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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China Chengtong Development Group Limited**, you should at once hand this circular accompanying with the form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



Halcyon Capital Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 1 to 18 of this circular. A letter from the Independent Board Committee is set out on page 19 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the independent Shareholders is set out on pages 20 to 33 of this circular.

A notice convening the EGM to be held at Suite 6406, 64th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 18 September 2014 at 10:00 a.m. is set out on pages 49 to 50 of this circular.

Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return the same as soon as possible and in any event not later than 48 hours before the time of the EGM or any adjournment thereof to the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

25 August 2014

CONTENT

	<i>Page</i>
Definitions	ii
Letter from the Board	
Introduction	1
Financial Services Agreement	2
Deposit Cap	4
Interest payable under the Deposit Services	4
Other services under the Financial Services Agreement	5
Information of the Group and Chengtong Finance	6
Reasons for and benefits of the Financial Services Agreement	7
Internal controls and risk management of the Company	14
Potential risks associated with the Deposit Services	15
Listing Rules implications	16
EGM	17
Recommendation	17
Additional information	18
Letter from the Independent Board Committee	19
Letter from the Independent Financial Adviser	20
Appendix I – Financial Information of the Group	34
Appendix II – General Information	39
Notice of EGM	49

DEFINITIONS

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

“associate”	has the meaning ascribed to it in Rules 14A.12 to 14A.15 of the Listing Rules
“Board”	the board of Directors
“CBRC”	China Banking Regulatory Commission
“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 Coal”	China Chengtong Coal Investment Limited (中國誠通煤業投資有限公司), a company incorporated in the BVI and a wholly-owned subsidiary of the Company
“Chengtong DT”	誠通發展貿易有限公司(unofficial English translation being Chengtong Development Trading Co., Ltd.), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company
“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
“close associate”	has the meaning ascribed to it in Rule 1.01 of the Listing Rules
“Coal Mine Company”	廣西合山煤業有限責任公司 (unofficial English translation being Guangxi Heshan Coal Company Limited), a company established in the PRC
“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
“connected person”	has the meaning ascribed to it in Rules 14A.07 to 14A.11 of the Listing Rules

DEFINITIONS

“Dafeng Ruineng”	大豐瑞能燃料有限公司 (unofficial English translation being Dafeng Ruineng Fuel Company Limited), a company established in the PRC and owned as to 51% by Chengtong DT
“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
“Effective Date”	the date on which the independent Shareholders have approved the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap)
“EGM”	the extraordinary general meeting of the Company convened to be held on Thursday, 18 September 2014 at 10:00 a.m. 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, and “Group company(ies)” shall be construed accordingly
“Halcyon Capital” or “Independent Financial Adviser”	Halcyon Capital Limited, a corporation licensed under the SFO 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

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company comprising 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)
“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
“Latest Practicable Date”	18 August 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Member Companies”	include the holding company of Chengtong Finance (i.e. CCHG), the subsidiaries which are owned as to more than 51% by such holding company, companies which are individually or jointly owned as to more than 20% by Chengtong Finance’s holding company and subsidiaries, or companies in which its holding company and subsidiaries individually or jointly own less than 20% but is/are the substantial shareholder(s) thereof, and service organizations (事業單位) or social organizations (社會團體法人) subordinated under its holding company or subsidiaries
“PBC”	The People’s Bank of China
“PRC”	the People’s Republic of China excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Share(s)”	share(s) of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

If there is any inconsistency between the Chinese names of the PRC entities mentioned in this circular and their English translations, the Chinese names shall prevail.

LETTER FROM THE BOARD



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)

Executive Directors:

Yuan Shaoli (*Chairman*)
Wang Hongxin (*Managing Director*)
Wang Tianlin
Zhang Bin

*Registered address and principal place of
business in Hong Kong:*

Suite 6406, 64th Floor
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Independent non-executive Directors:

Chang Qing
Lee Man Chun, Tony
Chan Sheung Lai

25 August 2014

To the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

Reference is made to the announcement of the Company dated 21 May 2014 in which the Company announced that 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, including the Deposit Services, for a term commencing from the Effective Date to 31 December 2016, subject to the terms and conditions provided therein.

The provision of the Deposit Services contemplated under the Financial Services Agreement constitutes a continuing connected transaction and a major transaction under the Listing Rules and is subject to the reporting, annual review, announcement and independent Shareholders' approval requirements.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (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.

FINANCIAL SERVICES AGREEMENT

Date: 21 May 2014

Parties:

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

Chengtong Finance is a company incorporated in the PRC on 14 June 2012 and a non-banking financial institution with 金融許可證 (a financial licence issued by the CBRC), which is principally engaged in the provision of financial services, including deposit taking, credit facilities granting, settlement services, and other types of financial services to Member Companies, 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 including the provision of the Deposit Services on the following major terms:

- (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).

LETTER FROM THE BOARD

- (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 repayable by the Group to Chengtong Finance by the amount of deposits due to the Group from 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.

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.

LETTER FROM THE BOARD

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.

Having said this, the Financial Services Agreement has not provided that the average daily balance of deposits placed by the Group with Chengtong Finance must not exceed the outstanding loans granted by Chengtong Finance to the Group. The Directors consider that it would be more beneficial to the Company and its Shareholders as a whole without imposing such a restriction in the Financial Services Agreement for the reason that if there is such a restriction in place, in the event that the Group does not have any financial need to borrow any loan from Chengtong Finance, the Group may have no choice but to place its deposits in other financial institutions even if such other financial institutions offer less favourable terms or lower interest rate than Chengtong Finance does.

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 (equivalent to approximately RMB2,010.6 million) and HK\$1,973 million (equivalent to approximately RMB1,604.1 million) respectively. For the year ended 31 December 2013, the monthly ending balances of deposits historically made by the Group with other independent commercial banks in the PRC were in the range of approximately RMB149.5 million and approximately RMB1,855.7 million, with an average monthly ending balance of approximately RMB545.7 million.

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.

INTEREST PAYABLE UNDER THE DEPOSIT SERVICES

In respect of current deposit, the interest payable by Chengtong Finance will be paid on the 20th day of the last month in each quarter. The interest payable will be remitted automatically to the internal current deposit account of the relevant member of the Group on the interest payment date on a quarterly basis.

In respect of fixed deposit, the interest payable by Chengtong Finance will be paid on the maturity date.

The payment of interest in respect of the Deposit Services as set out above is in line with the market practice.

LETTER FROM THE BOARD

OTHER SERVICES UNDER THE FINANCIAL SERVICES AGREEMENT

Pursuant to the Financial Services Agreement, apart from the provision of the Deposit Services, Chengtong Finance shall also provide the Group with other financial services including the following:

- (a) 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.
- (b) Settlement Services
 - (1) Chengtong Finance agrees to provide settlement services to the Group pursuant to which Chengtong Finance will pay and receive money on behalf of the Group according to the specific instructions from the Group companies.
 - (2) The settlement services will be provided by Chengtong Finance free of charge.
- (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.

In choosing between Chengtong Finance and other financial institutions for the loan services and in order to ensure that the terms and conditions of the loan offered by Chengtong Finance to the Group are no less favourable than those offered by other financial institutions, the Group will obtain not less than two quotations from other independent financial institutions (which shall be leading licensed banks in the PRC) in relation to loan services of the same type and with the same duration. These quotations together with the quotation of Chengtong Finance will be submitted to the financial controller of the Company for review. The financial controller of the Company will then seek the approval of an executive Director as to whether or not to accept the quotation of Chengtong Finance. The Director will take into account factors such as the interest rate, the time required to obtain the approval for the loan and the convenience of drawdown and repayment procedures etc. in making the decision. The internal control procedures and corporate governance procedures of the Company as outlined in the section headed “Internal controls and risk management of the Company” below in relation to the Deposit Services also apply to the loan services contemplated under the Financial Services Agreement.

LETTER FROM THE BOARD

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 is fully exempt under Rule 14A.90 of the Listing Rules from all reporting, announcement and independent Shareholders' approval requirements.

The credit requirements of Chengtong Finance include that the loan applicant shall be a Member Company, and that the intended use of the loan proceeds shall comply with the PRC state policies, laws and regulations as well as the Group's strategic plans. In addition, the grant of the loan shall comply with Chengtong Finance's credit policies, and the loan applicant shall have ability to repay the principal and interest. Chengtong Finance will examine factors such as the business scale, profit, operation budget and risk level of the applicant to assess the applicant's repayment ability.

In the event that the Group fails to meet the credit requirements of Chengtong Finance and hence the Group is required to provide security over the assets of the Group, the provision of loan services under the Financial Services Agreement will no longer be fully exempted under Rule 14A.90 of the Listing Rules. Should the case arises, the Company will comply with the relevant reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules as may be applicable.

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. Its establishment was approved by the CBRC on 25 May 2012 and it is authorised to provide a variety of financial services including (i) the provision of consultation services relating to financial affairs and financing to Member Companies, credit evaluation and related consultation and agency business, (ii) the provision of assistance to Member Companies in the receipt and payment of transaction money, (iii) the provision of guarantee to Member Companies, (iv) the provision of entrustment loans among Member Companies, (v) handling the bill acceptance and discount for Member Companies, (vi) handling the internal transfer and settlement of funds among Member Companies and formulation of liquidation plan, (vii) the provision of deposit services to Member Companies, (viii) the provision of loan and financing lease to Member Companies, and (ix) the engagement in short term financing among financial institutions.

As at the Latest Practicable Date, Chengtong Finance had a registered capital of RMB1,000,000,000 which was owned as to 71% by CCHG, as to 20% by 中國紙業投資總公司(China Paper Corporation) and as to 9% by 中儲發展股份有限公司(CMST Development Company Limited). CCHG is a state-owned enterprise, 中國紙業投資總公司 (China Paper Corporation) is a directly wholly-owned subsidiary of CCHG and 中儲發展股份有限公司 (CMST Development Company Limited), whose shares are listed on the Shanghai Stock Exchange (stock code: 600787), is an indirectly non wholly-owned subsidiary of CCHG.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE FINANCIAL SERVICES AGREEMENT

During the two years since the establishment of Chengtong Finance, the Group has gained sufficient information as to the operational risks and financial position of Chengtong Finance. In view of the steady growth and development of Chengtong Finance throughout the two years since its establishment, the Directors consider it an appropriate time to grasp the opportunity of cooperation with Chengtong Finance so as to diversify the funding platform of the Group.

