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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)

INSIDE INFORMATION — UPDATES ON THE TERMINATED ACQUISITION OF COAL MINES — PROGRESS ON RECOVERY OF EARNEST MONEY, ADVANCE PAYMENT AND OTHER RECEIVABLES

This announcement is made by the Company pursuant to the Rule 13.09(2)(a) of the Listing Rules and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong).

In order to safeguard the interests of the Group in respect of the recovery of the S&P Amount, the Loan Agreement Amount and the Coal Supply Agreement Amount, the Group has taken various measures (including seeking legal advices, negotiating with the parties concerned, initiating the First Arbitration and the Second Arbitration and making applications to freeze the valuable assets of Coal Mine Company).

The Board would like to update the Shareholders on the progress on recovery as follows:

1. In respect of the S&P Amount, on 8 July 2014, the Group successfully obtained additional corporate guarantee from Coal Mine Company and two of its subsidiaries to secure the repayment obligations of Alpha Duo and Ms. Li to the extent of RMB45 million and the interests accrued thereon.
2. In respect of the Loan Agreement Amount and the Coal Supply Agreement Amount, on 8 July 2014, Chengtong Coal Investment, Dafeng Ruineng, Coal Mine Company, International Southwest and Coal Sales Company entered into a settlement agreement pursuant to which the parties have agreed on the repayment schedule and the provision of additional guarantees to the Group, the details of which are set out below.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the securities of the Company.

This announcement is made by the Company pursuant to the Rule 13.09(2)(a) of the Listing Rules and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong).

BACKGROUND

Reference is made to the announcements of the Company dated 24 June 2013 (the “**Announcement**”), 16 July 2013, 19 August 2013, 25 September 2013, 31 October 2013, 31 December 2013, 28 February 2014 and 1 April 2014 in respect of the proposed acquisition of an aggregate of 85% of the issued share capital of Alpha Fortune Industrial Limited. Terms defined in the Announcement shall have the same meanings when used herein unless the context requires otherwise.

The purpose of this announcement is to update the Shareholders on the progress of (i) the refund of the Earnest Money, the Advance Payment and the interests accrued to the Group pursuant to the Sale and Purchase Agreement; (ii) the repayment of a loan advanced to Coal Mine Company by the Group pursuant to the Loan Agreement; and (iii) the refund of deposit paid to Coal Mine Company by the Group pursuant to the Coal Supply Agreement.

The Sale and Purchase Agreement

As disclosed by the Company in its announcement dated 1 April 2014, the Sale and Purchase Agreement lapsed on 31 March 2014. Under the Sale and Purchase Agreement, the Vendors shall procure Alpha Duo and Ms. Li to, and Alpha Duo and Ms. Li shall, repay to the Group the Earnest Money, the Advance Payment and the interests accrued under the Framework Agreement within 10 business days after the termination of the Sale and Purchase Agreement. If Alpha Duo and Ms. Li fail to repay the outstanding amount to the Group within 10 business days after the termination of the Sale and Purchase Agreement, such outstanding amount shall be subject to a compensation for breach of contract (“**Compensation**”) which is calculated at a daily rate of 0.02% starting from the date of the Sale and Purchase Agreement and until the date when the outstanding amounts have all been settled by Alpha Duo and Ms. Li.

As at 27 May 2014, apart from the Compensation, the total amount of the Earnest Money, the Advance Payment and the interest accrued due by Alpha Duo and Ms. Li to the Group amounted to RMB269,681,666.67 (“**S&P Amount**”).

Loan Agreement

On 9 January 2014, Chengtong Coal Investment, a wholly-owned subsidiary of the Company, entered into the Loan Agreement with Coal Mine Company pursuant to which Chengtong Coal Investment agreed to lend a sum of RMB50,000,000 (“**Loan**”) to Coal Mine Company at an interest rate of 5.60% per annum for a term ended on 30 June 2014. Under the Loan Agreement, the Group is entitled to call for the repayment of the Loan and interest under the Loan Agreement at any time prior to the expiry of the Loan Agreement.

On the same day, Chengtong Coal Investment as pledgee, International Southwest as pledgor and Coal Mine Company entered into the Equity Pledge pursuant to which International Southwest agreed to pledge 15% of the equity interest in Coal Mine Company held by it in favour of Chengtong Coal Investment to secure the performance of the Loan Agreement by Coal Mine Company (including but not limited to its repayment obligation thereunder). Further, on the same day, the Guarantee was given by International Southwest in favour of Chengtong Coal Investment pursuant to which International Southwest agreed to provide a joint and several guarantee in favour of Chengtong Coal Investment in relation to the obligations of Coal Mine Company under the Loan Agreement.

On 11 May 2014, the Group issued a notice to Coal Mine Company requesting for the repayment of the Loan and interest under the Loan Agreement before 16 May 2014 in accordance with the terms of the Loan Agreement. On 26 May 2014, the Group issued a notice to International Southwest requesting for the repayment of the Loan and interest under the Loan Agreement as jointly and severally guaranteed by International Southwest.

