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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)

CONTINUING CONNECTED TRANSACTION AND MAJOR TRANSACTION IN RELATION TO FINANCIAL SERVICES AGREEMENT

**Independent Financial Adviser
to the Independent Board Committee and the independent Shareholders**



Halcyon Capital Limited

THE FINANCIAL SERVICES AGREEMENT

After trading hours on 21 May 2014, the Company and Chengtong Finance entered into the Financial Services Agreement, pursuant to which Chengtong Finance agreed to provide the Group with a range of financial services for a term commencing from the Effective Date to 31 December 2016, subject to the terms and conditions provided therein.

LISTING RULES IMPLICATIONS

Chengtong Finance is a subsidiary of CCHG. CCHG is the holding company of CCHK which owns the entire issued share capital of World Gain Holdings Limited, a controlling Shareholder. Accordingly, Chengtong Finance is a connected person of the Company within the meaning of the Listing Rules and the transactions contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Deposit Services

As the relevant percentage ratios in respect of the provision of the Deposit Services exceed 5%, the provision of the Deposit Services is subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Further, as the relevant percentage ratios in respect of the provision of the Deposit Services exceed 25% but are less than 100%, the provision of the Deposit Services also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the notification, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Loan Services

The provision of loan services by Chengtong Finance to the Group under the Financial Services Agreement will constitute financial assistance to be provided by a connected person for the benefit of the Group. As such loan services will be conducted on normal commercial terms (or better to the Company) and no security over the assets of the Group will be required if the Group meets the credit requirements of Chengtong Finance, the provision of loan services under the Financial Services Agreement are exempt under Rule 14A.65(4) of the Listing Rules from all reporting, announcement and independent Shareholders' approval requirements.

Other Financial Services

The Company expects that each of the relevant percentage ratios of the total fees payable by the Company on annual basis to Chengtong Finance in respect of the provision of other financial services under the Financial Services Agreement will fall within the de minimis threshold as stipulated under Chapter 14A of the Listing Rules. The Company will comply with the relevant reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules if the total fees payable by the Company to Chengtong Finance for the provision of other financial services under the Financial Services Agreement exceed the de minimis threshold.

GENERAL

An Independent Board Committee comprising all the independent non-executive Directors, has been established to advise the independent Shareholders in relation to the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap). Halcyon Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders of the same.

A circular containing, among other matters, (i) further information on the Deposit Services contemplated under the Financial Services Agreement; (ii) a letter from the Independent Financial Adviser; (iii) a letter from the Independent Board Committee; and (iv) the notice convening the EGM and a form of proxy will be despatched to the Shareholders within 15 business days after the publication of this announcement.

FINANCIAL SERVICES AGREEMENT

Date:

21 May 2014

Parties:

- (i) the Company; and
- (ii) Chengtong Finance

Chengtong Finance is a company incorporated in the PRC and a non-banking financial institution with 金融許可證 (a financial licence issued by the CBRC), which is principally engaged in provision of financial services, including deposit taking, credit facilities granting, settlement services, and other types of financial services to member companies (成員單位) of the group of CCHG, including the Group.

Duration:

From the Effective Date to 31 December 2016.

Scope of Services:

Chengtong Finance shall provide the Group with a range of financial services subject to the terms and conditions of the Financial Services Agreement. Such financial services include:

- (a) Deposit Services
 - (1) The Group can make deposits with Chengtong Finance at its discretion, such as current deposit, call deposit and time deposit.
 - (2) The interest rates payable by Chengtong Finance to the Group for any deposits shall not be lower than (i) the benchmark interest rates prescribed by the PBC; (ii) the interest rates payable by other major commercial banks in the PRC; and (iii) the interest rates offered by Chengtong Finance to any third party in the same period for the same type of deposits.
 - (3) Deposit Cap: The daily balance of the Group's deposits (including any interest accrued therefrom) with Chengtong Finance for each of the three years ending 31 December 2014, 31 December 2015 and 31 December 2016 shall not exceed RMB500 million (or foreign currency equivalent).
 - (4) The above balance of the Group's deposits excludes (i) loans, entrusted loans or discounted bills advanced by Chengtong Finance to the Group; (ii) loan interests payable by the Group to Chengtong Finance; and (iii) guarantee provided by Chengtong Finance in favour of banks for the Group to obtain bank loans.
 - (5) Chengtong Finance will ensure the security of the Group's deposits by depositing them into commercial banks approved by the PRC government.
 - (6) In case Chengtong Finance is unable to pay back the Group's deposits to the Group, the Company shall have the right to terminate the Financial Services Agreement and offset any loan advanced by Chengtong Finance to the Group against the amount of deposits placed by the Group with Chengtong Finance.

