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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)

DISCLOSEABLE TRANSACTION – FINANCE LEASE ARRANGEMENT

On 3 February 2020, Chengtong Financial Leasing, an indirect wholly-owned subsidiary of the Company, entered into the Finance Lease Arrangement which comprises:

- (i) the Purchase Contract pursuant to which Chengtong Financial Leasing has agreed to purchase from Honghua Electric the Facilities at a consideration of RMB20 million; and
- (ii) the Finance Lease Contract pursuant to which Chengtong Financial Leasing has agreed to lease the Facilities to Honghua Shenzhen for a term of five (5) years.

Reference is made to (i) the announcement of the Company dated 18 October 2018 in relation to the First Finance Lease Arrangement which comprises, among others, a purchase contract and a rig lease contract pursuant to which Chengtong Trading, an indirect wholly-owned subsidiary of the Company, purchased a rig from Sichuan Honghua and leased such rig to Honghua Golden Coast for a term of six (6) years, commencing from 31 January 2019, and (ii) the announcement of the Company dated 19 December 2019 in relation to the Second Finance Lease Arrangement which comprises a purchase contract and a finance lease contract pursuant to which Chengtong Financial Leasing purchased an electrical fracturing system and certain facilities related to such system from Honghua Electric and leased such electrical fracturing system and facilities to Honghua Shenzhen for a term of five (5) years, commencing from 24 December 2019. Sichuan Honghua and Honghua Golden Coast are wholly-owned subsidiaries of Honghua Group. Honghua Shenzhen and Honghua Electric are non-wholly owned subsidiaries of Honghua Group.

Since the counterparties of the First Finance Lease Arrangement, the Second Finance Lease Arrangement and the Finance Lease Arrangement are connected or associated with Honghua Group, the relevant transactions under the First Finance Lease Arrangement and the Second Finance Lease Arrangement are required to be aggregated with those of the Finance Lease Arrangement pursuant to Rule 14.22 of the Listing Rules. As the highest percentage ratio (as defined under the Listing Rules) in respect of the relevant transactions contemplated under the First Finance Lease Arrangement, the Second Finance Lease Arrangement and the Finance Lease Arrangement, on an aggregate basis, exceeds 5% but is less than 25%, each of the transactions under the Finance Lease Arrangement constitutes a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

On 3 February 2020, Chengtong Financial Leasing, an indirect wholly-owned subsidiary of the Company, entered into the Finance Lease Arrangement which comprises:

- (i) the Purchase Contract pursuant to which Chengtong Financial Leasing has agreed to purchase from Honghua Electric the Facilities at a consideration of RMB20 million; and
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PURCHASE CONTRACT

The principal terms of the Purchase Contract are set out as follows:

Date

3 February 2020

Parties

Vendor: Honghua Electric

Purchaser: Chengtong Financial Leasing

Purchase of the Facilities

Pursuant to the Purchase Contract, Chengtong Financial Leasing has agreed to purchase from the Honghua Electric the Facilities at a consideration of RMB20 million (equivalent to approximately HK\$22.4 million). The purchase price was agreed between Chengtong Financial Leasing and Honghua Electric after arm's length negotiation with reference to the prevailing market price of similar facilities. The purchase price shall be paid in cash prior to or upon the commencement of the Lease Term.

The payment of the purchase price is subject to the fulfilment of certain conditions including the signing of the Finance Lease Contract and other project documents.

The purchase price will be satisfied by the internal resources of the Group.

FINANCE LEASE CONTRACT

The principal terms of the Finance Lease Contract are set out as follows:

Date

3 February 2020

Parties

Lessor: Chengtong Financial Leasing

Lessee: Honghua Shenzhen

Subject matter of the lease

The Facilities purchased by Chengtong Financial Leasing under the Purchase Contract.

Legal title

Chengtong Financial Leasing owns the legal title of the Facilities during the Lease Term.

Lease term

The Facilities shall be leased to Honghua Shenzhen for a period of five (5) years commencing from the date on which the total purchase price for the Facilities is paid under the Purchase Contract. The Lease Term is expected to commence on 28 February 2020 and in any event by no later than 31 March 2020.

