THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, a 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, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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)

VERY SUBSTANTIAL ACQUISITION AND CONTINUING CONNECTED TRANSACTIONS: FINANCE LEASE SERVICES FRAMEWORK AGREEMENT AND NOTICE OF GENERAL MEETING

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

INCU Corporate Finance Limited

A notice convening a general meeting to be held at 2:00 p.m., Thursday, 8 September 2022 at Conference Room of Suite 6406, 64/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong is set out on pages GM-1 to GM-3 of this circular. A form of proxy for use at the GM is also enclosed with this circular. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.irasia.com/listco/hk/chengtong) respectively.

Whether or not you are able to attend the GM, please complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar in Hong Kong, 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 of the GM (i.e. not later than 2:00 p.m. on Tuesday, 6 September 2022 (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the GM or any adjournment thereon if they so wish.

Subject to the development of the COVID-19 pandemic, the Company may be required to change the meeting arrangements for the GM at short notice. Shareholders are advised to check the Company's website (www.irasia.com/listco/hk/chengtong) and the Stock Exchange's website (www.hkexnews.hk) for further announcement(s) and update(s) on such arrangements and/or further special measures to be taken. Please see page 6 of this circular for measures to be taken at the GM in trying to prevent and control the spread of COVID-19.

22 August 2022

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DEFINITIONS

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

"30%-controlled companies"	means	has the meaning ascribed to it under the Listing Rules
"Annual Caps"	means	for the purpose of Chapter 14A of the Listing Rules, means the proposed annual caps of the Finance Lease Services Framework Agreement for each of the three financial years ending 31 December 2022, 2023 and 2024 set out in this circular
"Board"	means	the board of Directors
"CCHG"	means	中國誠通控股集團有限公司 (unofficial English translation being China Chengtong Holdings Group Limited), a state-owned company incorporated in the PRC with limited liability and the ultimate holding company of the Company
"CCHG Group"	means	CCHG, its subsidiaries and 30%-controlled companies, excluding the Group, and for the avoidance of doubt, Chengtong World Trade Limited shall not be considered as a subsidiary or 30%-controlled company of CCHG nor a member of CCHG Group
"CCHK"	means	China Chengtong Hong Kong Company Limited, a company incorporated in Hong Kong with limited liability, being a wholly-owned subsidiary of CCHG
"Chengtong Financial Leasing"	means	誠通融資租賃有限公司 (unofficial English translation being Chengtong Financial Leasing Company Limited), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
"Chengtong Investment"	means	China Chengtong Investment Company Limited, a company incorporated in Hong Kong with limited liability, being a wholly-owned subsidiary of CCHG
"Company"	means	China Chengtong Development Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange

"connected person(s)"	means	has the meaning ascribed to it under the Listing Rules
"COVID-19"	means	novel coronavirus disease 2019
"Directors"	means	the directors of the Company
"Effective Date"	means	20 July 2022, or the date of the approval of the Finance Lease Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps by the Independent Shareholders at the GM (whichever is later)
"Finance Lease Agreement (Sale and Leaseback)"	means	the conditional finance lease agreement (sale and leaseback) dated 20 July 2022 entered into by Chengtong Financial Leasing and Lessee I in relation to potential leasing of Leased Asset I for sale and lease back services
"Finance Lease Services Framework Agreement"	means	the finance lease services framework agreement dated 20 July 2022 entered into between the Company and CCHG
"GM"	means	the general meeting of the Company to be held to consider and, if thought fit, approve the Annual Caps and the acquisitions of Leased Assets and transactions contemplated under the Finance Lease Services Framework Agreement
"Group"	means	the Company and its subsidiaries
"HK$" or "HKD"	means	Hong Kong dollar, the lawful currency of Hong Kong
"HKFRS"	means	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"Hong Kong"	means	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	means	the independent committee of the Board, comprising all three independent non-executive Directors, established to advise the Independent Shareholders in respect of the continuing connected transactions under the Finance Lease Services Framework Agreement

"Independent Financial Adviser"	means	INCU Corporate Finance Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions under the Finance Lease Services Framework Agreement
"Independent Shareholders"	means	Shareholders who do not have a material interest in the Finance Lease Services Framework Agreement
"Independent Third Party(ies)"	means	third party(ies) independent of the Company and its connected persons
"Individual Agreement(s)"	means	the individual agreement(s) to be entered into between the member(s) of the Group and member(s) of CCHG Group pursuant to the Finance Lease Services Framework Agreement
"Latest Practicable Date"	means	19 August 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Lease Payment(s)"	means	the lease payment(s) (taking into account the aggregate amounts of interests and other payables (including handling fees)) to be received by the Group under the Individual Agreements
"Leaseback Assets Transfer Agreement"	means	the conditional leaseback assets transfer agreement dated 20 July 2022 entered into by Chengtong Financial Leasing and Lessee I in relation to acquisition of Leased Asset I
"Leased Asset I"	means	chlorine-alkali production facility

"Leased Assets"	means	the assets to be leased by the Group pursuant to Individual Agreements, which is expected to include vessels, turbine power units, containers, integrated papermaking system, transformers, UPS facilities, medium and low voltage cabinets, air-conditioning facilities, cabinet equipment, servers, new energy vehicles, new energy battery rental, equipment for battery cell production, construction vehicles, construction equipment, drainage and sewage treatment facilities, thermal incinerators, electricity generators, electricity storage units, inverters, power management systems and related equipment, or any other logistics, storage, transportation or production related equipment and facilities
"Lessee I"	means	黑龍江昊華化工有限公司 (unofficial English translation being Heilongjiang Haohua Chemical Co., Ltd), a limited liability company incorporated in the PRC, ultimately owned as to 34.8% by CCHG, and a member of the CCHG Group
"Listing Rules"	means	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"LPRs"	means	the relevant loan prime rates as promulgated by the National Interbank Funding Center under the People's Bank of China
"PRC"	means	the People's Republic of China and, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"RMB"	means	Renminbi, the lawful currency of the PRC
"SFO"	means	the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong)
"Shareholders"	means	holders of Shares of the Company
"Stock Exchange"	means	The Stock Exchange of Hong Kong Limited
"USD"	means	United States dollar, lawful currency of the United States

"World Gain"	means	World Gain Holdings Limited, a company incorporated in the British Virgin Islands and is beneficially wholly-owned by CCHK
"%"	means	per cent.

Unless otherwise stated, conversion of RMB into HK$ in this circular is based on the exchange rate of RMB$1=HK$1.16. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be converted at such or any other rates or at all.

Certain amounts and percentage figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables and the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

In view of the ongoing COVID-19 pandemic and recent requirements for prevention and control of its spread, the Company will implement the following preventive measures at the GM to protect attending Shareholders, staff and other stakeholders from the risk of infection.

Voting by proxy in advance of the GM

The Company does not in any way wish to diminish the opportunity available to the Shareholders to exercise their rights and to vote, but is conscious of the pressing need to protect the Shareholders from possible exposure to COVID-19. For the health and safety of the Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the GM by appointing the chairman of the GM as their proxy instead of attending the GM in person. **Physical attendance is not necessary for the purpose of exercising Shareholders' rights. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the GM or any adjournment thereof should they subsequently so wish.**

Precautionary measures at the GM

The Company will implement the following precautionary measures at the GM to safeguard the health and safety of the attending Shareholders, staff and other stakeholders:

(i) compulsory body temperature checks will be conducted on every attendee at the entrance of the venue of the GM. Any person with a body temperature of over 37.5 degrees Celsius may be denied entry into the venue of the GM;

(ii) all attendees are required to complete and submit at the entrance of the venue of the GM a health declaration form confirming, among other things, their names and contact details, and that they have not at any time in the preceding 14 days travelled, and have not had close contact with any person who to their best knowledge has recently travelled, outside Hong Kong. Any attendee who does not comply with this requirement may be denied entry into the venue of the GM;

(iii) every attendee will be required to wear a surgical face mask throughout the GM. Please note that no masks will be provided at the venue of the GM and attendees should bring and wear their own masks;

(iv) seating at the GM will be arranged to ensure adequate physical distancing between participants so as to reduce interaction between them and as such, the Company may limit the number of attendees at the GM as appropriate;

(v) no refreshments will be served and there will be no corporate gifts; and

(vi) any other additional precautionary measures in accordance with the prevailing requirements or guidelines of the Hong Kong Government and/or regulatory authorities, or as considered appropriate in light of the development of the COVID-19 pandemic.

If any Shareholder chooses not to attend the GM in person but has any question about the resolution(s) or about the Company, or has any matter for communication with the Board, he/she is welcome to send such question or matter in writing to the Company by email to public@hk217.com. If any Shareholder has any questions relating to the GM, please contact Computershare Hong Kong Investor Services Limited, the Company's share registrar and transfer office, the contact details of which are as follows:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong
Email: hkinfo@computershare.com.hk
Telephone: 2862 8555
Facsimile: 2865 0990

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:
Mr. ZHANG Bin *(Chairman)*
Mr. YANG Tianzhou *(Managing Director)*

Non-Executive Director:
Mr. WANG Daxiong

Independent Non-Executive Directors:
Professor CHANG Qing
Mr. LEE Man Chun, Tony
Professor HE Jia

Registered address and principal place of business in Hong Kong:
Suite 6406, 64th Floor
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

22 August 2022

To the Shareholders

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION AND CONTINUING CONNECTED TRANSACTIONS: FINANCE LEASE SERVICES FRAMEWORK AGREEMENT AND NOTICE OF GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 20 July 2022 in relation to the Finance Lease Services Framework Agreement.

The purposes of this circular are:

(i) to provide the Shareholders with further details of the Finance Lease Services Framework Agreement;

(ii) to set out the opinion of the Independent Financial Adviser on the terms of the Finance Lease Services Framework Agreement;

(iii) to set out the recommendations of the Independent Board Committee in respect of the Finance Lease Services Framework Agreement; and

(iv) to give the Shareholders notice of the GM to consider and, if thought fit, to approve the Finance Lease Services Framework Agreement.

FINANCE LEASE SERVICES FRAMEWORK AGREEMENT

The principal terms of the Finance Services Framework Agreement are set out as follows:

Date

20 July 2022

Parties

(i) the Company; and

(ii) CCHG

Term

From the Effective Date to 31 December 2024 (both dates inclusive)

Subject of the transaction

The relevant member of the Group will provide finance lease services in relation to the Leased Assets by way of, including but not limited to, sale and leaseback service and direct finance lease service:

(i) under sale and leaseback service, the relevant member of CCHG Group (as lessee) sells the Leased Assets to the relevant member of the Group (as lessor) at the principal amount the relevant member of the Group granted to and to be utilized by the relevant member of CCHG Group pursuant to Individual Agreements, and the relevant member of the Group then leases the Leased Assets back to the relevant member of CCHG Group for its use in return for periodic Leased Payments; and

(ii) under the direct finance leasing service, the relevant member of the Group (as lessor) purchases the Leased Assets from the relevant supplier or seller pursuant to instructions given by the relevant member of CCHG Group (as lessee), and the relevant member of the Group then leases the Leased Assets to the relevant member of CCHG Group for its use in return for periodic Lease Payments.

Contract period

The contract periods of the Individual Agreements are expected to range from one (1) year to six (6) years, depending on the type of Leased Assets involved.

The Board considered that (i) the Leased Assets, such as construction vehicles and construction equipment, generally have a longer expected lifespan, the leased terms of which normally align with the expected payback period of the specific Leased Asset and may range from three (3) to six (6) years in the industry; (ii) it is in line with industry practice that the finance leasing agreements involving assets which are of similar type and nature as the Leased Assets may be entered into for a term of not less than three (3) years; (iii) the Individual Agreements for the Leased Assets, in particular the Leased Assets involving large size logistics, storage, transportation or production related equipment and facilities, typically involve a relatively larger financing amount and thus a relatively longer repayment term. In light of the above, the contract periods of the Individual Agreements with respect to finance lease services under the Finance Lease Services Framework Agreement are expected to range from one (1) to six (6) years, depending on the type of Leased Assets involved, and the Board is of the view that it is in normal business practice, fair and reasonable, on the normal commercial terms to enter into Individual Agreements with longer terms.

The Individual Agreements may have contract periods ending on a date after 31 December 2024. Subject to compliance of the applicable requirements under the Listing Rules, the Individual Agreements duly executed shall remain to have full force and effect for their respective contract periods even if the Finance Lease Services Framework Agreement is expired or terminated and is not renewed. In this regard, under the Individual Agreements, the Group shall have the right to terminate or cancel any Individual Agreement if the Group could no longer perform or shall delay performance of the obligations under the Individual Agreements contemplated under the Finance Lease Services Framework Agreement due to requirements of the Stock Exchange, or any applicable laws and regulations (including but not limited to the Listing Rules). Upon termination or cancellation of the Individual Agreement, (i) Lease Payment receivable by the Group will accrue up to the date of termination or cancellation, (ii) the Leased Asset will be (x) assigned to the relevant lessee subject to repayment of all outstanding principal and settlement of all outstanding Lease Payment and the nominal consideration for repurchase of the Leased Asset of RMB1.00 or (y) disposed by the Group as it considers appropriate in the event that the outstanding principal, outstanding Lease Payment and the nominal consideration for repurchase of the Leased Asset were not repaid or settled in full in accordance with the terms of the Individual Agreement, and (iii) the relevant lessee will have no claim against the Group for such termination or cancellation. The Company will closely monitor the effectiveness and validity of the Finance Lease Services Framework Agreement and the Individual Agreements, and shall comply with the relevant requirements in accordance with the Listing Rules as and when appropriate.

Principal Amount and Lease Payment

The transactions contemplated under the Finance Lease Services Framework Agreement shall be conducted on normal commercial terms through arm's length negotiations and shall not be less favourable than those offered to or provided by the Independent Third Parties for transactions of the same type.

The principal amount shall be calculated using the cost method by multiplying the full replacement cost by (i) residual ratio in the estimated range of 80% to 100%, which will be determined based on the expected lifespan and the condition of the Leased Assets with reference to results of site inspection conducted by Independent Third Parties, and (ii) relevant loan-to-value discount rate in the estimated range of 80% and 100%, which will be determined based on the liquidity of the relevant Leased Asset in the secondary market. The replacement cost shall be determined based on the cost of purchasing the relevant Leased Asset with reference to (i) the indicative purchase prices offered to the Group by not less than three Independent Third Parties and/or the quotations and/or valuations provided by independent valuers, and (ii) with respect to newly acquired assets, using the price index method based on the actual original acquisition cost.

The amount of Lease Payment to be received by the Group may be calculated based on a fixed or variable lease interest rate linked to the LPRs, and shall be fair and reasonable, determined after arm's length negotiation between the relevant member of the Group and CCHG Group taking into account the prevailing market conditions when the Individual Agreement is entered into. The return rate (taking into account the aggregate amounts of interests and other payables (including handling fees)) shall be at a rate not less favourable than the relevant LPRs and that offered to Independent Third Parties for comparable leasing arrangements when the relevant Individual Agreement is entered into. If, under the Individual Agreement, the amount of Leased Payment to be received by the Group shall be adjusted as LPRs change, adjustments will be made to such lease interest rate on an annual basis on 1 January every year whereby the interest rate applied to the future lease payments will be increased when LPR is increased and the interest rate applied to the future lease payments will be reduced when LPR is reduced, provided that in the case where the lessee has overdue lease payment and has not paid all overdue payments and liquidated damages, (i) the interest rate applied to the future lease payments will not be reduced nor adjusted when the LPR is reduced, (ii) the interest rate applied to the future lease payments will be increased when LPR is increased, and (iii) the lessee shall, in addition to the unpaid overdue lease payment, pay default interest on the unpaid sum. The expected profit margin from the transactions contemplated under the Individual Agreements will be comparable to those from finance lease transactions between the Group and Independent Third Parties.