More flexible and tailor-made financial services

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. For example, Chengtong Finance will be able to provide loans with flexible drawdown and repayment schedule. It can also offer financial consultancy services in respect of assets and liabilities, as well as financing lease in respect of a specific asset. Apart from the provision of deposit services, loan services, settlement services, supply chain financing, financial consultation services etc., Chengtong Finance can also provide services which other commercial banks are unable to provide, such as insurance agency services and financing lease.

Further, being a subsidiary of CCHG, Chengtong Finance is expected to provide centralised financial platform for the Group with less cost (for example, in terms of generally lower administration fee charged by Chengtong Finance, and the relatively shorter time required by Chengtong Finance for granting the approval for the various financial services contemplated under the Financial Services Agreement).

Chengtong Finance also enjoys a better edge to the other commercial banks in various aspects in terms of the provision of financial services to the Member Companies such as:

- (a) the procedures for loan application with Chengtong Finance are simpler and faster and the approval can be obtained in approximately two weeks, while it may take approximately two to three months to obtain approval from other commercial banks;
- (b) Chengtong Finance does not require security money for acceptance bills issued by Member Companies, while other commercial banks require security money in the sum of 20%-50% of the amount of the acceptance bill; and
- (c) Member Companies can repay the loan to Chengtong Finance without any prior application, while the repayment to other commercial banks can only be made with one month prior application and after obtaining the approval from the relevant bank.

Given that one of the major objectives of the establishment of Chengtong Finance was to set up a centralised platform for managing the funds of the Member Companies (including the Group), Chengtong Finance may utilise the Group's deposits placed with it (through saving accounts it maintains with the commercial banks approved by the PRC government) by lending out the funds to other Member Companies only.

LETTER FROM THE BOARD

CCHG is a state-owned enterprise established in the PRC with a registered capital of approximately RMB7.48 billion as at the Latest Practicable Date. CCHG's audited net asset 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 be 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.

Healthy financial position and quality internal control system

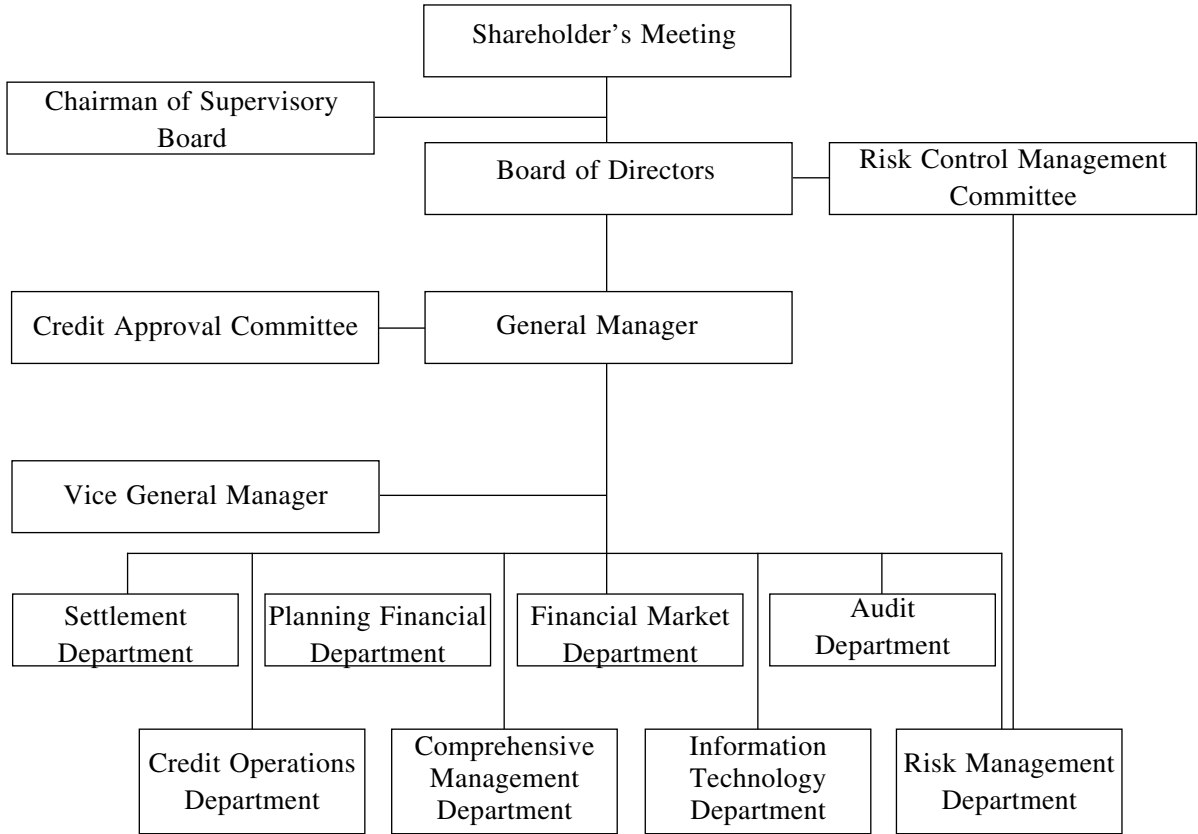
Moreover, Chengtong Finance is subject to the supervision of the CBRC and provides its services in accordance with the rules and operational requirements of CBRC. To the best knowledge of the Directors after making all reasonable enquiries, up to the Latest Practicable Date, Chengtong Finance has shown healthy financial position and has been under good corporate governance with quality internal control system.

As at 31 December 2013, Chengtong Finance's total asset value and net asset value were more than RMB3,540 million and RMB1,070 million respectively. Chengtong Finance had recorded profits in both the financial years ended 2012 and 2013 and its net profits had increased substantially from approximately RMB27.65 million for the financial year ended 31 December 2012 to approximately RMB87.55 million for the financial year ended 31 December 2013.

Chengtong Finance has maintained good corporate governance and stringent internal control measures to ensure effective risk management. It has formulated its articles of association in accordance with the relevant PRC regulations. It has set up separate internal bodies to assume the role of decision making, implementation and supervision respectively. The decision making body includes the shareholders' meeting, the board of directors (which comprises five directors including one independent director and one director elected by the employees) and the risk control management committee (which reports directly to the board of directors), while the implementation role is undertaken by the senior management of Chengtong Finance, the credit approval committee and eight operational departments. The supervisor, the risk management department which is subordinated under the risk control management committee and the audit department assume the supervisory duties in the internal control system.

LETTER FROM THE BOARD

Each of the internal bodies of Chengtong Finance has different roles and assumes separate functions in a way that they can coordinate with one another and at the same time maintain a good check and balance among themselves. Set out below is an organisational chart of Chengtong Finance:



The details of the committees and departments and their respective major roles in maintaining the risk management function and internal control environment of Chengtong Finance are summarised below:

Committee/Department	Roles in relation to risk management and internal control activities
Risk Control Management Committee	<ul style="list-style-type: none"> (i) To monitor and evaluate the comprehensiveness and effectiveness of risk management of Chengtong Finance; (ii) to evaluate policies and systems relating to the internal control, internal audit and legal compliance of Chengtong Finance; (iii) to examine Chengtong Finance's financial data and annual audit plan, as well as receive reports on its asset quality and risk status;

LETTER FROM THE BOARD

- (iv) to advise the senior management to (a) implement necessary measures to identify, monitor and control risks, as well as (b) examine the annual investment plan and credit scheme; and
 - (v) to assist in the formulation and examination of Chengtong Finance's internal control policies and advise on any necessary modifications, and to audit major related party transactions.
- Credit Approval Committee
- (i) To examine the credit rating, risk exposure, non-performing loans and other major issues relating to the credit management of Chengtong Finance; and
 - (ii) to examine the five-tier classification of loans of Chengtong Finance.
- Comprehensive Management Department
- (i) To supervise the administration of Chengtong Finance;
 - (ii) to set up the administrative management system for Chengtong Finance and monitor its implementation;
 - (iii) to establish the administrative regulations and systems of Chengtong Finance; and
 - (iv) to formulate the future development plan and annual working plan of Chengtong Finance.
- Planning Financial Department
- (i) To manage the funding position of Chengtong Finance and to formulate funding accommodation plan, to implement investment and interbank loan;
 - (ii) to be responsible for the budgeting of Chengtong Finance, to formulate budget plan and to control and supervise its implementation; and
 - (iii) to be responsible for the external submission of audit reports and financial reports to various regulatory bodies.
- Risk Management Department
- (i) To manage Chengtong Finance's credit risks, market risks, operational risks and compliance risks;

LETTER FROM THE BOARD

- (ii) to set up and implement credit policies and risk management system, and report the relevant risk assessment to the board of directors;
 - (iii) to prepare various risk management reports, and report them to the board of directors and chairman regularly;
 - (iv) to identify and examine potential data which may cause compliance issues, set up compliance risk control index and to assess the possibility and consequences of the risk; and
 - (v) to maintain close contact with various regulatory bodies, so as to keep track on the regulatory requirements and supervise the compliance of such requirements.
- Audit Department
- (i) To assume an internal supervisory role on the auditing system, and formulate regulations on audit management;
 - (ii) to examine and audit the business and financial operation of Chengtong Finance;
 - (iii) to examine the comprehensiveness and effectiveness of the internal control system; and
 - (iv) to verify the creditability of audit reports.
- Credit Operations Department
- (i) To formulate the RMB credit scheme, development plan and annual working plan of Chengtong Finance;
 - (ii) to handle the daily affairs of the Credit Approval Committee; and
 - (iii) to be responsible for various credit businesses of Chengtong Finance, to supervise the use of loan proceeds, oversee and audit the recovery of the loan principal and interest.

LETTER FROM THE BOARD

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|-----------------------------------|--|
| Settlement Department | (i) To set up and implement the settlement management system and operational procedures; |
| | (ii) to receive deposit, carry out daily management and coordination of the settlement business; and |
| | (iii) to manage the accounts of Member Companies and carry out settlement process. |
| Financial Markets Department | (i) To formulate the financing and fund operational plan, as well as to draft and implement investment and financing management regulations; |
| | (ii) to evaluate, investigate and manage the investments on securities and the shares of financial institutions; and |
| | (iii) to carry out interbank lending/borrowing. |
| Information Technology Department | (i) To construct and maintain the information technology of Chengtong Finance, including its application system; and |
| | (ii) to carry out unified and centralized management on business and operation data. |

Chengtong Finance has in place internal rules and policies specifically for management and control of operational risk and credit risks. It has established its own credit policies and credit approval procedures for loan applications which are designed in accordance with the relevant regulations of PBC and CBRC. It has also adopted various risk management measures and procedures to manage and monitor credit risks. The internal control guidance of Chengtong Finance covers areas important to the operation of financial institutions such as legal and compliance management, credit risk, treasury business including investment and inter-financial institution lending, accounting, information technology system, and internal control. Chengtong Finance has developed various rules and policies separately for each of these areas to ensure effective risk management and compliance with the relevant laws and regulations.

