per share of successful privatisation proposals conducted by different ways. We have compared the Proposal with the Privatisation Precedents in terms of their historical share price comparison for different periods to illustrate the market sentiments towards successful privatisation proposals, i.e. how much the shareholders are being offered and the level of premium that is acceptable to shareholders in terms of historical share price ranges. As the earning and asset scale and composition of companies across different industries might vary, the comparison between (a) the cancellation consideration/offer price; and (b) the earnings per share and NAV per share is more industry-specific and hence we have performed analysis on the implied P/E and P/B of the Cancellation Price on an industry-specific basis, details of which are set out in the section headed "5. Peer company analysis" of this letter above. Although the business nature, financial performance and position and scale of each company vary, and some aspects of pricing may be industry-specific, the below analysis, in our view, demonstrates the pricing of

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recent privatisations of Main Board listed companies in the Hong Kong stock market as a whole under recent market sentiments towards privatisations in terms of historical share price ranges, a factor we consider relevant in assessing the range of reasonable cancellation prices required for successful privatisations in the market. As mentioned earlier in this paragraph, as such market sentiments towards successful privatisation proposals can be illustrated through the comparison between the cancellation consideration/offer price and the then prevailing market prices per share, we consider the Privatisation Precedents an appropriate basis in assessing the fairness and reasonableness of the Cancellation Price.

Date of the announcement	Company name and stock code	Way of privatisation	Cancellation consideration/offer price HK\$	Premium/(discount) of the cancellation consideration/offer price over/(to)					
				closing price per share on the last trading day (%)	average closing price per share for the last 30 trading days up to and including the last trading day (%)	average closing price per share for the last 60 trading days up to and including the last trading day (%)	average closing price per share for the last 90 trading days up to and including the last trading day (%)	average closing price per share for the last 120 trading days up to and including the last trading day (%)	average closing price per share for the last 180 trading days up to and including the last trading day (%)
20-Apr-20	Allied Properties (H.K.) Limited (stock code: 56)	Scheme of arrangement	1.92	34.3	39.5	33.5	30.1	28.2	22.7
20-Mar-20	Li & Fung Limited (stock code: 494) (Note 2)	Scheme of arrangement	1.25	150.0	95.2	72.7	62.1	57.0	43.3
27-Feb-20	Wheelock and Company Limited (stock code: 20) (Note 3)	Scheme of arrangement	71.9	52.2	45.2	43.9	45.9	48.7	45.2
20-Jan-20	BBI Life Sciences Corporation (stock code: 1035)	Scheme of arrangement	3.50	16.3	42.5	46.1	47.9	55.6	56.7
12-Dec-19	Joyce Boutique Group Limited (stock code: 647)	Scheme of arrangement	0.28	91.8	82.2	62.7	50.5	40.1	32.6
27-Nov-19	China Agri-Industries Holdings Limited (stock code: 606)	Scheme of arrangement	4.25	34.1	53.2	64.7	72.5	72.6	70.0
1-Nov-19	Springland International Holdings Limited (stock code: 1700)	Scheme of arrangement	2.30	63.1	56.8	55.4	53.2	51.3	48.6
20-Oct-19	Dah Chong Hong Holdings Limited (stock code: 1828)	Scheme of arrangement	3.70	37.5	54.9	55.9	54.2	49.8	41.5
3-Oct-19	Huaneng Renewables Corporation Limited (stock code: 958)	Voluntary conditional offer	3.17	18.7	30.0	40.3	43.2	43.9	41.8
2-Oct-19	AVIC International Holdings Limited (stock code: 161)	Voluntary conditional offer	9.00	29.1	81.3	88.6	100.2	96.1	92.1
12-Aug-19	TPV Technology Limited (stock code: 903)	Scheme of arrangement	3.86	41.4	54.5	75.0	87.4	104.0	138.8
27-Jun-19	Asia Satellite Telecommunications Holdings Limited (stock code: 1135)	Scheme of arrangement	10.22	23.4	44.4	50.4	56.5	63.5	71.0
18-Jun-19	C.P. Lotus Corporation (stock code: 121)	Scheme of arrangement	0.11	10.0	29.4	30.3	26.5	28.1	21.9
14-Jun-19	China Automation Group Limited (stock code: 569)	Scheme of arrangement	1.50	11.1	15.4	29.9	35.1	37.5	38.5
4-Apr-19	China Hengshi Foundation Company Limited (stock code: 1197)	Scheme of arrangement	2.50	10.6	17.5	19.0	24.4	25.4	27.5
28-Mar-19	China Power Clean Energy Development Company Limited (stock code: 735) (Note 4)	Scheme of arrangement	5.45	41.9	78.4	94.1	101.8	105.7	88.8
5-Dec-18	Hopewell Holdings Limited (stock code: 54)	Scheme of arrangement	38.80	46.7	55.5	54.1	49.6	48.2	43.7
30-Oct-18	Advanced Semiconductor Manufacturing Corporation Limited (stock code: 3355)	Merger by absorption	1.50	66.7	99.3	93.4	90.2	87.4	84.2

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Date of the announcement	Company name and stock code	Way of privatisation	Cancellation consideration/ offer price HK\$	Premium/(discount) of the cancellation consideration/offer price over/(to)					
				closing price per share on the last trading day (%)	average closing price per share for the last 30 trading days up to and including the last trading day (%)	average closing price per share for the last 60 trading days up to and including the last trading day (%)	average closing price per share for the last 90 trading days up to and including the last trading day (%)	average closing price per share for the last 120 trading days up to and including the last trading day (%)	average closing price per share for the last 180 trading days up to and including the last trading day (%)
27-Sept-18	Sinotrans Shipping Limited (stock code: 368)	Scheme of arrangement	2.70	50.0	43.1	37.4	32.6	32.5	27.9
10-Jun-18	Hong Kong Aircraft Engineering Company Limited (stock code: 0044)	Scheme of arrangement	71.81	63.2	62.4	60.2	57.0	54.2	50.0
7-Jun-18	Portico International Holdings Limited (stock code: 0589)	Scheme of arrangement	4.10	50.2	49.2	45.2	45.8	48.1	49.9
	<i>Mean (simple average)</i>			44.9	53.8	54.9	55.6	56.1	54.1
	<i>Median</i>			41.4	53.2	54.1	50.5	49.8	45.2
	<i>Maximum</i>			150.0	99.3	94.1	101.8	105.7	138.8
	<i>Minimum</i>			10.0	15.4	19.0	24.4	25.4	21.9
21-Jun-20	The Company		2.60	27.5	52.0	42.9	39.0	36.8	30.7

Source: Bloomberg and website of the Stock Exchange

Notes:

- The premia/discounts of the cancellation consideration/offer price over/(to) the share price averages for the respective periods were calculated based on (i) the cancellation consideration/offer price as disclosed in the announcement/composite document/scheme document in relation to the privatisation proposal; and (ii) the historical share prices of the companies extracted from Bloomberg.
- The premium of the cancellation price over the closing price per share on the last trading day for the case of Li & Fung Limited is significantly higher than those of other Privatisation Precedents. However, the premia of the cancellation price over the average closing share prices fall within the range of the average premia for the historical price averages of the Privatisation Precedents for longer periods. Based on the scheme document published by Li & Fung Limited and Golden Lincoln Holdings I Limited on 20 April 2020, no specific reasons were noted for the significantly high premium over the share price on the last trading day. It is therefore considered to be more comprehensive to include the case of Li & Fung Limited in the assessment of the Privatisation Precedents.
- The cancellation price of HK\$71.90 represents the scheme cash consideration of HK\$12.00 per scheme share and the value (based on their closing prices on the last trading day) of the shares of Wharf Real Estate Investment Company Limited (1997.HK) and shares of The Wharf (Holdings) Limited (4.HK) to be distributed per scheme share.
- The cash alternative of HK\$5.45 for each ordinary scheme share had been used for the purpose of this comparison. The reference value for the share alternative implies a consideration of each ordinary scheme share of approximately HK\$3.77 to HK\$5.39 as disclosed in the scheme document.
- For the purpose of this table, last trading day represents the last full trading day in the respective shares immediately before the publication of the respective announcement.

The terms of the privatisation proposals set out above provide, in our view, a general guide to the premium over market prices needed in Hong Kong to secure a successful privatisation. Based on the table above, the average premia of the Privatisation Precedents over the last trading day share price, 30 days, 60 days, 90 days, 120 days and 180 days share price averages were approximately 44.9%, 53.8%, 54.9%, 55.6%, 56.1% and 54.1% respectively. The premia represented by the Cancellation Price over the average closing prices of the Shares for the respective periods of approximately 27.5% to 52.0% are within the range of the average premia for the historical price averages of all periods of the Privatisation Precedents. Although such premia represented by the Cancellation Price are lower than the average of the Privatisation Precedents, the premium for the last 30 trading days is close to the average premia of the Privatisation Precedents, and the premia for all different periods are relatively much higher than the lowest range that the market accepted. Accordingly, in particular taking into account the significant increase in closing Share price on the day prior to the Last Trading Day and the comparison of the premia with the Privatisation Precedents for the periods closer to the last trading day, we consider the Cancellation Price is determined in line with the market practice.

DISCUSSION

Independent Shareholders should consider the Proposal and the Scheme based on the principal factors and reasons set out in detail above and summarised below.

(i) Recent results and prospects

The Group's results in recent years have been fluctuating and the future operations will be affected by the policies published by the PRC government in respect of the photovoltaic power generation industry. The Group's revenue has improved in 2018 due to the addition of output capacity, however, the increase in revenue has stopped in recent financial year. The Group's net profit and earnings per Share also showed similar pattern with an increase in 2018 but decrease in 2019. For the Lighting Products Business, revenue dropped in latest financial year and profit has been declining over the years as keen competition within the industry remains and additional tariff was imposed by the United States, with a segment loss recorded in 2019. The unstable policy environment in the PRC in respect of the photovoltaic power generation industry will continue to affect the Photovoltaic Power Generation Business, while the intensified relationship between the United States and the PRC and the fierce market competition hinders the development of the Lighting Products Business, leading to uncertainties on the growth prospects of businesses of the Group in the short to medium term.