(7) Chengtong Finance shall indemnify the Company in full for any economic loss suffered by the Company as a result of Chengtong Finance's breach of the Financial Services Agreement.

(b) Loan Services

(1) Chengtong Finance agrees to provide loan services to the Group on normal commercial terms (or better to the Company).

(2) Chengtong Finance undertakes to provide loan services to the Group with favourable interest rates, which shall not be higher than the interest rates provided by other major financial institutions in the PRC in the same period for the same type of loans.

(3) No security over the assets and equity rights or guarantee from the Group will be required if the Group meets the credit requirements of Chengtong Finance.

(c) Other Financial Services

(1) Chengtong Finance shall provide the Group with other financial services as approved by the CBRC upon instruction and request by the Group.

(2) The fee payable by the Group to Chengtong Finance for such other financial services shall not be higher than the fees charged by other major financial institutions for financial services of similar type.

Undertakings by Chengtong Finance:

Chengtong Finance undertakes to the Group, among other things, that it shall:

(a) ensure the safety and independence of the Group's deposits and not impose any restriction thereon;

(b) cooperate with the Group in compliance with the disclosure requirements under the relevant rules and regulations regarding the connected transactions contemplated under the Financial Services Agreement;

(c) regularly supply annual audit report or such other financial information as requested by the Company, regularly disclose its operation and financial conditions to the Company, allow the Company's auditors to review its accounting records for the purpose of complying with the Listing Rules;

(d) allow and cooperate with the Group to carry on stress testing on its deposits with Chengtong Finance from time to time; and

(e) notify the Company and take measures to prevent loss from happening or further loss should it be in breach of relevant laws and regulations or subject to regulatory proceedings or have material adverse changes in its financial condition.

CCHG, the ultimate holding company of Chengtong Finance, has undertaken to the CBRC that it will increase the capital of Chengtong Finance in case Chengtong Finance has difficulty in payment.

DEPOSIT CAP

It is proposed that the maximum daily balance of the Group's deposits (including any interest accrued therefrom) with Chengtong Finance for each of the three years ending 31 December 2014, 31 December 2015 and 31 December 2016 shall not exceed RMB500 million.

The Deposit Cap is determined based on the amount of deposits historically made by the Group with other independent commercial banks in the PRC. As at 31 December 2013 and 2012, the Group's bank balances and cash (excluding pledged bank deposits) amounted to approximately HK\$2,557.3 million and HK\$1,973 million respectively. The Directors consider that the proposed Deposit Cap will not have significant adverse impact on the Group's utilisation of fund.

The Company confirms that there is no historical cap and no outstanding balance for the Deposit Services with Chengtong Finance.

INFORMATION OF THE GROUP AND CHENGTONG FINANCE

The principal activities of the Group are bulk commodity trade, property development, property investment, hospitality and marine travel services, financial leasing and trading of coal.

Chengtong Finance is a non-banking financial institution subject to the supervision of the CBRC. It is authorised to provide a variety of financial services including deposit services, loan services and settlement services to member companies (成員單位) of the group of CCHG, including the Group.

REASONS FOR AND BENEFITS OF THE FINANCIAL SERVICES AGREEMENT

As Chengtong Finance and the Group are both members within the group of CCHG, Chengtong Finance is much more familiar with the Group's operation than other financial institutions. It is expected that Chengtong Finance will provide the Group with flexible and tailor-made financial services. Further, being a subsidiary of CCHG, Chengtong Finance is expected to provide centralised financial platform for the Group with less cost.

CCHG is a state-owned enterprise established in the PRC with a registered capital of approximately RMB7.48 billion as at the date of this announcement. CCHG's audited net assets value as at 31 December 2013 was over RMB24 billion. With CCHG's undertaking to increase the capital of Chengtong Finance if Chengtong Finance has difficulty in payment, the Directors are of the view that the Group's interest is sufficiently safeguarded.

