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## **CHINA CHENGTONG DEVELOPMENT GROUP LIMITED**

**中國誠通發展集團有限公司**

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 217)

### **CONNECTED TRANSACTIONS – REORGANISATION OF PROJECT COMPANIES**

#### **REORGANISATION OF PROJECT COMPANIES**

On 18 February 2010, Zhongshi, the JV Partner, Phoenix Landmark, Prosperity Landmark and Dragon Landmark entered into the Agreement whereby the parties have conditionally agreed to restructure the shareholding structure and certain debts of each of Phoenix Landmark, Prosperity Landmark and Dragon Landmark. As at the date of the Agreement, Zhongshi is a wholly-owned subsidiary of the Company and the registered capital of each of Phoenix Landmark, Prosperity Landmark and Dragon Landmark is owned as to 80% by Zhongshi and 20% by the JV Partner.

Upon completion of the Reorganisation, each of Phoenix Landmark and Prosperity Landmark will become a wholly-owned subsidiary of the Company and the Company will cease to have any interest in Dragon Landmark, which will become wholly-owned by the JV Partner.

The purchase price for the acquisition of 20% equity interest in Phoenix Landmark payable by the Group is RMB10.0 million (equivalent to HK\$11.4 million) while the purchase price for the acquisition of 20% equity interest in Prosperity Landmark payable by the Group is RMB6.6 million (equivalent to approximately HK\$7.5 million). At the same time, the Group will dispose of its 80% equity interest in Dragon Landmark to the JV Partner at a consideration of RMB27.9 million (equivalent to approximately HK\$31.8 million).

Under the Agreement, debts owing by Dragon Landmark to the Group as at 31 January 2010 and debts owing by Phoenix Landmark and Prosperity Landmark to the JV Partner as at 31 January 2010 will also be restructured as more particularly described in the paragraph headed “Subject matter” in the section headed “The Agreement” in this announcement below.

## **GENERAL**

By virtue of the relationship between the JV Partner and the Group as described above, the JV Partner is a connected person of the Company under Chapter 14A of the Listing Rules. As certain applicable percentage ratios are more than 2.5% and the monetary value involved is more than HK\$10 million, the Reorganisation does not fall within any exemption provisions under Rules 14A.31 and 14A.32 and is thus subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

A written shareholders’ approval on the Reorganisation has already been obtained from the Controlling Shareholder, who as at the date of this announcement, holds approximately 54.8% of the issued share capital of the Company. The JV Partner has confirmed that neither it nor any of its associates is the holder of any securities of the Company and has undertaken that neither it nor any of its associates will purchase or acquire any securities of the Company pending completion of the Reorganisation. On such basis, no shareholder of the Company would be required to abstain from voting if a physical meeting for approval of the Reorganisation were to be convened. Pursuant to Rule 14A.43 of the Listing Rules, the Company has made an application to the Stock Exchange applying for a waiver that the written approval from the Controlling Shareholder in lieu of holding a physical shareholders’ meeting is acceptable for approval of the Reorganisation.

A circular containing, among other things, information relating to the Reorganisation, the recommendation of the Independent Board Committee to the independent shareholders of the Company and an opinion letter from the IFA to the Independent Board Committee and the independent shareholders of the Company, will be despatched to the shareholders of the Company as soon as practicable in compliance with the Listing Rules.

## INTRODUCTION

The Board wishes to announce that on 18 February 2010, Zhongshi, the JV Partner, Phoenix Landmark, Prosperity Landmark and Dragon Landmark entered into the Agreement whereby the parties have conditionally agreed to restructure the shareholding structure and certain debts of each of Phoenix Landmark, Prosperity Landmark and Dragon Landmark. Upon completion of the Reorganisation, each of Phoenix Landmark and Prosperity Landmark will become a wholly-owned subsidiary of the Company and the Company will cease to have any interest in Dragon Landmark, which will become wholly-owned by the JV Partner.

## THE AGREEMENT

### Summary of the major terms of the Agreement

*Date:*

18 February 2010

*Parties:*

- Zhongshi, a wholly-owned subsidiary of the Company established in the PRC with limited liability which is principally engaged in property development and investment holdings.
- JV Partner

The JV Partner is a company incorporated in the PRC with limited liability. It is the owner of 20% of the equity interest in each of Phoenix Landmark, Prosperity Landmark and Dragon Landmark, each being a subsidiary of the Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the principal activity of the JV Partner is investment holdings. The JV Partner has confirmed that neither it nor any of its associates is the holder of any securities of the Company and has undertaken that neither it nor any of its associates will purchase or acquire any securities of the Company pending completion of the Reorganisation.