LETTER FROM THE BOARD

Comparatively low risk profile

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.

According to 企業集團財務公司管理辦法 (Measures for the Administration of Finance Companies of Enterprise Groups) (“Measures”) issued by the CBRC on 27 July 2004 (as amended on 28 December 2006), Chengtong Finance shall comply with various ratios in respect of its assets and liabilities and Chengtong Finance has complied with all the relevant ratios. The table below sets out the financial ratio requirements of the CBRC with reference to the Measures and the respective financial ratios of Chengtong Finance as at 31 December 2012 and 31 December 2013:

Financial ratio	Requirements of the CBRC	Financial ratio of Chengtong Finance	
		As at 31 December 2012	As at 31 December 2013
Capital adequacy ratio	Not less than 10%	74.23%	55.87%
Inter-financial institution borrowing balances to total capital ratio	Not more than 100%	0.00%	0.00%
Total amount of outstanding guarantees to total capital ratio	Not more than 100%	0.00%	0.00%
Short-term securities investment to total capital ratio	Not more than 40%	0.00%	0.00%
Long-term investment to total capital ratio	Not more than 30%	0.00%	0.00%
Self-owned fixed assets to total capital ratio	Not more than 20%	0.42%	0.36%

According to the statistical data for 2013 as published by the CBRC on 14 February 2014, the various ratios of Chengtong Finance were better than the average ratios of the commercial banks in the PRC:

Financial ratio	Average ratio of the commercial banks in the PRC	Ratio of Chengtong Finance
Capital adequacy ratio	12.19%	55.87%
Bad debt ratio	1.00%	0.00%
Liquidity ratio	44.00%	55.83%
Profit to assets ratio	1.30%	2.72%

LETTER FROM THE BOARD

Chengtong Finance, being a member company of the group of CCHG, is in a better position to gain information of the Member Companies in a more timely and comprehensive manner as compared to other commercial banks. Chengtong Finance is exposed to a lower level of potential risk compared to other commercial banks which conduct business with clients of various credit ratings and background. Moreover, CCHG, the ultimate holding company of Chengtong Finance, has undertaken that it will increase the capital of Chengtong Finance in case Chengtong Finance has difficulty in payment.

As represented by Chengtong Finance, it has only maintained saving accounts with the commercial banks approved by the PRC government and did not and will not maintain any saving accounts with other institutions. Therefore, the Directors believe that the Group's deposit with Chengtong Finance will not be placed with other institutions not approved by the PRC government.

The Directors (including the independent non-executive Directors, who 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.

None of the Directors has material interest in the transactions contemplated under the Financial Services Agreement. Nevertheless and for the sake of good corporate governance, those Directors (namely Yuan Shaoli, Wang Hongxin and Zhang Bin) who are common directors of the Company and CCHK (which is a Member Company) have abstained from voting on the Board resolutions in relation to the Financial Services Agreement and the transactions contemplated thereunder.

INTERNAL CONTROLS AND RISK MANAGEMENT OF THE COMPANY

In order to safeguard the interests of the Shareholders, the Company has adopted, among others, the following internal control procedures and corporate governance procedures to monitor the risks in relation to the Deposit Services contemplated under the Financial Services Agreement:

- (a) The Company has established a special working committee ("**Working Committee**") which is led by the chairman of the Board to monitor and control the risk of the Deposit Services and to formulate solutions in resolving any risk which may arise in connection therewith. The general manager and the vice general manager of the Company act as the vice chairman of the Working Committee. The Working Committee also includes the head of the finance and capital department, risk control and legal affairs department and operation management department.
- (b) The Company has also established a risk reporting system for the Deposit Services. The Working Committee will review the financial statements of Chengtong Finance periodically and collect risk management report and the annual operation report of Chengtong Finance to be submitted to the CBRC from Chengtong Finance on a yearly basis. The Working Committee will also assess the business and financial risks of Chengtong Finance during the term of the Deposit Services and report to the Board in a timely manner.

LETTER FROM THE BOARD

- (c) The treasury manager of the finance and treasury department will, among other matters, monitor the daily balance of the deposits made by the Group with Chengtong Finance and will compare (i) the term of deposit and the corresponding deposit benchmark interest rates prescribed by the PBC; and (ii) the market interest rates offered to the Group from at least two leading independent commercial banks (e.g. China Merchants Bank and Agricultural Bank of China etc.) with the interest rates offered by Chengtong Finance for the relevant type of deposit on a monthly basis in order to ensure that the terms and conditions offered by Chengtong Finance to the Group are no less favourable than those offered by other independent commercial banks.
- (d) By monitoring the amount of deposits placed by the Group with Chengtong Finance on a regularly basis, the Company will ensure that the amount of deposits will not exceed the cap which may be approved by the Shareholders.

The treasury manager of the finance and treasury department will prepare cashflow statement on a weekly basis according to the cashflow condition of the Group. If it is necessary to adjust the balance of the deposits made by the Group with Chengtong Finance, an application will need to be made to the manager of the finance department and if approved by the manager of the finance department, the proposed adjustment will be reported to a Director authorised by the Company. The adjustment can only be made if it is approved by the Director so authorised after considering factors which are independent from the controlling Shareholder, such as the maximization of interest income for the Group and the Group's expected cashflow.

Before the Company or any of its subsidiaries enters into any individual agreement for the Deposit Services with Chengtong Finance, the Group will obtain not less than two quotations from other independent financial institutions (which shall be leading licensed banks in the PRC) in relation to deposit services of the same type and with the same duration. These quotations together with the quotation of Chengtong Finance will be submitted to the financial controller of the Company for review. The financial controller of the Company will then seek the approval of an executive Director as to whether or not to accept the quotation of Chengtong Finance.

POTENTIAL RISKS ASSOCIATED WITH THE DEPOSIT SERVICES

Possible non-compliance by Chengtong Finance with its internal control system

Although Chengtong Finance has adopted various internal control measures, there is no guarantee that it will strictly adhere to those measures or that those internal control measures will in fact be effective in the risk control and management. While the Working Committee established by the Company will collect risk management report and the annual operation report of Chengtong Finance to be submitted to the CBRC on a yearly basis, the Company has no other control over the risk management and administration of Chengtong Finance.

LETTER FROM THE BOARD

Potential breach of undertaking by CCHG

CCHG has undertaken to the CBRC that it will increase the capital of Chengtong Finance in case Chengtong Finance has difficulty in payment. However, the Company cannot ensure that CCHG will honour its undertaking. Moreover, as such undertaking was given to CBRC instead of to the Company, the Company may not be in a position to enforce such undertaking against CCHG in the event of a breach by CCHG.

No effective control over the utilisation of deposits by Chengtong Finance

Chengtong Finance has represented to the Company that it has only maintained saving accounts with commercial banks approved by the PRC government and did not and will not maintain any saving accounts with other institutions. However, there is no guarantee that Chengtong Finance will not place the Group's deposits in other non-bank institutions in the future.

Chengtong Finance may utilise the Group's deposits placed with it by lending out the funds to other Member Companies. The Company has no control on when or to whom the Group's deposits will be lent out by Chengtong Finance. Moreover, the recovery of such loan lent by Chengtong Finance to the other Member Companies will be subject to the creditability and financial conditions of the relevant Member Companies.

Chengtong Finance may be subject to different risk profile from commercial banks

Chengtong Finance is subject to regulations promulgated by CBRC from time to time. Since Chengtong Finance is not a commercial bank, these regulations may not be the same as those regulating commercial banks. As Chengtong Finance and commercial banks have different target customers for their respective financial services, they may be subject to different risk profile.

Average daily balance of deposits placed by the Group with Chengtong Finance may exceed the outstanding loans granted by Chengtong Finance to the Group

The Financial Services Agreement does not contain any restriction that the average daily balance of deposits placed by the Group with Chengtong Finance must not exceed the outstanding loans granted by Chengtong Finance to the Group. Since Chengtong Finance may utilise the Group's deposits placed with it by lending out the funds to other Member Companies, in the event that the average daily balance of deposits placed by the Group with Chengtong Finance does exceed the outstanding loans granted by Chengtong Finance to the Group, the Group may, in essence, be providing fundings to Chengtong Finance and other Member Companies.

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.

LETTER FROM THE BOARD

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.

EGM

The Company will convene the EGM to be held at Suite 6406, 64th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 18 September 2014 at 10:00 a.m. for the purpose of considering, and if thought fit, approving the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap). Pursuant to Rule 13.39(4) of the Listing Rules, the vote of the independent Shareholders at the EGM will be taken by poll. A notice of the EGM is set out on pages 49 to 50 of this circular. The resolution in relation to the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap) will be put to vote by the independent Shareholders at the EGM by way of poll.

A form of proxy for use at the EGM is also enclosed with this circular. Whether or not you intend to attend the EGM (or any adjournment thereof), you are requested to complete the accompanying form of proxy and return it to the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM if you so wish.

As Chengtong Finance is an associate of World Gain Holdings Limited, World Gain Holdings Limited has a material interest in the Deposit Services contemplated under the Financial Services Agreement. Therefore, World Gain Holdings Limited will abstain from voting on the resolution to approve the Deposit Services (including the Deposit Cap) at the EGM. As at the Latest Practicable Date, World Gain Holdings Limited was holding 2,979,456,119 Shares, representing approximately 61.55% of the total issued share capital of the Company.

RECOMMENDATION

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). Your attention is drawn to the advice of the Independent Board Committee set out in its letter on page 19 of this circular. Your attention is also drawn to the letter of advice from Halcyon Capital to the Independent Board Committee and the independent Shareholders in respect of the same set out on page 20 to page 33 in this circular.