While the interest rates under the Deposit Services offered by Chengtong Finance will not be lower than those that would have been offered to the Group by other major commercial banks in the PRC or those offered by Chengtong Finance to any third parties, the interest rates under the loan services offered by Chengtong Finance, on the other hand, will not be higher than those of other major financial institutions in the PRC for the same type of services of the same period.

Moreover, Chengtong Finance is subject to the supervision of the CBRC and provides its services in accordance with the rules and operational requirements of CBRC. To the best knowledge of the Directors and after making all reasonable enquiries, up to the date of this announcement, Chengtong Finance has shown healthy financial position and has been under good corporate governance with quality internal control system. Chengtong Finance has complied with the rules and regulations stipulated by the CBRC and its internal control and risk management measures since its commencement of operation. The Company believes that the risk profile of Chengtong Finance, as a financial services provider to the Company, is not greater than that of independent commercial banks in the PRC.

The Directors (excluding the independent non-executive Directors, who shall provide their recommendation taking into account the advice of the Independent Financial Adviser) are therefore of the view that the terms of the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap) are fair and reasonable, and on normal commercial terms and the entering into of the Deposit Services contemplated under the Financial Services Agreement is in the interest of the Company and the Shareholders as a whole.

The Directors (including the independent non-executive Directors) are also of the view that the terms of the loan services and other financial services contemplated under the Financial Services Agreement are fair and reasonable, and on normal commercial terms and the entering into of such services is in the interest of the Company and the Shareholders as a whole.

None of the Directors has material interest in the transactions contemplated under the Financial Services Agreement or is required to abstain from voting on the Board resolutions in relation to the Financial Services Agreement and the transactions contemplated thereunder.

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GENERAL

An Independent Board Committee comprising all the independent non-executive Directors, has been established to advise the independent Shareholders in relation to the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap). Halcyon Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders of the same.

A circular containing, among other matters, (i) further information on the Deposit Services contemplated under the Financial Services Agreement; (ii) a letter from the Independent Financial Adviser; (iii) a letter from the Independent Board Committee; and (iv) the notice convening the EGM and a form of proxy will be despatched to the Shareholders within 15 business days after the publication of this announcement.

DEFINITIONS

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

“associate”	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 and the shares of which are listed on the Main Board of the Stock Exchange
“CCHG”	China Chengtong Holdings Group Limited, a company incorporated in the PRC and the holding company of CCHK
“CCHK”	China Chengtong Hong Kong Company Limited, a company incorporated in Hong Kong and the holding company of World Gain Holdings Limited, a controlling Shareholder

“Chengtong Finance”	誠通財務有限責任公司 (China Chengtong Finance Corporation Ltd.), a company incorporated in the PRC and a non-banking financial institution approved by the CBRC
“CBRC”	China Banking Regulatory Commission
“connected person”	has the meaning ascribed to it under the Listing Rules
“Effective Date”	the date on which the independent Shareholders have approved the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap)
“Deposit Cap”	the proposed maximum daily outstanding balance of deposits placed by the Group with Chengtong Finance during the term of the Financial Services Agreement
“Deposit Services”	the deposit services provided by Chengtong Finance to the Group pursuant to the terms of the Financial Services Agreement
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the independent Shareholders to consider and, if thought fit, to approve, among other matters, the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap)
“Financial Services Agreement”	the financial services agreement dated 21 May 2014 entered into between the Company and Chengtong Finance pursuant to which Chengtong Finance has agreed to provide the Group with a scope of financial services
“Group”	the Company and its subsidiaries from time to time
“Halcyon Capital” or “Independent Financial Adviser”	Halcyon Capital Limited, a corporation licensed under the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong) to carry out type 6 (advising on corporate finance) regulated activity and the independent financial adviser to advise the Independent Board Committee and the independent Shareholders in respect of the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company established by all the independent non-executive Directors to advise the independent Shareholders on the terms of the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap)

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PBC”	The People’s Bank of China
“PRC”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

By Order of the Board
China Chengtong Development Group Limited
Wang Hongxin
Managing Director

21 May 2014

As at the date of this announcement, the executive Directors are Mr. Yuan Shaoli, Mr. Wang Hongxin, Mr. Wang Tianlin and Mr. Zhang Bin, and the independent non-executive Directors are Mr. Chang Qing, Mr. Lee Man Chun, Tony and Mr. Chan Sheung Lai.