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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)**

### **MAJOR AND CONNECTED TRANSACTION — DISPOSAL OF THE ENTIRE EQUITY INTEREST IN THE TARGET COMPANY**

#### **THE EQUITY TRANSFER**

The Board wishes to announce that after trading hours on 5 May 2020, the Company and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Company conditionally agreed to transfer and the Purchaser conditionally agreed to acquire the Sale Share, which represents the entire issued share capital of the Target Company, at the Consideration of RMB241,185,500 (equivalent to approximately HK\$265,304,000).

As at the date of the Equity Transfer Agreement, the Company is interested in approximately 66.67% equity interest of Dafeng Harbour through the Target Company. Upon completion of the Equity Transfer, the Company will cease to have any equity interest in the Target Group.

#### **IMPLICATIONS UNDER THE LISTING RULES**

As the highest percentage ratio (as defined under the Listing Rules) in respect of the Equity Transfer, both when calculated individually and when aggregated with the Previous Transactions, exceeds 25% but is less than 75%, the Equity Transfer constitutes a major transaction of the Company and is therefore subject to the notification, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the Purchaser is a wholly-owned subsidiary of CCHG, the ultimate holding company of the Company, the Purchaser is therefore a connected person of the Company under the Listing Rules. Accordingly, the Equity Transfer also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **EGM**

The EGM will be convened for the purposes of, among other matters, considering and, if thought fit, approving the Equity Transfer Agreement and the Equity Transfer.

The Independent Board Committee which comprises all the independent non-executive Directors has been established to advise the Independent Shareholders (after receiving advice from the Independent Financial Adviser) in respect of whether the terms of the Equity Transfer Agreement and the Equity Transfer are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Also, the Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the above matters.

## **GENERAL**

A circular containing, among other things, (1) the advice of the Independent Financial Adviser; (2) the recommendation of the Independent Board Committee; (3) details of the Equity Transfer Agreement and the Equity Transfer; (4) other information as required to be disclosed under the Listing Rules; and (5) the notice of the EGM and a form of proxy are expected to be despatched to the Shareholders on or before 10 June 2020 as more time is required to prepare the information to be contained in the circular.

## **THE EQUITY TRANSFER**

The Board wishes to announce that after trading hours on 5 May 2020, the Company and the Purchaser entered into the Equity Transfer Agreement, the principal terms of which are set out below:

### **Date**

5 May 2020

### **Parties**

- (i) the Company; and
- (ii) the Purchaser.

### **Subject matter**

Subject to the terms and conditions of the Equity Transfer Agreement, the Company conditionally agreed to transfer and the Purchaser conditionally agreed to acquire the Sale Share, which represents the entire issued share capital of the Target Company.

## **Consideration**

The Consideration is RMB241,185,500 (equivalent to approximately HK\$265,304,000) which shall be payable by the Purchaser to the Company in the following manner:

- (1) RMB24,118,550 (equivalent to approximately HK\$26,530,000) (“**First Instalment Consideration**”), representing 10% of the Consideration, shall be payable by the Purchaser within five (5) Business Days from the date of signing of the Equity Transfer Agreement; and
- (2) RMB217,066,950 (equivalent to approximately HK\$238,774,000), representing 90% of the Consideration, shall be payable by the Purchaser on the Completion Date.

The Consideration shall be paid by the Purchaser in cash. The Consideration was arrived at after arm’s length negotiations between the Company and the Purchaser on normal commercial terms with reference to the Valuation conducted by the Valuer using the asset-based approach. Based on the Valuation, the appraised value of the entire equity interest of the Target Company was RMB241,185,500 (equivalent to approximately HK\$265,304,000) as at 31 December 2019.