LETTER FROM THE BOARD

The Independent Board Committee, having taking into account the advice of Halcyon Capital, considers that the entering into of the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap) is in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. The Independent Board Committee also considers that the terms of the Deposit Services (including the Deposit Cap) are fair and reasonable so far as the independent Shareholders are concerned and recommend the independent Shareholders to vote in favour of the ordinary resolution approving the Deposit Services (including the Deposit Cap) at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the full text of the letter from the Independent Board Committee prepared for the purpose of inclusion in this circular:



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)

25 August 2014

To the independent Shareholders

Dear Sir or Madam,

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

We refer to the circular issued by the Company to its shareholders and dated 25 August 2014 (“**Circular**”) of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

Under the Listing Rules, the Deposit Services contemplated under the Financial Services Agreement will constitute a major and continuing connected transaction for the Company and is subject to the approval of the independent Shareholders at the EGM.

We have been appointed by the Board to consider the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap) and to advise the independent Shareholders in connection therewith. Halcyon Capital has been appointed as the independent financial adviser to advise us in this respect. We wish to draw your attention to the letter from the Board and the letter from Halcyon Capital as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Halcyon Capital as set out in its letter of advice, we consider that the entering into of the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap) is in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. We also consider that the terms of the Deposit Services (including the Deposit Cap) are fair and reasonable so far as the independent Shareholders are concerned. Accordingly, we recommend the independent Shareholders to vote in favour of the ordinary resolution approving the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap) at the EGM.

Yours faithfully,

For and on behalf of

Independent Board Committee

Chang Qing Lee Man Chun, Tony Chan Sheung Lai

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Halcyon Capital Limited to the Independent Board Committee and the independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



Halcyon Capital Limited

11/F, 8 Wyndham Street,
Central, Hong Kong

25 August 2014

To the Independent Board Committee and the independent Shareholders

Dear Sirs,

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

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders in relation to the terms of the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 25 August 2014 (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

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.

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 Deposit Services contemplated under the Financial Services Agreement constitute continuing connected transaction of the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios in respect of the provision of the Deposit Services under the Financial Services Agreement 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors, namely Messrs. Chang Qing, Lee Man Chun, Tony and Chan Sheung Lai, has been established to advise the independent Shareholders as to whether the terms of the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap) are fair and reasonable so far as the independent Shareholders are concerned, whether they are in the interest of the Company and the independent Shareholders as a whole and how to vote on the relevant resolution in the EGM. In our capacity as the Independent Financial Adviser to the Independent Board Committee and the independent Shareholders, our role is to provide the Independent Board Committee and the independent Shareholders with an independent opinion and recommendation in this regard.

BASIS OF OUR OPINION

Other than this appointment as the Independent Financial Adviser, we have no relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. We are hence independent from the Company pursuant to Rule 13.84 of the Listing Rules.

In formulating our opinion and recommendation, we have relied on the information, financial information and facts included in the Circular and supplied to us, and the representations expressed by the Directors and/or management of the Group, and have assumed that all such information, financial information, facts and any representations made to us, or referred to in the Circular, in all material aspects, were true, accurate and complete as at the time they were made and as at the Latest Practicable Date, have been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the management of the Group. The Directors and/or the management of the Group have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and representations provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analyses were based upon, among others, the information provided by the Group including the announcements, financial reports of the Company and the Circular. We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the Deposit Services contemplated under the Financial Services Agreement (including the Deposit Cap) and considered that we have reviewed sufficient information to reach an informed view and to justify reliance on the information provided and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and supplied to us by the Directors and/or the management of the Group nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position, profitability or prospects of the Group, Chengtong Finance, CCHG and each of their respective associates, and the parties involved in the Deposit Services contemplated under the Financial Services Agreement.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Deposit Services contemplated under the Financial Services Agreement, we have considered the following principal factors and reasons:

1. Background to and reasons for the Deposit Services

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 company incorporated in the PRC on 14 June 2012 and a non-banking financial institution with 金融許可證 (a financial license issued by the CBRC), which is principally engaged in the provision of financial services to Member Companies, including the Group. Its establishment was approved by the CBRC on 25 May 2012 and it is authorised to provide a variety of financial services including (i) the provision of consultation services relating to financial affairs and financing to Member Companies, credit evaluation and related consultation and agency business; (ii) the provision of assistance to Member Companies in the receipt and payment of transaction money; (iii) the provision of guarantee to Member Companies; (iv) the provision of entrustment loans among Member Companies; (v) handling the bill acceptance and discount for Member Companies; (vi) handling the internal transfer and settlement of funds among Member Companies and formulation of liquidation plan; (vii) the provision of deposit services to Member Companies; (viii) the provision of loan and financing lease to Member Companies; and (ix) the engagement in short term financing among financial institutions. As advised by the management of the Group, Chengtong Finance was established with a registered capital of RMB1 billion, as to 71% contributed by CCHG, 20% contributed by 中國紙業投資總公司 (China Paper Corporation) and 9% contributed by 中儲發展股份有限公司 (CMST Development Company Limited). CCHG is a state-owned enterprise, 中國紙業投資總公司 (China Paper Corporation) is a directly wholly-owned subsidiary of CCHG and 中儲發展股份有限公司 (CMST Development Company Limited), whose shares are listed on the Shanghai Stock Exchange (stock code: 600787), is an indirectly non wholly-owned subsidiary of CCHG.

As stated in the Letter from the Board, given that Chengtong Finance is subject to the supervision of the CBRC and provides its services in accordance with the rules and operational requirements of the CBRC, 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Chengtong Finance operates under the relevant guidelines and requirements of the CBRC including 企業集團財務公司管理辦法 (Measures for the Administration of Finance Companies of Enterprise Groups) (the “Measures”) issued by the CBRC on 27 July 2004 (as amended on 28 December 2006) and is allowed to provide treasury and other financial services to Member Companies (including the Group). According to the Measures, Chengtong Finance is required to file audited financial statements to CBRC and other operational and financial materials as required by CBRC. Chengtong Finance is also required to comply with various ratios in respect of its assets and liabilities, including, among others, the capital adequacy ratio, the ratio of borrowings to total capital and the ratio of guarantees provided to total capital. It is noted from the Measures that the capital adequacy ratio for finance companies of enterprise groups shall not be lower than 10% whereas such threshold for commercial banks is 8% as stipulated in 商業銀行資本管理辦法 (試行) (the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)) issued by the CBRC on 7 June 2012. We have obtained and reviewed the annual operation reports of Chengtong Finance for the two years ended 31 December 2013 submitted to the CBRC by Chengtong Finance and noted that the relevant financial indicators of Chengtong Finance have been in compliance with the relevant regulations. The table below sets out the financial ratio requirements of the CBRC with reference to the Measures and the respective financial ratios of Chengtong Finance as at 31 December 2012 and 31 December 2013:

Financial ratio	Requirements of the CBRC	Financial ratio of Chengtong Finance	
		As at 31 December 2012	As at 31 December 2013
Capital adequacy ratio	Not less than 10%	74.23%	55.87%
Inter-financial institution borrowing balances to total capital ratio	Not more than 100%	0.00%	0.00%
Total amount of outstanding guarantees to total capital ratio	Not more than 100%	0.00%	0.00%
Short-term securities investment to total capital ratio	Not more than 40%	0.00%	0.00%
Long-term investment to total capital ratio	Not more than 30%	0.00%	0.00%
Self-owned fixed assets to total capital ratio	Not more than 20%	0.42%	0.36%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the statistical data published by the CBRC on 14 February 2014, the various ratios of Chengtong Finance were better than the average of respective ratios of the commercial banks in the PRC for 2013:

Financial ratio	Average of the commercial banks in the PRC	Chengtong Finance
Capital adequacy ratio	12.19%	55.87%
Bad debt ratio	1.00%	0.00%
Liquidity ratio	44.00%	55.83%
Profit to assets ratio	1.30%	2.72%

In addition, pursuant to the Financial Services Agreement, CCHG has undertaken to the CBRC that it will increase the capital of Chengtong Finance in case Chengtong Finance has difficulty in payment. As stated in the Letter from the Board, CCHG is a state-owned enterprise established in the PRC with a registered capital of approximately RMB7.48 billion as at the Latest Practicable Date. CCHG's audited net asset value as at 31 December 2013 was over RMB24 billion. We have reviewed the audited financial statements of CCHG for the year ended 31 December 2013 and noted that CCHG had a net asset value of approximately RMB24.4 billion and bank balances and cash of approximately RMB8.0 billion as at 31 December 2013.

As confirmed by the Directors, Chengtong Finance does not have any previous record of material default of payment. In addition, Chengtong Finance will provide financial services only to the Member Companies (including the Group) and, being a member company of the group of CCHG, is in a better position to gain information of the Member Companies in a more timely and comprehensive manner as compared to other commercial banks and is also exposed to a lower level of potential risk compared to other commercial banks which conduct business with clients of various credit ratings and background. Having considered (i) the provision of financial services by Chengtong Finance is limited only to Member Companies; (ii) the clean record of Chengtong Finance in meeting its payment obligation; (iii) various financial ratios of Chengtong Finance were better than average of commercial banks and in compliance with relevant regulations as stated above; and (iv) CCHG has undertaken to the CBRC that it will increase the capital of Chengtong Finance in case Chengtong Finance has difficulty in payment, we concur with the Directors' view that the risk profile of Chengtong Finance is not greater than that of independent commercial banks in the PRC.

The Company and Chengtong Finance have adopted various internal control and risk management measures in relation to the provision of financial services by Chengtong Finance in order to ensure protection of the interest of the Shareholders. As advised by the management of the Group, there are internal control measures in place for the monitoring of the compliance of Chengtong Finance with the relevant regulations, the risk profile of Chengtong Finance and the Deposit Services. Such measures include monitoring of the daily balance of the Group's deposits by the designated treasury manager of finance and treasury department of the Group and periodical review of financial statements of Chengtong Finance and the risk management report and the annual operation report of Chengtong Finance to be submitted to the CBRC

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

in assessing relevant financial indicators of Chengtong Finance. Please refer to the section headed “Internal controls and risk management of the Company” in the Letter from the Board for details. As stated in the Letter from the Board, to the best knowledge of the Directors and after making all reasonable enquiries, up to the Latest Practicable Date, Chengtong Finance has shown healthy financial position and has been under good corporate governance with quality internal control system. We have reviewed the audited reports of Chengtong Finance for the two years ended 31 December 2013 and noted that Chengtong Finance had a net asset value of approximately RMB1,073.7 million and bank balances and cash (including central bank reserves) of approximately RMB1,935.1 million as at 31 December 2013 and had been profitable for each of the two years ended 31 December 2012 and 2013 with profit after taxation of approximately RMB27.6 million and RMB87.6 million respectively. 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.