(ii) Reasons for the Proposal and the Scheme

The profitability and cash flow generating capabilities of the Group may be limited by the uncertainties on the development of the photovoltaic power generation industry as mentioned in paragraph (i) above and the fierce market competition for its lighting products, especially in the United States portable lighting products market. Given the deteriorating performance of the closing price of the Shares, together with the low trading liquidity of the Shares, 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. The Cancellation Price represents an opportunity for the Scheme Shareholders to realise their investment in the Company for cash at a premium, which we consider reasonable, as summarised in paragraphs (iv) to (vi) below.

(iii) Trading not active

Trading of the Shares has not been consistently active during the period we have reviewed. The monthly total trading volumes represent less than 3% of the public float during the Review Period (up to the Announcement Date), except for two months where the slightly higher trading volume was caused by trading of non-public Shareholders. With such a thin trading volume, it is difficult for the Independent Shareholders (especially those holding a larger block of Shares) to realise their investments in the market without exerting a downward pressure on the Share price. Although trading liquidity increased after publication of the Announcement, that level may not be sustained if the Scheme is not approved or otherwise lapses. The Proposal provides an opportunity for the Shareholders, especially those holding a large block of Shares, to dispose of their holdings at a fixed cash Cancellation Price without affecting market prices.

(iv) Premium over market price of the Shares

The Cancellation Price for the Scheme is HK\$2.60 per Scheme Share. **The Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.** If the Scheme fails, the Offeror cannot in normal circumstances put forward another such proposal for at least twelve months.

We have reviewed a number of factors when assessing the fairness of the Cancellation Price, including, among other things, the premium of the Cancellation Price over recent Share prices. The Cancellation Price is higher than the average closing Share prices during the Review Period up to the Announcement Date. Based on the summaries as set out in the section headed "4. Analysis of price performance and trading liquidity of the Shares" of this letter above, the Cancellation Price compares favourably to the closing Share prices, with a range of approximately 27.5% to 52.0% over different periods before the Last Trading Day that we have reviewed.

Over the past five financial years from 2015 to 2019, the Company only declared dividend once for the interim period of 2019. The Company has also confirmed in the Scheme Document that it does not have any intention to make, declare or pay any future dividend or make other distributions. The Cancellation Price therefore represents a favourable exit option for the Independent Shareholders to re-invest the proceeds from the Cancellation Price in income generating securities.

(v) Comparable Companies

We have compared the Cancellation Price with Comparable Companies, and the Cancellation Price is considered to be fair and reasonable as compared to the market range.

(vi) Privatisation Precedents

We have compared the premium of the Cancellation Price over the historical trading prices of the Privatisation Precedents. The premia for the Cancellation Price over various recent periods are within the range of the average premia for the historical price averages of all periods of the Privatisation Precedents, with the premium for the last 30 trading days being close to the average premia of the Privatisation Precedents, and the premia for all different periods are relatively much higher than the lowest range that the market accepted, which suggests the Cancellation Price is determined in line with the market practice.

OPINION AND RECOMMENDATIONS

Based on the above analysis, we consider the terms of the Proposal to be fair and reasonable so far as the Scheme Shareholders are concerned and advise the Independent Board Committee to recommend the Scheme Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme.

The closing Share price at the Latest Practicable Date was HK\$2.41 per Share, below the Cancellation Price of HK\$2.60 per Share. However, there is still a possibility that the Share price may exceed the Cancellation Price in the period up to 21 August 2020, being the expected last day for trading in the Shares on the Stock Exchange. Accordingly, Scheme Shareholders who wish to take advantage of the present circumstances to realise their investment in the Company are reminded to monitor the trading price and liquidity of the Shares during this period and, having regard to their own circumstances, consider selling their Shares in the open market, if the net proceeds obtained from such disposal of the Shares (after deducting all transaction costs) would be higher than HK\$2.60 per Share.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
M. N. Sabine
Chairman

Mr. M. N. Sabine is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over thirty years' experience in the corporate finance industry.

For illustrative purpose, amounts denominated in RMB have been translated into HK\$ at an exchange rate of RMB1:HK\$1.1154.

This Explanatory Statement constitutes the statement required under Order 102, rule 20(4)(e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).

SCHEME OF ARRANGEMENT TO CANCEL ALL THE SCHEME SHARES IN CONSIDERATION OF THE OFFEROR AGREEING TO PAY THE CANCELLATION PRICE

1. INTRODUCTION

The Offeror and the Company jointly issued an announcement dated 21 June 2020, which stated that on 17 June 2020, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders regarding the proposed privatisation of the Company by way of the Scheme.

The Scheme and the Proposal involve the cancellation of all Scheme Shares in exchange for the Cancellation Price, and the subsequent issue of new Shares to the Offeror, as a result of which it is intended that the Company will be owned by the Offeror as to 31.29% and the listing of the Shares on the Stock Exchange will be withdrawn. The expected last date for trading in the Shares on the Stock Exchange will be Friday, 21 August 2020.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposal, which are to be implemented by way of the Scheme and to provide Shareholders with other relevant information in relation to the Scheme and the Proposal, in particular to provide the intention of the Offeror with regard to the Company and the shareholding structure of the Company before and after the Scheme and the Proposal.

Particular attention of the Shareholders is drawn to the following sections of this Scheme Document: (a) the Letter from the Board set out in Part IV of this Scheme Document; (b) the Letter from the Independent Board Committee set out in Part V of this Scheme Document; (c) the Letter from the Independent Financial Adviser set out in Part VI of this Scheme Document; and (d) the terms of the Scheme set out in Appendix III to this Scheme Document.

2. TERMS OF THE PROPOSAL

The Proposal is to be implemented by way of 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.

Shareholders whose names appear on the register of members of the Company as at the record date for entitlement to a dividend (if any) declared by the Company on or before the Effective Date will be entitled to receive such dividend (if any). The Company confirms that as at the Latest Practicable Date, (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.

As at the Latest Practicable Date, 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 Latest Practicable Date, (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).

After the Scheme becomes effective, the listing of the Shares on the Stock Exchange will be withdrawn and the Company will be owned by the Offeror as to 31.29%. The Scheme and the Proposal are conditional upon the fulfillment or waiver, as applicable, of the Conditions as described in the paragraph headed "4. Conditions of the Proposal and the Scheme" below. All the Conditions will have to be fulfilled or waived (as applicable) on or before the Long Stop Date (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), failing which the Scheme and the Proposal will lapse. Further announcements on any changes regarding the timetable of the Scheme and the Proposal will be made as and when necessary.

If the Scheme and the Proposal do not become unconditional, the listing of Shares on the Stock Exchange will not be withdrawn.

Settlement of the Cancellation Price will be implemented in full in accordance with the terms of the Scheme, the Proposal, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder.

3. CANCELLATION PRICE

The Cancellation Price represents:

- a premium of approximately 7.9% over the closing price of HK\$2.41 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

- 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.

4. 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 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative 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, in the case of such Shareholders as are corporations, by their respective duly authorised representative or by proxy at the Court Meeting voting 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 75% of the votes cast by the Shareholders present and voting in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative or by proxy at the EGM to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; and
 - (ii) after the above reduction of issued share capital, the passing of an ordinary resolution by the Shareholders at the EGM 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 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;
- (d) the Grand Court's sanction of the Scheme (with or without modifications) and its confirmation of the reduction of the issued 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 the 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 (except for Conditions (g) and (h), the compliance of requirements under the Listing Rules, the Takeovers Code and the SFO and the necessary consent(s) required from the Stock Exchange and/or the SFC cannot be waived unless relevant waiver(s) had been obtained from the Stock Exchange and/or the SFC). Conditions (a), (b), (c), (d) and (e) cannot be waived in any event. As at the Latest Practicable Date, none of the above Conditions has been fulfilled. 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 Latest Practicable Date, 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.

Assuming that the above Conditions are fulfilled or waived (as applicable), it is expected that the Scheme will become effective on or before Friday, 4 September 2020 (Cayman Islands time). Further announcements will be made including, in particular, in relation to (i) the results of the Court Meeting and the EGM and, if the resolutions are passed at those meetings; (ii) the result of the Grand Court hearing of the petition to sanction of the Scheme and to confirm the capital reduction; (iii) the Scheme Record Date; (iv) the Effective Date; and (v) the withdrawal of the listing of the Shares on the Stock Exchange as further set out in "Expected Timetable" in Part III of this Scheme Document.

If the Scheme is not approved or the Proposal otherwise lapses, an announcement will be made in due course in such event and the listing of Shares on the Stock Exchange will not be withdrawn.

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.

5. THE SCHEME AND THE COURT MEETING

Pursuant to Section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Grand Court directs.

Section 86 of the Companies Law provides that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting held as directed by the Grand Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Grand Court, be binding on all members or class of members, as the case may be, and also on the company. The Grand Court has been requested to order the convening of a meeting of a class of members of the Company being the Scheme Shareholders.

6. ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying any requirements imposed by law as summarised above, other than with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

- (a) the Scheme is approved by at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and
- (b) the number of votes cast by the Independent Shareholders present and voting either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative or by way of 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 all the Independent Shareholders.

For the purpose of this vote, the Independent Shareholders comprise all the Shareholders as at the Meeting Record Date other than the Offeror and the Offeror Concert Parties. Shareholders that are not Independent Shareholders (except in respect of Shares held on behalf of non-discretionary investment clients of the CLSA Group) will be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code.

As at the Latest Practicable Date, the Independent Shareholders held in aggregate 199,726,000 Scheme Shares. On that basis, 10% of the votes attached to Scheme Shares held by all the Independent Shareholders referred to in (b) above therefore represent approximately 19,972,600 Shares as at the Latest Practicable Date.

7. BINDING EFFECT OF THE SCHEME AND THE PROPOSAL

Upon the Scheme and the Proposal becoming effective, it will be binding on the Company, the Offeror and all Shareholders, regardless of how they voted (or whether they voted) at the Court Meeting and the EGM.