Since Coal Mine Company did not repay the Loan and interests on time, on 26 May 2014, Chengtong Coal Investment filed an application to South China Arbitration Commission and the Intermediate People's Court of Laibin City for freezing certain assets of Coal Mine Company (including cash at banks and mining rights) up to an aggregate value of RMB51,675,205.48. On 28 May 2014, Chengtong Coal Investment initiated and filed an arbitration claim ("**First Arbitration**") with South China Arbitration Commission against Coal Mine Company and International Southwest requesting for (i) Coal Mine Company to repay the Loan in a principal sum of RMB50,000,000 and interest, penalty charge and legal fees incurred in connection with the First Arbitration; (ii) International Southwest to honour its joint and several obligations to repay the sum under (i) above and penalty charge in connection therewith; (iii) the enforcement of the Equity Pledge to settle the outstanding sum due to Chengtong Coal Investment; and (iv) Coal Mine Company and International Southwest to bear and pay all arbitration costs and costs in connection with the application for freezing order and the First Arbitration.

On 26 June 2014, the Intermediate People's Court of Laibin City delivered judgments to freeze monies in an aggregate amount of RMB3,848,000 held by Coal Mine Company as (i) deposit at banks; and (ii) 10 mining rights of Coal Mine Company. On 30 June 2014, South China Arbitration Commission issued an arbitration notice to Chengtong Coal Investment stating that the application for the First Arbitration by Chengtong Coal Investment has been accepted by South China Arbitration Commission.

As at 8 July 2014, the total amount of principal and interests and penalty accrued due by Coal Mine Company to Chengtong Coal Investment pursuant to the Loan Agreement amounted to RMB52,355,205.48 ("**Loan Agreement Amount**").

Coal Supply Agreement

The Coal Supply Agreement was entered into between Dafeng Ruineng, a non-wholly-owned subsidiary of the Company, as purchaser and Coal Mine Company as supplier on 20 May 2013 (as supplemented by agreements on 29 May 2013, 19 August 2013 and 19 October 2013). In accordance with the Coal Supply Agreement, Coal Mine Company shall supply about 116,000 tonnes of coal to Dafeng Ruineng by 30 June 2014. Under the Coal Supply Agreement, Dafeng Ruineng made a deposit of RMB8,000,000 to Coal Mine Company on 19 June 2013. In accordance with the Coal Supply Agreement, Dafeng Ruineng is entitled to terminate the Coal Supply Agreement at any time before 30 June 2014, and in such case, Coal Mine Company shall refund the deposit received to Dafeng Ruineng within 5 business days after the date of such termination.

On 30 April 2014, Dafeng Ruineng issued a notice to Coal Mine Company requesting for the supply of 61,538 tonnes of coal within 10 days from the date of such notice. However, Coal Mine Company failed to supply coal in accordance with the requirements of the said notice. On 26 May 2014, Dafeng Ruineng issued a notice to Coal Mine Company to terminate the Coal Supply Agreement and request for the refund of the deposit made by it within 5 business days from the date of such termination.

Since Coal Mine Company failed to refund the deposit of RMB8,000,000 made by Dafeng Ruineng under the Coal Supply Agreement, on 26 May 2014, Dafeng Ruineng filed an application to South China Arbitration Commission and the People's Court of Heshan City for freezing the 100% equity interest in Hecheng Coal Company held by Coal Mine Company up to an aggregate value of RMB8,000,000. On 26 May 2014, Dafeng Ruineng initiated and filed an arbitration claim ("**Second Arbitration**") with South China Arbitration Commission against Coal Mine Company requesting for Coal Mine Company (i) to refund the deposit of RMB8,000,000 and pay the penalty charge under the Coal Supply Agreement; and (ii) to bear and pay all arbitration costs, legal fees and costs in connection with the application for freezing order and the Second Arbitration.

On 24 June 2014, the People's Court of Heshan City delivered judgments to freeze the equity interest in Hecheng Coal Company held by Coal Mine Company of an aggregate value of RMB8,000,000. On 30 June 2014, South China Arbitration Commission issued an arbitration notice to Dafeng Ruineng stating that the application for the Second Arbitration by Dafeng Ruineng has been accepted by South China Arbitration Commission.

As 8 July 2014, the total amount of deposit and penalty accrued due by Coal Mine Company to Dafeng Ruineng pursuant to the Coal Supply Agreement amounted to RMB8,074,958.90 ("**Coal Supply Agreement Amount**").

PROGRESS ON RECOVERY OF EARNEST MONEY, ADVANCE PAYMENT AND OTHER RECEIVABLES

In order to safeguard the interests of the Group in respect of the recovery of the S&P Amount, the Loan Agreement Amount and the Coal Supply Agreement Amount, the Group has taken various measures (including seeking legal advices, negotiating with the parties concerned, initiating the First Arbitration and the Second Arbitration and making applications to freeze the valuable assets of Coal Mine Company).