As stated in the Letter from the Board, Chengtong Finance has established stringent internal control measures to ensure effective risk management. It has formulated its articles of association in accordance with the relevant PRC regulations. It has set up separate internal bodies to assume the role of decision making, implementation and supervision respectively. The decision making body includes the shareholders’ meeting, the board of directors (which comprises five directors including one independent director and one director elected by the employees) and the risk control management committee (which reports directly to the board of directors), while the implementation role is undertaken by the senior management of Chengtong Finance, the credit approval committee and eight operational departments. The supervisor, the risk management department which is subordinated under the risk control management committee and the audit department assume the supervisory duties in the internal control system. Each of the internal bodies has different roles and assumes separate functions in a way that they can coordinate with one another and at the same time maintain a good check and balance among themselves. Please refer to the section headed “Healthy financial position and quality internal control system” in the Letter from the Board for the details of the organisational chart of Chengtong Finance and the committees and departments and their respective major roles in maintaining the risk management function and internal control environment of Chengtong Finance. As advised by the management of the Group, Chengtong Finance has in place internal rules and policies specifically for management and control of operational risk and credit risks. It has established its own credit policies and credit approval procedures for loan applications which are designed in accordance with the relevant regulations of PBC and CBRC. It has also adopted various risk management measures and procedures to manage and monitor credit risks. In this regard, we have reviewed the risk management reports for the two years ended 31 December 2013 of Chengtong Finance submitted to CBRC and the risk management measures and internal control implementation measures of Chengtong Finance, and concur with the Directors that the internal control guidance of Chengtong Finance covers areas important to the operation of financial institutions such as legal and compliance management, credit risk, treasury business including investment and inter-financial institution lending, accounting, information technology system and internal control.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter from the Board, the Company is subject to certain risks associated with the Deposit Services, including possible non-compliance by Chengtong Finance with its internal control system, potential breach of undertaking by CCHG, no effective control over the utilisation of deposits by Chengtong Finance, different risk profile of Chengtong Finance as compared to commercial banks, average daily balance of deposits placed by the Group with Chengtong Finance may exceed the outstanding loans granted by Chengtong Finance to the Group. Please refer to the section headed “Potential risks associated with the Deposit Services” in the Letter from the Board for details.

During the two years since the establishment of Chengtong Finance, the Group has gained sufficient information as to the operational risks and financial position of Chengtong Finance. In view of the steady growth and development of Chengtong Finance throughout the two years since the establishment of Chengtong Finance, the Directors consider it an appropriate time, which we concur with, to grasp the opportunity of cooperation with Chengtong Finance so as to diversify the funding platform of the Group. As advised by the Directors, the Group is neither obliged nor committed to engage Chengtong Finance to provide the Deposit Services under the Financial Services Agreement and Chengtong Finance is merely one of the financial institutions which provide deposit services to the Group. This allows the Group to have the flexibility and discretion to select the appropriate provider for deposit services. It is expected that Chengtong Finance, as an inter-group service provider, is more familiar with the Group’s operation and will have better and more efficient communication with the Group compared with other commercial banks and financial institutions in the PRC for the Deposit Services under the Financial Services Agreement. In addition, the interest rates offered by Chengtong Finance under the Deposit Services will not be lower than those that would be offered to the Group by other major commercial banks in the PRC or those offered by Chengtong Finance to any third parties. Having considered that the Group has its sole discretion to use the deposit services provided by other commercial banks and financial institutions when the relevant terms are more favourable than those offered by Chengtong Finance, we are of the view that the Deposit Services provides the Group an alternative choice of service provider for deposit services and allows the Group to pick the service provider offering the most favourable terms to the Group.

Taking into account the foregoing, we are of the view that the entering into of the Deposit Services contemplated under the Financial Services Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Principal terms of the Deposit Services under the Financial Services Agreement

The principal terms of the Deposit Services contemplated under the Financial Services Agreement are summarised as follows:

- Date: 21 May 2014
- Parties: (i) the Company; and
(ii) Chengtong Finance
- Duration: From the Effective Date to 31 December 2016
- Scope of 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (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 repayable by the Group to Chengtong Finance by the amount of deposits due to the Group from 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.

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the management of the Group, the Group is neither obliged nor committed to engage Chengtong Finance to provide the Deposit Services pursuant to the terms of the Financial Services Agreement and the Group has the discretion to choose any banks or financial institutions to satisfy its financial service needs.

As stated in the Letter from the Board, given that one of the major objectives of the establishment of Chengtong Finance was to set up a centralised platform for managing the funds of the Member Companies (including the Group), Chengtong Finance may utilise the Group's deposits placed with it (through saving accounts it maintains with the commercial banks approved by the PRC government) by lending out the funds to other Member Companies only. As confirmed by the Directors, Chengtong Finance has only maintained saving accounts with the commercial banks approved by the PRC government and did not and will not maintain any saving accounts with other financial institutions. Furthermore, the Financial Services Agreement has not provided that the average daily balance of deposits placed by the Group with Chengtong Finance must not exceed the outstanding loans granted by Chengtong Finance to the Group. As stated in the Letter from the Board, the Directors consider that it would be more beneficial to the Company and its Shareholders as a whole without imposing such a restriction in the Financial Services Agreement for the reason that if there is such a restriction in place, in the event that the Group does not have any financial need to borrow any loan from Chengtong Finance, the Group may have no choice but to place its deposits in other financial institutions even if such other financial institutions offer less favourable terms or lower interest rate than Chengtong Finance does. Given that the Group's deposits placed with Chengtong Finance will only be placed in the commercial banks approved by the PRC government and can only be lent out to other Member Companies only while the Group's deposits placed with commercial banks in the PRC can be lent out to clients with various credit rating and background, we consider that credit and default risks of the Deposit Services is no greater than those risks of placing the deposits into commercial banks in the PRC.

We noted that 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. We have reviewed the internal control measures in place in respect of the mechanism of the Company choosing between Chengtong Finance and other financial institution for Deposit Services. The Group will obtain not less than two quotations from other independent financial institutions (which shall be leading licensed banks in the PRC) in relation to deposit services of the same type and with the same duration before the Company or any of its subsidiaries enters into any individual agreement for the Deposit Services with Chengtong Finance. These quotations together with the quotation of Chengtong Finance will be submitted to the financial controller of the Company for review. The financial controller of the Company will then seek the approval of an executive Director as to whether or not to accept the quotation of Chengtong Finance. We have also reviewed the Company's internal control measures in place in respect of the interest rates payable by Chengtong Finance. The treasury manager of finance and treasury department of the Group will compare (i) the term of deposit and the corresponding deposit benchmark interest rate prescribed by the PBC; and (ii) the market interest rates offered to the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Group from at least two leading independent commercial banks (e.g. China Merchants Bank and Agricultural Bank of China etc.) with the interest rates offered by Chengtong Finance for the relevant type of deposit on a monthly basis in order to ensure that the terms and conditions offered by Chengtong Finance to the Group are no less favourable than those offered by other independent commercial banks. In addition, the treasury manager of the finance and treasury department of the Group will prepare cashflow statement on a weekly basis according to the cashflow condition of the Group. If it is necessary to adjust the balance of the deposits made by the Group with Chengtong Finance, an application will need to be made to the manager of the finance department of the Group and if approved by the manager of the finance department, the proposed adjustment will be reported to a Director authorised by the Company. The adjustment can only be made if it is approved by the Director so authorised after considering factors such as the maximization of interest income for the Group and the Group's expected cashflow.

In respect of the time of interest payment, as stated in the Letter from the Board, the interest payable by Chengtong Finance will be paid on the 20th day of the last month in each quarter in respect of current deposit. The interest payable will be remitted automatically to the internal current deposit account of the relevant member of the Group on the interest payment date on a quarterly basis. In respect of fixed deposit, the interest payable by Chengtong Finance will be paid on the maturity date. As confirmed by the Directors, the payment of interest in respect of the Deposit Services as set out above is in line with the market practice. We have reviewed the receipts of interest payment issued by one of the principal bankers of the Group (the “**Principal Banker**”) and noted that the time of interest payable by the Principal Banker to the Group is in line with the time of interest payable by Chengtong Finance to the Group.

We are of the view that there are sufficient procedures for the Group to ensure that the interest rate offered to the Group under the Deposit Services by Chengtong Finance will not be lower than that provided to the Group by other independent major commercial banks in the PRC and the Deposit Services contemplated under the Financial Services Agreement are on normal commercial terms, and are fair and reasonable so far as the Company and the independent Shareholders are concerned.

3. Basis of the Deposit Cap

It is proposed that 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), excluding (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. The Company confirms that there is no historical cap and no outstanding balance for the Deposit Services with Chengtong Finance.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the Letter from the Board, the Deposit Cap is determined based on the amount of deposits historically made by the Group with other independent commercial banks in the PRC. In assessing the fairness and reasonableness of the Deposit Cap, we have discussed with the management of the Group in respect of the possible deposits to be placed by the Group during the term of the Financial Services Agreement. We have reviewed the annual report of the Company for the year ended 31 December 2013 and noted that the Group had bank balances and cash (excluding pledged bank deposits) of approximately HK\$2,557.3 million (equivalent to approximately RMB2,010.6 million) as at 31 December 2013. As advised by the management of the Group, for the year ended 31 December 2013, the monthly ending balances of deposits historically made by the Group with other independent commercial banks in the PRC were in the range of approximately RMB149.5 million and approximately RMB1,855.7 million, with an average monthly ending balance of approximately RMB545.7 million. In addition, we note that the proposed Deposit Cap represents less than 4% of the Group's total current assets as at 31 December 2013. We consider the proposed Deposit Cap is reasonable compared with the bank balances and cash of the Group as mentioned above.

Based on the foregoing review and analyses and that Chengtong Finance provides an alternative for the Group to deposit its cash temporarily not in use to earn interest income at interest rate not lower than the interest rates provided by other major commercial banks in the PRC and at terms that fit the Group's capital management needs, we consider that the Deposit Cap in relation to the Deposit Services contemplated under the Financial Services Agreement was made by the Directors after due and careful consideration. Moreover, we are of the view that the basis for determining the Deposit Cap is fair and reasonable so far as the independent Shareholders are concerned.