The Lease Payments shall be paid by the lessee during the lease term by installments, which may be quarterly, semi-annually or otherwise, in the manner to be specified in the Individual Agreements.

Legal Title and Control over Leased Assets

The Group shall own the legal title of the Leased Assets during the lease term. The lessees will retain control of the Leased Assets before and after entering into the Individual Agreements under the Finance Lease Services Framework Agreement. Thus, the transactions contemplated under the Individual Agreements, comprising both the acquisition of Leased Assets and the provision of finance lease services, will be accounted for as a secured loan and recognised in accordance with HKFRS 9 Financial Instruments for accounting purposes. The Lease Payment, in essence, mainly represent the interest receivable by the Group and will be determined based on, among others, the then prevailing LPRs as promulgated by the National Interbank Funding Center under the People's Bank of China, and the Leased Assets are, in substance, the security for the loan and are not revenue-generating assets with identifiable income stream. Moreover, as the Leased Assets are equipment or facilities used by the lessees in their ordinary course of production, the lessees would not separately account for the profits before tax and after tax of the Leased Assets.

CCHG Group's Right to Repurchase the Leased Assets

Subject to the repayment of the principal amounts, the settlement of all the Lease Payments and any other payables (if any) by the relevant member of CCHG Group to the Group in accordance with the terms of Individual Agreements, the relevant member of CCHG Group shall have the right to repurchase the Leased Assets at a nominal consideration of RMB1.00 normally at the end of the lease term to be specified in the relevant Individual Agreement, or in case of early termination, on a date to be agreed by the relevant member of the Group and CCHG Group.

Others

The Finance Lease Services Framework Agreement is conditional upon the approval by the Independent Shareholders of the Finance Lease Services Framework Agreement.

The relevant member(s) of the CCHG Group and the relevant member(s) of the Group may from time to time enter into Individual Agreements in relation to the subject matters contemplated under the Finance Lease Services Framework Agreement upon and subject to the terms and conditions in compliance with those of the Finance Lease Services Framework Agreement.

Annual Caps and Basis of Determination

The estimated total outstanding balance of the principal and the total amount of Lease Payments for the transactions contemplated under the Finance Lease Services Framework Agreement for the years ending 31 December 2022, 2023 and 2024 are set out as follows:

	For the years ending 31 December		
	2022	**2023**	**2024**
	RMB	*RMB*	*RMB*
Total outstanding balance of the principal	500,000,000 (equivalent to approximately HK$580,000,000)	750,000,000 (equivalent to approximately HK$870,000,000)	1,000,000,000 (equivalent to approximately HK$1,160,000,000)
Total amount of the Lease Payments (which will take into account the aggregate amounts of interests and other payables (including handling fees)) to be received by the Group	32,500,000 (equivalent to approximately HK$37,700,000)	48,750,000 (equivalent to approximately HK$56,550,000)	65,000,000 (equivalent to approximately HK$75,400,000)

Based on the above-estimated total outstanding balance of the principal and the total amount of the Lease Payments (which will take into account the aggregate amounts of interests and other payables (including handling fees) to be received by the Group for the transactions contemplated under the Finance Lease Services Framework Agreement for the years ending 31 December 2022, 2023 and 2024, the proposed Annual Caps on the principal and the Lease Payments (taking into account the aggregate outstanding interests and other payables (including handling fees)) receivable by the Group for the transactions contemplated under the Finance Lease Services Framework Agreement for the same periods are as follows:

	For the years ending 31 December		
	2022	**2023**	**2024**
	RMB	*RMB*	*RMB*
Total principal and the Lease Payment (taking into account the aggregate outstanding amounts of interests and other payables (including handling fees)) to be received by the Group	500,000,000 (equivalent to approximately HK$580,000,000)	1,021,000,000 (equivalent to approximately HK$1,184,360,000)	1,677,000,000 (equivalent to approximately HK$1,945,320,000)

The Annual Caps are determined after considering the following:

(i) the amounts to be utilized by the CCHG Group pursuant to the Individual Agreements to be entered into, together with the relevant interests and fees including handling fees, including prospective finance lease services projects between the Group and CCHG Group in the aggregate estimated principal amount of not less than RMB950 million (equivalent to approximately HK$1,102 million) over the three years ending 31 December 2022, 2023 and 2024. As of the Latest Practicable Date, based on (i) financing needs and financial position of the prospective lessees of the CCHG Group; and (ii) the nature, estimated value and expected lifespan of the prospective Leased Assets, it is estimated that the aggregate principal amount of the prospective finance lease services projects between the Group and CCHG Group may reach RMB1,550 million (equivalent to approximately HK$1,798 million) over the three years ending 31 December 2022, 2023 and 2024, among which, it is estimated that the principal amount of RMB450 million will be utilized by CCHG Group in the year ending 31 December 2022 including the finance lease arrangement in the lease principal amount of RMB300 million as disclosed in paragraph (b) below, and the remaining RMB1,100 million will be utilized by CCHG Group during the two years ending 31 December 2023 and 2024, taking into account:

   (a) the business plan of the Group, in particular the intended strategic expansion of the leasing business of the Group;

   (b) on 20 July 2022, the Group has entered into the Leaseback Assets Transfer Agreement and Finance Lease Agreement (Sale and Leaseback) with members of the CCHG Group. Pursuant to the Leaseback Assets Transfer Agreement and Finance Lease Agreement (Sale and Leaseback), the Group will purchase from Lessee I the Leased Asset I at the purchase price of RMB300 million (equivalent to approximately HK$348 million), and will lease Leased Asset I to Lessee I for a term of three (3) years in return for a payment of approximately RMB318.9 million (equivalent to approximately HK$369.9 million, and comprising both the lease principal amount of RMB300 million (equivalent to approximately HK$348 million) and estimated Lease Payment of RMB18.9 million (equivalent to approximately HK$21.9 million)). The transactions contemplated under the Leaseback Assets Transfer Agreement and Finance Lease Agreement (Sale and Leaseback) will proceed upon the Finance Lease Services Framework Agreement being approved by the Independent Shareholders, and will be governed by the framework of the Finance Lease Services Framework Agreement to the extent practicable. Accordingly, the Leaseback Assets Transfer Agreement and the Finance Lease Agreement (Sale and Leaseback) are subject to Independent Shareholders' approval on the

Finance Lease Services Framework Agreement, and the Finance Lease Agreement (Sale and Leaseback) are expected to account for approximately RMB300 million, RMB152.7 million and RMB51.8 million (equivalent to approximately HK$348 million, HK$177.1 million and HK$60.1 million, respectively) of the total outstanding balance of principal for each of the years ending 31 December 2022, 2023 and 2024, respectively, and RMB2.9 million, RMB9.3 million and RMB5.3 million, equivalent to approximately HK$3.4 million, HK$10.8 million and HK$6.1 million, respectively, of the total amount of Lease Payment for the years ending 31 December 2022, 2023 and 2024, respectively; and

(ii) the outstanding principal amount and Leased Payments expected to be received by the Group under the Existing Finance Lease Transactions with CCHG Group;

(iii) the Group's potential risk exposure should the members of the CCHG Group were unable to make timely repayments;

(iv) the current financing market conditions, including the interest rates and fees arrangement and level of similar services provided by Independent Third Parties, and the potential adjustments to be made by the People's Bank of China to the LPR(s) in the future. In the case of any adjustment to the LPR(s) made by the People's Bank of China in the future, the Lease Payments to be specified in the Individual Agreements will be determined with reference to the adjusted LPR(s); and

(v) the nature, estimated value and expected lifespan of the Leased Assets.

Historical Transaction Amount

The historical aggregate outstanding principal amount transacted with CCHG Group were approximately RMB33.5 million, RMB26.5 million and RMB25.0 million, equivalent to approximately HK$38.9 million, HK$30.7 million and HK$29.0 million, respectively, as at 31 December 2020 and 2021 and 31 May 2022, respectively. The historical aggregate Lease Payments received by the Group from CCHG Group were approximately RMB1.9 million, RMB2.1 million and RMB0.7 million, equivalent to approximately HK$2.2 million, HK$2.4 million and HK$0.8 million, respectively, for the years ended 31 December 2020 and 2021 and the five months ended 31 May 2022, respectively. For details on the aforesaid transactions (the "**Existing Finance Lease Transactions with CCHG Group**"), please refer to the announcement of the Company dated 18 March 2020.

FINANCIAL EFFECTS OF THE TRANSACTIONS CONTEMPLATED UNDER THE FINANCE LEASE SERVICES FRAMEWORK AGREEMENT

Earnings

From the date on which the Individual Agreements become effective, the Group would be entitled to recognize interest income out of Lease Payments from the relevant lessee(s), which would provide additional income contribution to the Group.

Assets and Liabilities

Upon implementation of transactions contemplated under the Individual Agreements, the Directors consider that there will be no significant immediate change to the Group's net asset value given the assets will increase pursuant to the value of additional loans receivable under each finance lease while offset by the payment of proceeds to the relevant lessee(s).

Since the transactions contemplated under the Finance Lease Services Framework Agreement will be funded, in part or in whole, by borrowings, upon implementation of transactions contemplated under the Individual Agreements, the Group's liabilities may increase.

REASONS FOR AND BENEFITS OF THE FINANCE LEASE SERVICES FRAMEWORK AGREEMENT

The Group is principally engaged in leasing, bulk commodity trade, property development and investment, marine recreation services and hotel business. Global economic downturn brings about both challenges and opportunities to the Group's business. As the global economy and China's economy continue to face uncertainties and downward pressure, financiers such as banks will normally offer more stringent terms for traditional financing which will in turn lead to a growing demand for alternative financing options such as financial leasing. The Group therefore intends to strategically develop and accelerate the scale of its existing leasing business, and specifically, with finance lease customers with sufficient assets and sound credibility to safeguard the credit risk of the Group. By entering into the Finance Lease Services Framework Agreement, it enables the Group to extend its leasing business cooperation with CCHG Group which has reliable repayment capability.

CCHG is a state-owned company established in the PRC on 22 January 1998 with registered capital of RMB11.3 trillion. CCHG is one of the 97 state-owned companies under the State-owned Assets Supervision and Administration Commission (the "**SASAC**"), a conglomerate principally engaged in fund investment, equity management, asset management, financial services and nurturing of emerging industries.

CCHG was awarded as "Grade A" in the annual performance appraisal of SASAC in 2020. As of 31 December 2021, the total assets of CCHG Group amounted to approximately RMB493.5 billion, representing a year-on-year increase of 24.16%. Moreover, in 2021, the revenue and net profit of CCHG Group amounted to approximately RMB171.1 billion and RMB11.0 billion, respectively, representing a year-on-year increase of 37.82% and 21.44%, respectively. In view of the financial position and performance of CCHG Group, the Company considers that CCHG Group has substantial asset base and liquidity to satisfy the liability as they fall due and is therefore one of our core target customers for our financial leasing business.

Moreover, the Company has established entrusted business relationship with CCHG Group on financial leasing contemplated under the Existing Finance Lease Transactions with CCHG Group. In view of the cooperation history between CCHG Group and the Group, the Group is expected to benefit from CCHG Group's better understanding of the operations of the Group which would allow more expedient and efficient cooperation. In addition, it also allows the Group to secure stable and long-term revenue income from provision of financial leasing services to CCHG Group, a customer of the Group with sound financial position, substantial business and positive reputation in the PRC.

Furthermore, financial leasing is one of the core business segments of the Group. By entering into the Finance Lease Services Framework Agreement with CCHG, the Group may leverage the positive brand image and market position of CCHG, which would allow the Group to target a broader spectrum of premium finance lease customers and accelerate client growth, and in turn, foster the growth and smooth development and operations of the Group.

The provision of finance lease services by the Group to CCHG Group under the Finance Lease Services Framework Agreement is in the ordinary and usual course of business of the Group while the Group will in return receive a stable revenue and cashflow stream during the term of the Finance Lease Services Framework Agreement.

The Group obtains borrowings including working capital credit facilities from banks and other loans from time to time to finance its operations in its ordinary course of business. The transactions contemplated under the Finance Lease Services Framework Agreement will be funded by internal resources of the Group and/or the said borrowings. As of the Latest Practicable Date, the Company had no present plan to obtain borrowings for the purpose of funding any specific transactions contemplated under the Finance Lease Services Framework Agreement.

The Directors (excluding the members of the Independent Board Committee whose view is set out in the letter from the Independent Board Committee after reviewing and considering the advice from the Independent Financial Adviser) are of the view that the terms under the Finance Lease Services Framework Agreement are on normal commercial terms in the ordinary and usual course of business of the Group, fair and reasonable, and in the interests of the Company and its shareholders as a whole.

INFORMATION ON THE PARTIES

The Company is a limited company incorporated in Hong Kong on 11 August 1972. The Group is principally engaged in leasing, bulk commodity trade, property development and investment, marine recreation services and hotel business. The Group's leasing business is mainly carried out through Chengtong Financial Leasing as its principal business.

CCHG is a state-owned enterprise established in the PRC and the ultimate holding company of the Company. The major businesses of CCHG and its subsidiaries include fund investment, equity management, asset management, financial services and nurturing of emerging industries.

INTERNAL CONTROL MEASURES AND RISK MANAGEMENT

To safeguard the interest of the Shareholders, the Group has adopted, among others, the following internal control and risk management procedures to ensure that continuing connected transactions will be conducted within the Finance Lease Services Framework Agreement:

Review and Approval before entering into the Individual Agreements

(i) The business department of Chengtong Financial Leasing ("**Business Department**") will carry out due diligence on the potential lessee including its background, business profile, industry ranking, financial position, credit rating, compliance records and loan repayment records, and identify the intended use of the principal amount with the potential lessee.

(ii) The legal department of Chengtong Financial Leasing ("**Legal Department**") will carry out due diligence on the title of the Leased Assets. To be considered as an acceptable Leased Assets, the asset must be legally tradable and has clear and good title.

(iii) The review and appraisal department of Chengtong Financial Leasing ("**Review Department**") will then further assess and scrutinize each transaction, carry out risk assessment. In assessing the risk profile of the lessee, the following factors will be considered: (i) source of funds available for repayment, including the profitability, equity position and the cash flow condition of the lessee; (ii) the valuations of the Leased Asset when they are being sold in secondary markets to discharge the debt of the lessee; (iii) the risk and return analysis of other financing projects between the Group and other Independent Third Parties lessees with similar background; and (iv) the market conditions and outlook of lessee's business.

(iv) The Review Department will also record and calculate, among others, the amount of principal amount and expected Lease Payment payable or receivable by the Group. When 80% of the relevant annual cap is reached, the Review Department will notify the Business Department, the finance department of Chengtong Financial Leasing (“**Finance Department**”) and the company secretary of the Company for carrying out necessary and appropriate actions to ensure the Annual Caps will not be exceeded.