8. SCHEME SHARES

On the assumption that there is no change in the shareholdings of the Company, the table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposal:

Shareholder	As at the Latest Practicable Date		Upon completion of the Proposal	
	Number of Shares	%	Number of Shares	%
Offeror				
East Step International Holdings Limited	-	-	207,696,000	31.29
Offeror Concert Party				
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)	7,970,000	1.20	-	-
Sub-total	464,120,000	69.91	663,846,000	100
Independent Shareholders	199,726,000	30.09	-	-
Total	663,846,000	100	663,846,000	100

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 Latest Practicable Date. 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.

Following the Effective Date and the withdrawal of listing of the Shares on the Stock Exchange, the Offeror, will beneficially hold approximately 31.29% of the issued share capital of the Company, on the assumption that there is no other change in shareholding in the Company before completion of the Proposal.

As at the Latest Practicable Date, there were 663,846,000 Shares in issue and the Scheme Shareholders were interested in 207,696,000 Shares, representing approximately 31.29% of the issued share capital of the Company.

As at the Latest Practicable Date, 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.

As at the Latest Practicable Date, 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 Latest Practicable Date, 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.

9. 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 Latest Practicable Date, 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.

10. REASONS FOR AND BENEFITS OF THE SCHEME AND 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 Latest Practicable Date. 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

11. 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.

As at the Latest Practicable Date, the Company was solvent and was not unable to pay its debts as they fall due and will not become unable to do so immediately after the date of this Scheme Document.

12. INFORMATION ON THE OFFEROR

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.

13. INTENTIONS OF THE OFFEROR

If the Proposal and the Scheme are successfully implemented, the Offeror intends that the Company will continue to carry on its existing business. Under current market conditions, the Offeror has no plans to effect any redundancies in respect of the employees of the Group (other than in the ordinary course of business).

The Offeror and the Company have no intention to make any changes to the existing operation and business of the Group nor do they have any plans to redeploy any of the fixed assets of the Group after completion of the Scheme and the Proposal. However, the Offeror and the Company will continue to assess business opportunities for the Group as they arise.

14. WITHDRAWAL OF LISTING OF SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates in respect of the Scheme Shares will thereafter cease to have effect as documents or evidence of title.

The Company does not intend to retain its listing on the Stock Exchange and will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange conditional upon the Scheme becoming effective in accordance with Rule 6.15(2) of the Listing Rules.

The Scheme Shareholders will be notified by way of an announcement of the exact dates of the last day for dealing in the Shares on the Stock Exchange and the day on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. A detailed expected timetable of the Scheme has been included in "Expected Timetable" in Part III of this Scheme Document.

15. 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.

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

16. 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. For the avoidance, neither HKSCC nor HKSCC Nominees will give or be subject to the above warranty and representation.

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.

17. REGISTRATION AND PAYMENT

Assuming that the Scheme Record Date falls on Friday, 4 September 2020, it is proposed that the register of members of the Company will be closed from Thursday, 27 August 2020 (or such other date as the Shareholders may be notified by way of an announcement) onwards in order to establish entitlements under the Scheme. In order to qualify for entitlements under the Scheme, Shareholders should ensure that the transfers of their Shares are lodged with the Hong Kong Branch Share Registrar at Suites 3301-4, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration in their names or in the names of their nominees before 4:00 p.m. on Wednesday, 26 August 2020.

Payment of the Cancellation Price to Scheme Shareholders

Upon the Scheme becoming effective, payment of the Cancellation Price for the Scheme Shares will be made to the Scheme Shareholders whose names appear on the register of members of the Company as at the Scheme Record Date. On the basis that the Scheme becomes effective on or about Friday, 4 September 2020 (Cayman Islands time), cheques for payment of the Cancellation Price will be paid for by the Offeror as soon as possible but in any event within 7 Business Days following the Scheme having become effective and accordingly, the cheques are expected to be despatched on or before Tuesday, 15 September 2020. In the absence of any specific instructions to the contrary received in writing by the Hong Kong Branch Share Registrar, at Suites 3301-4, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, cheques will be sent by ordinary post addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the register of members of the Company in respect of the joint holding. All such cheques will be sent at the risk of the person(s) entitled thereto and none of the Offeror, the Company and CLSA will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cause the cancellation of any cheque which has not been cashed or has been returned uncashed and place all monies represented by the cheque in a deposit or custodian account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror.

Before the expiry of six years from the Effective Date, the Offeror shall make payments from the deposit or custodian account of the sums, together with interest thereon, to persons who satisfy the Offeror that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit or custodian account in its name, including accrued interest subject to any deduction required by law and expenses incurred.

Assuming that the Scheme becomes effective, all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on or about Friday, 4 September 2020 (Cayman Islands time).

Settlement of the Cancellation Price to which the Scheme Shareholders are entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Scheme Shareholder.

18. TAXATION**Hong Kong stamp duty and tax consequences**

As the Scheme and the Proposal do not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Scheme, the Proposal and, in particular, whether the receipt of the Cancellation Price would make such Scheme Shareholder liable to taxation in Hong Kong or in other jurisdictions.

It is emphasised that none of the Offeror, the Company and CLSA or any of their respective directors, officers or associates or any other person involved in the Scheme, the Proposal accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Scheme.

19. COURT MEETING AND EGM

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). Scheme Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, at the Court Meeting. Shareholders who are not Independent Shareholders will be required to abstain from voting at the Court Meeting. The Scheme will be subject to the approval by the Independent Shareholders at the Court Meeting in the manner referred to in the paragraphs headed "4. Conditions of the Proposal and the Scheme" and "6. Additional Requirements as Imposed by Rule 2.10 of the Takeovers Code" in this Explanatory Statement.

The EGM will be held after the adjournment or conclusion of the Court Meeting for the purpose of considering and if thought fit passing (i) the special resolution by the Shareholders to approve the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; and (ii) the ordinary resolution by the Shareholders to immediately increase the issued share capital of the Company to its former amount prior to the cancellation of the Scheme Shares and to apply the credit arising in the Company's books of accounts as a result of the aforesaid reduction of issued share capital, to pay up in full at par by the issue of the same such number of the new Shares as is equal to number of the Shares as the number of Scheme Shares cancelled, credited as fully paid, for issuance to the Offeror.

An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and EGM in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be included in such announcement.

Court Meeting

Scheme Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting. Shareholders who are not Independent Shareholders will be required to abstain from voting at the Court Meeting, the Independent Shareholders, vote either in person or by proxy, will be entitled to vote their Scheme Shares in favour of the Scheme or against it.

In accordance with the direction from the Grand Court, HKSCC Nominees Limited shall be permitted to vote both for and against the Scheme in accordance with instructions received by it from the Investor Participants and other CCASS Participants. For the purpose of calculating the “majority in number”, HKSCC Nominees Limited shall be treated as a multi-headed Shareholder voting both “for” and “against” the Scheme. For the purpose of calculating the “majority in number”, each such CCASS Participant who instructs HKSCC Nominees Limited to vote in favour of the Scheme shall be counted for the “majority in number” as a single Shareholder voting in favour of the Scheme, and, if applicable, each such CCASS Participant who instructs HKSCC Nominees Limited to vote against the Scheme shall be counted for the “majority in number” as a single Shareholder voting against the Scheme. HKSCC Nominees Limited itself, as opposed to instructing CCASS Participants, shall not be counted as a Shareholder for the purpose of the calculation of the “majority in number”. The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

The Scheme is conditional upon, among other things, (A) approval by a majority in number of the Scheme Shareholders representing 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative or by proxy at the Court Meeting, and (B) approval 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 (i) the Scheme is approved (by way of poll) by the Independent Shareholders holding at least 75% of the votes attaching to the Shares held by the Independent Shareholders that are voting either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by the Independent Shareholders present and voting either in person or, in the case of such

Shareholders as are corporations, by their respective duly authorised representative or by proxy at Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Shares held by all the Independent Shareholders.

In accordance with the Companies Law, the “75% in value” requirement as described above will be met if the total value of Scheme Shares being voted by the Scheme Shareholders present and voting either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative, or by proxy in favour of the Scheme is at least 75% of the total value of the Scheme Shares voted by the Scheme Shareholders present and voting either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative or by proxy at the Court Meeting. In accordance with the Companies Law, the “majority in number” requirement as described above will be met if the number of Scheme Shareholders present and voting either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative or by proxy at the Court Meeting voting in favour of the Scheme exceeds the number of Scheme Shareholders present and voting either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative, or by proxy at the Court Meeting voting against the Scheme.

Notice of the Court Meeting is set out in Appendix IV to this Scheme Document. The Court Meeting will be held at 9:00 a.m. (Hong Kong time) on Monday, 17 August 2020 at Suite 3401, 34/F, Two Pacific Place, 88 Queensway Admiralty, Hong Kong.

EGM

All the Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to, among other things, (i) the special resolution by Shareholders to approve the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; and (ii) the ordinary resolution by Shareholders to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and to apply the credit arising in the Company’s books of accounts 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 Scheme, credited as fully paid, for issuance to the Offeror.

The special resolution described under (i) in the paragraph above will be passed if 75% of the votes cast by such Shareholders as being entitled to do so, present and voting in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative, or by proxy at the EGM, are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if at least a simple majority of the votes cast in favour of the ordinary resolution by the Shareholders as being entitled to do so, present and voting either in person or, in the case of such Shareholders as are corporations, by their respective duly authorised representative, or by proxy, at the EGM.

At the EGM, a poll will be taken and each Shareholder present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Shares in favour of (or against) the special resolution and/or the ordinary resolutions. Alternatively, such Shareholder may vote some of their Shares in favour of the special resolution and/or the ordinary resolutions and any or all of the balance of their Shares against the special resolution and/or the ordinary resolutions (and vice versa).

Fung Teng and Mr. Dang ZD have undertaken that the Shares legally and beneficially held by them will be voted in favour of the special and the ordinary resolutions to be proposed at the EGM.

At the EGM, the special and the ordinary resolutions will be put to the vote by way of poll as required under Rule 13.39(4) of the Listing Rules.