- Phoenix Landmark, a 80% owned subsidiary of the Company established in the PRC with limited liability which is principally engaged in property development.

- Prosperity Landmark, a 80% owned subsidiary of the Company established in the PRC with limited liability which is principally engaged in property development.
- Dragon Landmark, a 80% owned subsidiary of the Company established in the PRC with limited liability which is principally engaged in property development.

*Subject matter:*

The parties to the Agreement have conditionally agreed to implement the Reorganisation whereby:

- (1) Zhongshi will purchase 20% equity interest in Phoenix Landmark from the JV Partner;
- (2) Zhongshi will purchase 20% equity interest in Prosperity Landmark from the JV Partner;
- (3) Zhongshi will sell 80% equity interest in Dragon Landmark to the JV Partner; and
- (4) the following debts owing to Zhongshi as at 31 January 2010 shall be applied towards the setting off of an equivalent amount of the debts owing to the JV Partner as at 31 January 2010:

	<b>Owing to Zhongshi</b> <i>RMB (in million)</i>	<b>Owing to the JV Partner</b> <i>RMB (in million)</i>
Phoenix Landmark	N/A ( <i>Note 1</i> )	10.1
Prosperity Landmark	N/A ( <i>Note 1</i> )	3.2
Dragon Landmark	19.9	N/A ( <i>Note 2</i> )
Owing by Dragon Landmark ( <i>payment obligation novated to the JV Partner</i> ) to Phoenix Landmark ( <i>assigned to Zhongshi</i> )	0.3	Nil
Total:	<u>20.2</u>	<u>13.3</u>

*Notes:*

1. As at 31 January 2010, Phoenix Landmark and Prosperity Landmark owed to Zhongshi approximately RMB72.1 million and RMB24.1 million respectively.
2. As at 31 January 2010, Dragon Landmark owed to the JV Partner approximately RMB2.6 million.

In the event that there is any change in any amount of any of the above debts, the Second Payment (as defined in the paragraph headed “Consideration” below) shall be adjusted by an equivalent amount.

*Consideration:*

The purchase price for the acquisition of 20% equity interest in Phoenix Landmark payable by the Group is RMB10.0 million (equivalent to HK\$11.4 million) while the purchase price for the acquisition of 20% equity interest in Prosperity Landmark payable by the Group is RMB6.6 million (equivalent to approximately HK\$7.5 million).

The consideration for the disposal of the Group’s 80% equity interest in Dragon Landmark to the JV Partner is RMB27.9 million (equivalent to approximately HK\$31.8 million).

Zhongshi and the JV Partner have agreed to set off their above payment obligations towards each other so that the net amount payable by the JV Partner to the Group for (i) the disposal of the 20% equity interest in each of Phoenix Landmark and Prosperity Landmark and (ii) the acquisition of 80% equity interest in Dragon Landmark is RMB11.3 million (equivalent to approximately HK\$12.9 million).

In addition to the consideration for the transfer of equity interest in the companies referred to above, the net amount payable by the JV Partner to the Group as a result of the assignment of debts and setting-off as described in the paragraph headed “Subject matter” above shall be approximately RMB6.9 million (equivalent to approximately HK\$7.9 million).

Accordingly, in connection with the Reorganisation, the JV Partner shall pay to the Group an aggregate amount of approximately RMB18.2 million (equivalent to approximately HK\$20.8 million) (“**Net Price**”).

It is a term of the Agreement that the Net Price shall be paid by the JV Partner to the Group in cash in the following manner:

- (1) RMB3 million (equivalent to approximately HK\$3.4 million) shall be paid upon the signing of the Agreement as deposit (“**Deposit**”);
- (2) approximately RMB6.1 million (equivalent to approximately HK\$7.0 million) (“**First Payment**”) shall be paid on or before 28 February 2010; and
- (3) approximately RMB9.1 million (equivalent to approximately HK\$10.4 million) (“**Second Payment**”), or the remaining balance of the Net Price as adjusted as a result of any change in the amount of debt as described in the paragraph headed “Subject matter” above, shall be paid on or before 31 March 2010.

*Conditions precedent and Completion:*

The parties agreed that the date on which the change of the shareholding structure of Phoenix Landmark, Prosperity Landmark and Dragon Landmark is registered by the PRC governmental authority would be taken as the date of completion of the Reorganisation.