## **Conditions precedent**

The completion of the Equity Transfer Agreement shall be conditional upon the fulfillment of all of the following conditions:

- (1) all necessary authorisations, consents and approvals as may be required for the Company to complete the Equity Transfer Agreement and the transactions contemplated thereunder having been obtained (including but not limited to the Equity Transfer having been approved by the Shareholders by way of ordinary resolution(s) at the EGM in accordance with the Listing Rules) and the relevant authorisations, consents and approvals remaining in full force and effect as at the Completion Date;
- (2) all necessary authorisations, consents and approvals as may be required for the Purchaser to complete the Equity Transfer Agreement and the transactions contemplated thereunder having been obtained and the relevant authorisations, consents and approvals remaining in full force and effect as at the Completion Date;
- (3) all sums payable between members of the Target Group and the Group (excluding members of the Target Group) having been fully repaid or otherwise settled (including but not limited to the Purchaser repaying the Loan in full on behalf of Dafeng Harbour to Chengtong Development Trading); and
- (4) the warranties, representations and undertakings made by the Purchaser and the Company in the Equity Transfer Agreement remaining true, accurate and not misleading in all aspects.

If any of the conditions precedent as set out above has not been fulfilled or (in respect of the condition in item (4) only) waived before 9:00 a.m. on the Long Stop Date, the Equity Transfer Agreement (save and except for certain clauses such as confidentiality, notices and dispute resolution) shall terminate immediately, upon which the parties shall cease to have any liability or obligation thereunder (save and except for liability arising from any antecedent breach preceding the termination of the Equity Transfer Agreement).

If the Equity Transfer Agreement is terminated by reason that the conditions precedent cannot be fulfilled or waived by the Long Stop Date, the Company shall refund the First Instalment Consideration (without interest) to the Purchaser within five (5) Business Days after the Long Stop Date.

### **Transition period**

Pursuant to the Equity Transfer Agreement, any profit or loss incurred by Dafeng Harbour for the Transition Period shall be borne or enjoyed by the Company in proportion to its indirect shareholding in Dafeng Harbour (i.e. approximately 66.67%). The amount of profit or loss of Dafeng Harbour for the Transition Period shall be determined based on the audited financial information of Dafeng Harbour made up for the Transition Period (“**Completion Accounts**”) which shall be issued within twenty (20) Business Days from the Completion Date.

If the Target Company incurs a loss for the Transition Period (“**Transition Period Loss**”), the Company shall deposit an amount equivalent to the amount of the Transition Period Loss attributable to the Company in accordance with its previous indirect shareholding in Dafeng Harbour to the bank account of the Purchaser (or by such other payment method(s) as may be agreed between the parties) within ten (10) Business Days from the issuance date of Completion Accounts. If the Target Company incurs a profit for the Transition Period (“**Transition Period Profit**”), the Purchaser shall deposit an amount equivalent to the amount of the Transition Period Profit attributable to the Company in accordance with its previous indirect shareholding in Dafeng Harbour to the bank account of the Company (or by such other payment method(s) as may be agreed between the parties) within ten (10) Business Days from the issuance date of Completion Accounts.

### **Completion**

Subject to all the conditions precedent as set out in the Equity Transfer Agreement having been satisfied or waived, completion of the Equity Transfer shall take place on the Completion Date.

If the Company fails to perform its completion obligations regarding the Equity Transfer in accordance with the Equity Transfer Agreement on the Completion Date and the Equity Transfer Agreement is terminated by reason thereof, the Company shall, within five (5) Business Days after the termination date, refund the First Instalment Consideration (without interest) to the Purchaser and compensate the Purchaser for its reasonable economic losses subject to a cap of RMB2,000,000 (equivalent to HK\$2,200,000). On the other hand, if the Purchaser fails to perform its completion obligations regarding the Equity Transfer in accordance with the Equity Transfer Agreement on the Completion Date and the Equity Transfer Agreement is terminated by reason thereof, the Company shall be entitled to forfeit the First Instalment Consideration.

Immediately upon completion of the Equity Transfer, the Company will cease to have any equity interest in the Target Group. Each of the Target Company, Chengtong Asia Investment and Dafeng Harbour will then cease to be a subsidiary of the Company and the financial information of the Target Group will no longer be consolidated into the Group's consolidated financial statements.