(v) A committee comprising three members including Chengtong Financial Leasing’s deputy general manager and respective department heads of the Review Department and Legal Department will be formed to consider and approve the business proposal taking into account the due diligence reports prepared by the Business Department and the record and calculation of the principal amount and expected Lease Payments payable or receivable by the Group prepared by the Review Department. Business proposals shall only be approved by the committee if the Annual Caps will not be exceeded upon entering into the transaction(s) contemplated under such business proposal. Subject to the approval of the committee, each of the Individual Agreements shall be further submitted to the Chengtong Financial Leasing’s board of directors, the Company’s executive committee, the Board, as the case maybe, for final approval.

Pricing Terms

(vi) The Business Department, the Review Department and the Finance Department will obtain and compare the relevant LPR(s) published by the People’s Bank of China with the terms of the proposed financial lease services under the Individual Agreement, compare the terms of the proposed financial lease services under such Individual Agreement to those of the similar transactions with Independent Third Parties to ensure that the terms under the Individual Agreement available to the Group are no less favourable that those offered by the Group to other Independent Third Parties. They shall evaluate the transaction terms under each Individual Agreement, in particular, the fairness and reasonableness of the pricing terms thereunder.

Monitoring and Risk Management

(vii) The Company’s risk management department (“**Risk Management Department**”), which is led by the managing director of the Company, will monitor the implementation of the continuing connected transactions contemplated under the Finance Lease Services Framework Agreement and control the risk thereof and to formulate solutions in resolving any risk which may arise in connection therewith.

(viii) The Risk Management Department will conduct the sampling inspection at least twice per annum on the comprehensiveness and effectiveness of the Group’s internal control measures on continuing connected transactions, and periodically review and examine the progress of the continuing connected transactions.

(ix) The Company will engage external auditors to review the data of the continuing connected transactions twice a year in compliance with the annual reporting and review requirements under the Listing Rules and provide confirmation in the Company's annual report on whether such transactions are entered into in the ordinary course of business on normal commercial terms or better and are carried out pursuant to the terms thereof, and whether the terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(x) The audit committee of the Company will review the implementation of the continuing connected transactions twice a year.

LISTING RULES IMPLICATIONS

The transactions contemplated under the Finance Lease Services Framework Agreement will constitute transactions under Chapter 14 of the Listing Rules. As the highest applicable percentage ratio in respect of Annual Caps exceeds 100%, the transactions contemplated thereunder constitute a very substantial acquisition for the Company, subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Acquisitions of the Leased Assets by the Group form part and parcel of the transactions contemplated under the Finance Lease Services Framework Agreement. Each acquisition of Leased Assets by the Group (including but not limited to Leased Asset I under the Leaseback Assets Transfer Agreement) will constitute a transaction under Chapter 14 of the Listing Rules. As the highest applicable percentage ratio in respect of the acquisitions of the Leased Assets by the Group calculated with reference to the Annual Caps may (on individual or aggregate basis) exceeds 100%, and in any event the annual purchase price for the acquisition of such Leased Assets will not exceed the Annual Caps, i.e. RMB500,000,000, RMB1,021,000,000 and RMB1,677,000,000, equivalent to approximately HK$580,000,000, HK$1,184,360,000 and HK$1,945,320,000, respectively, for the years ending 31 December 2022, 2023 and 2024, respectively, the transactions contemplated thereunder constitute a very substantial acquisition for the Company, subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, CCHG is interested in 53.14% of the total issued share capital of the Company and is the ultimate holding company of the Company. Thus, CCHG is a connected person of the Company under the Listing Rules. As such, the transactions contemplated under the Finance Lease Services Framework Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of Annual Caps is more than 5%, the transactions contemplated under the Finance Lease Services Framework Agreement are subject to announcement, reporting, annual review, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, pursuant to Rule 14A.52 of the Listing Rules, as the term of the Individual Agreement to be entered into pursuant to the Finance Lease Services Framework Agreement may exceed three (3) years, the Company has appointed INCU Corporate Finance Limited as the Independent Financial Adviser to provide an independent opinion, which is set out in the letter from the Independent Financial Adviser on pages 24 to 45 of this circular, to explain why the Individual Agreement requires a longer period and to confirm that it is a normal business practice for agreements of this type to be of such duration.

CONFIRMATION OF THE BOARD

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Mr. Zhang Bin, an executive Director and chairman of the Board, is also the chairman of CCHK, a wholly-owned subsidiary of CCHG and a member of CCHG Group. Mr. Zhang Bin has therefore abstained from voting on the Board resolution in relation to the Finance Lease Services Framework Agreement.

While Mr. Yang Tianzhou is a deputy general manager of CCHK, Mr. Yang Tianzhou is not a director nor shareholder of CCHK. Moreover, Mr. Yang Tianzhou did not, and will not, participate in the management or decision making process of CCHG Group (of which CCHK form part) as lessee in relation to the transactions contemplated under the Finance Lease Services Framework Agreement and the Individual Agreements. Therefore, Mr. Yang Tianzhou does not have a material interest in the transactions contemplated under the Finance Lease Services Framework Agreement and is not required to abstain from voting on the Board resolution in relation to the Finance Lease Services Framework Agreement.

Save as Mr. Zhang Bin, none of the Directors has any material interest in the Finance Lease Services Framework Agreement or is required to abstain from voting on the Board resolution in relation to the Finance Lease Services Framework Agreement.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the transactions contemplated under the Finance Lease Services Framework Agreement, and its advice and recommendation is set out in this circular. The Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

GM

At the GM, resolution will be proposed by the Company to seek the Independent Shareholders' approval on the Finance Lease Services Framework Agreement, the financial leasing services and acquisitions of the Leased Assets contemplated thereunder and the Annual Caps. CCHG and its associates, which in aggregate, held 3,169,656,217 Shares, representing approximately 53.14% of the total issued share capital of the Company as at the Latest Practicable Date, will abstain from voting for the resolution regarding the Finance Lease Services Framework Agreement. The proposed resolution will be passed by way of an ordinary resolution and voted on by way of poll in accordance with the requirements of the Listing Rules.

RECOMMENDATION

The Board believes that the terms of the Finance Lease Services Framework Agreement is fair and reasonable, and the transactions contemplated thereunder and the Annual Caps are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the resolutions in relation to the Finance Lease Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps to be proposed at the GM.

Your attention is drawn to the letters from the Independent Board Committee and the Independent Financial Adviser which set out their recommendations in respect of the Finance Lease Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps and the principal factors considered by them in arriving at their recommendations.

ADDITIONAL INFORMATION

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

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

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)

22 August 2022

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONTINUING CONNECTED TRANSACTIONS: FINANCE LEASE SERVICES FRAMEWORK AGREEMENT AND NOTICE OF GENERAL MEETING

We refer to the circular of the Company to the Shareholders dated 22 August 2022 (the "**Circular**") of which this letter forms part. Terms used herein shall have the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Finance Lease Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps and to advise you as to whether, in our opinion, the terms of the Finance Lease Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. INCU Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Finance Lease Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

We also wish to draw your attention to (i) the letter from the Board; (ii) the letter from the Independent Financial Adviser; and (iii) the additional information set out in the appendices to the Circular. Having considered the terms of the Finance Lease Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps, and having taken into account the opinion of the Independent Financial Adviser and, in particular, the factors, reasons and recommendations as set out in the letter from the Independent Financial Adviser on pages 24 to 45 of the Circular, we consider that the terms of the Finance Lease Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and the Finance Lease Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps are on normal commercial terms or better, in the Company's ordinary and usual course of business and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the GM to approve the Finance Lease Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

Yours faithfully,
For and on behalf of
the Independent Board Committee

CHANG Qing **LEE Man Chun, Tony** **HE Jia**
Independent Non-executive Directors

The following is the text of a letter of advice from INCU Corporate Finance Limited, which has been prepared for the purpose of incorporation into this circular, setting out its opinion to the Independent Board Committee and the Independent Shareholders in connection with the continuing connected transaction contemplated thereunder.

INCU Corporate Finance Limited
Unit 1402, 14/F, Winsome House,
73 Wyndham Street, Central,
Hong Kong

22 August 2022

To: the Independent Board Committee
and the Independent Shareholders of
China Chengtong Development Group Limited

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONTINUING CONNECTED TRANSACTIONS IN RELATION TO FINANCE LEASE SERVICES FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Finance Lease Services Framework Agreement and the transactions contemplated thereunder (the "**Proposed Continuing Connected Transaction**") with their related proposed annual caps. Details of the which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular of the Company dated 22 August 2022 (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 requires otherwise.

Reference is made to the announcement of the Company dated 20 July 2022 (the "**Announcement**") whereby the Board announced that the Company has entered into the Finance Lease Services Framework Agreement with CCHG that relevant member of the Group will provide finance lease services in relation to the Leased Assets by way of, including but not limited to, sale and leaseback service and direct finance lease service to relevant member of CCHG Group.

As at the Latest Practicable Date, CCHG is interested in 53.14% of the total issued share capital of the Company and is the ultimate holding company of the Company. Thus, CCHG is a connected person of the Company under the Listing Rules. As such, the transactions contemplated under the Finance Lease Services Framework Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Annual Caps is more than 5%, the transactions contemplated under the Finance Lease Services Framework Agreement are subject to announcement, reporting, annual review, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

CCHG and its associates will abstain from voting for the resolution regarding the Finance Lease Services Framework Agreement. The proposed resolution will be passed by way of an ordinary resolution and voted on by way of poll in accordance with the requirements of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all independent non-executive Directors, namely Professor Chang Qing, Mr. Lee Man Chun, Tony and Professor He Jia, has been established to advise and provide recommendation to the Independent Shareholders in relation to fairness and reasonableness of the Proposed Continuing Connected Transaction and the Annual Caps under the Finance Lease Services Framework Agreement.

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to whether the Finance Lease Services Framework Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms, the terms are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole, and the Annual Caps are fair and reasonable.

In addition, pursuant to Rule 14A.52 of the Listing Rules, as the term of the Individual Agreement to be entered into pursuant to the Finance Lease Services Framework Agreement may exceed three (3) years, we are appointed as Independent Financial Adviser to explain why the Individual Agreement requires a longer period and to confirm that it is a normal business practice for agreements of this type to be of such duration.

We have not acted as an independent financial adviser and has not provided any other services to the Company during the past two years. As at the Latest Practicable Date, we are not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Continuing Connected Transaction and the Annual Caps. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Proposed Continuing Connected Transaction and the Annual Caps, and accordingly, are eligible to give independent advice and recommendations on the terms of the Finance Lease Services Framework Agreement and the Annual Caps. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Finance Lease Services Framework Agreement and the Proposed Continuing Connected Transaction contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company and the management of the Group. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the Latest Practicable Date. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed by them in the Circular have been arrived at after due and careful consideration and there are no other material facts not contained in the Circular, the omission of which would make any such statement made by them that contained in the Circular misleading in all material respects. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld.

Our review and analyses were based upon, among others, (i) the information provided by the Group including the Circular, the Finance Lease Services Framework Agreement and certain published information from the public domain, including but not limited to, the annual report of the Company for the year ended 31 December 2021 (the "**Annual Report 2021**") and (ii) our discussion with the Directors and the management of the Group with respect to the terms of and the reasons for entering into of the Finance Lease Services Framework Agreement. We have not, however, for the purpose of this exercise, conducted any in-depth independent investigation into the businesses or affairs and future prospects of the Group nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the terms of the Proposed Continuing Connected Transaction, together with the proposed Annual Caps, and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

1. Background of the Group and CCHG Group

1.1. Background of the Group

The Company is a limited company incorporated in Hong Kong on 11 August 1972. The Group is principally engaged in leasing, bulk commodity trade, property development and investment, marine recreation services and hotel business. The Group's leasing business is mainly carried out through its wholly-owned subsidiary, Chengtong Financial Leasing, as its principal business.

1.2. Financial information of the Group

The following table sets out the financial performance of the Group for the year ended 31 December 2020 ("**FY2020**") and 31 December 2021 ("**FY2021**") respectively as extracted from the Annual Report 2021:

	FY2020	**FY2021**
	HK$'000	*HK$'000*
Turnover		
Leasing	146,270	314,693
Bulk commodity trade	677,891	755,431
Property development and investment	90,701	80,175
Marine recreation services and hotel	16,826	22,380
Total turnover	**931,688**	**1,172,679**
Profit for the year	120,961	105,692
Profit for the year attributable to the owners of the Company	121,372	104,222

The Group's turnover for FY2021 was approximately HK$1,172.68 million, representing an increase of approximately HK$240.99 million or 25.87% as compared to approximately HK$931.69 million for FY2020. Such increase in turnover was mainly attributable to (a) increase in revenue from leasing business of approximately HK$168.42 million or 115.14%; and (b) increase in revenue from bulk commodity trade of approximately HK$77.54 million or 11.44%.

According to the Annual Report 2021, we noted that the Group continued to pull resources together to expand its core leasing business in all aspects during FY2021. Chengtong Financial Leasing accelerated to expand the scale of business and developed new business in line with the national policies and directions; and continued to synergise cooperation with other state-owned enterprises and concluded new leasing arrangements. Chengtong Financial Leasing completed 37 finance lease and sales and leaseback projects and 24 consultancy service projects, achieving an increase in project number of over 100% on a year-on-year basis, which in turn resulted in increase in both interest income and consultancy service fee of approximately 93% and 108% respectively from FY2020. The Group had more than 60 active leasing customers which were from different business sectors including mainly energy saving and environmental protection, new infrastructure, high-end equipment manufacturing, and public utilities.

Based on the information in the Annual Report 2021, we consider that the Group continues its strategy of increase in effort in leveraging the resource advantages of its controlling shareholder and developing its leasing business would provide long-term benefit to the Company and the Shareholders.

1.3. Background of CCHG

CCHG is a state-owned enterprise established in the PRC and the ultimate holding company of the Company. The major businesses of CCHG and its subsidiaries include fund investment, equity management, asset management, financial services and nurturing of emerging industries.

2. Reasons for and benefits of entering into the Finance Lease Services Framework Agreement

With reference to the Letter from the Board, the Group is principally engaged in leasing, bulk commodity trade, property development and investment, marine recreation services and hotel business. Global economic downturn brings about both challenges and opportunities to the Group's business. As the global economy and China's economy continue to face uncertainties and downward pressure, financiers such as banks will normally offer more stringent terms for traditional financing which will in turn lead to a growing demand for alternative financing options such as financial leasing. The Group therefore intends to strategically develop and accelerate the scale of its existing leasing business, and specifically, with finance lease customers with sufficient assets and sound credibility to safeguard the credit risk of the Group. By entering into the Finance Lease Services Framework Agreement, it enables the Group to extend its leasing business cooperation with CCHG Group which has reliable repayment capability. The provision of finance lease services by the Group to CCHG Group under the Finance Lease Services Framework Agreement is in the ordinary and usual course of business of the Group while the Group will in return receive a stable revenue and cashflow stream during the term of the Finance Lease Services Framework Agreement.