4. Reporting requirements and conditions of the Deposit Services contemplated under the Financial Services Agreement

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Deposit Services contemplated under the Financial Services Agreement (the “**Continuing Connected Transaction**”) are subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the Continuing Connected Transaction and confirm in the annual report whether the Continuing Connected Transaction has been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and
 - (iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least ten business days prior to the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transaction:
 - (i) has not been approved by the Board;
 - (ii) was not, in all material respects, in accordance with the pricing policies of the Group (if applicable);
 - (iii) was not entered into, in all material respects, in accordance with the relevant agreement governing the Continuing Connected Transaction; and
 - (iv) has exceeded the Deposit Cap;
- (c) the Company must allow, and ensure that the relevant counterparties to the Continuing Connected Transaction allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Continuing Connected Transaction as set out in paragraph (b); and
- (d) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements attached to the Continuing Connected Transaction, in particular, (i) the restriction of the value of the Continuing Connected Transaction by way of the Deposit Cap; and (ii) the on-going review by the independent non-executive Directors and auditors of the Company of the Continuing Connected Transaction, we are of the view that appropriate measures will be in place to monitor the conduct of the Continuing Connected Transaction and assist to safeguard the interests of the independent Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the entering into of the Deposit Services contemplated under the Financial Services Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the independent Shareholders as a whole, the terms of the Deposit Services contemplated under the Financial Services Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the independent Shareholders are concerned, and the basis for determining the Deposit Cap is fair and reasonable so far as the Company and the independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Accordingly, we would recommend the independent Shareholders, and advise the Independent Board Committee to recommend the independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM in respect of the Deposit Services contemplated under the Financial Services Agreement.

Yours faithfully,
For and on behalf of
Halcyon Capital Limited
Terry Chu
Managing Director

Mr. Terry Chu is a person licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Halcyon Capital Limited and has over 14 years of experience in corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for the three financial years ended 31 December 2013 have been set out in the Company's annual reports for the three financial years ended 31 December 2013.

All annual reports of the Company have been posted on the websites of the Stock Exchange (www.hkex.com.hk) and the Company ([http:// www.irasia.com/listco/hk/chengtong](http://www.irasia.com/listco/hk/chengtong)).

2. INDEBTEDNESS

As at the close of business on 30 June 2014, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had outstanding borrowings of approximately HK\$6,364,213,000 and guarantees of approximately HK\$4,530,259,000, details of which are as follows:

Borrowings:

	<i>Notes</i>	<i>HK\$'000</i>
Discounted bills with recourse	(a)	5,648,832
Other loan	(b)	600
Corporate bonds	(c)	<u>714,781</u>
		<u><u>6,364,213</u></u>

Notes:

- (a) Short-term bank borrowings in relation to discounted bills with recourse of approximately HK\$5,648,832,000, which were secured by the accepted letters of credit discounted to banks.
- (b) Unsecured other loan of HK\$600,000, which was interest-free and repayable on demand.
- (c) Corporate bonds at carrying amount of approximately HK\$714,781,000, which were interest bearing at 4.0% per annum, will mature on 9 May 2017 and guaranteed by an irrevocable standby letter of credit denominated in RMB issued by Agricultural Bank of China Limited, Beijing Branch.

Guarantees:

As at 30 June 2014, the Group had contingent liabilities in relation to guarantees of approximately HK\$122,878,000 given to banks in respect of mortgage loans granted to buyers of certain property units.

As at 30 June 2014, the Company provided corporate guarantees amounted to HK\$4,407,381,000 to the banks in respect of the banking facilities granted to a subsidiary of the Group in relation to the discounted bills with recourse and loan notes.

For the purpose of compiling this indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the applicable rates of exchange at the close of business on 30 June 2014.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 30 June 2014 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

Taking into account the financial resources available to the Group and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group will have sufficient working capital to meet its present requirements for at least twelve months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS

It is expected that in 2014, the world economy will remain in a period of adjustment and the economic growth in emerging markets will slow down, while China is expected to sustain fast economic growth, thus bringing moderate room of expansion for various businesses of the Group. However, the management still anticipates the year 2014 to be a year full of challenges for the Group.

Bulk Commodity Trade

In 2014, the Group is currently reviewing the operation mode and risk management system of bulk commodity trade carried out through the wholly-owned subsidiaries of the Group, so as to further expand the bulk commodity trade of the Group by formulating an advantageous operation mode and a more comprehensive risk management policy. In April 2014, the Group, through its wholly-owned subsidiaries, has resumed the operation of bulk commodity trade. The Group will continue to enhance its internal control and risk management policy on the operation of bulk commodity trade and execute this business in a prudent manner.

Hospitality and Marine Travel Services

The Group had completed the acquisitions of several subsidiaries of CCHG in December 2012, which are mainly engaged in hotel operation and provision of marine entertainment services in Hainan province, the PRC. Thus far, these companies have recorded stable consolidated profits due to owning the right to use the sea areas nearby. Given that the tourism markets in Hainan province and Sanya continue to change for the better, in the year of 2014, these companies will overcome difficulties caused by impacts of increasingly severe weather such as the strike of typhoon on marine operation and other factors and completed tasks such as tapping into internal potentials, cost reduction and efficiency improvement. At the same time, it will accelerate the preparatory work of the reconstruction program of Yalongwan Hotel (亞龍灣酒店) in full swing with a view to commence construction in 2014.

Property Development

As for the segment of property development, in 2014, the Group will continue to develop the project of CCT-Champs-Elysees located in Zhucheng of Shandong province. Chengtong Dafeng Harbour Development Limited (誠通大豐海港開發有限公司) (“**Dafeng Company**”), whose equity interests is held by the Group as to 66.67% and holds “Chengtong International City” in Dafeng of Jiangsu province and other lands, intends to sell Dafeng Company as a whole in 2014 while the sale of units of section II of Chengtong International City will continue. The Group will cautiously expand the business of property development, property investment and land resources development to open up new sources of profit if the appropriate investment opportunities arise.

Financial Leasing

Notwithstanding the fact that the Group slowed down its financial leasing business in 2013, taking into account its financing capacity under risk control, the Group will re-expand the business in 2014. At the same time, the Group’s huge internal logistic infrastructure has created a stable demand for internal financial leasing. If the Group can fully exert the funding advantage of the Hong Kong financial market and grasp the opportunity of the external market, the financial leasing business can be expected to achieve rapid growth.

Trading of coal

In 2014, the Group has slowed down its trading of coal business. As disclosed in the announcements of the Company dated 24 July 2013, 16 July 2013, 19 August 2013, 25 September 2013, 31 October 2013, 31 December 2013, 28 February 2014 and 1 April 2014, the Group intended to acquire 85% interests in the Coal Mine Company (“**Terminated Acquisition**”). As disclosed in the announcement of the Company dated 1 April 2014, the sale and purchase agreement in respect of the Terminated Acquisition lapsed on 31 March 2014. In the past two years, the Group has conducted extensive due diligence on the Coal Mine Company and the overall prospects of coal business in the PRC. As the overall coal business and the proposed acquisition has certain level of uncertainty in terms of risk management and future prospects, the Board considered that it would be in the interests of the Group and the Shareholders to put the acquisition of coal mine business on hold for the moment and re-allocate the Group’s resources to other businesses which have more growth prospects. Having said that, as at the Latest Practicable Date, the Group did not have any agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) about any possible business or assets acquisition.

Updates on the Terminated Acquisition and the recovery of other receivables

After the lapse of the sale and purchase agreement in respect of the Terminated Acquisition on 31 March 2014, the Group has undertaken the following measures to secure the refund of the earnest money and deposit paid in the Terminated Acquisition:

- a. on the one hand, the Group kept negotiating with the vendors to request them to refund the earnest money and deposit (together with all interests and compensation for breach of contract) (“**S&P Amount**”) to the Group and the vendors did not have any objection to their obligation to refund the aforesaid amount to the Group;
- b. on the other hand, the Group also enforced its rights through legal proceedings and for such purpose:
 - (i) the Group has consulted various external PRC and Hong Kong counsels on the possible legal actions that can be taken, the expected time required and the legal costs associated with the legal proceedings;
 - (ii) the Group has issued letters of repayment request to the relevant parties;
 - (iii) the Group also instructed its legal adviser to issue formal demand letters to the relevant parties; and
 - (iv) the Group also engaged external search agent to conduct searches on the background and asset conditions (including but not limited to the properties and assets held in Hong Kong and the PRC) of the vendors.

As disclosed in the announcement of the Company dated 8 July 2014, the Group has also taken various measures to safeguard the interests of the Group in respect of the recovery of other amounts due from the Coal Mine Company to the Group under a loan agreement and a coal supply agreement (“**Other Receivables**”), including seeking legal advices, negotiating with the parties concerned, initiating the arbitration proceedings in the PRC and making applications to the PRC courts to freeze the valuable assets of the Coal Mine Company.

As at the Latest Practicable Date, the latest progress on recovery was as follows:

1. In respect of the S&P Amount, on 8 July 2014, the Group successfully obtained additional corporate guarantee from the Coal Mine Company and two of its subsidiaries to secure the repayment obligations of the vendors to the extent of RMB45 million and the interests accrued thereon.
2. In respect of the Other Receivables, on 8 July 2014, a settlement agreement was entered into pursuant to which the parties have agreed on the repayment schedule of the Other Receivables and the provision of additional guarantees to the Group.

The Group will closely monitor the progress and status of the repayment and take appropriate legal actions where necessary. In the meantime, the Group is actively formulating all other possible means to protect its interests and to minimise the impact to the Group resulted from the Terminated Acquisition.

5. MATERIAL ADVERSE CHANGE

As disclosed in the announcement of the Company dated 11 February 2014, the Group is restructuring its bulk commodity business and it is expected that the Group’s turnover and financial results will be adversely affected in a short run as a result of the business restructuring. In addition, the Company also disclosed in its announcement dated 1 April 2014 that the sale and purchase agreement in respect of the Terminated Acquisition lapsed on 31 March 2014. Save as disclosed aforesaid, the Directors confirm that there had been no material adverse change in the financial or trading position of the Group since 31 December 2013 (being the date to which the latest published audited financial statements of the Group were made up) and up to and including the Latest Practicable Date.