## INFORMATION OF THE TARGET GROUP

The Target Company was incorporated in March 2009 and is currently wholly-owned by the Company. As at the date of this announcement, the Target Company is engaged in the business of investment holding.

The Target Company currently owns the entire issued share capital of Chengtong Asia Investment, which was incorporated in April 2009. As at the date of this announcement, Chengtong Asia Investment is engaged in the business of investment holding.

Dafeng Harbour, which was established in December 2005, is currently owned as to approximately 66.67% by Chengtong Asia Investment and as to approximately 33.33% by the JV Partner. As at the date of this announcement, Dafeng Harbour is engaged in the business of property development. Dafeng Harbour owns a property development project "Chengtong International City" in the Port Serviced Area, Dafeng Ocean Economic Development Area, Dafeng City, Jiangsu Province, the PRC. "Chengtong International City" is a commercial and residential complex comprising seven residential buildings and two commercial and office buildings. As at 31 December 2019, the completed and unsold area of "Chengtong International City" included residential area of approximately 10,930 square metres and commercial spaces of approximately 9,540 square metres.

Apart from the above, Dafeng Harbour also owns (i) a piece of industrial land situated at south of Shugang Highway, Dafeng City, Jiangsu Province, the PRC, with a site area of approximately 549,600 square metres; and (ii) three pieces of commercial and residential lands situated at the Port Serviced Area, Dafeng Ocean Economic Development Area, Dafeng City, Jiangsu Province, the PRC, with an aggregate site area of approximately 446,581 square metres. As at the date of this announcement, these lands are vacant.

Certain financial information of the Target Group as extracted from the audited consolidated financial statements of the Company for the two years ended 31 December 2018 and 31 December 2019 is as follows:

	<b>For the year ended 31 December 2018</b> <i>HK\$</i> <i>(approximately)</i>	<b>For the year ended 31 December 2019</b> <i>HK\$</i> <i>(approximately)</i>
Turnover	384,000	—
Net loss before and after taxation	7,219,000	6,369,000

As at 31 March 2020, the unaudited consolidated total asset value and net asset value of the Target Group as extracted from the unaudited consolidated financial statements of the Company as at 31 March 2020 were approximately HK\$393,730,000 and approximately HK\$312,497,000 respectively and the unaudited consolidated net asset value of the Target Group attributable to the Company was approximately HK\$208,741,000.

## **INFORMATION OF THE PARTIES**

The Company is an investment holding company and the Group is principally engaged in finance leasing, bulk commodity trade, property development and property investment, and marine recreation services and hotel.

The Purchaser is a wholly-owned subsidiary of CCHG, the ultimate holding company of the Company, and is principally engaged in the business of investment holding. CCHG together with its subsidiaries are principally engaged in the business of equity operation, provision of financial services, assets management, integrated logistics, as well as development and utilisation of forestry pulp paper.

## **REASONS FOR AND BENEFITS OF THE EQUITY TRANSFER**

The Group has been operating its property development business in Dafeng City, Jiangsu Province, the PRC through Dafeng Harbour. However, Dafeng City is a third/fourth-tier city in the PRC and the real estate market in the region has remained stagnant in recent years. As the Group's overall strategy in recent years is to gradually withdraw from the existing property development projects, the Equity Transfer would enable the Group to reallocate its resources more efficiently and to enhance its operations and business prospects in other core business segments in the long term.