CCHG is a state-owned company established in the PRC on 22 January 1998 with registered capital of RMB11.3 trillion. CCHG is one of the 97 state-owned companies under the SASAC, a conglomerate principally engaged in fund investment, equity management, asset management, financial services and nurturing of emerging industries. CCHG was awarded as ''Grade A'' in the annual performance appraisal of SASAC in 2020. As of 31 December 2021, the total assets of CCHG Group amounted to approximately RMB493.5 billion, representing a year-on-year increase of 24.16%. Moreover, in 2021, the revenue and net profit of CCHG Group amounted to approximately RMB171.1 billion and RMB11.0 billion, respectively, representing a year-on-year increase of 37.82% and 21.44%, respectively. In view of the financial position and performance of CCHG Group, the Company considers that CCHG Group has substantial asset base and liquidity to satisfy the liability as they fall due and is therefore one of the Group's core target customers for its financial leasing business.

Moreover, the Company has established entrusted business relationship with CCHG Group on financial leasing contemplated under the Existing Finance Lease Transactions with CCHG Group. In view of the cooperation history between CCHG Group and the Group, the Group is expected to benefit from CCHG Group's better understanding of the operations of the Group which would allow more expedient and efficient cooperation. In addition, it also allows the Group to secure stable and long-term revenue stream from provision of financial leasing services to CCHG Group, a customer of the Group with sound financial position, substantial business and positive reputation in the PRC.

We have enquired the management of the Company and were confirmed that the members of the CCHG Group had no record of late or default in repayment to the Group in history.

Furthermore, financial leasing is one of the core business segments of the Group. By entering into the Finance Lease Services Framework Agreement with CCHG, the Group may leverage the positive brand image and market position of CCHG, which would allow the Group to target a broader spectrum of premium finance lease customers and accelerate client growth, and in turn, foster the growth and smooth development and operations of the Group.

The Group obtains borrowings including working capital credit facilities from banks and other loans from time to time to finance its operations in its ordinary course of business. The transactions contemplated under the Finance Lease Services Framework Agreement will be funded by internal resources of the Group and/or the said borrowings. As of the Latest Practicable Date, the Company had no present plan to obtain borrowings for the purpose of funding any specific transactions contemplated under the Finance Lease Services Framework Agreement. According to the Annual Report 2021, as at 31 December 2021, the Group had bank balances and cash amounted to approximately HK$1,380 million. Therefore, we consider that the Group will have sufficient internal resources for the transactions contemplated under the Finance Lease Services Framework Agreement.

The Directors are of the view that the terms under the Finance Lease Services Framework Agreement are on normal commercial terms in the ordinary and usual course of business of the Group, fair and reasonable, and in the interests of the Company and its shareholders as a whole.

As discussed in the section headed "1.2 Financial information of the Group", the financial contribution of leasing business of the Group has rapidly expanded and became an important source of profit contribution of the Group under the ongoing impact of COVID-19 pandemic in FY2021. Therefore, we concur with the Directors' views that entering into the Finance Lease Services Framework Agreement will bring a stable revenue and cashflow stream to the Group and the Proposed Continuing Connected Transaction will extend the Group's leasing business by leveraging the resource advantages from the Group's controlling shareholder.

3. Finance Lease Services Framework Agreement

3.1. Principal terms of the Finance Lease Services Framework Agreement

The principal terms of the Finance Lease Services Framework Agreement are set out as follows:

Date	:	20 July 2022
Parties	:	(1) the Company; and (2) CCHG.
Term	:	From the Effective Date to 31 December 2024 (both dates inclusive)

Subject of the transaction	:	The relevant member of the Group will provide finance lease services in relation to the Leased Assets by way of, including but not limited to, sale and leaseback service and direct finance lease service: (i) under sale and leaseback service, the relevant member of CCHG Group (as lessee) sells the Leased Assets to the relevant member of the Group (as lessor) at the principal amount the relevant member of the Group granted to and to be utilized by the relevant member of CCHG Group pursuant to Individual Agreements, and the relevant member of the Group then leases the Leased Assets back to the relevant member of CCHG Group for its use in return for periodic Lease Payments; and (ii) under the direct finance leasing service, the relevant member of the Group (as lessor) purchases the Leased Assets from the relevant supplier or seller pursuant to instructions given by the relevant member of CCHG Group (as lessee), and the relevant member of the Group then leases the Leased Assets to the relevant member of CCHG Group for its use in return for periodic Lease Payments.
Contract period	:	The contract periods of the Individual Agreements are expected to range from one (1) year to six (6) years, depending on the type of Leased Assets involved.

The Individual Agreements may have contract periods ending on a date after 31 December 2024. Subject to compliance of the applicable requirements under the Listing Rules, the Individual Agreements duly executed shall remain to have full force and effect for their respective contract periods even if the Finance Lease Services Framework Agreement is expired or terminated and is not renewed. In this regard, under the Individual Agreements, the Group shall have the right to terminate or cancel any Individual Agreement if the Group could no longer perform or shall delay performance of the obligations under the Individual Agreements contemplated under the Finance Lease Services Framework Agreement due to requirements of the Stock Exchange, or any applicable laws and regulations (including but not limited to the Listing Rules). Upon termination or cancellation of the Individual Agreement, (i) Lease Payment receivable by the Group will accrue up to the date of termination or cancellation, and (ii) the Leased Asset will be (x) assigned to the relevant lessee subject to repayment of all outstanding principal and settlement of all outstanding Lease Payment and the nominal consideration for repurchase of the Leased Asset of RMB1.00 or (y) disposed by the Group as it considers appropriate in the event that the outstanding principal, outstanding Lease Payment and the nominal consideration for repurchase of the Leased Asset were not repaid or settled in full in accordance with the terms of the Individual Agreement, and (iii) the relevant lessee will have no claim against the Group for such termination or cancellation. The Company will closely monitor the effectiveness and validity of the Finance Lease Services Framework Agreement and the Individual Agreements, and shall comply with the relevant requirements in accordance with the Listing Rules as and when appropriate.

Principal Amount and Lease Payment	:	The transactions contemplated under the Finance Lease Services Framework Agreement shall be conducted on normal commercial terms through arm's length negotiations and shall not be less favourable than those offered to or provided by the Independent Third Parties for transactions of the same type. The principal amount shall be calculated using the cost method by multiplying the full replacement cost by (i) residual ratio in the estimated range of 80% to 100%, which will be determined based on the expected lifespan and the condition of the relevant Leased Assets with reference to results of site inspection conducted by Independent Third Parties; and (ii) relevant loan-to-value discount rate in the estimated range of 80% to 100%, which will be determined based on the liquidity of the relevant Leased Asset in the secondary market. The replacement cost shall be determined based on the cost of purchasing the relevant Leased Asset with reference to (i) the indicative purchase prices offered to the Group by not less than three Independent Third Parties and/or the quotations and/or valuations provided by independent valuers, and (ii) with respect to newly acquired assets, using the price index method based on the actual original acquisition cost.

The amount of Lease Payment to be received by the Group may be calculated based on a fixed or variable lease interest rate linked to the LPRs, and shall be fair and reasonable, determined after arm's length negotiation between the relevant member of the Group and CCHG Group taking into account the prevailing market conditions when the Individual Agreement is entered into. The return rate (taking into account the aggregate amounts of interests and other payables (including handling fees)) shall be at a rate not less favourable than the relevant LPRs and that offered to Independent Third Parties for comparable leasing arrangements when the relevant Individual Agreement is entered into. If, under the Individual Agreement, the amount of Leased Payment to be received by the Group shall be adjusted as LPRs change, adjustments will be made to such lease interest rate on an annual basis on 1 January every year whereby the interest rate applied to the future lease payments will be increased when LPR is increased and the interest rate applied to the future lease payments will be reduced when LPR is reduced, provided that in the case where the lessee has overdue lease payment and has not paid all overdue payments and liquidated damages, (i) the interest rate applied to the future lease payments will not be reduced nor adjusted when the LPR is reduced; (ii) the interest rate applied to the future lease payments will be increased when LPR is increased; and (iii) the lessee shall, in addition to the unpaid overdue lease payment, pay default interest on the unpaid sum. The expected profit margin from the transactions contemplated under the Individual Agreements will be comparable to those from finance lease transactions between the Group and Independent Third Parties. The Lease Payments shall be paid by the lessee during the lease term by installments, which may be quarterly, semi-annually or otherwise, in the manner to be specified in the Individual Agreements.

Legal Title and Control over Leased Assets	:	The Group shall own the legal title of the Leased Assets during the lease term. The lessees will retain control of the Leased Assets before and after entering into the Individual Agreements under the Finance Lease Services Framework Agreement. Thus, the transactions contemplated under the Individual Agreements, comprising both the acquisition of Leased Assets and the provision of finance lease services, will be accounted for as a secured loan and recognised in accordance with HKFRS 9 Financial Instruments for accounting purposes. The Lease Payment, in essence, mainly represent the interest receivable by the Group and will be determined based on, among others, the then prevailing LPRs as promulgated by the National Interbank Funding Center under the People's Bank of China, and the Leased Assets are, in substance, the security for the loan and are not revenue-generating assets with identifiable income stream. Moreover, as the Leased Assets are equipment or facilities used by the lessees in their ordinary course of production, the lessees would not separately account for the profits before tax and after tax of the Leased Assets.
CCHG Group's Right to Repurchase the Leased Assets	:	Subject to the repayment of the principal amounts, the settlement of all the Lease Payments and any other payables (if any) by the relevant member of CCHG Group to the Group in accordance with the terms of Individual Agreements, the relevant member of CCHG Group shall have the right to repurchase the Leased Assets at a nominal consideration of RMB1.00 normally at the end of the lease term to be specified in the relevant Individual Agreement, or in case of early termination, on a date to be agreed by the relevant member of the Group and CCHG Group.
Others	:	The Finance Lease Services Framework Agreement is conditional upon the approval by the Independent Shareholders of the Finance Lease Services Framework Agreement.

The relevant member(s) of the CCHG Group and the relevant member(s) of the Group may from time to time enter into Individual Agreements in relation to the subject matters contemplated under the Finance Lease Services Framework Agreement upon and subject to the terms and conditions in compliance with those of the Finance Lease Services Framework Agreement.

3.2. Historical Transaction Amount

The historical aggregate outstanding principal amount transacted with CCHG Group were approximately RMB33.5 million, RMB26.5 million and RMB25.0 million, equivalent to approximately HK$38.9 million, HK$30.7 million and HK$29.0 million, respectively, as at 31 December 2020 and 2021 and 31 May 2022, respectively. The historical aggregate Lease Payments received by the Group from CCHG Group were approximately RMB1.9 million, RMB2.1 million and RMB0.7 million, equivalent to approximately HK$2.2 million, HK$2.4 million and HK$0.8 million, respectively, for the years ended 31 December 2020 and 2021 and the five months ended 31 May 2022, respectively. For details on the aforesaid transactions (the "**Existing Finance Lease Transactions with CCHG Group**"), please refer to the announcement of the Company dated 18 March 2020.

3.3. Annual Caps and Basis of Determination

The proposed Annual Caps on the principal and the Lease Payments (taking into account the aggregate outstanding interests and other payables (including handling fees)) receivable by the Group for the transactions contemplated under the Finance Lease Services Framework Agreement for the same periods are as follows:

	For the years ending 31 December		
	2022	**2023**	**2024**
	RMB	*RMB*	*RMB*
Total principal and the Lease Payment (taking into account the aggregate outstanding amounts of interests and other payables (including handling fees)) to be received by the Group	500,000,000 (equivalent to approximately HK$580,000,000)	1,021,000,000 (equivalent to approximately HK$1,184,360,000)	1,677,000,000 (equivalent to approximately HK$1,945,320,000)

With reference to the Letter from the Board, the Annual Caps are determined after considering the following:

(i) the amounts to be utilized by the CCHG Group pursuant to the Individual Agreements to be entered into, together with the relevant interests and fees including handling fees, including prospective finance lease services projects between the Group and CCHG Group in the aggregate estimated principal amount of not less than RMB950 million (equivalent to approximately HK$1,102 million) over the three years ending 31 December 2022, 2023 and 2024. As of the Latest Practicable Date, based on (i) financing needs and financial position of the prospective lessees of the CCHG Group; and (ii) the nature, estimated value and expected lifespan of the prospective Leased Assets, it is estimated that the aggregate principal amount of the prospective finance lease services projects between the Group and CCHG Group may reach RMB1,550 million (equivalent to approximately HK$1,798 million) over the three years ending 31 December 2022, 2023 and 2024, among which, it is estimated that the principal amount of RMB450 million will be utilized by CCHG Group in the year ending 31 December 2022 including the finance lease arrangement in the lease principal amount of RMB300 million as disclosed in paragraph (b) below, and the remaining RMB1,100 million will be utilized by CCHG Group during the two years ending 31 December 2023 and 2024, taking into account:

 (a) the business plan of the Group, in particular the intended strategic expansion of the leasing business of the Group; and

 (b) on 20 July 2021, the Group has entered into the Leaseback Assets Transfer Agreement and Finance Lease Agreement (Sale and Leaseback) with members of the CCHG Group. Pursuant to the Leaseback Assets Transfer Agreement and Finance Lease Agreement (Sale and Leaseback), the Group will purchase from Lessee I the Leased Asset I at the purchase price of RMB300 million (equivalent to approximately HK$348 million), and will lease Leased Asset I to Lessee I for a term of three (3) years in return for a payment of approximately RMB318.9 million (equivalent to approximately HK$369.9 million, and comprising both the lease principal amount of RMB300 million (equivalent to approximately HK$348 million) and estimated Lease Payment of RMB18.9 million (equivalent to approximately HK$21.9 million)). The transactions contemplated under the Leaseback Assets Transfer Agreement and Finance Lease Agreement (Sale and Leaseback) will proceed upon the Finance Lease Services Framework Agreement being approved by the Independent Shareholders, and will be governed by the framework of the Finance Lease Services Framework Agreement to the extent practicable. Accordingly, the Leaseback Assets Transfer Agreement and the Finance Lease Agreement (Sale and

Leaseback) are subject to Independent Shareholders' approval on the Finance Lease Services Framework Agreement, and the Finance Lease Agreement (Sale and Leaseback) are expected to account for approximately RMB300 million, RMB152.7 million and RMB51.8 million (equivalent to approximately HK$348 million, HK$177.1 million and HK$60.1 million, respectively) of the total outstanding balance of principal for each of the years ending 31 December 2022, 2023 and 2024, respectively, and RMB2.9 million, RMB9.3 million and RMB5.3 million, equivalent to approximately HK$3.4 million, HK$10.8 million and HK$6.1 million, respectively, of the total amount of Lease Payment for the years ending 31 December 2022, 2023 and 2024, respectively;

(ii) the outstanding principal amount and Leased Payments expected to be received by the Group under the Existing Finance Lease Transactions with CCHG Group;

(iii) the Group's potential risk exposure should the members of the CCHG Group were unable to make timely repayments;

(iv) the current financing market conditions, including the interest rates and fees arrangement and level of similar services provided by Independent Third Parties, and the potential adjustments to be made by the People's Bank of China to the LPR(s) in the future. In the case of any adjustment to the LPR(s) made by the People's Bank of China in the future, the Lease Payments to be specified in the Individual Agreements will be determined with reference to the adjusted LPR(s); and

(v) the nature, estimated value and expected lifespan of the Leased Assets.