Lease payment

The total amount of lease payment over the Lease Term is estimated to be approximately RMB23.55 million (equivalent to approximately HK\$26.38 million) which shall be paid by Honghua Shenzhen to Chengtong Financial Leasing in ten (10) equal instalments on a semi-annual basis during the Lease Term.

The total amount of lease payment is calculated on the then outstanding lease principal payment amount (being initially the amount of purchase price pursuant to the Purchase Contract to be paid by Chengtong Financial Leasing) with a fixed return rate calculated at 30% above the prevailing benchmark lending rate published by the PBOC in respect of a five-year loan as at the date of this announcement. The return rate has been agreed after arm's length negotiations between the parties with reference to the total purchase price payable by Chengtong Financial Leasing for the Facilities under the Purchase Contract and the credit risks associated with the Finance Lease Arrangement.

Security deposit

Honghua Shenzhen agrees to pay a sum of RMB1 million (equivalent to approximately HK\$1.12 million) as security deposit for the performance of its obligations under the Finance Lease Contract on or before 28 February 2020. Subject to the discharge and settlement of all secured obligations under the Finance Lease Contract, the security deposit shall be returned to Honghua Shenzhen in lump sum within ten (10) business days upon the expiry of the Lease Term.

Insurance

Honghua Shenzhen shall, on its own costs, purchase, or procure the end user of the Facilities to purchase, property all risk insurance, including third party liability insurance, to cover the Facilities throughout the Lease Term. Chengtong Financial Leasing or its nominee shall be the insured and the first beneficiary of such insurances.

Lessee's right to purchase the Facilities

Upon expiry of the Lease Term, Honghua Shenzhen shall be entitled to purchase the Facilities itself or designate a third party to purchase the Facilities at a nominal consideration of RMB100. In the event Honghua Shenzhen chooses not to purchase the facilities itself, it shall designate a third party to purchase the Facilities.

Early termination

Provided that there is no breach of any obligations under the Finance Lease Contract and other project documents and subject to obtaining the consent from Chengtong Financial Leasing, Honghua Shenzhen shall be entitled to terminate the lease contract prior to the expiry of the Lease Term by giving at least 90 days' written notice to Chengtong Financial Leasing. In addition, Honghua Shenzhen shall also pay (or designate a third party to pay) the equipment purchase price within ten (10) business days after Chengtong Financial Leasing has agreed on the early termination of the lease. The equipment purchase price shall be calculated by reference to the amounts paid and received under the Finance Lease Contract and the internal rate of return determined by Chengtong Financial Leasing.

REASONS FOR AND BENEFITS OF THE FINANCE LEASE ARRANGEMENT

The entering into of the Finance Lease Arrangement is in the ordinary and usual course of business of Chengtong Financial Leasing and it is expected that Chengtong Financial Leasing will earn an income of approximately RMB3.55 million (equivalent to approximately HK\$3.98 million), being the difference between the estimated total lease payment under the Finance Lease Contract and the total purchase price to be paid by Chengtong Financial Leasing for the Facilities under the Purchase Contract.

The terms of the Finance Lease Arrangement, including the purchase price of the Facilities and the lease payment, were arrived at after arm's length negotiation between the parties with reference to the value of the Facilities and the prevailing terms for comparable finance lease agreements.

The Directors are of the view that the terms of the Finance Lease Arrangement are fair and reasonable and are in the interests of the Company and the shareholders of the Company as a whole.

Professor Chang Qing is an independent non-executive director of Honghua Group. Therefore, Professor Chang was not involved in the Board discussion in respect of the Finance Lease Arrangement and has abstained from voting on such Board resolution. Except for Professor Chang, none of the Directors has material interest in the Finance Lease Arrangement or is required to abstain from voting on the Board resolution in relation to the Finance Lease Arrangement.