The net proceeds from the Equity Transfer will be used to fund the development of the Group's other principal businesses and as general working capital. Based on the preliminary assessment, it is expected that the Group will record a gain of approximately RMB42,035,000 (equivalent to approximately HK\$46,238,000) as a result of the Equity Transfer, being the difference between the Consideration and the unaudited consolidated net asset value of the Target Group attributable to the Company as at 31 March 2020 and after deducting the estimated Transition Period Loss of Dafeng Harbour which shall be borne by the Company, the estimated amount of taxes payable by the Company in respect of the Equity Transfer, release of accumulated exchange deficit, and relevant expenses payable by the Company in respect of the Equity Transfer. The actual gain or loss as a result of the Equity Transfer to be recorded by the Group is subject to the final audit to be performed by the auditors of the Company.

As the assets of the Target Group do not represent a major proportion in the total assets of the Group, the Equity Transfer would not have substantive adverse impact on the Group.

The terms of the Equity Transfer Agreement were determined after arm's length negotiations between the parties thereto and the Directors (excluding the independent non-executive Directors who will express their view after receiving advice from the Independent Financial Adviser) are of the view that the terms of the Equity Transfer Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Since all the executive Directors, namely Mr. Zhang Bin, Mr. Yang Tianzhou, Mr. Wang Tianlin and Mr. Li Shufang, are also director or senior management of the Purchaser, for the sake of good corporate governance, all of them have abstained from voting on the Board resolutions approving the Equity Transfer Agreement and the Equity Transfer.

## **IMPLICATIONS UNDER THE LISTING RULES**

As the highest percentage ratio (as defined under the Listing Rules) in respect of the Equity Transfer, both when calculated individually and when aggregated with the Previous Transactions, exceeds 25% but is less than 75%, the Equity Transfer constitutes a major transaction of the Company and is therefore subject to the notification, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the Purchaser is a wholly-owned subsidiary of CCHG, the ultimate holding company of the Company, the Purchaser is therefore a connected person of the Company under the Listing Rules. Accordingly, the Equity Transfer also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **EGM**

The EGM will be convened for the purposes of, among other matters, considering and, if thought fit, approving the Equity Transfer Agreement and the Equity Transfer. The Independent Board Committee which comprises all the independent non-executive Directors has been established to advise the Independent Shareholders (after receiving advice from the Independent Financial Adviser) in respect of whether the terms of the Equity Transfer Agreement and the Equity Transfer are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Also, the Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the above matters.

## **GENERAL**

A circular containing, among other things, (1) the advice of the Independent Financial Adviser; (2) the recommendation of the Independent Board Committee; (3) details of the Equity Transfer Agreement and the Equity Transfer; (4) other information as required to be disclosed under the Listing Rules; and (5) the notice of the EGM and a form of proxy are expected to be despatched to the Shareholders on or before 10 June 2020 as more time is required to prepare the information to be contained in the circular.

## DEFINITIONS

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

“Board”	means the board of Directors
“Business Day”	means a day (excluding Saturdays, Sundays and public holidays) on which banks are generally open for business in Hong Kong
“CCHG”	means 中國誠通控股集團有限公司 (unofficial English translation being China Chengtong Holdings Group Limited), a state-owned company incorporated in the PRC with limited liability, being the ultimate holding company of the Company and the Purchaser
“Chengtong Asia Investment”	means China Chengtong (Asia) Investment Limited (中國誠通(亞洲)投資有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Target Company
“Chengtong Development Trading”	means 誠通發展貿易有限公司 (unofficial English translation being Chengtong Development Trading Co., Limited), a company incorporated in the PRC with limited liability and a 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
“Completion Date”	means the date on which all the conditions precedent as set out in the Equity Transfer Agreement are satisfied or waived (or such other date as the Purchaser and the Company may agree in writing)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	means the consideration payable by the Purchaser to the Company for the transfer of the Sale Share
“Dafeng Harbour”	means 誠通大豐海港開發有限公司 (unofficial English translation being Chengtong Dafeng Harbour Development Limited), a company incorporated in the PRC with limited liability which is owned as to approximately 66.67% by Chengtong Asia Investment and as to approximately 33.33% by the JV Partner as at the date of this announcement
“Director(s)”	means the director(s) of the Company