3.4. Our assessment on the terms of Finance Lease Services Framework Agreement and the Annual Caps

Terms of Finance Lease Services Framework Agreement (including the contract period of Individual Agreements)

Pursuant to the Finance Lease Services Framework Agreement, the Finance Lease Services Framework Agreement shall be conducted on normal commercial terms through arm's length negotiations and shall not be less favourable than those offered to or provided by the Independent Third Parties for transactions of the same type. The amount of Lease Payment to be received by the Group may be calculated based on a fixed or variable lease interest rate linked to the LPRs, and shall be fair and reasonable, determined after arm's length negotiation between the relevant member of the Group and CCHG Group taking into account the prevailing market conditions when the Individual Agreement is entered into. The return rate (taking into account the aggregate amounts of interests and other payables (including handling fees)) shall be at a rate not less favourable than the relevant LPRs and that offered to Independent Third Parties for comparable leasing arrangements when the relevant Individual Agreement is entered into. As Chengtong Financial Leasing has been providing finance lease services to Independent Third Parties, the finance lease agreements entered into between Chengtong Financial Leasing and Independent Third Parties are considered adequately reflects the market practice. In this regard, we have selected samples in terms of the leasing amount and reviewed top 10 from the list of 36 finance lease agreements entered into between Chengtong Financial Leasing and Independent Third Parties in the last 12 months from the date of Announcement, which the leased assets of all finance lease agreements are included in the category of the Leased Assets. We are of the view that the sample size is fair and reasonable, and the selection basis is fair and representative in view of materiality and transaction nature. After comparing the terms of such finance lease agreement with the Finance Lease Services Framework Agreement, we confirmed that the terms of the Finance Lease Services Framework Agreement, including the interest rate charged and contract period, are fair and reasonable and not less favourable than those offered to the Independent Third Parties. We also consider it is fair and reasonable for the Finance Lease Services Framework Agreement to use the LPRs as benchmark for the pricing, which is same as the finance lease agreements entered into between Chengtong Financial Leasing and Independent Third Parties.

According to the Letter from the Board, the Board considered that (i) the Leased Assets, such as construction vehicles and construction equipment, generally have a longer expected lifespan, the leased terms of which normally align with the expected payback period of the specific Leased Asset and may range from three (3) to six (6) years in the industry; (ii) it is in line with industry practice that the finance leasing agreements involving assets which are of similar type and nature as the Leased Assets may be entered into for a term of not less than three (3) years; (iii) the Individual Agreements for the Leased Assets, in particular the Leased Assets involving large size logistics, storage, transportation or production related equipment and facilities, typically involve a relatively larger financing amount and thus a relatively longer repayment term. In light of the above, the contract periods of the Individual Agreements with respect to finance lease services under the Finance Lease Services Framework Agreement are expected to range from one (1) to six (6) years, depending on the type of Leased Assets involved, and the Board is of the view that it is in normal business practice, fair and reasonable, on the normal commercial terms to enter into Individual Agreements with longer terms.

From our review of the selected samples of finance lease agreements entered into between Chengtong Financial Leasing and Independent Third Parties as mentioned above, we note that half of the samples have the contract period of more than three (3) years and the contract periods varies in accordance to the type of the assets to be leased as mentioned in the Letter from the Board. Therefore, we consider the contract period of the Individual Agreements that may exceed three (3) years for the Leased Assets is justifiable and it is a normal business practice of the Group.

The Annual Caps

In order to access the fairness of the Annual Caps, we have also discussed with the management of the Company in respect of the basis of determining the Annual Caps.

As discussed with the management of the Company, the Annual Caps are determined by potential risk exposure of the Group assuming the members of the CCHG Group were unable to make timely repayments. Therefore, the Annual Caps are determined based on the total amount of (i) the latest outstanding balance of the Existing Finance Lease Transactions with CCHG Group; (ii) the principal amount of Finance Lease Agreement (Sale and Leaseback); (iii) the estimated total principal amount of the finance lease agreements expected to be entered with CCHG Group; and (iv) the accumulated Lease Payments under all the lease agreements with CCHG Group to be received by the Group.

For our due diligence purpose, we have obtained from the Company and reviewed (i) the announcement and the finance lease agreement of the Company dated 18 March 2020 in relation to the Existing Finance Lease Transactions with CCHG Group; (ii) the Leaseback Assets Transfer Agreement and Finance Lease Agreement (Sale and Leaseback); and (iii) the business plan of the Group for the leasing business. Details of our findings are as follows:

(i) According to the announcement of the Company dated 18 March 2020 in relation to the Existing Finance Lease Transactions with CCHG Group, Chengtong Financial Leasing, entered into a finance lease agreement (the "**Finance Lease Agreement 2020**") pursuant to which Chengtong Financial Leasing has agreed to purchase from the lessee, which is a member of CCHG Group, and lease back to lessee certain solar photovoltaic modules and equipment used in a photovoltaic power station for a term of five (5) years. We have reviewed the Finance Lease Agreement 2020 and according to the information as provided by the Company, the latest outstanding balance of the Existing Finance Lease Transactions with CCHG Group is approximately RMB23.3 million;

(ii) As stated in the Letter from the Board, on 20 July 2022, the Group has entered into the Leaseback Assets Transfer Agreement and Finance Lease Agreement (Sale and Leaseback) with a member of the CCHG Group. Pursuant to the Leaseback Assets Transfer Agreement and Finance Lease Agreement (Sale and Leaseback), the Group will purchase from Lessee I the Leased Asset I at the purchase price of RMB300 million (equivalent to approximately HK$348 million), and will lease Leased Asset I to Lessee I for a term of three (3) years. We have reviewed the Leaseback Assets Transfer Agreement and Finance Lease Agreement (Sale and Leaseback), which the terms are principally set out under the terms of Finance Lease Services Framework Agreement; and

(iii) Furthermore, we have discussed with the management of the Company and according to the business plan of the Group, in addition to the Leaseback Assets Transfer Agreement and Finance Lease Agreement (Sale and Leaseback), the Group intends to enter into other finance lease agreements with principal amount of RMB150 million, RMB500 million and RMB600 million for the years ending 31 December 2022, 2023 and 2024, respectively. Together with Lease Payments under the Finance Lease Agreement 2020 and the Finance Lease Agreement (Sale and Leaseback), the Group is expected to receive Lease Payments of approximately RMB6.8 million, RMB39.9 million and RMB56.6 million for the each of the years ending 31 December 2022, 2023 and 2024, respectively. Based on the above, Lease Payments on an accumulative basis shall be approximately RMB6.8 million, RMB46.7 million and RMB103.3 million for the three years ending 31 December 2022, 2023 and 2024, respectively.

After considering that (i) the latest outstanding balance of the Existing Finance Lease Transactions with CCHG Group; (ii) the principal amount of the Finance Lease Agreement (Sale and Leaseback); (iii) the principal amount of potential finance lease agreements to be entered in 2022, 2023 and 2024; and (iv) the accumulated Lease Payments to be received from all the finance lease agreements as mentioned above, we consider the Annual Caps are fair and reasonable.

4. Internal Control Measures and Risk Management

To safeguard the interest of the Shareholders, the Group has adopted, among others, the following internal control and risk management procedures to ensure that continuing connected transactions will be conducted within the Finance Lease Services Framework Agreement:

Review and Approval before entering into the Individual Agreements

(i) The business department of Chengtong Financial Leasing ("**Business Department**") will carry out due diligence on the potential lessee including its background, business profile, industry ranking, financial position, credit rating, compliance records and loan repayment records, and identify the intended use of the principal amount with the potential lessee.

(ii) The legal department of Chengtong Financial Leasing ("**Legal Department**") will carry out due diligence on the title of the Leased Assets. To be considered as an acceptable Leased Assets, the asset must be legally tradable and has clear and good title.

(iii) The review and appraisal department of Chengtong Financial Leasing ("**Review Department**") will then further assess and scrutinize each transaction, carry out risk assessment. In assessing the risk profile of the lessee, the following factors will be considered: (i) source of funds available for repayment, including the profitability, equity position and the cash flow condition of the lessee; (ii) the valuations of the Leased Asset when they are being sold in secondary markets to discharge the debt of the lessee; (iii) the risk and return analysis of other financing projects between the Group and other Independent Third Parties lessees with similar background; and (iv) the market conditions and outlook of lessee's business.

(iv) The Review Department will also record and calculate, among others, the amount of principal amount and expected Lease Payment payable or receivable by the Group. When 80% of the relevant annual cap is reached, the Review Department will notify the Business Department, the finance department of Chengtong Financial Leasing ("**Finance Department**") and the company secretary of the Company for carrying out necessary and appropriate actions to ensure the Annual Caps will not be exceeded.

(v) A committee comprising three members including Chengtong Financial Leasing's deputy general manager and respective department heads of the Review Department and Legal Department will be formed to consider and approve the business proposal taking into account the due diligence reports prepared by the Business Department and the record and calculation of the principal amount and expected Lease Payments payable or receivable by the Group prepared by the Review Department. Business proposals shall only be approved by the committee if the Annual Caps will not be exceeded upon entering into the transaction(s) contemplated under such business proposal. Subject to the approval of the committee, each of the Individual Agreements shall be further submitted to the Chengtong Financial Leasing's board of directors, the Company's executive committee, the Board, as the case maybe, for final approval.

Pricing Terms

(vi) The Business Department, the Review Department and the Finance Department will obtain and compare the relevant LPR(s) published by the People's Bank of China with the terms of the proposed financial lease services under the Individual Agreement, compare the terms of the proposed financial lease services under such Individual Agreement to those of the similar transactions with Independent Third Parties to ensure that the terms under the Individual Agreement available to the Group are no less favourable that those offered by the Group to other Independent Third Parties. They shall evaluate the transaction terms under each Individual Agreement, in particular, the fairness and reasonableness of the pricing terms thereunder.

Monitoring and Risk Management

(vii) The Company's risk management department (''**Risk Management Department**''), which is led by the managing director of the Company, will oversee and guide the implementation of the continuing connected transactions contemplated under the Finance Lease Services Framework Agreement and control the risk thereof and to formulate solutions in resolving any risk which may arise in connection therewith.

(viii) The Risk Management Department will conduct the sampling inspection at least twice per annum on the comprehensiveness and effectiveness of the Group's internal control measures on continuing connected transactions, and periodically review and examine the progress of the continuing connected transactions.

(ix) The Company will engage external auditors to review the data of the continuing connected transactions twice a year in compliance with the annual reporting and review requirements under the Listing Rules and provide confirmation in the Company's annual report on whether such transactions are entered into in the ordinary course of business on normal commercial terms or better and are carried out pursuant to the terms thereof, and whether the terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(x) The audit committee of the Company will review the implementation of the continuing connected transactions twice a year.

We have obtained and reviewed the full set of internal control and risk management procedures and the templates of the forms and documents attached to the procedures. We consider the internal control and risk management procedures have detective control and clear segregation of duties of execution, checking and authorising the Proposed Continuing Connected Transaction by designating different personnel or teams for the assessment, review and approval of the Proposed Continuing Connected Transaction and ongoing monitoring of the Proposed Continuing Connected Transaction, such that the internal control and risk management procedures can ensure that the Proposed Continuing Connected Transaction shall be conducted on normal commercial terms, the credit risk shall be monitored and the Annual Caps will not be exceeded.

RECOMMENDATION

Taking into account the above principal factors and reasons, in particular, (i) lease business is one of the ordinary business of the Group; (ii) credibility of CCHG Group; (iii) the terms of Finance Lease Services Framework Agreement are not less favourable to finance lease agreements offered to the Independent Third Parties; (iv) internal control and risk management procedures, we consider that the terms of the Finance Lease Services Framework Agreement, including the Annual Caps and the transactions contemplated thereunder, are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and it is a normal business practice for the duration of Individual Agreements to be more than three (3) years.

Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders, as well as the Independent Shareholders, to vote in favour of the ordinary resolution to approve the Finance Lease Services Framework Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
INCU Corporate Finance Limited
Gina Leung
Managing Director

Ms. Gina Leung is a licensed person registered with the SFC and a responsible officer of INCU Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. She has over 20 years of experience in the corporate finance industry and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for the three financial years ended 31 December 2019, 31 December 2020 and 31 December 2021 have been set out in the following documents respectively:

(a) the annual report of the Company for the year ended 31 December 2019 from pages 102 to 212 (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0316/2020031600964.pdf);

(b) the annual report of the Company for the year ended 31 December 2020 from pages 72 to 180 (https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0318/2021031800684.pdf); and

(c) the annual report of the Company for the year ended 31 December 2021 from pages 70 to 188 (https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0323/2022032300436.pdf).

2. INDEBTEDNESS OF THE GROUP

At the close of business on 30 June 2022, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had (i) secured and guaranteed bank borrowings of approximately HK$1,468.58 million which are secured by charges over loans receivable and finance lease receivables of the Group and/or guaranteed by the Company; (ii) unsecured and unguaranteed bank borrowings of approximately HK$500.50 million; (iii) secured and guaranteed asset-backed securities of approximately HK$2,208.20 million; (iv) unsecured and unguaranteed loan from related parties of approximately HK$257.82 million; (v) unsecured and unguaranteed other loan of approximately HK$0.60 million; and (vi) unsecured and unguaranteed lease liabilities of approximately HK$6.46 million.

As at 30 June 2022, the Group had contingent liabilities in relation to guarantees of approximately HK$226.04 million given to banks in respect of mortgage loans granted to purchasers of certain property units.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade and others payables in the ordinary course of business, the Group did not have any other loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding on 30 June 2022.

3. WORKING CAPITAL SUFFICIENCY OF THE GROUP

The Directors are of the opinion that, after taking into account the effects of the transactions contemplated under the Finance Lease Services Framework Agreement (including the acquisition of Leased Assets and the provision of financial leasing services), the internally generated funds, existing facilities available to the Group and financial resources presently available to the Group, the Group will have sufficient working capital to satisfy its requirements for at least twelve months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in leasing, bulk commodity trade, property development and investment, and marine recreation services and hotel business.

In 2022, the Group remains steadfast to leasing business and has pulled resources together to expand its scale in all aspects. The Group will actively respond to new changes in operating environment, industry policies and patterns in accordance with the new external regulatory requirements. It will uphold the established business objectives and business positioning, continue to develop and deepen its expertise in four major areas, namely energy saving and environmental protection, transportation and logistics, internet data centre and new energy, and unleash industry characteristics in the market segments. In order to cope with the business growth, the Group has obtained sufficient banking facilities and is prepared for further asset-backed securities issuance if required, so to satisfy the funding needs. By leveraging on its synergies with the Company's controlling shareholder, the Group strives to build its brand and industry influence.

For bulk commodity trade, the Group will continue to prudently carry out the trading of steel and chemical commodity products under stringent risk control. For property development, as the Group's CCT-Champs-Elysees project at Zhucheng city has been substantially completed, the Group plans to devote resources in enhancing the sales channel and increasing the sales force. For the marine recreation services and hotel business, the operation performance has been negatively impacted in the first half of 2022 under the persisting impacts of the COVID-19 pandemic, the Group will actively explore and promote subsequent assets restructuring.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is the management discussion and analysis of the Group for the each of the three years ended 31 December 2019, 2020 and 2021 as principally extracted from the annual reports of the Company for each of the years ended 31 December 2019, 2020 and 2021, respectively. These extracted materials below were prepared prior to the date of this circular and speak as of the date they were originally published, representing the opinion and beliefs made by the then Directors at such time when the related annual report was issued.