Notice of EGM is set out in Appendix V to this Scheme Document. The EGM will be held at 11:00 a.m. (Hong Kong time) (or immediately after the conclusion or adjournment of the Court Meeting convened on the same day and place) on Monday, 17 August 2020 at Suite 3401, 34/F, Two Pacific Place, 88 Queensway Admiralty, Hong Kong.

Assuming that the Conditions are fulfilled or waived (as applicable), it is expected that the Scheme will become effective on or before Friday, 4 September 2020 (Cayman Islands time). Further announcements will be made including, in particular, in relation to (i) the results of the Court Meeting and the EGM and, if all the resolutions are passed at those meetings; (ii) the result of the hearing of the petition for the sanction of the Scheme by the Grand Court; (iii) the Scheme Record Date; (iv) the Effective Date; and (v) the date of withdrawal of the listing of the Shares on the Stock Exchange as further set out in "Expected Timetable" in Part III of this Scheme Document.

20. BENEFICIAL OWNERS

Beneficial Owners are urged to have their names entered in the register of members of the Company as soon as possible for, among other things, the following reasons:

- (a) to enable the Beneficial Owners to become Scheme Shareholders so that they can attend the Court Meeting in the capacity as members of the Company or be represented by proxies to be appointed by them and to be included for the purpose of calculating the majority in number of Shareholders as required under Section 86 of the Companies Law in their capacity as members of the Company;
- (b) to enable the Company to properly classify members of the Company as Scheme Shareholders for the purposes of Section 86 of the Companies Law; and
- (c) to enable the Company and the Offeror to make arrangements to effect payments by way of the delivery of cheques to the most appropriate person when the Scheme becomes effective.

No person shall be recognised by the Company as holding any Shares upon any trust. In the case of any Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), such Beneficial Owner should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM, then any such Beneficial Owner should comply with the requirements of such Registered Owner.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an Investor Participant, contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such person(s) if they wish to vote in respect of the Scheme. Beneficial Owners should contact their broker, custodian, nominee or such other relevant person in advance of the deadline(s) in respect of the Court Meeting and the EGM set by them, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. The procedure for voting in respect of the Scheme by HKSCC Nominees Limited with respect to the Shares registered under the name of HKSCC Nominees Limited shall be in accordance with "An Operating Guide for Investor Participants", the "General Rules of CCASS" and the "CCASS Operational Procedures" in effect from time to time.

21. GENERAL

CLSA has been appointed as the exclusive financial adviser to the Offeror in connection with the Proposal.

The Directors (other than those on the Independent Board Committee) are Offeror Concert Parties, and thus they recommend that the Independent Shareholders should carefully consider the views and recommendations of the Independent Board Committee. The non-executive Directors forming the Independent Board Committee, namely Mr. Cheng Hoo, Mr. Chung Kin Shun, Jimmy, Mr. Xia Zuoquan, Dr. Tyen Kan Hee, Anthony and Mr. Guo Xuwen have provided their views and recommendations in the letter from the Independent Board Committee in Part V of this Scheme Document.

Mr. Dang YB and Mr. Dang ZD, being Directors and who are interested in the Scheme, the Proposal have abstained from voting in respect of the board resolution of the Company in relation to the Proposal.

In light of the recommendation of the Independent Board Committee as set out in Part V of this Scheme Document and the recommendation of the Independent Financial Adviser as set out in Part VI of this Scheme Document, Rule 2.3 of the Takeovers Code is not applicable.

As at the Latest Practicable Date, no person who owned or controlled Shares or convertible securities, warrants, options or derivatives in respect of Shares had irrevocably committed themselves to the Offeror to vote their Share in favour of or against the resolutions in respect of the Scheme at the Court Meeting or the EGM. Fung Teng and Mr. Dang ZD have undertaken to cast the votes in respect of those Shares held by them in favour of the resolutions to be proposed at the EGM.

Associates of the Offeror or the Company, including shareholders holding 5% or more of the relevant securities are hereby reminded to disclose their dealings in any securities of the Company under Rule 22 of the Takeovers Code.

22. SUMMARY OF ACTIONS TO BE TAKEN

Independent Shareholders and Shareholders

A **pink form** of proxy for use at the Court Meeting and a **white form** of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of the Company.

Whether or not you are able to attend the Court Meeting and/or the EGM, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed **pink form** of proxy in respect of the Court Meeting, and the Shareholders are strongly urged to complete and sign the enclosed **white form** of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong Branch Share Registrar at Suites 3301-4, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong. In order to be valid, the **pink form** of proxy for use at the Court Meeting should be lodged not later than 9:00 a.m. (Hong Kong time) on Saturday, 15 August 2020, and the **white form** of proxy for use at the EGM should be lodged not later than 11:00 a.m. (Hong Kong time) on Saturday, 15 August 2020. The completion and return of a form of proxy for the Court Meeting or the EGM will not preclude the Independent Shareholders and the Shareholders from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy (or proxies) and you do not attend and vote at the Court Meeting and the EGM, you will still be bound by the outcome of such Court Meeting and the EGM, if, among other things, the resolutions are passed by the requisite majorities of Independent Shareholders or Shareholders (as the case may be). You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

For the purpose of determining the entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 12 August 2020 to Monday, 17 August 2020 (both days inclusive) and during such period, no transfer of the Shares will be effected. In order to qualify to attend and vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong Branch Share Registrar at Suites 3301-4, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong before 4:00 p.m. on Tuesday, 11 August 2020.

An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and the EGM in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be included in such announcement. If all the resolutions are passed at those meetings, further announcement(s) will be made of the results of the Grand Court hearing of the petition to sanction the Scheme and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

Actions to be Taken by Holders through trust or CCASS

The Company will not recognise any person as holding any Shares upon any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the Court Meeting and the EGM set by them in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such person(s) if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or such other relevant person in advance of the latest time(s) for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

HKSCC may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS). The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

Petition hearing in the Grand Court

Prior to the despatch of this Scheme Document, the Company obtained directions from the Grand Court for the convening of the Court Meeting to consider the Scheme and other procedural matters regarding the Scheme.

In accordance with sections 14, 15 and 86 of the Companies Law, if the resolutions are approved at the Court Meeting and the EGM, the Company will seek a further hearing before the Grand Court to request the sanction of the Scheme and file a petition with the Grand Court seeking confirmation of the reduction of the issued share capital of the Company. The Company and the Offeror cannot complete the Scheme and the Proposal without obtaining these approvals. In this regard, the Company expect that these hearings will take place in or around Thursday, 3 September 2020.

In determining whether to exercise its discretion and sanction the Scheme, the Grand Court will determine, among other things, whether all relevant notice periods were complied with and whether the Scheme was such that a reasonable member would have approved it, and whether the votes cast at the Court Meeting fairly represented the decision of the Scheme Shareholders.

If the Grand Court sanctions the Scheme and if all of the other conditions to the Scheme are satisfied or (to the extent allowed by law) waived, the Company intends to deliver the court order sanctioning the Scheme with the Registrar of Companies in the Cayman Islands on Thursday, 3 September 2020 or as otherwise directed by the Grand Court for registration, at which time the order sanctioning the Scheme will become effective.

SHAREHOLDERS (INCLUDING ANY BENEFICIAL OWNERS OF SUCH SHARES THAT GIVE VOTING INSTRUCTIONS TO A CUSTODIAN OR CLEARING HOUSE THAT SUBSEQUENTLY VOTES AT THE COURT MEETING) SHOULD NOTE THAT THEY WILL BE ENTITLED TO APPEAR AT THE GRAND COURT HEARING EXPECTED TO BE ON THURSDAY, 3 SEPTEMBER 2020 (CAYMAN ISLANDS TIME) AT WHICH THE COMPANY WILL SEEK, AMONG OTHER THINGS, THE SANCTION OF THE SCHEME.

23. RECOMMENDATIONS

Your attention is drawn to the following:

- (a) the letter from the Board set out in Part IV of this Scheme Document;
- (b) the letter from the Independent Board Committee set out in Part V of this Scheme Document; and
- (c) the letter from the Independence Financial Adviser set out in Part VI of this Scheme Document.

24. FURTHER INFORMATION

Further information is set out in the Appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Statement.

Shareholders should rely only on the information contained in this Scheme Document. None of the Company, the Offeror, CLSA or any of their respective affiliates has authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

1. THREE-YEAR FINANCIAL INFORMATION OF THE GROUP

The following summary financial information for each of the three years ended 31 December 2017, 2018 and 2019 is extracted from the audited consolidated financial statements of the Group as set forth in the annual reports of the Company for the years ended 31 December 2017 (the “2017 Annual Report”), 2018 (the “2018 Annual Report”) and 2019 (the “2019 Annual Report”) respectively. The auditor’s reports issued by Deloitte Touche Tohmatsu in respect of the Group’s audited consolidated financial statements for each of the three years ended 31 December 2017, 2018 and 2019 did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

Consolidated income statement

For the year ended 31 December

	2017	2018	2019
	(RMB’000)	(RMB’000)	(RMB’000)
	(Restated)	(Restated)	
Revenue	829,515	918,514	885,407
Gross profit	445,259	520,649	476,355
Profit before taxation	398,238	449,852	333,084
Income tax expense	(10,422)	(7,888)	(36,213)
Profit for the year	387,816	441,964	296,871
Total comprehensive income for the year	448,373	440,390	298,624
Profit for the year attributable to:			
owners of the Company	387,816	441,964	296,871
non-controlling interests	–	–	–
Total comprehensive income for the year attributable to:			
owners of the Company	448,373	440,390	298,624
non-controlling interests	–	–	–
Earnings per Share – basic (RMB)	68.31 cents	72.32 cents	44.72 cents
Dividends – final	–	–	–
Dividends per Share (HK\$)	–	–	–

Save as disclosed, the Group did not record any material item of income or expense for each of the three years ended 31 December 2017, 2018 and 2019.

2. CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The audited consolidated financial statements of the Group for the year ended 31 December 2017 (the “**2017 Financial Results**”) are set out on pages 73 to 140 of the 2017 Annual Report, which was published on 20 April 2018. The 2017 Annual Report is posted on the websites of the Company (www.baofengintl.com) and the Stock Exchange (www.hkexnews.hk). Please also see below a direct link to the 2017 Annual Report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0420/ltn20180420445.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2018 (the “**2018 Financial Results**”) are set out on pages 72 to 156 of the 2018 Annual Report for the year ended 31 December 2018, which was published on 18 April 2019. The 2018 Annual Report is posted on the websites of the Company (www.baofengintl.com) and the Stock Exchange (www.hkexnews.hk). Please also see below a direct link to the 2018 Annual Report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0418/ltn20190418355.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2019 (the “**2019 Financial Results**”) are set out on pages 81 to 164 of the 2019 Annual Report for the year ended 31 December 2019, which was published on 22 April 2020. The 2019 Annual Report is posted on the websites of the Company (www.baofengintl.com) and the Stock Exchange (www.hkexnews.hk). Please also see below a direct link to the 2019 Annual Report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0422/2020042200539.pdf>

The 2017 Financial Results, the 2018 Financial Results and the 2019 Financial Results (but not any other part of the 2017 Annual Report, the 2018 Annual Report and 2019 Annual Report in which they respectively appear) are incorporated by reference into and form part of this Scheme Document.

3. INDEBTEDNESS STATEMENT

As at the close of business on 31 May 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Scheme Document, the Group had total outstanding indebtedness of RMB2,609,361,000.

Details of which are as follows:

	<i>RMB'000</i>
Other borrowings ^(Note 1)	1,646,460
Amount due to a photovoltaic facilities provider ^(Note 2)	946,082
Lease liabilities ^(Note 3)	16,819
Total	2,609,361

Notes:

- (1) As at 31 May 2020, the other borrowings are secured by issued share capital of 寧夏寶豐光伏發電有限公司, the trade receivables and tariff adjustment receivables from power generation (other than the amount of tariff adjustment receivables already assigned by 寧夏寶豐光伏發電有限公司) and the solar power plant held by the Group. The other borrowings are guaranteed by the Company.
- (2) The amount mainly represented the third payment of the consideration with principal amount amounted to RMB636,133,000 payable to the photovoltaic facilities provider and an assignment of tariff adjustment receivables with principal amount amounting to RMB300,000,000 by the Group to the photovoltaic facilities provider for the acquisition of solar power plant by the Group pursuant to the sale and purchase agreement dated 23 March 2019 entered into between the Group and the photovoltaic facilities provider. The Group is obliged to pay the corresponding amount of tariff adjustment receivables received to the photovoltaic facilities provider within ten business days of each receipt from the state grid company, until the entire amount is paid off. In the event that the Group fails to receive the corresponding amount of tariff adjustment receivables due to the PRC policy or other reasons beyond the control of the Group, the Group will not be obliged to pay such amount to the photovoltaic facilities provider and the photovoltaic facilities provider shall have no right to claim any damages against the Group. The amount due to a photovoltaic facilities provider related to the acquisition of solar power plant by the Group is unguaranteed. The remaining amount of amount due to a photovoltaic facilities provider amounted to RMB28,760,000 is unsecured and unguaranteed.
- (3) The lease liabilities are secured by rental deposits and unguaranteed.

As at 31 May 2020, the Group has unutilised banking facilities secured by the Company's wholly-owned subsidiary's land and buildings at Unit 503, Tower B, Hunghom Commercial Centre, No. 37, Ma Tau Wai Road, Kowloon.

Save as aforesaid, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 31 May 2020, 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 similar indebtedness, liabilities under acceptances (other than normal trade bills), or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or material contingent liabilities.

4. MATERIAL CHANGE

Save as (i) set out in this Scheme Document as regards the Proposal and the Scheme; and (ii) the items as disclosed below, the directors of the Company confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

(i) New opinions and notice issued by the PRC government authorities in 2020 involving photovoltaic business

As set out in the 2019 Annual Report, in 2020, the relevant PRC government authorities have issued (i) the administrative measures on the additional subsidiaries on renewable energy electricity prices (the “**2020 Administrative Measures**”); and (ii) several opinions on promoting the healthy development of non-hydro renewable energy power generation (the “**2020 Opinion**”). The 2020 Administrative Measures set out additional measures on providing the subsidies to renewable energy projects. Pursuant to the 2020 Opinion, the PRC government will no longer announce new additions to the existing renewable energy tariff subsidy catalogues. Based on the 2019 Annual Report, the Board expects the Group’s photovoltaic project to be included in the list of subsidised projects once the approval of the State Grid Corporation of China is obtained and the Group will receive settlements of tariff adjustment receivables from the PRC government in accordance with the 2020 Opinion and the 2020 Administrative Measures. Further details of the 2020 Administrative Measures and the 2020 Opinion and the Board’s view on the impact of the policies on the photovoltaic power generation business of the Group are set out in the 2019 Annual Report.

(ii) Outbreak of the novel coronavirus (“COVID-19”) in early 2020

The outbreak of the COVID-19 in early 2020 and the subsequent quarantine measures and travel restrictions may have impact on the Group’s operations. The Board is not aware of any material adverse impact on the Group’s photovoltaic power generation business as a result of the outbreak of the COVID-19 as the daily operation of the solar power plant has not been affected. For lighting products business, the production lines of the suppliers of the Group for lighting products were suspended with gradual resumption of production in March 2020, it is considered by the Board that no reasonable estimation can be made on financial effects on the lighting products business of the Group due to uncertainties on the COVID-19 pandemic. Further details of the impact of the outbreak of the COVID-19 on the Group’s operations are set out in the 2019 Annual Report.

5. MATERIAL LITIGATION

As at the Latest Practicable Date, there was no material litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

1. RESPONSIBILITY STATEMENTS

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Offeror and the Offeror Concert Parties) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the directors of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement contained in this Scheme Document misleading.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than any information relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statements in this Scheme Document misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date:

- (a) the authorised share capital of the Company was HK\$8,000,000 divided into 800,000,000 Shares, and the Company had 663,846,000 Shares in issue;
- (b) all of the Shares ranked *pari passu* in all respects as regards rights to capital, dividends and voting;
- (c) there were no options, derivatives, warrants or other 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; and
- (d) no new Shares were issued since 31 December 2019, being the end of the last financial year of the Company.

3. MARKET PRICE

The table below sets out the closing price of the Shares on the Stock Exchange on (i) the last Business Day of each of the calendar months during the period commencing six months preceding the Announcement Date and ending on the Latest Practicable Date; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	Closing price for each Share (HK\$)
31 December 2019	2.00
31 January 2020	1.97
28 February 2020	1.90
31 March 2019	2.07
29 April 2020	1.68
29 May 2020	1.89
17 June 2020 (Last Trading Day)	2.04
30 June 2020	2.44
20 July 2020 (Latest Practicable Date)	2.41

The lowest and highest closing prices of Shares as quoted on the Stock Exchange during the period commencing six months preceding the Announcement Date and ending on the Latest Practicable Date were HK\$1.50 per Share on 4 May 2020 and 5 May 2020 and HK\$2.49 per Share on 23 June 2020.

4. DISCLOSURE OF INTERESTS

For the purpose of this paragraph, (i) “interested” has the same meaning as given to it in Part XV of the SFO and (ii) the “Disclosure Period” means the period beginning from the date which is six months prior to the Announcement Date and ending with the Latest Practicable Date, both dates inclusive.

(a) Interests and dealings in Shares

- (1) As at the Latest Practicable Date, the Offeror and the Offeror Concert Parties had the following interests in Shares (except in respect of Shares held on behalf of non-discretionary investment clients of the CLSA Group):

Name Offeror	Number of Shares	Approximate % <small>(Note 3)</small>
East Step International Holdings Limited	–	–
Offeror Concert Parties		
Fung Teng <small>(Note 1)</small>	456,150,000	68.71
Mr. Dang YB	–	–
Mr. Dang ZW <small>(Note 2)</small>	456,150,000	68.71
Mr. Dang ZD	7,970,000	1.20
Aggregate number of Shares held by the Offeror and the Offeror Concert Parties	464,120,000	69.91

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 the Latest Practicable Date. Mr. Dang ZW is a son of Mr. Dang YB who is the Chairman of the Company and an executive Director.
- (2) Mr. Dang ZW is the sole shareholder of Fung Teng and is therefore deemed to be interested in 456,150,000 Shares held by Fung Teng under the SFO.
- (3) All percentages are approximations.
- (2) As at the Latest Practicable Date, 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 Latest Practicable Date.
- (3) 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 Latest Practicable Date) 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.

- (4) Save as disclosed in paragraph 4(a) under the section headed “Disclosure of Interests” in this Appendix II, as at the Latest Practicable Date, 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 during the Disclosure Period.
- (5) As at the Latest Practicable Date, none of the Offeror or the Offeror Concert Parties had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.
- (6) As at the Latest Practicable Date, no subsidiary of the Company, pension fund of the Company or of any subsidiary of the Company or adviser of the Company as specified in class (5) of the definition of “acting in concert” or class (2) of the definition of “associate” under the Takeovers Code (but excluding any exempt principal traders and exempt fund managers) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares. During the period from the Announcement Date to the Latest Practicable Date, no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.
- (7) As at the Latest Practicable Date, no fund managers connected with the Company (other than exempt fund managers) who managed funds on a discretionary basis owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of the Shares. No such person has dealt for value during the period from the Announcement Date to the Latest Practicable Date in the Shares or convertible securities, warrants, options or derivatives in respect of the Shares.
- (8) As at the Latest Practicable Date, none of the Company or any Director had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

- (9) Save as disclosed in this paragraph, as at the Latest Practicable Date, none of the Directors had any interest in Shares or any convertible securities, warrants, options or derivatives in respect of the Shares:

Name of Director	Number of Shares	Approximate % <small>(Note 2)</small>
Mr. Dang ZD <small>(Note 1)</small>	7,970,000	1.20

Notes:

- (1) 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.
- (2) All percentages are approximations.

During the Disclosure Period, save as disclosed in this paragraph, none of the Directors had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares. Mr. Dang ZD intends to vote in favour of all the resolutions to be proposed at the EGM in respect of his beneficial shareholdings in the Company.