6. EFFECT OF THE DEPOSIT SERVICES ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

Given the interest income expected to be earned from the Group’s deposits with Chengtong Finance under the Financial Services Agreement will only represent an insignificant contribution to the Company’s earnings and assets, the Company anticipates that the interest income to be earned from the deposits for the three years ending 31 December 2016 will not have any material impact on its earnings, assets and liabilities.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' INTERESTS

- (a) As at the Latest Practicable Date, the interests and short positions of each Director in the Shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Nature of interest	Number of Shares	Approximate percentage of interest
Yuan Shaoli	Beneficial owner	300,000	0.0062%
Wang Hongxin	Beneficial owner	600,000	0.0124%
Wang Tianlin	Beneficial owner	400,000	0.0083%
Zhang Bin	Beneficial owner	300,000	0.0062%

- (b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest and short positions in the Shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

- (c) Mr. Yuan Shaoli is a director of World Gain Holdings Limited, being the controlling Shareholder which has an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.
- (d) Mr. Yuan Shaoli, Mr. Wang Hongxin and Mr. Zhang Bin are also directors of CCHK, which is the controlling shareholder of World Gain Holdings Limited and has an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.
- (e) As at the Latest Practicable Date,
 - (i) none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2013, being the date to which the latest published audited accounts of the Group were made up; and
 - (ii) none of the Directors was materially interested in contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

3. DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

4. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business of the Group, were entered into by the Company or its subsidiaries during the period commencing two years preceding the date of this circular and are or may be material:

- (a) the third supplemental agreement dated 28 September 2012 entered into between the Company, CCHK and CCHG to extend the long stop date of the sale and purchase agreement dated 27 July 2011 (as supplemented by a supplemental agreement dated 29 August 2011 and a second supplemental agreement dated 29 June 2012) from 30 September 2012 to 31 December 2012 (or such later date as the parties to this supplemental agreement may agree in writing), details of which are set out in the Company's announcement dated 28 September 2012;

- (b) the entrusted loan agreement dated 31 October 2012 entered into between 誠通融資租賃有限公司 (unofficial English translation being Chengtong Financial Leasing Company Limited) (“**Chengtong Financial Leasing**”), an indirect wholly-owned subsidiary of the Company, as lender, Bank of Communications Co., Ltd. (“**BOCOM**”) as agent and 北京億城房地產開發有限公司 (unofficial English translation being Beijing Yeland Real Estate Development Co., Ltd.) as borrower in relation to the entrusted loan in the amount of RMB70,000,000, details of which are set out in the Company’s announcement dated 31 October 2012;
- (c) the agreement dated 6 December 2012 entered into between 誠通實業投資有限公司 (unofficial English translation being Chengtong Industrial Investment Limited), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company (“**Chengtong Industrial**”), and 中國物資儲運總公司瀋陽虎石台一庫 (unofficial English translation being China National Materials Storage and Transportation Corporation - Shenyang Hushitai 1st Storage) (“**CMST**”) in relation to the return of a piece of land and the buildings and fixtures constructed thereon and certain other assets and the payment of RMB2,400,000 as compensation fee by CMST to Chengtong Industrial on or before 31 December, details of which are set out in the Company’s announcement dated 6 December 2012;
- (d) the disposal agreement dated 10 December 2012 entered into between Chengtong Industrial and 常州市土地收購儲備中心 (unofficial English translation being Changzhou Land Reserve Centre) in relation to the disposal of a piece of land together with the buildings and other immovable fixed assets attached thereto located in Changzhou City, Jiangsu Province, the PRC for a consideration of RMB149,993,000, details of which are set out in the Company’s announcement dated 10 December 2012;
- (e) a subscription agreement entered into between 杭州瑞能金屬材料有限公司 (unofficial English translation being Hangzhou Regal Metal Material Co., Ltd.), a 55% indirectly owned subsidiary of the Company (“**Hangzhou Regal**”) as the subscriber and Bank of Ningbo Company Limited as the issuing bank in relation to the subscription of the investment products on 14 January 2013 at a price of RMB300,000,000;
- (f) a subscription agreement entered into between Hangzhou Regal as the subscriber and Bank of Ningbo Company Limited as the issuing bank in relation to the subscription of the investment products on 16 January 2013 at a price of RMB350,000,000;
- (g) the multi-currency note deed poll dated 22 February 2013 executed by Chengtong Development International Trading Limited in favour of Overseas-Chinese Banking Corporation Limited in connection with the issue of multi-currency loan notes of up to an aggregate amount of RMB1,000,000,000;
- (h) the subscription agreement dated 22 February 2013 entered into between Hangzhou Regal and OCBC Bank (China) Ltd. in relation to the subscription of the investment product at a price of RMB110,000,000, details of which are set out in the Company’s announcement dated 22 February 2013;

- (i) the cancellation agreement dated 28 February 2013 entered into between the Company and Wantong Enterprise Investment Co. Ltd. in relation to the termination of the conditional sale and purchase agreement dated 19 December 2011 made between the parties, details of which are set out in the Company's announcement dated 28 February 2013;
- (j) the subscription agreement dated 11 March 2013 entered into between Hangzhou Regal and OCBC Bank (China) Ltd. in relation to the subscription of the investment product at a price of RMB110,000,000, details of which are set out in the Company's announcement dated 12 March 2013;
- (k) a subscription agreement entered into between Hangzhou Regal as the subscriber and Nanyang Commercial Bank (China) Limited as the issuing bank in relation to the subscription of the investment products on 27 March 2013 at a price of RMB185,500,000;
- (l) a subscription agreement entered into between Hangzhou Regal as the subscriber and PingAn Bank Co., Ltd ("**PingAn**") as the issuing bank in relation to the subscription of the investment products on 8 April 2013 at a price of RMB180,000,000;
- (m) a subscription agreement entered into between Hangzhou Regal as the subscriber and PingAn as the issuing bank in relation to the subscription of the investment products on 11 April 2013 at a price of RMB61,000,000;
- (n) a subscription agreement entered into between Hangzhou Regal as the subscriber and PingAn as the issuing bank in relation to the subscription of the investment products on 15 April 2013 at a price of RMB200,000,000;
- (o) a subscription agreement entered into between Hangzhou Regal as the subscriber and China Guangfa Bank Company Limited as the issuing bank in relation to the subscription of the investment products on 16 April 2013 at a price of RMB100,000,000;
- (p) the entrusted loan agreement dated 23 April 2013 entered into between Chengtong Financial Leasing as lender, BOCOM as agent and Beijing New Century as borrower in relation to the entrusted loan in the amount of RMB195,000,000, details of which are set out in the Company's announcement dated 23 April 2013;
- (q) a subscription agreement entered into between Hangzhou Regal as the subscriber and China Guangfa Bank Company Limited as the issuing bank in relation to the subscription of the investment products on 25 April 2013 at a price of RMB189,010,000;
- (r) the loan agreement dated 8 May 2013 ("**China Huandao Loan Agreement**") entered into between Chengtong Industrial as lender, and 中國寰島(集團)公司 (unofficial English translation being China Huandao Group Co.) ("**China Huandao**"), a wholly-owned subsidiary of CCHG as borrower in relation to the loan in the amount of RMB40,000,000, details of which are set out in the Company's announcement dated 8 May 2013;

- (s) the subscription agreement dated 14 May 2013 entered into between Hangzhou Regal and BOCOM in relation to the subscription of investment product issued by BOCOM at a price of RMB142,000,000, details of which are set out in the Company's announcement dated 14 May 2013;
- (t) the wealth management product agreement dated 20 May 2013 and entered into between the Agricultural Bank of China Limited as the custody bank and Chengtong Industrial as the subscriber in relation to the subscription by Chengtong Industrial of the wealth management product at a price of RMB250,000,000, details of which are set out in the Company's announcement dated 23 May 2013;
- (u) the wealth management product agreement dated 30 May 2013 and entered into between the Agricultural Bank of China Limited as the custody bank and Chengtong Industrial as the subscriber in relation to the subscription by Chengtong Industrial of the wealth management product at a price of RMB250,000,000, details of which are set out in the Company's announcement dated 30 May 2013;
- (v) a subscription agreement entered into between 海南寰島酒店旅遊投資有限公司 (unofficial English translation being Hainan Island Hotel and Travel Investment Co., Ltd.) ("**Hainan Huangdao**") as the subscriber and Bank of China Limited ("**BOC**") as the issuing bank in relation to the subscription of the investment products on 9 June 2013 at a price of RMB75,000,000;
- (w) the entrusted loan agreement dated 14 June 2013 entered into between Chengtong DT as lender, BOCOM as agent and 黃氏控股集團有限公司 (unofficial English translation being Huang Holding Group Co., Ltd.) as borrower in relation to the entrusted loan in the amount of RMB170,000,000, details of which are set out in the Company's announcement dated 14 June 2013;
- (x) the sale and purchase agreement dated 18 June 2013 ("**Coal SP Agreement**") entered into between Chengtong Coal as purchaser, Alpha Duo International Limited and England Astringent Investment Holdings Company Ltd. as vendors, 李丹丹 (Ms. Li, Dawn) as guarantor and Alpha Fortune Industrial Limited and International Southwest as target companies, in relation to the acquisition of a total of 85% of the entire issued share capital of Alpha Fortune Industrial Limited at the aggregate consideration RMB448,600,000, details of which are set out in the Company's announcement dated 24 June 2013;
- (y) a subscription agreement entered into between Hainan Huangdao as the subscriber and BOC as the issuing bank in relation to the subscription of the investment products on 20 June 2013 at a price of RMB19,000,000;