For the year ended 31 December 2019

Financial Overview

The Group realized a turnover of approximately HK$1,110.60 million for the year ended 31 December 2019, representing an increase of approximately 9% when compared with that of approximately HK$1,020.89 million for the year ended 31 December 2018. The increase in turnover was mainly due to: (i) the substantial increase in turnover from property development by approximately 116% to approximately HK$131.93 million (2018: approximately HK$60.99 million); and (ii) the year-on-year increase in revenue from leasing business by approximately 40% to approximately HK$74.47 million (2018: approximately HK$53.26 million).

For the year ended 31 December 2019, the Group recorded consolidated profit before income tax of approximately HK$90.01 million (2018: approximately HK$168.91 million), representing a year-on-year decrease of approximately 47% which was mainly because the Group completed the transfer of interest in Cuidao Hotspring Hotel, resulting in the recognition of a non-recurring gain of approximately HK$110.80 million in 2018. In 2019, the year-on-year increase in turnover from property development business and revenue from leasing business was approximately 116% and approximately 40% respectively. As a result, the consolidated gross profit increased year-on-year by approximately 42% to approximately HK$154.66 million (2018: approximately HK$108.90 million). However, as the selling expenses increased year-on-year by approximately 46% to approximately HK$20.52 million (2018: approximately HK$14.06 million); and the fair value of investment properties changed from a gain of approximately HK$3.54 million as at 31 December 2018 to a loss of approximately HK$5.05 million as at 31 December 2019, which partially offset the positive effect on profit derived from the increase in consolidated gross profit over last year. Excluding the said non-recurring income, the profit before income tax for the year ended 31 December 2019 increased year-on-year by approximately 55%.

The profit attributable to owners of the Company for the year ended 31 December 2019 amounted to approximately HK$47.54 million (2018: approximately HK$113.44 million), representing a year-on-year decrease of approximately 58%.

Business Review and Outlook

During the year ended 31 December 2019, through own development and acquisition of new projects, the Group's loans receivable from leasing during the year 2019 increased substantially. As at 31 December 2019, the loans receivable from leasing amounted to HK$1,126.82 million, representing an increase of approximately 69% from such receivables of approximately HK$666.94 million as at 31 December 2018. Coupled with the completion of a number of consultancy projects during the year of 2019, the turnover from leasing business increased by approximately 40% year-on-year to approximately HK$74.47 million (2018: approximately HK$53.26 million). The profit before tax was approximately HK$66.77 million (2018: approximately HK$44.14 million), representing a year-on-year increase of approximately 51%, which was mainly due to the year-on-year increase in turnover of approximately HK$21.20 million, which was primarily benefiting from the revenue from consultancy service of approximately HK$23.56 million (2018: approximately HK$8.93 million) for the year of 2019, representing a year-on-year increase of approximately 164%; and the year-on-year increase in interest income from leasing arrangements by approximately HK$6.57 million to approximately HK$50.91 million (2018: approximately HK$44.34 million).

Since the outbreak of the COVID-19 in 2019, the Group had taken a proactive approach and adopted various anti-epidemic measures to protect the safety and health of employees as top priority. At the same time, the postponed resumption of production and related epidemic control had adversely affected the Group's business. The Group took proactive measures and making active responses in an effort to minimise the losses caused by the epidemic.

From an international perspective, the prevailing global economy would continue to slow down and remain in profound adjustment period after the international financial crisis. The global economy has been characterised by "three lows and two highs" namely low growth, low inflation, low interest rates, high debt, and high risk. Initiatives such as co-building the "Belt and Road" have provided a broad arena for the internationalised operation of enterprises in China. From a domestic perspective, China has been going through a critical period of changing model of development, optimisation of economic structure and changing growth drivers. Although the COVID-19 pandemic brought certain pressure to bear on the economic development, as the prevention and control measures strengthen and the enterprises resume production, the general trend of steady, positive growth long-term improvement of the economy in China should be able to sustain.

As China and the United States of America entered into the first stage trade deal, the economic and trade relations eased to a certain extent, thus stabilising the international macroeconomic conditions. However, the global economy continued to face uncertainties such as geopolitical conflicts, escalated trade frictions and etc. In the short term, China's economy would still be under downward pressures, and China would further the supply-side structural reform to drive the economy to its high quality betterment. In the medium-long term, the strong domestic market demands would provide enormous development potentials for corporate transformation and development and structural adjustment.

In respect of leasing, the Group would increase the business synergy between its controlling shareholder and other central enterprises and accelerate the introduction of market-oriented professional teams. Adhering to the management philosophy of "serving the strategy, generating synergies, strictly managing risks and creating niche features", the Group would step up its efforts to expand into areas including central enterprises and overseas leasing, and expand the business scale with focus on stringent risk management to provide customers with professional comprehensive leasing solutions. Leverage on its synergies with the Company's controlling shareholder, the Group has striven to build its brand and industry influence.

Liquidity, Financial Resources and Financing Activities

The Group aimed to maintain stable funding sources and financing was arranged to match business requirements and cash flows. The financial leverage of the Group as at 31 December 2019 as compared to 31 December 2018 is summarized below:

	31 December 2019	**31 December 2018**
	HK$'000	*HK$'000*
Total borrowings		
Current borrowings	278,300	274,700
Non-current borrowings	–	–
Sub-total	278,300	274,700
Total cash		
Bank balances and cash	732,356	791,265
Pledged bank deposits	4,462	3,815
Deposits in other financial institution	2,157	112,338
Sub-total	738,975	907,418
Total equity	2,914,216	2,897,144
Total assets	3,600,661	3,590,303
Financial leverage		
Total debt to total equity ratio	10%	9%
Total debt to total assets ratio	7.7%	7.7%
Current ratio	405%	470%

As at 31 December 2019, the Group had bank balances and cash of approximately HK$732.36 million (31 December 2018: HK$791.27 million), pledged bank deposits of approximately HK$4.46 million (31 December 2018: HK$3.82 million) and deposits in other financial institution of approximately HK$2.16 million (31 December 2018: HK$112.34 million). The decrease was mainly due to the Group's utilisation of cash and deposits and the increase in loans receivable from non-current leasing business.

As at 31 December 2019, the Group's borrowings amounted to approximately HK$278.30 million (31 December 2018: HK$274.70 million). The bank borrowings of the Group amounted to approximately HK$277.70 million, representing an increase of approximately HK$3.60 million as compared with the bank borrowings as at 31 December 2018 of approximately HK$274.10 million. Bank borrowings of approximately HK$77.70 million was of one-year term and the remaining balance of HK$200 million was a revolving loan with the final repayment date to be due in the year of 2020. The effective interest rates of the bank borrowings ranged from approximately 3.04% to approximately 5.66% per annum.

The total debt to total equity ratio (calculated by dividing total interest-bearing borrowings by total equity) as at 31 December 2019 was approximately 10%, representing an increase by approximately 1% as compared with that of approximately 9% as at 31 December 2018. The total debt to total assets ratio (calculated by dividing total debt by total assets) as at 31 December 2019 was approximately 7.7%, which remained unchanged as compared with that as at 31 December 2018. Both ratios indicated a stable financial position and a low gearing level of the Group.

The current ratio (calculated as total current assets over total current liabilities) was approximately 4.1 times, representing a decrease of approximately 0.6 time as compared to the current ratio of approximately 4.7 times as at 31 December 2018. The liquidity of the assets of the Group remained sound.

Capital Structure

The equity attributable to owners of the Company amounted to approximately HK$2,780.84 million as at 31 December 2019 (31 December 2018: HK$2,761.71 million) representing an increase of approximately 1% as compared with the equity attributable to owners of the Company as at 31 December 2018.

Material Acquisition, Disposal and Significant Investment

Formation of joint venture with Chengtong International

On 25 October 2019, the Group entered into an investment agreement with the Company's related party, Chengtong International Limited ("**Chengtong International**"), pursuant to which a joint venture is formed. The joint venture is owned as to 51% by the Group and 49% by Chengtong International. Through the formation of the joint venture, the Group can leverage on the operational expertise of the shareholder of Chengtong International, and benefit from its international procurement and sales network as well as its established customer base. These would facilitate the continuous development of the international bulk commodity trade businesses of the Group abroad. For further details, please refer to the announcement of the Company dated 25 October 2019.

Disposal of 41% equity interest in Chengtong Energy

On 12 November 2019, the Group entered into an equity transfer agreement with the Company's related party, 中國誠通國際貿易有限公司 (unofficial English translation being China Chengtong International Co. Ltd.) ("**China Chengtong International**"), pursuant to which China Chengtong International conditionally agreed to acquire 41% of the equity interest of 誠通能源廣東有限公司 (unofficial English translation being Chengtong Energy Guangdong Company Limited) ("**Chengtong Energy**") at the consideration of approximately HK$27.38 million. Upon completion of the equity transfer on 28 February 2020, a gain of approximately HK$7.48 million was recorded from the disposal of the equity interest in Chengtong Energy in 2020, and the Group retained 10% equity interest in Chengtong Energy and Chengtong Energy ceased to be a subsidiary of the Company. For further details, please refer to the announcement of the Company dated 12 November 2019 and the circular of the Company dated 6 December 2019.

Significant Investment

Details of the significant investments in the portfolio under other financial assets as at 31 December 2019 are as follows:

Description of investment	Approximate interest rate per annum	Approximate investment amount as at 31 December 2019	Fair value as at 31 December 2019 *(HK$'000)*	Approximate percentage to the Group's audited total assets as at 31 December 2019	Changes in fair value during the year 2019 *(HK$'000)*
Honghua Group Limited (Stock code: 196) *(Note 1)*	N/A	HK$195,580,000	134,620	3.7%	30,480 *(Note 2)*
Unlisted trust schemes and wealth management products managed by PRC banks	5.0%-9.5%	RMB183,075,000	204,139	5.7% *(Note 4)*	942 *(Note 3)*
Interest bearing structured bank deposits with PRC banks	3.5%-3.9%	RMB184,700,000	205,017	5.7% *(Note 5)*	–

Note 1: The principal businesses of Honghua Group Limited and its subsidiaries are manufacturing of drilling rigs, offshore engineering, manufacturing of oil & gas exploitation equipment and provision of drilling services. The Group held 254,000,000 shares of Honghua Group Limited, representing approximately 4.7% of the total issued shares of Honghua Group Limited as at the date of the annual report for the year ended 31 December 2019. During the year 2019, the Group did not receive any dividend income from Honghua Group Limited.

Note 2: This financial asset is measured at FVOCI (non-recycling).

Note 3: This financial asset is measured at fair value through profit or loss.

Note 4: This includes a total of four unlisted trust schemes and wealth management products managed by PRC banks and the value of each product accounts for no more than 5% of the audited total assets of the Group as at 31 December 2019.

Note 5: This includes a total of three interest-bearing structural bank deposits in the PRC and the value of each product accounts for no more than 5% of the audited total assets of the Group as at 31 December 2019.

As at the date of the annual report for the year ended 31 December 2019, the Group anticipated to receive investment income from these investments and intended to actively explore other potential investment opportunities to maximise shareholders' value.

Saved as disclosed above, the Group had no material acquisition, disposal and significant investment exceeding 5% of the total asset value of the Group as at 31 December 2019.

Pledge of Assets

As at 31 December 2019, pledged bank deposits of the Group in the sum of approximately HK$4.19 million were pledged as security for banking facilities granted to mortgagors (as at 31 December 2018: approximately HK$1.26 million). The remaining balance of approximately HK$0.27 million of the Group's pledged bank deposit (as at 31 December 2018: approximately HK$2.56 million) was guaranteed deposits.

Treasury Policies

The business activities and operation of the Group were mainly carried out in Mainland China and Hong Kong, with transactions denominated in RMB, HKD and United States dollars, which exposed the Group to foreign currency risks. The HKD-denominated bank borrowings of the Group of approximately HK$200 million were based on floating interest rates, which exposed the Group to interest rate risks. The Group would use interest rate and foreign currency swaps and forward foreign exchange contracts as and when appropriate for risk management and hedging purposes with a view to managing the Group's exposure to interest rate and foreign exchange rate fluctuations. It was the Group's policy not to enter into derivative financing transactions for speculative purposes. It was also the Group's policy not to invest in financial products with significant underlying leverage or derivative exposure including hedge funds or similar instruments.

Interest Rate Risks

As at 31 December 2019, the Group's bank borrowings were denominated in HKD and RMB, of which the RMB-denominated bank borrowings of approximately RMB70 million were based on fixed interest rates, and the HKD-denominated borrowings of approximately HK$200 million were based on floating interest rates. The floating interest rates were stabilised at a low level because the banks in Hong Kong had sufficient capital and strong liquidity and there was no urgent need to increase the interest rates. As at 31 December 2019, the Group's cash and cash equivalents amounted to approximately HK$791.83 million.

Although the Group did not have any hedging measures against such interest rate risks, the Group would continue to closely monitor the risks arising from such interest rate fluctuation. If interest rate rose, hedging instruments would be used in due course against the interest rate risks caused by the HKD-denominated bank borrowings which were based on floating interest rates.

Foreign Exchange Exposure

The business activities and operation of the Group were mainly carried out in Mainland China and Hong Kong, with transactions denominated in RMB, HKD and USD, which exposed the Group to foreign currency risks.

During the year ended 31 December 2019, the Group's businesses were principally conducted in RMB, while most of the Group's assets and liabilities were denominated in HKD and RMB. Any fluctuation in the exchange rate of HKD against RMB might have an impact on the Group's results. As at 31 December 2019, the net assets of the Group's business within the territory of the PRC were approximately RMB1,936.24 million. According to HKASs, such amount of net assets denominated in RMB should be converted at the exchange rate applicable as at the end of the reporting period. Due to the decrease in foreign exchange reserve by approximately HK$58.30 million as a result of the depreciation of RMB during the year 2019, there had been a decrease in net assets of the Group.

Although foreign currency fluctuations did not pose significant risks to the Group during the year of 2019 and the Group did not have any hedging measures against such exchange risks, the Group would continue to closely monitor the risks arising from such currency fluctuations. As at 31 December 2019, the Group had no significant foreign exchange exposure.

Contingent Liabilities

As at 31 December 2019, the Group had contingent liabilities in relation to guarantees of approximately HK$207,145,000 (2018: HK$211,918,000) given to banks in respect of mortgage loans granted to purchasers of certain property units.

In March 2016, the Group entered into a guarantee agreement with China Chengtong Coal Investment Limited for a period of three years. The aforesaid guarantee provided by the Group has been discharged during the year ended 31 December 2019 (2018: to the extent of approximately RMB53,540,000 (approximately HK$61,036,000)).

Employees

As at 31 December 2019, the Group employed a total of 291 employees (as at 31 December 2018: 267), of which 12 (as at 31 December 2018: 11) were based in Hong Kong and 279 (as at 31 December 2018: 256) were based in the PRC. During the Year, the total staff costs of the Group (including directors emoluments and provident funds) were approximately HK$59.06 million. Employee's remunerations were determined in accordance with their experiences, competence, qualifications, nature of duties, and current market trend. Apart from basic salary, discretionary bonus and other incentives were offered to employees of the Group to reward their performance and contributions. The emoluments of the Directors were determined having regard to the Company's corporate goals and the individual performance of the Directors.

