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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 TRANSACTION – THE SALE AND LEASEBACK ARRANGEMENT

THE SALE AND LEASEBACK ARRANGEMENT

On 14 March 2023, Chengtong Financial Leasing, an indirect wholly-owned subsidiary of the Company, entered into the Sale and Leaseback Agreements with the Lessee, pursuant to which Chengtong Financial Leasing will purchase the Leased Assets from the Lessee and the Leased Assets will be leased back to the Lessee for a term of three (3) years, subject to early termination in accordance with the terms and conditions of the Sale and Leaseback Agreements.

IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Sale and Leaseback Arrangement exceeds 25% but is less than 100%, the entering into of the Sale and Leaseback Arrangement constitutes a major transaction of the Company and is subject to the notification, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder or any of his/her/its close associate(s) (as defined in the Listing Rules) has any material interest in the Sale and Leaseback Arrangement. Thus, no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the Sale and Leaseback Arrangement. In light of the foregoing, written shareholders' approval may be accepted in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules. The Company has obtained the written Shareholder's approval in respect of the Sale and Leaseback Arrangement from China Chengtong Hong Kong Company Limited, which is a controlling shareholder (as defined in the Listing Rules) of the Company holding 3,169,656,217 issued shares of the Company, representing approximately 53.14% of the issued share capital of the Company as at the date of this announcement. Accordingly, no general meeting of the Company will be convened for the purpose of approving the Sale and Leaseback Arrangement.

A circular containing, among other things, (i) information on the Sale and Leaseback Arrangement, and (ii) other information required under the Listing Rules will be despatched to the Shareholders on or before 4 April 2023, which is within 15 business days after the publication of this announcement.

On 14 March 2023, Chengtong Financial Leasing, an indirect wholly-owned subsidiary of the Company, entered into the Sale and Leaseback Agreements with the Lessee in respect of the Sale and Leaseback Arrangement, the major terms of which are set out below.

THE SALE AND LEASEBACK ARRANGEMENT

Date of the Sale and Leaseback Agreements

14 March 2023

Parties

Lessor: Chengtong Financial Leasing

Lessee: The Lessee

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) the Lessee is directly owned as to (a) approximately 51% by Inner Mongolia Jitong Railway (Group) Co., Ltd., which is in turn indirectly owned as to 60% by China State Railway Group Co., Ltd., which is wholly-owned by The State Council of the PRC; (b) approximately 34% by Datang International Power Generation Co., Ltd., a company incorporated in the PRC and the shares of which are listed on the Shanghai Stock Exchange and the Main Board of the Stock Exchange; and (c) approximately 15% by Xilin Gol League Xingfu Investment Co., Ltd., which is wholly-owned by SASAC of Xilin Gol League; (ii) the Lessee and its ultimate beneficial owners are Independent Third Parties; and (iii) the Lessee is principally engaged in the business of operation of railway for the transportation of coal around Xilinhot in Inner Mongolia, the PRC.

Subject matter

Subject to the fulfilment of the conditions as set out in the Sale and Leaseback Agreements (including but not limited to the provision of all necessary documents or information by the Lessee evidencing its ownership in the Leased Assets, the obtaining of all necessary approvals by the Lessee in relation to the Sale and Leaseback Arrangement, the payment of the security money (as set out below) by the Lessee, and the signing and the coming into effect of the security agreements), Chengtong Financial Leasing will purchase the Leased Assets from the Lessee at an aggregate Purchase Price of RMB300 million (equivalent to HK\$342 million) and the Leased Assets will be leased back to the Lessee for a term of three (3) years commencing from the date on which the relevant Purchase Price is paid by Chengtong Financial Leasing in respect of the relevant Leased Assets (“**Lease Term**”), subject to early termination in accordance with the terms and conditions of the Sale and Leaseback Agreements.

If any of the conditions under the Sale and Leaseback Agreements is not satisfied on or before 31 May 2023, Chengtong Financial Leasing shall have the right to unilaterally terminate the relevant Sale and Leaseback Agreements.

Purchase Price

The aggregate Purchase Price of the Leased Assets was agreed between Chengtong Financial Leasing and the Lessee with reference to the aggregate appraised value of the Leased Assets as at 28 October 2022 which amounted to approximately RMB351.25 million (equivalent to approximately HK\$400.43 million) as assessed by way of cost method by a professional PRC valuer which is an Independent Third Party. The Leased Assets form part of the facilities or equipment in the railway system and are not revenue generating assets with identifiable income stream.

The Purchase Price will be satisfied by the general working capital of the Group.

Legal title

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

Lease payments

The total amount of lease payments over the Lease Term is estimated to be approximately RMB319.73 million (equivalent to approximately HK\$364.49 million) which shall be paid by the Lessee to Chengtong Financial Leasing in twelve (12) quarterly instalments during the Lease Term.

The total amount of lease payments represents the sum of the lease principal amount (being the amount of the aggregate Purchase Price to be paid by Chengtong Financial Leasing) and the lease interests which will be calculated on the then outstanding lease principal amount with a floating interest rate to be determined at a fixed premium over the one (1)-year LPR from time to time.

The lease interest rate will be subject to review on 1 January every year. In the event that the one (1)-year LPR changes, the lease interest rate will be adjusted to a rate at the aforesaid fixed premium over the new LPR, except in the case where the Lessee has overdue lease payment and has not paid all overdue payments and liquidated damages, the interest rate to be applied will not be adjusted when the one (1)-year LPR is reduced.