Completion of the Reorganisation will only be proceeded with after the fulfillment of all of the following conditions precedent:

- (1) the board of directors and the shareholders of each of Phoenix Landmark, Prosperity Landmark and Dragon Landmark have approved the Reorganisation;
- (2) the board of directors and the shareholders of Zhongshi have approved the execution of the Agreement;
- (3) the board of directors and the shareholders of the JV Partner have approved the execution of the Agreement;
- (4) the board of directors and the shareholders of the Company have approved the Reorganisation in accordance with the articles of association of the Company and the requirements under the Listing Rules;
- (5) the JV Partner has discharged its payment obligations in respect of the Net Price as described in the paragraph headed “Consideration” above; and

- (6) if applicable, the JV Partner has settled all amount due from Dragon Landmark to the Group prior to the completion of the Reorganisation.

None of the conditions precedent as described above is capable of being waived by any party to the Agreement.

In the event that any of the conditions precedent described above is not fulfilled within 90 days after the signing of the Agreement (or such later date as may be agreed between Zhongshi and the JV Partner), the Agreement shall lapse and be of no further effect and no party to the Agreement shall have any claim against or liability to the other parties.

In the event that (i) the JV Partner has failed to pay the First Payment and/or the Second Payment to the Group; or (ii) the Group has discharged its part to procure the fulfilment of conditions precedent (1), (2) and (4) above and the other conditions precedent are not fulfilled for reasons caused by the JV Partner, the Group has the right to terminate the Agreement and to forfeit the Deposit as compensation.

## **BASIS OF DETERMINATION OF THE CONSIDERATION**

The various consideration in connection with the Reorganisation payable by or, as the case may be, to the Group is determined by the parties after arm's length negotiations with reference to (i) (as regards the 20% equity interest in each of Phoenix Landmark and Prosperity Landmark to be acquired) the amount of the registered capital in the relevant joint venture company represented by the equity interest concerned; and (ii) (as regards the 80% equity interest in Dragon Landmark to be disposed of) the amount of the registered capital in the Dragon Landmark represented by the equity interest concerned together with a premium of approximately 5.7% over the Group's contribution to such registered capital.

The debts set out above are to be set-off at their respective face value.

## INFORMATION ON THE PROJECT COMPANIES

Each of Phoenix Landmark, Prosperity Landmark and Dragon Landmark was established on 12 August 2008 pursuant to several joint venture documents entered into between Zhongshi and the JV Partner on 31 July 2008 (details of the establishment of such three companies are set out in the Company's circular dated 21 August 2008).

As at the date of the Agreement, the registered capital of Phoenix Landmark, Prosperity Landmark and Dragon Landmark is RMB50 million, RMB33 million and RMB33 million respectively. The registered capital of each of Phoenix Landmark, Prosperity Landmark and Dragon Landmark is owned as to 80% by Zhongshi and 20% of the JV Partner.

Each of the Project Companies is principally engaged in property development in the region of Zhucheng City, Shandong Province, the PRC. The status of the property projects of the Project Companies are as follows:

<b>Name of the Project Company</b>	<b>Location of property project</b>	<b>Site area and permitted usage</b>	<b>Status</b>
Phoenix Landmark	Northern side of Mizhou West Road-Eastern Section (密州西路東段北側), Zhucheng City, Shandong Province, the PRC	146,006 sq. m. for residential use	Under construction and it is expected the construction of Phase I of the development will be completed in the first half of 2011
Prosperity Landmark	Northern side of Fanrong West Road - Western Section (繁榮路西首北側), Zhucheng City, Shandong Province, the PRC	99,599 sq. m. for commercial and residential use	Planning stage
Dragon Landmark	Eastern side of Heping Street-Northern Section (和平街北段東側), Zhucheng City, Shandong Province, the PRC	73,331 sq. m. for residential use	Planning stage



Up to 31 December 2009, each of Phoenix Landmark, Prosperity Landmark and Dragon Landmark has not generated any revenue as all of the property development projects are still under development or planning stage.

Set out below is a summary of certain unaudited financial information of Phoenix Landmark for the period from 12 August 2008 to 31 December 2008 and the year ended 31 December 2009 prepared in accordance with the PRC GAAP:

	<b>For the period from 12 August 2008 to 31 December 2008</b>	<b>For the year ended 31 December 2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Net (loss) (before taxation and extraordinary items)	(226)	(1,404)
Net (loss) (after taxation and extraordinary items)	(226)	(1,404)

The unaudited total asset value and net asset value of Phoenix Landmark as at 31 December 2009 is approximately RMB135.2 million and approximately RMB48.4 million respectively.