Future Plans for Material Investments and Acquisition of Capital Assets

As at 31 December 2019, the Group had no immediate future plans for any material investments or its capital assets.

For the year ended 31 December 2020

Financial Overview

The Group realised a consolidated turnover of approximately HK$931.69 million for the year ended 31 December 2020, representing a decrease of approximately 16% as compared to approximately HK$1,110.60 million in 2019. The global economy was severely impacted by COVID-19 which led to a decrease in the Group's turnover from bulk commodity trade business by approximately 22% as compared to that of last year to approximately HK$677.89 million; a decrease in the turnover from marine recreation services and hotel business by approximately 48% year-on-year to approximately HK$16.83 million; and a decrease in the turnover from property development business by approximately 32% year-on-year to approximately HK$89.71 million. As the Group expanded its leasing business timely by increasing several new finance leasing projects, and commenced operating lease business during the year, the turnover from leasing business increased by approximately 96% as compared to that of last year to approximately HK$146.27 million, partially offsetting the negative impact of the COVID-19 on the Group's consolidated turnover.

During the year of 2020, the Group realised a consolidated profit before income tax of approximately HK$158.08 million, representing an increase of approximately 76% from approximately HK$90.01 million in 2019, mainly resulted from (i) an increase in consolidated gross profit by approximately 20% year-on year to approximately HK$186.22 million (2019: approximately HK$154.66 million) as a result of the increase in revenue from leasing business; (ii) the recording of a gain on disposal of subsidiaries during the year of approximately HK$50.23 million (2019: nil); and (iii) the recording of a net exchange gain of approximately HK$39.46 million (2019: a net exchange loss of approximately HK$11.21 million) under other income benefiting from the appreciation of RMB.

The profit attributable to owners of the Company for the year ended 31 December 2020 amounted to approximately HK$121.37 million (2019: approximately HK$47.54 million), representing a year-on-year increase of approximately 155.3%.

Business Review and Outlook

The Group has formulated leasing as the direction of the future development of its principal business, and has resolved that the Group's wholly-owned subsidiary, Chengtong Financial Leasing, is to feature professional development based on strict risk control, with the initial business focus on expanding the scale of finance leasing, exploring the development of other leasing business, and establishing the brand and market influence of Chengtong Financial Leasing. During the year ended 31 December 2020, despite the impact of COVID-19 on the overall environment of the global economy, the Group leveraged on the existing resources timely to rapidly expand the scale of its leasing business, increased a number of professional staff, commenced operating lease business and completed a number of new finance leasing projects under strict risk control. In the meantime, in response to the operational risks brought by the epidemic, the Group has reorganised and formulated new strategic development plans and business strategies. In the future, it would focus on developing business sectors that have stable cash flow and are less affected by the epidemic such as energy saving and environmental protection, new infrastructure (focusing on Internet data centres), high-end equipment manufacturing, public utilities, and mass medical healthcare, to reduce the impact of the epidemic and to focus on business opportunities in national strategic areas such as new urbanisation, Made-in-China 2025, new infrastructure, and the "Belt and Road" initiative.

The Group completed a number of sale and leaseback projects based on strict risk measures during the year and recorded loans receivable from leasing of approximately HK$2,072.70 million as at 31 December 2020, which accounted for approximately 53% and approximately 69% of the Group's consolidated total assets and consolidated net assets respectively and represented a significant increase of approximately 84% from loans receivable of approximately HK$1,126.82 million as at 31 December 2019, thereby achieving a profit before tax of approximately HK$121.64 million, which represented an increase of approximately 82% from approximately HK$66.77 million in 2019. The profit increase was mainly attributed to the combined effect of (i) a year-on-year increase in the turnover from leasing business by approximately 96% to approximately HK$146.27 million (2019: approximately HK$74.47 million) as a result of a year-on-year increase in lease interest income and rental income from leasing out owned machineries and equipments by approximately 105% to approximately HK$104.53 million (2019: approximately HK$50.91 million) due to the addition of several new finance lease and operating lease projects during the year 2020 and a year-on-year increase in consultancy service income by approximately 77% to HK$41.74 million (2019: approximately HK$23.56 million) due to the completion of several consultancy projects during the year; (ii) a year-on-year increase in administrative expenses during the year by approximately 108% to approximately HK$20.15 million (2019: approximately HK$9.68 million), mainly due to a year-on-year increase in staff cost of approximately HK$9.23 million as a result of an increase of the number of professional staff by 29 to 47 in the year arising from an expansion of the scale of leasing during the year; (iii) a year-on-year increase in the finance costs by approximately 88% to approximately HK$4.52 million (2019: approximately HK$2.41 million) resulting from increasing bank loans for the expansion of the leasing business; (iv) a year-on-year decrease in interest and other income by approximately 54% to approximately HK$2.04 million (2019: approximately HK$4.39 million) as a result of a decrease in bank deposits to increase loans receivable with a higher yield; (v) an increase in cost of sales of approximately HK$2 million (2019: nil) due to the recording of a depreciation provision in respect of owned machineries and equipments for operating lease and related insurance expenses in the aggregate amount of approximately HK$2 million which was brought by the addition of new machineries and equipments of approximately HK$123.30 million (2019: nil) for leasing to the lessees under the operating lease projects in the second half of the year.

Internationally, COVID-19, dealt a heavy blow to the global economy in 2020, leading to severe economic recession, industrial chain and supply chain disruptions, and shrinking of international trade. With the commencement of the use of vaccines for COVID-19, the epidemic was expected to be under control, and the global economy was expected to recover steadily. Domestically within the PRC, the epidemic was well-contained during the year and did not affect the foundation of China's long-term economic development. In 2020, China was a major economy that has recovered relatively rapidly under the influence of the epidemic. The long-term economic prosperity of China would continue to be in the direction of steady development.

As for leasing business, the Group would continue with its operational goals and positioning of business, further increase business expansion in professional fields such as energy conservation and environmental protection, public utilities, high-end equipment, and new infrastructure, and strengthen business collaboration with other central enterprises to achieve professional development. Meanwhile, the Group would further advance cooperation with financial institutions such as banks to enhance financing arrangement and scale, and achieve breakthrough in the work of financing, such as the issuance of asset-backed securities.

Liquidity, Financial Resources and Financing Activities

The Group aimed to maintain stable funding sources and financing was arranged to match business requirements and cash flows. The financial leverage of the Group as at 31 December 2020 as compared to 31 December 2019 is summarized below:

	31 December 2020	**31 December 2019**
	HK$'000	*HK$'000*
Total borrowings		
Current borrowings	362,612	278,300
Non-current borrowings	–	–
Sub-total	362,612	278,300
Total cash		
Bank balances and cash	859,618	732,356
Pledged bank deposits	5,556	4,462
Deposits in other financial institution	–	2,157
Sub-total	865,174	738,975
Total equity	2,985,269	2,914,216
Total assets	3,906,747	3,600,661
Financial leverage		
Total debt to total equity ratio	12%	10%
Total debt to total assets ratio	9.3%	7.7%
Current ratio	232%	405%

As at 31 December 2020, the Group had bank balances and cash of approximately HK$859.62 million (31 December 2019: HK$732.36 million) and pledged bank deposits of approximately HK$5.56 million (31 December 2019: HK$4.46 million). The increase was mainly because the Group completed the sale of the entire equity interest in Chengtong Investment for a consideration of approximately RMB241.19 million on 24 July 2020.

As at 31 December 2020, the Group's borrowings amounted to approximately HK$362.61 million (31 December 2018: HK$278.30 million). The bank borrowings of the Group amounted to approximately HK$338.42 million, representing a rise of approximately 22% as compared to the bank borrowings of approximately HK$277.70 million as at 31 December 2019. Bank borrowings of approximately HK$178.42 million were denominated in RMB with a term of three years with the final repayment date to be due within 2023 and the remaining balance of HK$160.00 million was a revolving loan denominated in HKD with the final repayment date to be due at the end of June 2021. The effective annual interest rates of the bank borrowings ranged from approximately 2.11% to approximately 4.5%.

The total debt to total equity ratio (calculated by dividing total interest-bearing loans by total equity) as at 31 December 2020 was approximately 12%, representing an increase of approximately 2% as compared with that of approximately 10% as at 31 December 2019 and the liability remained at a low level. The total debt to total assets ratio (calculated by dividing total debt by total assets) as at 31 December 2020 was approximately 9.3%, which representing an increase of approximately 1.6% as compared with that of approximately 7.7% as at 31 December 2019. Both ratios indicated a stable financial position of the Group.

Although the current ratio (calculated as total current assets divided by total current liabilities) as at 31 December 2020 was approximately 2.3 times, representing a decrease of approximately 1.8 times as compared to the current ratio of approximately 4.1 times as at 31 December 2019, the liquidity of the assets of the Group remained sound. The Group expected to have adequate financial resources to cope with the commitments and liabilities in the year of 2021 and the possible impacts on its financial position from the ongoing COVID-19 epidemic.

Capital Structure

As the COVID-19 pandemic had a relatively small impact on the Group's asset quality and capital liquidity, the Group continued to maintain a sound financial position. As at 31 December 2020, the equity attributable to owners of the Company amounted to approximately HK$2,979.64 million, representing an increase of approximately 7% from approximately HK$2,780.84 million recorded as at 31 December 2019.

Material Acquisition, Disposal and Significant Investment

Disposal of 66.67% equity interest in Dafeng Harbour

On 5 May 2020, the Company entered into an equity transfer agreement with China Chengtong Hong Kong Company Limited, a wholly-owned subsidiary of CCHG, to dispose of the entire equity interest in Chengtong Investment for a consideration of approximately RMB241.19 million, thereby indirectly disposing of the Company's interest in 誠通大豐海港開發有限公司 (unofficial English translation as Chengtong Dafeng Harbour Development Limited) ("**Dafeng Harbour**"), which owns the project of "Chengtong International City" in Jiangsu Province of the PRC. For details, please refer to the announcements of the Company dated 5 May 2020 and 24 July 2020 and the circular of the Company dated 10 June 2020. The above equity transfer was completed on 24 July 2020 upon which Chengtong Investment and its subsidiaries including Dafeng Harbour ceased to be the subsidiaries of the Company. A gain of approximately HK$42.75 million was recorded from the disposal of the equity interest in Chengtong Investment.

Saved as disclosed above, the Group had no material acquisition, disposal and significant investment exceeding 5% of the total asset value of the Group as at 31 December 2020.

Pledge of Assets

As at 31 December 2020, the Group's pledged bank deposits amounted to approximately HK$5.56 million, representing an increase of approximately 25% from approximately HK$4.46 million pledged as at 31 December 2019. The pledged bank deposits included approximately HK$4.17 million (as at 31 December 2019: approximately HK$4.19 million) pledged as security for banking facilities granted to mortgagors, and approximately HK$1.28 million (as at 31 December 2019: nil) as guaranteed deposits to banks that issued import letters of credit for the international bulk commodity trade business, and the remaining pledged bank deposit of approximately HK$0.11 million (as at 31 December 2019: approximately HK$0.27 million) was guaranteed deposit.

As at 31 December 2020, loans receivables of the Group with an aggregate carrying value of approximately HK$199.99 million were charged as security for the Group's bank borrowings with a carrying amount of approximately HK$178.42 million.

Treasury Policies

The business activities and operation of the Group were mainly carried out in Mainland China and Hong Kong, with transactions denominated in RMB, HKD and the USD, which exposed the Group to foreign currency risks. The Group's HKD-denominated bank borrowings of HK$160 million were based on floating interest rates, which exposed the Group to interest rate risks. The Group would use interest rate and foreign currency swaps and forward foreign exchange contracts, when appropriate, for risk management and hedging purposes, with a view to managing the Group's exposure to interest rate and foreign exchange rate fluctuations. It was the Group's policy not to enter into derivative financing transactions for speculative purposes. It was also the Group's policy not to invest in financial products with significant underlying leverage or derivative exposure, including hedge funds or similar instruments.

Interest Rate Risks

As at 31 December 2020, the Group's bank borrowings were denominated in HKD and RMB, of which both the RMB-denominated bank borrowings of approximately HK$178.42 million and the HKD-denominated bank borrowings of approximately HK$160 million were based on floating interest rates. The floating interest rates were stable at a low level because banks in Hong Kong had sufficient capital and strong liquidity and there was no urgent need to increase the interest rates. As at 31 December 2020, the Group's cash and cash equivalents amounted to approximately HK$859.68 million.

Although the Group did not have any hedging measures against such interest rate risks, it would continue to closely monitor the risks arising from such interest rate fluctuation. If interest rate rose, hedging instruments might be used in due course against the interest rate risks caused by the HKD-denominated bank borrowings which were based on floating interest rates.

Foreign Exchange Exposure

The business activities and operation of the Group were mainly carried out in Mainland China and Hong Kong, with transactions denominated in RMB, HKD and the USD, which exposed the Group to foreign currency risks.

During the year ended 31 December 2020, the Group's businesses were principally conducted in RMB, while most of the Group's assets and liabilities were denominated in HKD and RMB. Any fluctuation in the exchange rate of HKD against RMB might have an impact on the Group's results. As at 31 December 2020, the net assets of the Group's business within the territory of the PRC were approximately RMB2,154.13 million. According to Hong Kong Accounting Standards, such amount of net assets denominated in RMB should be converted at the exchange rate applicable as at the end of the reporting period. Due to the increase in the Group's foreign exchange reserve of approximately HK$144.03 million as a result of the appreciation of RMB during the year under review, there had been a rise in the Group's net assets as at 31 December 2020.

The Group's HKD-denominated bank borrowings of HK$160 million were based on floating interest rates, which exposed the Group to interest rate risks. The Group would use interest rate and foreign currency swaps and forward foreign exchange contracts, when appropriate, for risk management and hedging purposes, with a view to managing the Group's exposure to interest rate and foreign exchange rate fluctuations.

Although foreign currency fluctuations did not pose significant risks to the Group during the year of 2020 and the Group did not have any hedging measures against such exchange risks, the Group would continue to closely monitor the risks arising from such currency fluctuations. As at 31 December 2020, the Group had no significant foreign exchange exposure.

Contingent Liabilities

As at 31 December 2020, the Group had contingent liabilities in relation to guarantees of approximately HK$212,924,000 (2019: HK$207,145,000) given to banks in respect of mortgage loans granted to purchasers of certain property units.

Employees

As at 31 December 2020, the Group employed a total of 288 employees (as at 31 December 2019: 291), of which 12 (as at 31 December 2019: 12) were based in Hong Kong and 276 (as at 31 December 2019: 279) were based in the PRC. During the year 2020, the total staff costs of the Group (including directors' emoluments and provident funds) were approximately HK$67.00 million. Employee's remunerations were determined in accordance with their experiences, competence, qualifications, nature of duties, and current market trend. Apart from basic salary, discretionary bonus and other incentives were offered to employees of the Group to reward their performance and contributions. The emoluments of the Directors were determined having regard to the Company's corporate goals, the individual performance of the Directors and their role and position (if any) in the group members of CCHG, the ultimate holding company of the Company.