(b) Interests and dealings in the Offeror's shares

Save as disclosed in the section headed "12. Information on the Offeror" of the Explanatory Statement, none of the Company or any Director had any interest in the Offeror's shares or convertible securities, warrants, options or derivatives in respect of the Offeror's shares as at the Latest Practicable Date. During the Disclosure Period, neither the Company nor any of its Directors had dealt for value in any such shares or any such convertible securities, warrants, options or derivatives.

5. ARRANGEMENTS IN CONNECTION WITH THE PROPOSAL

(a) Arrangements affecting Directors

- (i) No benefit would be given to any Director as compensation for loss of office or otherwise in connection with the Proposal.
- (ii) There are no agreements or arrangements between any Director and any other person which is conditional on or dependent upon the outcome of the Proposal or otherwise connected with the Proposal.
- (iii) There are no material contracts entered into by the Offeror in which any Director has a material personal interest.

(b) Arrangements with the Offeror in connection with the Proposal

- (i) There is no agreement, arrangement or understanding (including any compensation arrangement) that exists between the Offeror or any of the Offeror Concert Parties on the one hand and any of the Directors, recent Directors, Shareholders or recent Shareholders on the other hand having any connection with or dependence upon the Proposal.
- (ii) Save for the Conditions, there is no agreement or arrangement to which Offeror is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal.
- (iii) The Offeror has no intention to transfer, charge or pledge any securities in the Company acquired pursuant to the Proposal to any other person, and has no agreement, arrangement or understanding with any third party to do so.
- (iv) There is no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code that existed between any person and the Offeror or any of the Offeror Concert Parties.
- (v) Save for the Cancellation Price, there is no other consideration, compensation or benefit in whatever form paid or to be paid by the Offeror or the Offeror Concert Parties to the Scheme Shareholders or their concert parties in connection with the cancellation of the Scheme Shares.
- (vi) There is no agreement, arrangement, understanding or special deal between (i) any Shareholder and (ii)(a) the Offeror and the Offeror Concert Parties or (b) the Company, its subsidiaries or associated companies.

(c) Arrangements with the Company in connection with the Proposal

During the period from the Announcement Date to the Latest Practicable Date, there is no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code that existed between any person and the Company or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of acting in concert under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definitions of associate under the Takeovers Code.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, save as disclosed below, none of the Directors had entered into any service contract or appointment letter with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed-term contracts) had been entered into or amended within the six months before the Announcement Date; (ii) was a continuous contract with a notice period of 12 months or more; or (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period.

Name	Date of service contract/appointment letter	Expiry Date	Amount of monthly remuneration
Executive Director			
Mr. Dang YB	29 January 2019	28 January 2022	US\$20,000
Mr. Dang ZD	19 February 2020	18 February 2021	HK\$20,000
Mr. Liu Yuanguan	29 January 2019	28 January 2022	No remuneration payable under the service contract
Mr. Gao Jianjin	29 January 2019	28 January 2022	No remuneration payable under the service contract
Non-executive Director			
Mr. Cheng Hoo	19 February 2020	18 February 2022	HK\$20,000
Mr. Chung Kin Shun, Jimmy	26 September 2019	18 February 2022	HK\$30,000
Independent non-executive Director			
Mr. Xia Zuoquan	19 February 2020	18 February 2022	HK\$20,000
Dr. Tyen Kan Hee, Anthony	19 February 2020	18 February 2022	HK\$30,000
Mr. Guo Xuewen	19 February 2020	18 February 2022	HK\$30,000

7. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Offeror or any of its subsidiaries) have been entered by the Company and/or any of its subsidiaries after the date two years before the Announcement Date up to and including the Latest Practicable Date:

- (a) the sale and purchase agreement dated 23 March 2019 entered into between Ningxia Baofeng Photovoltaic Power Generation Company Limited* (寧夏寶豐光伏發電有限公司), a wholly-owned subsidiary of the Company (the “**Purchaser**”) and Yinchuan Binhe New Energy Investment Development Co., Ltd* (銀川濱河新能源投資開發有限公司) (the “**Vendor**”) in relation to sale and purchase of 350-megawatt photovoltaic power generation equipment, the ancillary facilities, the materials in stock, products and accessories (the “**Equipment**”) of the 390-megawatt photovoltaic project located at the mining area in Hongdunzi, Yinchuan, Ningxia, the PRC operated by the Group (the “**Project**”) at a consideration of RMB2,398,153,588 (tax inclusive), details of which are set out in the circular of the Company dated 11 April 2019;
- (b) the finance lease agreement dated 23 March 2019 entered into between the Purchaser and Huaxia Financial Leasing Co., Ltd.* (華夏金融租賃有限公司) as lessor in relation to the finance lease arrangements for the acquisition of the Equipment of the Project, details of which are set out in the circular of the Company dated 11 April 2019; and
- (c) the assignment agreement dated 23 March 2019 entered into between the Purchaser and the Vendor pursuant to which the Purchaser has agreed to assign the tariff adjustment receivables in the amount of RMB300,000,000 payable by the State Grid Corporation of China to the Vendor, details of which are set out in the circular of the Company dated 11 April 2019.

* *for identification purposes only*

8. EXPERTS

The following is the qualification of the expert who has given opinions or advice which is contained in this Scheme Document:

Name	Qualifications
Somerley Capital Limited	a licensed corporation permitted under SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities

9. CONSENTS

Each of CLSA and Somerley Capital Limited has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of the text of its opinions and/or letters, as the case may be, and/or the references to its name and/or opinions and/or letters, as the case may be, in the form and context in which they respectively appear.

10. MISCELLANEOUS

- (a) The Offeror is incorporated in Hong Kong with limited liability on 22 July 2005 and is owned as to 51.22% by Mr. Dang YB and 48.78% by Fung Teng, respectively as at the Latest Practicable Date. Its registered office is at Suite 3401, 34/F, Two Pacific Place, 88 Queensway Admiralty, Hong Kong.
- (b) CLSA is the exclusive financial adviser of the Offeror in relation to the Proposal, and its registered address is at 18/F, One Pacific Place, 88 Queensway, Hong Kong.
- (c) The principal members of the Offeror's concert group include Fung Teng, Mr. Dang YB, Mr. Dang ZW and Mr. Dang ZD. The registered office of Fung Teng is at Nerine Chambers, PO Box 905, Road Town, Tortola, British Virgin Islands. The addresses of Mr. Dang YB and Mr. Dang ZW are at Flat C, 16/F., Tower 5, 9 Austin Road West, Grand Austin, Jordan, Kowloon, Hong Kong. The address of Mr. Dang ZD is at Suite 3007, Pacific Place Apartments, Pacific Place, 88 Queensway, Hong Kong.
- (d) The directors of the Offeror are Mr. Dang ZD and Mr. Siu Sik Yin. The sole director of Fung Teng is Mr. Dang YB.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) on the website of the SFC (www.sfc.hk); (ii) on the website of the Company (www.baofengintl.com); and (iii) (during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays, Sundays and gazetted public holidays in Hong Kong)) (Hong Kong time) at the principal place of business of the Company in Hong Kong at Suite 3401, 34/F., Two Pacific Place, 88 Queensway, Admiralty, Hong Kong, from the date of this Scheme Document up to the Effective Date or the date on which the Scheme lapses or is withdrawn:

- (a) the memorandum and articles of association of the Company;
- (b) the articles of association of the Offeror;
- (c) the 2017 Annual Report, the 2018 Annual Report and the 2019 Annual Report;

- (d) the letter from the Board, the text of which is set out in Part IV of this Scheme Document;
- (e) the letter from the Independent Board Committee, the text of which is set out in Part V of this Scheme Document;
- (f) the letter from the Independent Financial Adviser, the text of which is set out in Part VI of this Scheme Document;
- (g) the service contracts referred to in the section headed “6. Service Contracts” in this Appendix II of this Scheme Document;
- (h) the material contracts referred to in the section headed “7. Material Contracts” in this Appendix II of this Scheme Document;
- (i) written consents referred to in the section headed “9. Consents” in this Appendix II of this Scheme Document; and
- (j) this Scheme Document.

IN THE GRAND COURT OF THE CAYMAN ISLANDS
CAUSE NO. FSD 156 OF 2020

IN THE MATTER OF

CHINA BAOFENG (INTERNATIONAL) LIMITED AND
IN THE MATTER OF SECTION 86 OF THE COMPANIES LAW
(2020 REVISION) OF THE CAYMAN ISLANDS

SCHEME OF ARRANGEMENT

between

CHINA BAOFENG (INTERNATIONAL) LIMITED

and

THE SCHEME SHAREHOLDERS
(as hereinafter defined)

- (A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set out opposite them:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code;
“Business Day”	a day other than a Saturday, Sunday or a public holiday in Hong Kong or the Cayman Islands;
“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;
“Cayman Islands Grand Court”	the Grand Court of the Cayman Islands;
“Companies Law”	the Companies Law (2020 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time;
“Company”	China Baofeng (International) Limited (中國寶豐(國際)有限公司), 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;
“Director”	a director of the Company;

“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Cayman Islands Grand Court, becomes effective in accordance with its terms and the Cayman Islands Companies Law, being the date on which a copy of the Order of the Cayman Islands Grand Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law, and which is expected to be Friday, 4 September 2020 (Cayman Islands time);
“Executive”	the Executive Director of the Corporate Finance Division of the SFC 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;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hong Kong Branch Share Registrar”	Union Registrars Limited, the Hong Kong branch share registrar and transfer office of the Company;
“Latest Practicable Date”	20 July 2020, being the latest practicable date for ascertaining certain information contained in the Scheme Document;
“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 as the Grand Court on application of the Company and/or the Offeror may allow;
“Offeror”	East Step International Holdings Limited, a company incorporated in Hong Kong with limited liability;
“Record Date”	4 September 2020, or such other time and date as shall have been announced to holders of Shares, being the record date for the purpose of determining the entitlements of Scheme Shareholders under the Scheme;

“Record Time”	4:00 p.m. (Hong Kong time) on the Record Date;
“Register”	the register of members of the Company;
“Scheme”	a scheme of arrangement under Section 86 of the Companies Law (subject to any modifications or additions or conditions as may be approved or imposed by the Grand Court and agreed to by the Offeror), involving the cancellation and extinguishment of all the Scheme Shares in exchange for the Cancellation Price, the reduction of the issued share capital of the Company and the increase of issued share capital of the Company to the amount prior to the cancellation and extinguishment of the Scheme Shares;
“Scheme Document”	this composite scheme document, including each of the letters, statements, appendices and notices in it;
“Scheme Shareholders”	holder(s) of Scheme Shares as at the Record Time;
“Scheme Shares”	Share(s) other than those held directly or indirectly by the Fung Teng as at the Record Time on the Record Date;
“SFC”	Securities and Futures Commission of Hong Kong;
“Share(s)”	ordinary share(s) of par value HK\$0.01 each in the share capital of the Company;
“Shareholders”	the holders of the Shares;
“Takeovers Code”	The Code on Takeovers and Mergers of Hong Kong;

- (B) The Company was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law.
- (C) The authorized share capital of the Company as at the Latest Practicable Date was HK\$8,000,000 divided into 800,000,000 Shares, of which 663,846,000 were issued and fully paid, with the remainder being unissued.
- (D) The Offeror has proposed the privatisation of the Company by way of the Scheme.