The JV Partner's original cost of the 20% equity interest in Phoenix Landmark to be disposed of to the Group pursuant to the Reorganisation is approximately RMB 20.0 million (equivalent to approximately HK\$22.8 million), comprising RMB10.0 million being the JV Partner's contribution to the registered capital of Phoenix Landmark and approximately RMB10.0 million being the aggregate amount of shareholder loan that the JV Partner has advanced to Phoenix Landmark.

Set out below is a summary of certain unaudited financial information of Prosperity Landmark for the period from 12 August 2008 to 31 December 2008 and the year ended 31 December 2009 prepared in accordance with the PRC GAAP:

	<b>For the period from 12 August 2008 to 31 December 2008</b>	<b>For the year ended 31 December 2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Net (loss) (before taxation and extraordinary items)	(29)	(430)
Net (loss) (after taxation and extraordinary items)	(29)	(430)

The unaudited total asset value and net asset value of Prosperity Landmark as at 31 December 2009 is approximately RMB60.5 million and approximately RMB32.5 million respectively.

The JV Partner's original cost of the 20% equity interest in Prosperity Landmark to be disposed of to the Group pursuant to the Reorganisation is approximately RMB9.8 million (equivalent to approximately HK\$11.2 million), comprising RMB6.6 million being the JV Partner's contribution to the registered capital of Prosperity Landmark and approximately RMB3.2 million being the aggregate amount of shareholder loan that the JV Partner has advanced to Prosperity Landmark.

Set out below is a summary of certain unaudited financial information of Dragon Landmark for the period from 12 August 2008 to 31 December 2008 and the year ended 31 December 2009 prepared in accordance with the PRC GAAP:

	<b>For the period from 12 August 2008 to 31 December 2008</b>	<b>For the year ended 31 December 2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Net (loss) (before taxation and extraordinary items)	(33)	(334)
Net (loss) (after taxation and extraordinary items)	(33)	(334)

The unaudited total asset value and net asset value of Dragon Landmark as at 31 December 2009 is approximately RMB55.5 million and approximately RMB32.6 million respectively.

Zhongshi's original cost of the 80% equity interest in Dragon Landmark to be disposed of to the JV Partner pursuant to the Reorganisation is approximately RMB 46.1 million (equivalent to approximately HK\$52.6 million), comprising RMB26.4 million being Zhongshi's contribution to the registered capital of Dragon Landmark and RMB19.7 million being the aggregate amount of shareholder loan that Zhongshi has advanced to Dragon Landmark.

## **FINANCIAL EFFECTS OF THE REORGANISATION**

Upon completion of the Reorganisation, each of Phoenix Landmark and Prosperity Landmark will become a wholly-owned subsidiary of the Company and the Company will cease to have any interest in Dragon Landmark, which will become wholly-owned by the JV Partner.

The Company expects to recognise an unaudited accounting gain of approximately RMB1.8 million (equivalent to approximately HK\$2.1 million) as a result of the disposal by the Group of its 80% equity interest in Dragon Landmark, being the difference between (i) the consideration receivable by the Group for such disposal (being the consideration for the equity interest transfer of approximately RMB27.9 million) and (ii) 80% of the unaudited net asset value of Dragon Landmark as at 31 December 2009 (such 80% being approximately RMB26.1 million). The final amount of the actual gain or loss as a result of the disposal by the Group of its 80% equity interest in Dragon Landmark will be determined upon completion of the Reorganisation.

The Directors expect that the Net Price to be received by the Group in connection with the Reorganisation of approximately HK\$20.8 million will be used as general working capital of the Group.

## **REASONS FOR AND BENEFITS OF THE REORGANISATION**

The Group is principally engaged in property development, property investment and land resources exploitation.

The executive Directors are of the view that Reorganisation enables the Group to gain full control of each of Phoenix Landmark and Prosperity Landmark by acquiring the minority interests from the JV Partner so that management efficiency is expected to be enhanced. In addition, going forward, the Group can then focus on consolidating its efforts and resources in the Zhucheng region in the projects carried out by Phoenix Landmark and Prosperity Landmark by realizing the Group's investment in Dragon Landmark.