- (z) the entrusted loan agreement dated 24 June 2013 (“**Yalongwan Entrusted Loan Agreement**”) entered into between 海南亞龍灣海底世界旅遊有限公司 (unofficial English translation being Hainan Yalongwan Undersea World Travel Co., Ltd.), a limited liability company incorporated in the PRC and a wholly owned subsidiary of the Company (“**Hainan Yalongwan**”), as lender, Industrial Bank Co., Ltd. (興業銀行股份有限公司), Cangzhou branch (“**Industrial Bank**”) as the lending agent, and 天行九州控股有限公司 (unofficial English translation being Tianxing Jiuzhou Holding Co., Ltd.) (“**Tianxing Jiuzhou**”) in relation to an entrusted loan in the amount of RMB55,000,000;
- (aa) a subscription agreement entered into between Hainan Huangdao as the subscriber and BOC as the issuing bank in relation to the subscription of the investment products on 10 July 2013 at a price of RMB19,000,000;
- (bb) a memorandum dated 25 July 2013 entered into between the Company and 北京九星國際礦業投資有限公司 (unofficial English translation being Beijing Nine Stars International Mining Investment Co., Ltd.) (“**Beijing Nine Stars**”) setting out the board terms of the possible sale of the entire issued share capital of Chengtong Enterprises Investment Limited by the Company to Beijing Nine Stars at a preliminary purchase price of RMB150 million, subject to the terms of the formal agreement to be entered into by the Company and Beijing Nine Stars (the “**Disposal Memorandum**”);
- (cc) the wealth management agreement dated 30 July 2013 entered into between Chengtong DT as subscriber and Woori Bank (China) Limited as issuer in relation to the subscription of the wealth management product at a price of RMB100 million, details of which are set out in the Company’s announcement dated 30 July 2013;
- (dd) the wealth management agreement dated 10 September 2013 entered into between Chengtong DT as subscriber and Woori Bank (China) Limited as issuer in relation to the subscription of the wealth management product at a price of RMB80 million, details of which are set out in the Company’s announcement dated 10 September 2013;
- (ee) a supplemental memorandum dated 30 September 2013 entered into between the parties to the Disposal Memorandum to extend the long stop date of the relevant disposal from 30 September 2013 to 31 March 2014;
- (ff) the investment agreement dated 22 October 2013 entered into between Chengtong DT as subscriber and China CITIC Bank Corporation Limited as custody bank in relation to the subscription of the investment product at a price of RMB170 million, details of which are set out in the Company’s announcement dated 22 October 2013;
- (gg) the supplemental agreement to the Coal SP Agreement dated 31 October 2013 entered into between the parties to the Coal SP Agreement, details of which are set out in the Company’s announcement dated 31 October 2013;

- (hh) a subscription agreement entered into between Hainan Huangdao as the subscriber and BOC as the issuing bank in relation to the subscription of the investment products on 10 December 2013 at a price of RMB5,000,000;
- (ii) the extension agreement dated 24 December 2013 entered into between Hainan Yalongwan, Industrial Bank and Tianxing Jiuzhou in relation to the extension of the term of the Yalongwan Entrusted Loan Agreement, details of which are set out in the Company's announcement dated 24 December 2013;
- (jj) the loan agreement dated 9 January 2014 ("**Coal Loan Agreement**") entered into between Chengtong Coal as lender and Coal Mine Company as borrower in relation to the provision of a loan in the principal amount of RMB50,000,000 at an interest rate of 5.60% per annum for a term ended on 30 June 2014;
- (kk) the equity pledge ("**Equity Pledge**") dated 9 January 2014 and entered into between International Southwest as pledger, Chengtong Coal as pledgee and the Coal Mine Company in relation to the pledge of 15% of the equity interest in the Coal Mine Company by International Southwest in favour of Chengtong Coal to secure the performance of the Coal Loan Agreement by Coal Mine Company;
- (ll) the subscription agreement dated 30 April 2014 entered into between the Company and the Joint Lead Managers (as defined in the Company's announcement dated 30 April 2014) in relation to the issue by the Company of the RMB600,000,000 4.00% bonds due 2017, details of which are set out in the Company's announcement dated 30 April 2014;
- (mm) the loan extension agreement dated 9 May 2014 entered into between Chengtong Industrial and China Huandao to extend the term of the loan granted under the China Huandao Loan Agreement for 5 months until 9 October 2014, details of which are set out in the Company's announcement dated 9 May 2014;
- (nn) the Financial Services Agreement;
- (oo) two resumption agreements dated 3 July 2014 entered into between 大豐市土地儲備中心 (unofficial English translation being Dafeng Land Reserve Center) ("**Dafeng Land Reserve Center**"), 江蘇大豐港經濟開發區管理委員會 (unofficial English translation being the Management Committee of the Jiangsu Dafeng Harbour Economic Development Zone) ("**Dafeng Harbour Committee**") and 誠通大豐海港開發有限公司 (unofficial English translation being Chengtong Dafeng Harbour Development Limited) ("**Dafeng Harbour Development**"), which is a 66.67%-owned subsidiary of the Company, in relation to the resumption of two pieces of land located at Dafeng City, Jiangsu Province, the PRC by Dafeng Land Reserve Center from Dafeng Harbour Development at the compensation amount of RMB87,800,000 and RMB132,120,000 respectively ("**Resumption of Lands**"), details of which are set out in the Company's announcement dated 3 July 2014;

- (pp) two compensation agreements dated 3 July 2014 entered into between Dafeng Harbour Committee, Dafeng Harbour Development and 江蘇大豐海港控股集團有限公司 (unofficial English translation being Jiangsu Dafeng Harbour Holdings Group Limited), which owns 33.33% equity interest in Dafeng Harbour Development, in relation to the Resumption of Lands, details of which are set out in the Company's announcement dated 3 July 2014;
- (qq) the settlement agreement dated 8 July 2014 entered into among Chengtong Coal, Dafeng Ruineng, Coal Mine Company, International Southwest and 廣西合山合煤銷售有限責任公司 (Guangxi Heshan Hemei Sales Company Limited), pursuant to which the parties have agreed on the repayment schedule of certain amounts due from Coal Mine Company to the Group under the Coal Loan Agreement and the Coal SP Agreement and the provision of additional guarantees to the Group, details of which are set out in the Company's announcement dated 8 July 2014; and
- (rr) the entrusted loan agreement dated 23 July 2014 entered into between Chengtong Financial Leasing as the lender, the Bank of Nanjing Co., Ltd. (南京銀行股份有限公司), Beijing branch as the lending agent and 浙江雲廈集團有限公司 (unofficial English translation being Zhejiang Yunxia Group Co., Ltd.) as the borrower in relation to the entrusted loan in the amount of RMB55,000,000, details of which are set out in the Company's announcement dated 23 July 2014.

5. LITIGATION

On 26 May 2014, Dafeng Ruineng initiated and filed an arbitration claim (“**Dafeng Ruineng Arbitration**”) with South China Arbitration Commission against Coal Mine Company requesting Coal Mine Company (i) to refund the deposit of RMB8,000,000 and pay the penalty charge under the Coal SP Agreement; and (ii) to bear and pay all arbitration costs, legal fees and costs in connection with the application for freezing order and the Dafeng Ruineng Arbitration.

On 28 May 2014, Chengtong Coal initiated and filed an arbitration claim (“**Chengtong Coal Arbitration**”) with South China Arbitration Commission against Coal Mine Company and International Southwest requesting for (i) Coal Mine Company to repay the loan and interest under the Coal Loan Agreement, penalty charge and legal fees incurred in connection with the Chengtong Coal 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; 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 Chengtong Coal Arbitration.

Save for the above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

6. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors nor his associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

7. EXPERT

The following is the qualification of the expert who has been named in this circular or has given opinion, letter or advice contained in this circular:

Name	Qualification
Halcyon Capital Limited	a corporation licensed under the SFO to carry out type 6 (advising on corporate finance) regulated activity

Halcyon Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and/or reference to its name, in the form and context in which they appear.

As at the Latest Practicable Date, Halcyon Capital was not beneficially interested in the share capital of any member of the Group nor had any right, whether legally beneficially enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, either directly or indirectly, in the assets which have been acquired or disposed of by or leased to any member of the Group since 31 December 2013, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. MISCELLANEOUS

- (1) The registered and head office of the Company is located at Suite 6406, 64th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (2) The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (3) The company secretary of the Company is Ms. Tse Ching Wah. Ms. Tse is a member of both Hong Kong Institute of Certified Public Accountants and The Institute of Chartered Accountants in England and Wales. She is also an associate member of both The Hong Kong Institute of Chartered Secretaries and Institute of Chartered Secretaries and Administrators.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's registered office at Suite 6406, 64th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekdays, except public holidays, from the date of this circular up to and including 18 September 2014:

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;
- (c) the annual reports of the Company for the two years ended 31 December 2013;
- (d) the letter from Halcyon Capital to the Independent Board Committee, the text of which is set out on pages 20 to 33 of this circular; and
- (e) the written consent referred to in the paragraph headed "Expert" in this appendix.

NOTICE OF EGM



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“**Meeting**”) of China Chengtong Development Group Limited (“**Company**”) will be held at Suite 6406, 64th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday 18 September 2014 at 10:00 a.m., for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an Ordinary Resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (a) the financial services agreement dated 21 May 2014 (“**Financial Services Agreement**”) and entered into between the Company and 誠通財務有限責任公司 (China Chengtong Finance Corporation Ltd.) (“**Chengtong Finance**”) (copy of which has been produced to the meeting marked “A” and initialed by the chairman of the meeting for the purpose of identification) in relation to the provision of a range of financial services by Chengtong Finance to the Company and its subsidiaries (collectively, the “**Group**”), including but not limited to the provision of the deposit services as stipulated thereunder, be and is hereby approved;
- (b) the proposed maximum daily outstanding balance of deposits placed by the Group with Chengtong Finance (including any interest accrued therefrom) in the amount not exceeding RMB500 million for each of the three years ending 31 December 2014, 31 December 2015 and 31 December 2016 be and is hereby approved;
- (c) the directors of the Company (“**Directors**”) be and are hereby authorised, for and on behalf of the Company, to take all steps necessary or expedient in their opinion to implement and/or give effect to the terms of the Financial Services Agreement; and

NOTICE OF EGM

- (d) the Directors be and are hereby authorised, for and on behalf of the Company, to execute all such other documents, instruments and agreements and to do all such acts or things deemed by them to be incidental to, ancillary to or in connection with the matters contemplated under the Financial Services Agreement and to agree to any amendment to any of the terms of the Financial Services Agreement which in the opinion of the Directors is not of a material nature and is in the interests of the Company.”

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

25 August 2014

Registered office in Hong Kong:
Suite 6406, 64th Floor
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. If more than one proxy is so appointed, the form of proxy shall specify the number and class of shares of the Company in respect of which each such proxy is appointed. A proxy need not be a member of the Company. In case of a joint holding, the form of proxy may be signed by any joint holder, but if more than one joint holder is present at the Meeting, whether in person or by proxy, that one of the joint holders whose name stands first in the register of members in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.
2. To be valid, the form of proxy together with any power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude members of the Company from attending and voting in person at the Meeting or any adjournment thereof should they so wish.
3. Delivery of a form of proxy should not preclude a member of the Company from attending and voting in person at the Meeting or any adjournment thereof and in such event, the form of proxy shall be deemed to be revoked.
4. Voting by poll

The above resolution will be voted by way of poll as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As at the date hereof, 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.