The interest rate applicable to the Sale and Leaseback Arrangement (including the applicable LPR and the premium) is one of the major commercial terms negotiated between the parties on an arm's length basis and the setting of the interest rate depends on a number of factors, such as the amount of lease principal, the lease term, the overall return rate attained by the Group taking into account the aggregate amount of lease interests and other receivables including but not limited to the Service Fee (as detailed below), the prevailing market conditions and the movement of the LPR.

Service Fee

The Lessee shall pay a service fee (“**Service Fee**”) of an aggregate amount of RMB3 million (equivalent to HK\$3.42 million) to Chengtong Financial Leasing for the preliminary services provided by Chengtong Financial Leasing in respect of the Sale and Leaseback Arrangement. Such services include the provision of corporate finance consulting services which comprise advising the Lessee on the Sale and Leaseback Arrangement and preparing written reports where necessary, and providing tailored advice on alternative financing solutions to the Lessee including but not limited to finance lease arrangement after assessing its specific business operations, industry development and financial condition.

The amount of the Service Fee was determined according to the extent of services required by the Lessee and the financing amount involved. The Service Fee is non-refundable.

Lessee's right to repurchase the Leased Assets

Upon the Lessee having paid all the lease payments and other payables (if any) to Chengtong Financial Leasing in accordance with the terms of the Sale and Leaseback Agreements, the Lessee shall have the right to repurchase the Leased Assets under the Sale and Leaseback Agreements at a nominal consideration of RMB1.00.

Credit enhancement measures

Depending on the overall risks associated with a sale and leaseback arrangement, Chengtong Financial Leasing will request for appropriate credit enhancement measure(s) on a case-by-case basis, such as the payment of security money, the provision of corporate guarantee, receivables pledge and/or share pledge etc. to safeguard its interests as the lessor. Chengtong Financial Leasing will also monitor, among others, the financial conditions of the lessee(s) and the security provider(s) from time to time and may request the lessee(s) to provide further security as and when Chengtong Financial Leasing considers necessary.

The Lessee will pay a security money of an aggregate amount of RMB30 million (equivalent to HK\$34.20 million) to Chengtong Financial Leasing as security for the performance of its obligations under the Sale and Leaseback Arrangement. The amount of the security money was determined after evaluating the background and creditability etc. of the Lessee.

If the Lessee fails to fully perform any obligation under the Sale and Leaseback Arrangement, Chengtong Financial Leasing has the right to apply the security money to set off against any amount owed to it in the following order: liquidated damages, other payables including but not limited to damages (if any), outstanding and prospective lease payments and repurchase price. If the Lessee has fully performed all its obligations under the Sale and Leaseback Arrangement, Chengtong Financial Leasing shall return the security money to it upon its presentation of the receipt(s) of the security money.

REASONS FOR AND BENEFITS OF THE SALE AND LEASEBACK ARRANGEMENT

The Group is principally engaged in leasing, bulk commodity trade, property development and investment, marine recreation services and hotel business. The Group's leasing business is mainly carried out through Chengtong Financial Leasing as its principal business.

The entering into of the Sale and Leaseback 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 RMB22.73 million (equivalent to approximately HK\$25.91 million), which represents the total of the Service Fee and the difference between the estimated amount of total lease payments under the Sale and Leaseback Arrangement and the aggregate Purchase Price of the Leased Assets.

The Directors are of the view that the terms of the Sale and Leaseback Arrangement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

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To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder or any of his/her/its close associate(s) (as defined in the Listing Rules) has any material interest in the Sale and Leaseback Arrangement. Thus, no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the Sale and Leaseback Arrangement. In light of the foregoing, written shareholders' approval may be accepted in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules. The Company has obtained the written Shareholder's approval in respect of the Sale and Leaseback Arrangement from China Chengtong Hong Kong Company Limited, which is a controlling shareholder (as defined in the Listing Rules) of the Company holding 3,169,656,217 issued shares of the Company, representing approximately 53.14% of the issued share capital of the Company as at the date of this announcement. Accordingly, no general meeting of the Company will be convened for the purpose of approving the Sale and Leaseback Arrangement.

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DEFINITIONS

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

“Board”	means the board of Directors
“Chengtong Financial Leasing”	means Chengtong Financial Leasing Company Limited, a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Company”	means 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
“Director(s)”	means the director(s) of the Company
“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

“Independent Third Party(ies)”	means third party(ies) independent of the Company and its connected persons (having the meaning ascribed to it under the Listing Rules)
“Leased Assets”	means certain railway facilities and equipment, including but not limited to (i) metallic protective fences and outdoor heating networks; and (ii) railroad switches and station mainlines, and ancillary facilities and equipment
“Lessee”	means Inner Mongolia Xiduo Railway Joint-stock Co., Ltd., a company established in the PRC with limited liability
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“LPR”	means the loan prime rate as promulgated by the National Interbank Funding Center under the authority of the People’s Bank of China
“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
“Purchase Price”	means the consideration payable by Chengtong Financial Leasing for the purchase of the Leased Assets from the Lessee
“RMB”	means Renminbi, the lawful currency of the PRC
“Sale and Leaseback Agreements”	means, collectively, two (2) sets of the following agreements in respect of two (2) batches of leased assets, all dated 14 March 2023 and signed between Chengtong Financial Leasing and the Lessee: <ul style="list-style-type: none"> (1) leaseback assets transfer agreement; and (2) finance lease agreement (sale and leaseback)
“Sale and Leaseback Arrangement”	means the sale and leaseback arrangement under the Sale and Leaseback Agreements

“SASAC”	means the State-owned Assets Supervision and Administration Commission
“Shareholder(s)”	means the shareholder(s) of the Company
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“%”	means 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.

The English names of all PRC entities in this announcement are for identification purpose only.

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

Hong Kong, 14 March 2023

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