INFORMATION ON THE GROUP, HONGHUA ELECTRIC AND HONGHUA SHENZHEN

The Group is principally engaged in property investment, property development, finance leasing, bulk commodity trade (including trading of coal, steel and non-ferrous metals) and hotel and marine travelling services.

Honghua Electric is a company established in the PRC, and is principally engaged in the research, development, manufacture, set-assembly and sales of electric drive system and automatic control system and provision of integrated services. Honghua Electric is an indirect subsidiary of Honghua Group.

Honghua Shenzhen is a company established in the PRC whose 53.33% equity interest is indirectly held by Honghua Group, and is principally engaged in the financial leasing, leasing, purchase of equipment for leasing and maintenance and repair of leased equipment.

Honghua Group, together with its subsidiaries, is principally engaged in the business of developing, manufacturing and selling drilling rigs, rig parts and components and providing after-sales services and is listed on the Stock Exchange (stock code: 196). As at the date of this announcement, the Company holds approximately 4.74% of the total issued share capital of Honghua Group.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) Honghua Group and its ultimate substantial beneficial owners as publicly disclosed by Honghua Group and (ii) Honghua Shenzhen and its ultimate beneficial owners (excluding Honghua Group) are Independent Third Parties.

IMPLICATION UNDER THE LISTING RULES

Reference is made to (i) the announcement of the Company dated 18 October 2018 in relation to the First Finance Lease Arrangement which comprises, among others, a purchase contract and a rig lease contract pursuant to which Chengtong Trading, an indirect wholly-owned subsidiary of the Company, purchased a rig from Sichuan Honghua and leased such rig to Honghua Golden Coast for a term of six (6) years, commencing from 31 January 2019, and (ii) the announcement of the Company dated 19 December 2019 in relation to the Second Finance Lease Arrangement which comprises a purchase contract and a finance lease contract pursuant to which Chengtong Financial Leasing purchased an electrical fracturing system and certain facilities related to such system from Honghua Electric and leased such electrical fracturing system and facilities to Honghua Shenzhen for a term of five (5) years, commencing from 24 December 2019. Sichuan Honghua and Honghua Golden Coast are wholly-owned subsidiaries of Honghua Group. Honghua Shenzhen and Honghua Electric are non-wholly owned subsidiaries of Honghua Group.

Since the counterparties of the First Finance Lease Arrangement, the Second Finance Lease Arrangement and the Finance Lease Arrangement are connected or associated with Honghua Group, the relevant transactions under the First Finance Lease Arrangement and the Second Finance Lease Arrangement are required to be aggregated with those of the Finance Lease Arrangement pursuant to Rule 14.22 of the Listing Rules. As the highest percentage ratio (as defined under the Listing Rules) in respect of the relevant transactions contemplated under the First Finance Lease Arrangement, the Second Finance Lease Arrangement and the Finance Lease Arrangement, on an aggregate basis, exceeds 5% but is less than 25%, each of the transactions under the Finance Lease Arrangement constitutes a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

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

“Board”	means	the board of Directors
“Chengdu Tianxiang”	means	成都天翔環境股份有限公司 (unofficial English translation being Chengdu Tianxiang Environment Company Limited), a company established in the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 300362)
“Chengtong Financial Leasing”	means	誠通融資租賃有限公司 (unofficial English translation being Chengtong Financial Leasing Company Limited), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Chengtong Trading”	means	Chengtong Trading (International) Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Company”	means	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

“Connected Person(s)”	means	has the meaning ascribed to it under the Listing Rules
“Deyang Dongjiagang”	means	德陽東佳港機電設備有限公司 (unofficial English translation being Deyang Dongjiagang Electrical Equipment Company Limited), a company established in the PRC with limited liability, the ultimate beneficial interests of which are owned as to 74.78% by Zhuang Jia and as to 25.22% by 22 individuals in aggregate (each of whom holding not more than 3%)
“Directors”	means	the directors of the Company
“Facilities”	means	the electrical fracturing system and certain facilities related to such system
“Finance Lease Arrangement”	means	the arrangement contemplated under the Purchase Contract and the Finance Lease Contract
“Finance Lease Contract”	means	the finance lease contract entered into between Chengtong Financial Leasing as lessor and Honghua Shenzhen as lessee on 3 February 2020 in relation to the leasing of the Facilities
“First Finance Lease Arrangement”	means	the finance lease arrangement entered into between Chengtong Trading and certain subsidiaries of Honghua Group on 18 October 2018, the commencement of which has taken place on 31 January 2019
“Group”	means	the Company and its subsidiaries as at the date of this announcement
“HK\$”	means	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	means	the Hong Kong Special Administrative Region of the PRC