The Board would like to update the Shareholders on the progress on recovery as follows:

1. In respect of the S&P Amount, on 8 July 2014, the Group obtained additional corporate guarantee from Coal Mine Company and two of its subsidiaries to secure the repayment obligations of Alpha Duo and Ms. Li to the extent of RMB45 million and the interests accrued thereon.
2. In respect of the Loan Agreement Amount and the Coal Supply Agreement Amount, on 8 July 2014, Chengtong Coal Investment, Dafeng Ruineng, Coal Mine Company, International Southwest and Coal Sales Company entered into a settlement agreement, the principal terms of which are summarised as follows:
 - (i) International Southwest agreed to provide additional corporate guarantee to Chengtong Coal Investment to secure Coal Mine Company's payment obligation of the Loan Agreement Amount and all expenses incurred by Chengtong Coal Investment in connection with the enforcement of its rights;
 - (ii) Coal Sales Company agreed to provide additional corporate guarantee to Chengtong Coal Investment to secure Coal Mine Company's payment obligation of the Loan Agreement Amount and all expenses incurred by Chengtong Coal Investment in connection with the enforcement of its rights, and to Dafeng Ruineng to secure Coal Mine Company's payment obligation of the Coal Supply Agreement Amount and all expenses incurred by Dafeng Ruineng in connection with the enforcement of its rights;

- (iii) Coal Mine Company agreed to repay the Loan Agreement Amount and the Coal Supply Agreement Amount in 13 monthly instalments starting from 14 July 2014;
- (iv) Coal Mine Company agreed to apply the compensation it will receive from certain of its coal mines (expected to be not less than RMB140 million) to repay to the Group;
- (v) Coal Mine Company agreed to obtain financing from banks for repayment to the Group;
- (vi) Coal Mine Company and Chengtong Coal Investment will establish a jointly-managed bank account and all compensation received or bank financing obtained by Coal Mine Company shall be deposited in such bank account for repayment to the Group;
- (vii) Chengtong Coal Investment agreed to apply for the release of the freeze order of the bank accounts and Coal Mine Company shall immediately apply not less than RMB3,850,000 from such bank accounts to repay to Chengtong Coal Investment;
- (viii) the Equity Pledge continues to be a legal, valid and enforceable security to secure the payment obligations of Coal Mine Company under the Loan Agreement; and
- (ix) the freeze orders in respect of the 10 mining rights and the equity interest in Hecheng Coal Company continue to be valid until the full repayment of the Loan Agreement Amount and the Coal Supply Agreement Amount.

The Company will make further announcement to inform its shareholders and potential investors of any material development of the recovery of the S&P Amount, the Loan Agreement Amount and the Coal Supply Agreement Amount as and when appropriate.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

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

“Board”	the board of Directors
“Chengtong Coal Investment”	China Chengtong Coal Investment Limited (中國誠通煤業投資有限公司), a company incorporated in the British Virgin Island and a wholly-owned subsidiary of the Company
“Coal Mine Company”	廣西合山煤業有限責任公司(Guangxi Heshan Coal Company Limited), a company established in the PRC with limited liability
“Coal Sales Company”	廣西合山合煤銷售有限責任公司(Guangxi Heshan Hemei Sales Company Limited), a company established in the PRC with limited liability and a subsidiary of Coal Mine Company

“Coal Supply Agreement”	the supply agreement entered into between Dafeng Ruineng as purchaser and Coal Mine Company as supplier on 20 May 2013 (as supplemented by agreements on 29 May 2013, 19 August 2013 and 19 October 2013) in relation to the supply of coal
“Company”	China Chengtong Development Group Limited (中國誠通發展集團有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Dafeng Ruineng”	大豐瑞能燃料有限公司(Dafeng Ruineng Fuel Company Limited), a company established in the PRC and owned as to 51% by 誠通發展貿易有限公司 (Chengtong Development Trading Company Limited) which is a wholly-owned subsidiary of the Company
“Directors”	the directors of the Company
“Equity Pledge”	the equity pledge executed by International Southwest as pledgor, Chengtong Coal Investment as pledgee, and the Coal Mine Company on 9 January 2014 in relation to the pledge of 15% of the equity interest in the Coal Mine Company by International Southwest in favour of Chengtong Coal Investment
“Group”	the Company and its subsidiaries
“Guarantee”	a guarantee given by International Southwest in favour of Chengtong Coal Investment dated 9 January 2014 pursuant to which International Southwest agreed to provide a joint and several guarantee in favour of Chengtong Coal Investment in relation to the obligations of Coal Mine Company under the Loan Agreement
“Hecheng Coal Company”	羅城仫佬族自治縣合城煤業有限責任公司(Luocheng Mu Lao Autonomous Region Hecheng Coal Company Limited), a company owned by Coal Mine Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“International Southwest”	International Southwest Coal Investment Holdings Company Limited (國際西南煤業投資控股有限公司), a company incorporated in Hong Kong with limited liability
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Agreement”	the loan agreement dated 9 January 2014 entered into between Chengtong Coal Investment as lender and Coal Mine Company as borrower in relation to the provision of the Loan in the principal amount of RMB50,000,000

“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“South China Arbitration Commission”	South China International Economic and Trade Arbitration Commission
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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

Hong Kong, 8 July 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.