The Directors (excluding the independent non-executive Directors whose views will be formed after taking into account the advice to be received from the IFA) are of the view that the Reorganisation is conducted on terms which are on arm's length basis and the terms of the Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

## **LISTING RULES IMPLICATIONS**

By virtue of the relationship between the JV Partner and the Group as described above, the JV Partner is a connected person of the Company under Chapter 14A of the Listing Rules. As certain applicable percentage ratios are more than 2.5% and the monetary value involved is more than HK\$10 million, the Reorganisation does not fall within any exemption provisions under Rules 14A.31 and 14A.32 and is thus subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A written shareholders' approval on the Reorganisation has already been obtained from the Controlling Shareholder, who as at the date of this announcement, holds approximately 54.8% of the issued share capital of the Company. The JV Partner has confirmed that neither it nor any of its associates is the holder of any securities of the Company and has undertaken that neither it nor any of its associates will acquire any securities of the Company pending completion of the Reorganisation. On such basis, no shareholder of the Company would be required to abstain from voting if a physical meeting for approval of the Reorganisation were to be convened. Pursuant to Rule 14A.43 of the Listing Rules, the Company has made an application to the Stock Exchange applying for a waiver that the written approval from the Controlling Shareholder in lieu of holding a physical shareholders' meeting is acceptable for approval of the Reorganisation.

A circular containing, among other things, information relating to the Reorganisation, the recommendation of the Independent Board Committee to the independent shareholders of the Company and an opinion letter from the IFA to the Independent Board Committee and the independent shareholders of the Company, will be despatched to the shareholders of the Company as soon as practicable in compliance with the Listing Rules.

## DEFINITIONS

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

“Agreement”	the agreement dated 18 February 2010 made between Zhongshi, the JV Partner, Phoenix Landmark, Prosperity Landmark and Dragon Landmark for the purpose of implementing the Reorganisation
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	China Chengtong Development Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder”	World Gain Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which, as at the date of this announcement, holds 2,286,343,570 issued shares of HK\$0.10 each of, representing approximately 54.8% of the issued share capital of, the Company. World Gain Holdings Limited is a controlling shareholder of the Company within the meaning of the Listing Rules
“Director(s)”	the director(s) of the Company
“Dragon Landmark”	諸城港龍置地有限公司 (Zhucheng Dragon Landmark Company Limited), a company incorporated in the PRC with limited liability owned as to 80% by Zhongshi and 20% by the JV Partner
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFA”	the independent financial adviser to be appointed by the Company to advise the Independent Board Committee and the independent shareholders of the Company in relation to the Reorganisation
“Independent Board Committee”	the independent board committee of the Company comprising the independent non-executive Directors to be formed to advise the independent shareholders of the Company in relation to the Reorganisation
“JV Partner”	北京世紀尊博投資有限公司 (Beijing Century Zun Bo Investment Company Limited), a company incorporated in the PRC with limited liability, which owns, as at the date of the Agreement, 20% equity interest in each of Phoenix Landmark, Prosperity Landmark and Dragon Landmark
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Phoenix Landmark”	諸城鳳凰置地有限公司 (Zhucheng Phoenix Landmark Company Limited), a company incorporated in the PRC with limited liability owned as to 80% by Zhongshi and 20% by the JV Partner
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“PRC GAAP”	the generally accepted accounting principles in the PRC;
“Project Companies”	collectively, Phoenix Landmark, Prosperity Landmark and Dragon Landmark
“Prosperity Landmark”	諸城泰豐置地有限公司 (Zhucheng Prosperity Landmark Company Limited), a company incorporated in the PRC with limited liability owned as to 80% by Zhongshi and 20% by the JV Partner

“Reorganisation”	the reorganisation of the shareholding structure and certain debts of Phoenix Landmark, Prosperity Landmark and Dragon Landmark as described in the paragraph headed “Subject matter” in the section headed “The Agreement” in this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhongshi”	中實投資有限責任公司 (Zhongshi Investment Company Limited), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company
“%”	per cent.

*In this announcement, for the purpose of illustration only, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$1.14. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.*

*If there is any inconsistency between the Chinese names of the PRC entities mentioned in this announcement and their English translations, the Chinese names shall prevail.*

By order of the board of directors of  
**China Chengtong Development Group Limited**  
**Wang Hongxin**  
*Managing Director*

Hong Kong, 18 February 2010

*As at the date of this announcement, the executive Directors are Mr. Zhang Guotong, Mr. Wang Hongxin and Mr. Wang Tianlin; the non-executive Directors are Mr. Gu Laiyun and Ms. Xu Zhen; and the independent non-executive Directors are Mr. Kwong Che Keung, Gordon, Mr. Tsui Yiu Wa, Alec, Mr. Lao Youan and Mr. Ba Shusong.*