- (E) The primary purpose of the Scheme is to privatise the Company by cancelling and extinguishing the Scheme Shares in consideration of the Cancellation Price so that thereafter the Offeror and Fung Teng will own 100% of the Company. Simultaneously with the cancellation and extinguishment of the Scheme Shares, the issued share capital of the Company will be increased to the amount prior to the cancellation of the Scheme Shares by applying the credit arising in the Company's books of accounts 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.
- (F) On the Latest Practicable Date, the Offeror does not hold any Shares and 464,120,000 Shares were legally and/or beneficially owned by the parties acting in concert with the Offeror and registered as follows:

As at the Latest Practicable Date

Name	Number of Shares	Approximate %
Offeror		
East Step International Holdings Limited	–	Nil
Offeror Concert Parties		
Fung Teng	456,150,000	68.71
Mr. Dang YB	–	–
Mr. Dang ZW	456,150,000	68.71
Mr. Dang ZD	7,970,000	1.20
Subtotal	464,120,000	69.91
Scheme Shareholders		
(excluding Mr. Dang ZD)	199,726,000	30.09
Total	663,846,000	100

- (G) Each of the parties acting in concert with the Offeror will procure that any Shares in respect of which they are beneficially interested will not be represented or voted at the meeting convened at the direction of the Cayman Islands Grand Court for the purpose of considering and, if thought fit, approving the Scheme.
- (H) The Offeror has and persons acting in concert with them have undertaken to the Cayman Islands Grand Court to be bound by the Scheme, and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by each of them for the purpose of giving effect to this Scheme.

THE SCHEME**PART I****Cancellation of the Scheme Shares**

1. On the Effective Date:
 - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares, and the Scheme Shareholders shall cease to have any rights with respect to the Scheme Shares except the right to receive the Cancellation Price;
 - (b) subject to and forthwith upon such reduction of issued share capital taking effect, the issued share capital of the Company will be increased to its former amount by issuing to the Offeror such number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished; and
 - (c) the Company shall apply the credit arising in its books of account as a result of the reduction of issued share capital referred to in paragraph 1(a) above in paying up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished, which shall be issued to the Offeror, credited as fully paid.

PART II**Consideration for the cancellation and extinguishment of the Scheme Shares**

2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall pay or cause to be paid to each Scheme Shareholder the Cancellation Price.

PART III**General**

3.
 - (a) As soon as possible and in any event not later than seven (7) Business Days after the Effective Date, the Offeror shall send or cause to be sent to Scheme Shareholders cheques in respect of the sums payable to such Scheme Shareholders pursuant to Clause 2 of this Scheme.
 - (b) Unless otherwise indicated in writing to the Hong Kong Branch Share Registrar at Suites 3301-4, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, all such cheques shall be sent by post in pre-paid envelopes addressed to such Scheme Shareholders at their respective addresses as appearing on the Register at the Record Time or, in the case of joint holders, at the address as appearing on the Register at the Record Time of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.

- (c) Cheques shall be posted at the risk of the addressee and neither the Offeror nor the Company shall be responsible for any loss or delay in the transmission of the same.
 - (d) Each cheque shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (b) of this Clause 3, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the monies represented thereby.
 - (e) On or after the day being six (6) calendar months after the posting of the cheque pursuant to paragraph (b) of this Clause 3, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been encashed or that has been returned uncashed and shall place all monies represented thereby in a deposit account of the Offeror with a licensed bank of Hong Kong selected by the Offeror. The Offeror shall hold such monies on trust for those entitled to it under the terms of this Scheme until the expiration of six years from the Effective Date and shall, prior to such date, make payments out of the sums payable pursuant to Clause 2 of this Scheme to persons who satisfy the Offeror that they are respectively entitled thereto and the cheques referred to in paragraphs (b) of this Clause 3 of which they are payees have not been cashed. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
 - (f) On the expiration of six (6) years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under this Scheme and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit or custodian account in its name, including accrued interest subject to any deduction required by law and expenses incurred.
 - (g) Paragraph (f) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
 - (h) Upon cancellation of the Scheme Shares, the Register shall be updated to reflect such cancellation.
4. Each instrument of transfer and certificate existing at the Record Time in respect of a holding of any number of Scheme Shares shall on the Effective Date cease to be valid for any purpose as an instrument of transfer or a certificate for such Scheme Shares and every holder of such certificate shall be bound at the request of the Offeror to deliver up the same to the Offeror for the cancellation thereof.

5. All mandates or relevant instructions to the Company in force at the Record Time relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions on the Effective Date.
6. This Scheme shall become effective as soon as a copy of the order of the Cayman Islands Grand Court sanctioning this Scheme under Section 86 of the Companies Law has been delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86(3) of the Companies Law.
7. Unless this Scheme shall have become effective on or before the Long Stop Date, this Scheme shall lapse.
8. The Company and the Offeror may consent jointly for and on behalf of all concerned to any modification of or addition to this Scheme or to any condition that the Cayman Islands Grand Court may think fit to approve or impose.
9. All costs, charges and expenses of the advisers and counsels appointed by the Company, will be borne by the Company whereas all costs, charges and expenses of the advisers and counsels appointed by the Offeror will be borne by the Offeror, and other costs, charges and expenses of this Scheme will be borne by the Company.

23 July 2020

IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION

Cause No. FSD 156 of 2020

IN THE MATTER OF SECTIONS 15 AND 86 OF THE COMPANIES LAW (2020
REVISION) (AS AMENDED)

AND IN THE MATTER OF THE GRAND COURT RULES 1995 ORDER 102

AND IN THE MATTER OF CHINA BAOFENG (INTERNATIONAL) LIMITED
(中國寶豐(國際)有限公司)

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 20 July 2020 (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Court Meeting**”) to be convened of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving, with or without modification(s), a scheme of arrangement (the “**Scheme of Arrangement**”) proposed to be made between China Baofeng (International) Limited (中國寶豐(國際)有限公司) (the “**Company**”) and the Scheme Shareholders (as defined in the Scheme of Arrangement) and that the Court Meeting will be held at Suite 3401, 34/F, Two Pacific Place, 88 Queensway Admiralty, Hong Kong on Monday, 17 August 2020 at 9:00 a.m. (Hong Kong time) at which place and time all Scheme Shareholders are invited to attend.

A copy of the Scheme of Arrangement and a copy of an explanatory statement explaining the effect of the Scheme of Arrangement are incorporated in the composite scheme document of which this Notice forms part. A copy of the composite scheme document can also be obtained by the Scheme Shareholders from the Hong Kong Branch Share Registrar at Suites 3301-4, 33/F, Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong.

Scheme Shareholders may vote in person at the Court Meeting or they may appoint another person(s) (who must be an individual(s)), whether a member of the Company or not, to attend, speak and vote in their stead. A **pink form** of proxy for use at the Court Meeting (or any adjournment thereof) is enclosed with the composite scheme document dated 23 July 2020 despatched to among others, the Scheme Shareholders on 23 July 2020. Completion and return of the **pink form** of proxy will not prevent a Scheme Shareholder from attending and voting at the Court Meeting, or any adjournment thereof, in person if he/she wishes to do so and in such event, the **pink form** of proxy previously submitted shall be deemed to have been revoked by operation of law.

In the case of Scheme Shareholders jointly holding ordinary shares of par value HK\$0.01 each in the share capital of the Company (the “**Shares**”), any one of such persons may vote at the Court Meeting, either in person or by proxy, in respect of such Share as if he/she was solely entitled thereto. However, if more than one of such joint holders be present at the Court Meeting in person or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding. For this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the Register of Members of the Company in respect of such joint holding of Shares, the first named Scheme Shareholder being the senior.

It is requested that **pink form** of proxy be deposited at the Hong Kong Branch Share Registrar at Suites 3301-4, 33/F, Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong not later than 9:00 a.m. on Saturday, 15 August 2020.

By the Order, the Court has appointed Dr. Tyen Kan Hee, Anthony, an independent non-executive director of the Company, or failing him, Mr. Xia Zuoquan, also an independent non-executive director of the Company, or failing him, Mr. Guo Xuewen, also an independent non-executive director of the Company, or failing him, any other director or any other person nominated by the Company, to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

Shareholders who are not Independent Shareholders (except in respect of Shares held on behalf of non-discretionary investment clients of the CLSA Group) will be required to abstain from voting at the Court Meeting.

The Scheme of Arrangement will be subject to a subsequent application seeking the sanction of the Court.