“Honghua Electric”	means	四川宏華電氣有限責任公司 (unofficial English translation being Sichuan Honghua Electric Co., Ltd.), a company established in the PRC with limited liability whose 81.26% equity interest is indirectly held by Honghua Group. The remaining equity interest in Honghua Electric is owned as to 8.43% by Zhang Cong and as to 10.31% by 29 individuals in aggregate (each of whom holding not more than 4%)
“Honghua Golden Coast”	means	Honghua Golden Coast Equipment FZE (unofficial Chinese translation being 宏華金海岸設備有限公司), a company incorporated in Dubai, United Arab Emirates with limited liability and an indirect wholly-owned subsidiary of Honghua Group
“Honghua Group”	means	Honghua Group Limited (宏華集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 196)
“Honghua Shenzhen”	means	宏華融資租賃(深圳)有限公司 (unofficial English translation being Honghua Financial Leasing (Shenzhen) Co., Ltd.), a company established in the PRC with limited liability whose 53.33% equity interest is indirectly held by Honghua Group. The remaining equity interest in Honghua Shenzhen is owned as to 30% by Chengdu Tianxiang, as to 10% by Deyang Dongjiagang and as to 6.67% by Zhongshen Financial Leasing
“Independent Third Party(ies)”	means	third party(ies) independent of the Company and its Connected Persons
“Lease Term”	means	the term of the lease of the Facilities under the Finance Lease Contract, being five (5) years
“Listing Rules”	means	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PBOC”	means	the People’s Bank of China

“PRC”	means	the People’s Republic of China and, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Purchase Contract”	means	the Purchase Contract entered into between Honghua Electric as vendor and Chengtong Financial Leasing as purchaser on 3 February 2020 in relation to the purchase of the Facilities
“RMB”	means	Renminbi, the lawful currency of the PRC
“Second Finance Lease Arrangement”	means	the finance lease arrangement entered into between Chengtong Finance Leasing and certain subsidiaries of Honghua Group on 19 December 2019, the commencement of which has taken place on 24 December 2019
“Sichuan Honghua”	means	四川宏華石油設備有限公司 (unofficial English translation being Sichuan Honghua Petroleum Equipment Co., Ltd.), a company established in the PRC with limited liability and an indirect wholly owned subsidiary of Honghua Group
“Zhongshen Financial Leasing”	means	北京中申融資租賃有限公司 (unofficial English translation being Beijing Zhongshen Financial Leasing Co., Ltd.), a company established in the PRC with limited liability, which is beneficially owned as to 25.24% by Huang Tianyou, as to 25% by Delight Sun Trading Limited (a private company established in Hong Kong with limited liability), as to 11.51% by Jiang Rongchun, as to 11.51% by Bai Bingchen, as to 9% by Shi Shoubin, as to 6.91% by Li Yongpei and as to 10.83% by 5 individuals in aggregate (each of whom holding not more than 3%)

“Stock Exchange” means The Stock Exchange of Hong Kong Limited

“%” means per cent.

In this announcement, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$1.12. 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.

By order of the Board
China Chengtong Development Group Limited
Zhang Bin
Chairman

Hong Kong, 3 February 2020

As at the date of this announcement, the executive Directors are Mr. Zhang Bin, Mr. Yang Tianzhou, Mr. Wang Tianlin and Mr. Li Shufang; and the independent non-executive Directors are Professor Chang Qing, Mr. Lee Man Chun, Tony and Professor He Jia.