“EGM”	means an extraordinary general meeting of the Company to be convened for the purposes of, among other matters, considering and, if thought fit, approving the Equity Transfer Agreement and the Equity Transfer contemplated thereunder
“Equity Transfer”	means the transfer of the Sale Share pursuant to the Equity Transfer Agreement
“Equity Transfer Agreement”	means the equity transfer agreement dated 5 May 2020 entered into between the Company and the Purchaser in respect of the Equity Transfer
“Group”	means the Company and its subsidiaries
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	means the independent board committee of the Company comprising all independent non-executive Directors, which has been established by the Board to advise the Independent Shareholders in respect of the terms of the Equity Transfer Agreement and the Equity Transfer contemplated thereunder
“Independent Financial Adviser”	means Pelican Financial Limited (百利勤金融有限公司), a corporation licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to carry on Type 6 (advising on corporate finance) regulated activity, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Equity Transfer Agreement and the Equity Transfer contemplated thereunder
“Independent Shareholder(s)”	means Shareholder(s) other than those who are required by the Listing Rules to abstain from voting on the resolution(s) approving the Equity Transfer Agreement and the Equity Transfer contemplated thereunder
“JV Partner”	means 江蘇大豐海港控股集團有限公司 (unofficial English translation being Jiangsu Dafeng Harbour Holdings Group Limited), a company incorporated in the PRC with limited liability which owns approximately 33.33% of the equity interest of Dafeng Harbour as at the date of this announcement
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange

“Loan”	means all outstanding liabilities and loans owing by Dafeng Harbour to Chengtong Development Trading immediately before completion of the Equity Transfer. For identification purpose, as at 31 March 2020, the outstanding liabilities and loans owed by Dafeng Harbour to Chengtong Development Trading amounted to approximately RMB70,251,000 (equivalent to approximately HK\$77,276,000)
“Long Stop Date”	means 30 September 2020 (or such other date as the Company and the Purchaser may agree in writing)
“PRC”	means the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Previous Transactions”	means (i) the formation of a joint venture in World Asia Properties Limited (世亞置業有限公司) (currently known as Chengtong World Trade Limited (誠通世亞有限公司)) between the Group and an indirect non-wholly owned subsidiary of CCHG, the details of which are set out in the announcement of the Company dated 25 October 2019; and (ii) the Group’s transfer of 41% of the equity interest in 誠通能源廣東有限公司 (unofficial English translation being Chengtong Energy Guangdong Company Limited) to a non-wholly owned subsidiary of CCHG, the details of which are set out in the announcement of the Company dated 12 November 2019 and the circular of the Company dated 6 December 2019
“Purchaser”	means China Chengtong Hong Kong Company Limited (中國誠通香港有限公司), a company incorporated in Hong Kong with limited liability, being a wholly-owned subsidiary of CCHG
“RMB”	means Renminbi, the lawful currency of the PRC
“Sale Share”	means one ordinary share in the issued share capital of the Target Company, representing its entire issued share capital, to be transferred by the Company to the Purchaser pursuant to the Equity Transfer Agreement
“Shareholder(s)”	means holder(s) of the ordinary share(s) of the Company
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Target Company”	means Chengtong Investment Group Limited (誠通投資集團有限公司), a company incorporated in the British Virgin Islands with limited liability and wholly-owned by the Company as at the date of this announcement

“Target Group”	means collectively, the Target Company, Chengtong Asia Investment and Dafeng Harbour, and “members of the Target Group” shall be construed accordingly
“Transition Period”	means the period commencing from 1 January 2020 up to and including the Completion Date
“Valuation”	means the valuation of the entire equity interest of the Target Company conducted by the Valuer as at 31 December 2019
“Valuer”	means Beijing Zhonglin Assets Appraisal Co., Ltd. (北京中林資產評估有限公司), a qualified independent valuer in the PRC
“%”	means per cent.

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

Hong Kong, 5 May 2020

*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\$1.10. 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 at all.*

*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.*