By Order of the Court
China Baofeng (International) Limited
(中國寶豐(國際)有限公司)
Dang Yanbao
Chairman

Hong Kong, 23 July 2020

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

Principal Place of Business in Hong Kong:
Suite 3401, 34/F.
Two Pacific Place
88 Queensway
Admiralty
Hong Kong

Notes:

- (1) A Scheme Shareholder entitled to attend and vote at the Court Meeting is entitled to appoint one, and if such Scheme Shareholder is the holder of two or more Shares, more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company, but must attend the Court Meeting in person to represent him.
- (2) A **pink form** of proxy for use at the Court Meeting (or any adjournment thereof) is enclosed with the composite document containing the Scheme of Arrangement dated 23 July 2020 despatched to, among others, the Scheme Shareholders.
- (3) In order to be valid, the **pink form** of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be lodged with Union Registrars Limited, the Company's Hong Kong branch share registrar and transfer office 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 for holding the Court Meeting or any adjournment thereof failing which the **pink form** of proxy will not be valid. Completion and return of the **pink form** of proxy will not preclude a Scheme Shareholder from attending the Court Meeting and voting in person if he so wishes. In the event that a Scheme Shareholder attends and votes at the Court Meeting after having lodged his **pink form** of proxy, his **pink form** of proxy shall be deemed to have been revoked by operation of law.
- (4) In the case of joint Scheme Shareholders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holding of the Shares.
- (5) Voting at the Court Meeting will be taken by poll as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Code on Takeovers and Mergers.
- (6) The Register of Members of the Company will be closed from Wednesday, 12 August 2020 to Monday, 17 August 2020 (both days inclusive) and during such period no transfer of Shares will be registered. In order to be entitled to attend and vote at the Court Meeting, all transfers accompanied by the relevant share certificates must be lodged with 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 later than 4:00 p.m. on Tuesday, 11 August 2020.
- (7) Due to the uncertainty of the development of the novel coronavirus pandemic, the Company may be required to revise the date, time and/or venue of the Court Meeting and/or the book closure period (subject to the directions of the Grand Court and as may be permitted under the Takeovers Code). Further announcement(s) will be made by the Company as and when appropriate.
- (8) The health of our shareholders, staff and stakeholders is of paramount importance to us. In view of the ongoing Novel Coronavirus (COVID-19) pandemic, the Company will implement the following precautionary measures at the Court Meeting to protect attending shareholders, staff and stakeholders from the risk of infection:
 - (i) compulsory body temperature checks will be conducted for every shareholder, proxy or other attendee at each entrance of the meeting venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the meeting venue or be required to leave the meeting venue;
 - (ii) each attendee is required to wear a surgical face mask throughout the meeting and inside the meeting venue, and to maintain a safe distance between seats;
 - (iii) no refreshment will be served, and there will be no corporate gift; and
 - (iv) each attendee may be asked whether (a) he/she travels outside of Hong Kong within the 14-day period immediately before the Court Meeting and (b) he/she is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to any of these questions may be denied entry into the meeting venue or be required to leave the meeting venue.

Pursuant to the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation (the “**Regulation**”), group gatherings of more than 20 persons for shareholders’ meetings are required to be accommodated in separate rooms or partitioned areas of not more than 20 persons each.

In addition, the Company reminds all shareholders that physical attendance in person at the meeting is not necessary for the purpose of exercising voting rights. Shareholders may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) instead of attending the meeting in person, by completing and return the proxy form attached to this Scheme Document.

The Company will keep its shareholders informed by way of further announcement if there are any material updates on the Regulation which would affect the Court Meeting.

If any shareholder has any question relating to the Court Meeting, please contact the Hong Kong Branch Share Registrar as follows:

Union Registrars Limited
Suites 3301-4, 33/F
Two Chinachem Exchange Square
338 King’s Road, North Point
Hong Kong
Email: info@unionregistrars.com.hk
Tel: (852) 2849 3399
Fax: (852) 2849 3319



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 “EGM”) of holders of ordinary shares of par value HK\$0.01 each (the “Shares”) in the share capital of China Baofeng (International) Limited (中國寶豐(國際)有限公司) (the “Company”) will be held at Suite 3401, 34/F, Two Pacific Place, 88 Queensway Admiralty, Hong Kong on Monday, 17 August 2020 at 11:00 a.m. (Hong Kong time) (or as soon as after the conclusion or the adjournment of the meeting of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned)) convened at the direction of the Grand Court of the Cayman Islands for the same day and place), for the purpose of considering and, if thought fit, passing the following resolutions:

SPECIAL RESOLUTIONS

1. “THAT, AS A SPECIAL RESOLUTION:

- (a) pursuant to the scheme of arrangement dated 23 July 2020 (the “Scheme of Arrangement”) between the Company and holders of the Scheme Shares (as defined in the Scheme of Arrangement) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved or imposed by the Grand Court of the Cayman Islands, on the Effective Date (as defined in the Scheme of Arrangement), the issued share capital of the Company shall be reduced by the cancellation and extinguishment of the Scheme Shares (as defined in the Scheme of Arrangement) (the “Capital Reduction”); and
- (b) any one of the directors of the Company be and is hereby authorised to do all acts and things considered by him to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the reduction of issued share capital of the Company pursuant to the Scheme of Arrangement, including (without limitation) giving consent to any modification of, or addition to, the Scheme of Arrangement or the reduction of issued share capital of the Company which the Grand Court of the Cayman Islands may see fit to impose.”

2. "THAT, AS A SPECIAL RESOLUTION:

- (a) subject to the Scheme of Arrangement becoming effective, the withdrawal of the listing of the shares of the Company from The Stock Exchange of Hong Kong Limited be and is hereby approved; and
- (b) any one of the directors of the Company be and is hereby authorised to apply to The Stock Exchange of Hong Kong Limited for the withdrawal of the listing of the shares of the Company."

ORDINARY RESOLUTION

3. "THAT:

- (a) subject to and forthwith upon the Capital Reduction referred to in resolution 1(a) taking effect, the issued share capital of the Company be increased to its former amount by allotting and issuing to the Offeror (as defined in the Scheme of Arrangement), credited as fully paid at par, the same number of new ordinary shares of par value HK\$0.01 each in the share capital of the Company as is equal to the number of Scheme Shares cancelled and extinguished;
- (b) the credit arising in the books of account of the Company as a result of the Capital Reduction referred to in resolution 1(a) shall be applied by the Company in paying up in full at par the new ordinary shares of par value HK\$0.01 each in the share capital of the Company to be allotted and issued to the Offeror, pursuant to resolution 3(a) above, and any one of the directors of the Company be and is hereby authorised to allot and issue the same accordingly; and
- (c) any one of the directors of the Company be and is hereby authorised to do all acts and things considered by him to be necessary or desirable in connection with the increase of issued share capital of the Company and the allotment and issue of shares as aforesaid."

On behalf of the board of directors of
China Baofeng (International) Limited
(中國寶豐(國際)有限公司)

Dang Yanbao
Chairman

Hong Kong, 23 July 2020

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

Principal Place of Business in Hong Kong:
Suite 3401, 34/F.
Two Pacific Place
88 Queensway
Admiralty
Hong Kong

Notes:

- (1) A member entitled to attend and vote at the EGM is entitled to appoint one, and if such member is the holder of two or more Shares, more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company, but must attend the EGM in person to represent him.
- (2) A **white form** of proxy for use at the EGM (or any adjournment thereof) is enclosed with the composite document containing the Scheme of Arrangement dated 23 July 2020 despatched to, among others, holders of Shares (the "Shareholders").
- (3) In order to be valid, the **white form** of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be lodged with Union Registrars Limited, the Company's Hong Kong branch share registrar and transfer office 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 for holding the EGM or any adjournment thereof failing which the **white form** of proxy will not be valid. Completion and return of the **white form** of proxy will not preclude a Shareholder from attending the EGM and voting in person if he so wishes. In the event that a Shareholder attends and votes at the EGM after having lodged his **white form** of proxy, his **white form** of proxy will be deemed to have been revoked by operation of law.
- (4) In the case of joint holders of Shares, any one of such joint holders may vote, either in person or by proxy, in respect of such Shares as if he/or she was solely entitled thereto, but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holding of the Shares.
- (5) Voting at the EGM will be taken by poll as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Code on Takeovers and Mergers.
- (6) The Register of Members of the Company will be closed from Wednesday, 12 August 2020 to Monday, 17 August 2020 (both days inclusive) and during such period no transfer of Shares will be registered. In order to be entitled to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with 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 later than 4:00 p.m. on Tuesday, 11 August 2020.
- (7) Due to the uncertainty of the development of the novel coronavirus pandemic, the Company may be required to revise the date, time and/or venue of the EGM and/or the book closure period (subject to the directions of the Grand Court and as may be permitted under the Takeovers Code). Further announcement(s) will be made by the Company as and when appropriate.
- (8) The health of our shareholders, staff and stakeholders is of paramount importance to us. In view of the ongoing Novel Coronavirus (COVID-19) pandemic, the Company will implement the following precautionary measures at the EGM to protect attending shareholders, staff and stakeholders from the risk of infection:
 - (i) compulsory body temperature checks will be conducted for every shareholder, proxy or other attendee at each entrance of the meeting venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the meeting venue or be required to leave the meeting venue;

- (ii) each attendee is required to wear a surgical face mask throughout the meeting and inside the meeting venue, and to maintain a safe distance between seats;
- (iii) no refreshment will be served, and there will be no corporate gift; and
- (iv) each attendee may be asked whether (a) he/she travels outside of Hong Kong within the 14-day period immediately before the Court Meeting and (b) he/she is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to any of these questions may be denied entry into the meeting venue or be required to leave the meeting venue.

Pursuant to the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation (the “**Regulation**”), group gatherings of more than 20 persons for shareholders’ meetings are required to be accommodated in separate rooms or partitioned areas of not more than 20 persons each.

In addition, the Company reminds all shareholders that physical attendance in person at the meeting is not necessary for the purpose of exercising voting rights. Shareholders may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) instead of attending the meeting in person, by completing and return the proxy form attached to this Scheme Document.

The Company will keep its shareholders informed by way of further announcement if there are any material updates on the Regulation which would affect the EGM.

If any shareholder has any question relating to the EGM, please contact the Hong Kong Branch Share Registrar as follows:

Union Registrars Limited
Suites 3301-4, 33/F
Two Chinachem Exchange Square
338 King’s Road, North Point
Hong Kong
Email: info@unionregistrars.com.hk
Tel: (852) 2849 3399
Fax: (852) 2849 3319