Future Plans for Material Investments and Acquisition of Capital Assets

As at 31 December 2020, the Group had no immediate future plans for any material investments or its capital assets.

For the year ended 31 December 2021

Financial Overview

Underpinned by the growth of the Group's leasing business, the Group's consolidated turnover for the year ended 31 December 2021 was approximately HK$1,172.68 million, representing an increase of approximately 26% when compared with that of approximately HK$931.69 million for the year ended 31 December 2020. The Group continued to expand its leasing business in 2021 and clocked up the leasing revenue to approximately 27% of the total turnover. Notwithstanding the persisting impact of the ongoing COVID-19 pandemic on international shipping and transportation, bulk commodity trade business remained stable. The revenue from bulk commodity trade increased by approximately 11% and contributed to approximately 64% of the total turnover. Revenue from other business segments accounted for approximately 9% of the total turnover.

For the year ended 31 December 2021, the Group realised a consolidated profit before income tax of approximately HK$169.81 million, representing an increase of approximately 7% from approximately HK$158.08 million in 2020. The increase was mainly due to the surge in consolidated gross profit by approximately HK$86.09 million or 46% year-on-year to approximately HK$272.31 million (2020: approximately HK$186.22 million) brought by the increase in leasing revenue of approximately 115% in 2021. The increase in consolidated gross profit was however partially offset by: (i) the fact that no gain on disposal of subsidiaries was reported during the year (2020: approximately HK$50.23 million); (ii) a decrease in net exchange gain by approximately HK$29.53 million to approximately HK$9.93 million due to the reduced size of RMB-denominated assets in Hong Kong and relatively stable RMB exchange rate in 2021 (2020: net exchange gain of approximately HK$39.46 million); (iii) a decrease in interest income from deposits and other financial assets which was accounted for under other income by approximately HK$8.24 million; and (iv) the recording of a fair value loss on investment properties of approximately HK$1.66 million (2020: approximately HK$11.13 million). Excluding the effect of non-recurring items (i) and (ii) above, the consolidated profit before income tax for the year has increased by approximately HK$91.50 million or 134% from that for last year.

The profit attributable to owners of the Company for the year ended 31 December 2021 amounted to approximately HK$104.22 million (2020: approximately HK$121.37 million), representing a year-on-year decrease of approximately 14.1%.

Business Review and Outlook

During the year ended 31 December 2021, the Group's wholly-owned subsidiary, Chengtong Financial Leasing accelerated to expand the scale of business and developed new business in line with the national policies and directions, in particular, to nourish green leasing business, and completed a number of new leasing projects in relation to clean energy, photovoltaic power generation, new energy vehicles and new infrastructure such as internet data centres. In addition, Chengtong Financial Leasing continued to synergise cooperation with other state-owned enterprises and concluded new leasing arrangements. In 2021, Chengtong Financial Leasing completed 37 finance lease and sales and leaseback projects and 24 consultancy service projects, achieving an increase in project number of over 100% on a year-on-year basis, which in turn resulted in increase in both interest income and consultancy service fee of approximately 93% and 108% respectively from 2020. Rental income from operating lease also surged by more than 6 times as compared with last year as more new operating lease contracts were signed in 2021 and 12 months' (i.e. full year) operation results (2020: 3 months) were recorded. As at 31 December 2021, the net leasing receivables of the Group amounted to approximately HK$5,865.11 million, which has significantly increased by approximately 183% from that of approximately HK$2,072.70 million as at 31 December 2020, and represented approximately 72% of the total assets as at 31 December 2021 (as at 31 December 2020: approximately 53%).

In the face of the continuous global spread of the COVID-19, harsh and volatile domestic and international environment, as well as uncertainties in the global economic growth, the PRC would adhere to coordinating the domestic and international situation and also the prevention and control of the pandemic and the socio-economic development, continuously promoting the comprehensive in-depth reform, striving to achieve a healthy development trend of "stable outset, steady improvement, quarterly recovery" for the domestic economy, accelerating the construction of a new development pattern that would facilitate the domestic circulation and build a domestic and international dual circulation system, with a view to striving to achieve high-level opening up and high-quality development.

As for leasing business, the Group would actively respond to new changes in industry policies and patterns in accordance with the new external regulatory requirements. It would uphold the established business objectives and business positioning, focus on deepening the business development in four major areas, namely energy saving and environmental protection, transportation and logistics, internet data centre and new energy, and unleash industry characteristics in the market segments. The Group would focus on the strategy of servicing the Group and would strengthen cooperation with other state-owned enterprises. At the same time, the Group would steadily expand the cross-border leasing business and gradually open up domestic and overseas financing channels. For bulk commodity trade, the Group would continue to prudently carry out business under stringent risk control.

Liquidity, Financial Resources and Financing Activities

The Group aimed to maintain stable funding sources and financing was arranged to match business requirements and cash flows. The financial leverage of the Group as at 31 December 2021 as compared to 31 December 2020 is summarized below:

	31 December 2021	**31 December 2020**
	HK$'000	*HK$'000*
Total borrowings		
Current borrowings	2,689,899	362,612
Non-current borrowings	1,732,639	–
Sub-total	4,422,538	362,612
Total cash		
Bank balances and cash	1,380,259	859,618
Pledged bank deposits	4,413	5,556
Sub-total	1,384,672	865,174
Total equity	3,141,702	2,985,269
Total assets	8,167,806	3,906,747
Financial leverage		
Total debt to total equity ratio	141%	12%
Total debt to total assets ratio	54%	9%
Current ratio	117%	232%

As at 31 December 2021, the Group had cash and deposits (including pledged bank deposits, and bank balances and cash) of approximately HK$1,384.67 million, which consisted of primarily the un-utilised balance from the proceeds of the asset-backed securities and were denominated in RMB. Other cash and deposits were denominated in HKD and USD. The cash and deposits accounted for approximately 17% and 44% of the total assets and the net assets respectively, and represented an increase of approximately 60% as compared to approximately HK$865.17 million as at 31 December 2020.

As at 31 December 2021, the bank borrowings of the Group amounted to approximately HK$1,441.78 million (2020: approximately HK$338.42 million), represented a rise of more than 4 times from 2020. The Group increased both the short-term and medium-term bank borrowings in the PRC in order to finance the development of leasing business. As at 31 December 2021, about HK$981.46 million or 68% of the Group's total bank borrowings were denominated in RMB with repayment due dates ranging from 2022 to 2026. The remaining balance of approximately HK$460.32 million of bank loans were denominated in HK$ with the maturity dates falling due in March and June 2022. The effective annual interest rates of the bank borrowings ranged from approximately 1.99% to approximately 4.90%.

As the Group focused on developing and expanding the leasing business, the leverage of the Group increased significantly during the year of 2021. The total debt to total equity ratio (calculated as dividing total interest-bearing loans by total equity) and total debt to total asset ratio (calculated as dividing total interest-bearing loans by total assets) were approximately 1.41 times and 0.54 times respectively as at 31 December 2021. Notwithstanding the increase in the leverage, the Group's other financial ratios (e.g. interest coverage and total debts/EBITDA etc) indicate that the Group still has a strong ability to repay borrowings and finance costs.

The current ratio (calculated as total current assets divided by total current liabilities) as at 31 December 2021 was approximately 1.17 times (2020: approximately 2.32 times), showing that the liquidity of the Group remained at a healthy level.

Capital Structure

The COVID-19 pandemic had a relatively small impact on the Group's asset quality and capital liquidity and the Group continued to maintain a sound financial position. As at 31 December 2021, the equity attributable to owners of the Company amounted to approximately HK$3,134.60 million and represented an increase of approximately 5% from approximately HK$2,979.64 million recorded as at 31 December 2020.

Material Acquisition, Disposal and Significant Investment

The Group had no material acquisition, disposal and significant investment exceeding 5% of the total asset value of the Group as at 31 December 2021.

Pledge of Assets

As at 31 December 2021, the Group had pledged bank deposits amounted to approximately HK$4.41 million, representing a decrease of approximately 21% from approximately HK$5.56 million as at 31 December 2020. The pledged bank deposits mainly included approximately HK$4.28 million (as at 31 December 2020: approximately HK$4.17 million) of security money for banking facilities granted to mortgagors of the CCT-Champs-Elysees project.

As at 31 December 2021, the leasing receivables of the Group with an aggregate carrying value of approximately HK$3,907.63 million (as at 31 December 2020: approximately HK$199.99 million) and trade receivables under operating lease business with carrying amount of approximately HK$2.15 million (as at 31 December 2020: nil) were charged as security for the Group's asset-backed securities and bank borrowings with carrying amounts of approximately HK$2,932.61 million (as at 31 December 2020: nil) and HK$981.46 million respectively (as at 31 December 2020: approximately HK$178.42 million).

Treasury Policies

The business activities and operation of the Group were mainly carried out in Mainland China and Hong Kong, with transactions denominated in RMB, HKD and the USD, which exposed the Group to foreign currency risks. As at 31 December 2021, the Group had bank borrowings denominated in HKD and RMB with a total of approximately HK$1,441.78 million which were based on floating interest rates, thereby exposing the Group to interest rate risks. The Group would, where appropriate, use interest rate and foreign currency swaps and forward foreign exchange contracts for risk management and hedging purposes, with a view to managing the Group's exposure to interest rate and foreign exchange rate fluctuations. It was the Group's policy not to enter into derivative financing transactions for speculative purposes. It was also the Group's policy not to invest in financial products with significant underlying leverage or derivative exposure, including hedge funds or similar instruments.

Interest Rate Risks

As at 31 December 2021, the Group's bank borrowings, which comprised RMB-denominated bank borrowings of approximately HK$981.46 million and the HKD-denominated bank borrowings of approximately HK$460.32 million, were based on floating interest rates. The floating interest rates were relatively stable with Hong Kong Interbank Offered Rate ("**HIBOR**") in Hong Kong and LPRs fluctuated within a narrow range throughout 2021. Most of the Group's loans receivable were carried at floating interest rates with reference to the prevailing LPR and effectively hedged against the interest rate risks arising from bank borrowings in the PRC. As at 31 December 2021, the Group's cash and cash equivalents amounted to approximately HK$ 1,380.26 million.

Having said that, the Group would continue to closely monitor the risks arising from interest rate fluctuation and apply appropriate hedging strategies against the interest rate risks caused by the debt instruments which are based on floating interest rates.

Foreign Exchange Exposure

The business activities and operation of the Group were mainly carried out in Mainland China and Hong Kong, with transactions denominated in RMB, HKD and the USD, which exposed the Group to foreign currency risks.

During the year ended 31 December 2021, the Group's businesses were principally conducted in RMB, while most of the Group's assets and liabilities were denominated in HKD and RMB. Any fluctuation in the exchange rate of HKD against RMB might have an impact on the Group's results. As at 31 December 2021, the net assets of the Group's business in the PRC were approximately RMB2,740.75 million. According to the Hong Kong Accounting Standards, such amount of net assets denominated in RMB would be converted into HKD at the exchange rate applicable as at the end of the reporting period. The Group's foreign exchange reserve increased approximately by HK$63.17 million during the year of 2021.

As at 31 December 2021, the Group had bank borrowings denominated in HKD and RMB with a total of approximately HK$1,441.78 million which were based on floating interest rates, thereby exposing the Group to interest rate risks. The Group would, where appropriate, use interest rate and foreign currency swaps and forward foreign exchange contracts for risk management and hedging purposes, with a view to managing the Group's exposure to interest rate and foreign exchange rate fluctuations.

The Group did not have any hedging measures against foreign exchange risks. However, the Group would continue to closely monitor the possible risks arising from currency fluctuation.

Contingent Liabilities

As at 31 December 2021, the Group had contingent liabilities in relation to guarantees of approximately HK$224,455,000 (2020: HK$212,924,000) given to banks in respect of mortgage loans granted to purchasers of certain property units.

Employees

As at 31 December 2021, the Group employed a total of 278 employees (as at 31 December 2020: 288), of which 11 (as at 31 December 2020: 12) were based in Hong Kong and 267 (as at 31 December 2020: 276) were based in the PRC. During the Year, the total staff costs of the Group (including directors' emoluments and provident funds) were approximately HK$70.06 million. Employee's remunerations were determined in accordance with their experiences, competence, qualifications, nature of duties, and current market trend. Apart from basic salary, discretionary bonus and other incentives were offered to employees of the Group to reward their performance and contributions. The emoluments of the Directors were determined having regard to the Company's corporate goals, the individual performance of the Directors and their role and position (if any) in the group members of CCHG, the ultimate holding company of the Company.

Future Plans for Material Investments and Acquisition of Capital Assets

As at 31 December 2021, the Group had no immediate future plans for any material investments or its capital assets.

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. DISCLOSURE OF INTERESTS

(i) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short position of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) 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 which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules were as follows:

Long position

Name of Director	Interests in the Company or its associated corporation	Nature of interest	Number of Shares held	Approximate percentage of the issued share capital as at the Latest Practicable Date
Mr. Zhang Bin	The Company	Beneficial owner	314,642	0.01%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) 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 which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

(ii) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors, the following persons, other than the Directors or chief executive of the Company, had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position

Name of Shareholder	Nature of interest	Number of Shares held	Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date
World Gain	Beneficial owner *(Note 1)*	3,169,656,217	53.14%
CCHK	Interest in controlled corporation *(Note 1)*	3,169,656,217	53.14%
CCHG	Interest in controlled corporation *(Note 1)*	3,169,656,217	53.14%

Note 1: The entire issued share capital of World Gain is beneficially owned by CCHK, which is in turn wholly-owned by CCHG. Both CCHK and CCHG are deemed to be interested in all the Shares held by World Gain under the SFO.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, there was no other person, other than a Director or chief executive of the Company, who had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, Mr. Zhang Bin was the chairman of CCHK and a director of World Gain and Mr. Yang Tianzhou was a deputy general manager of CCHK. Save as disclosed herein, no Director was a director or an employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as at the Latest Practicable Date.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which is not expiring or determinable by the Group within one year without payment of compensation other than statutory compensation.

4. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

Name	Qualification
INCU Corporate Finance Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO

As at the date of this circular, the above-mentioned expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, the above-mentioned expert did not have any direct or indirect interest in any asset which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 December 2021, being the date to which the latest audited financial statements of the Group was made up; and was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

5. LITIGATION

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors, neither the Company nor any member of the Group was engaged in any litigation or claims of material importance and there was no litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) had been entered into by the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

(a) the loan agreement dated 3 September 2020 ("**Loan Agreement**") entered into between 海南寰島酒店旅游投資有限公司 (unofficial English translation being Hainan Huandao Hotel and Travel Investment Co., Limited) ("**Huandao Hotel Investment**"), a wholly-owned subsidiary of the Company, as lender and 中國寰島集團有限公司 (unofficial English translation being China Huandao Group Limited) ("**China Huandao**"), a wholly-owned subsidiary of CCHG, as borrower in relation to the provision of a loan in the principal amount of RMB30 million for a term of one year at an interest rate of 6% per annum, details of which are set out in the announcement of the Company dated 3 September 2020;

(b) the loan agreement dated 9 February 2021 entered into between Huandao Hotel Investment as lender and 海南寰島實業發展有限公司 (unofficial English Translation being Hainan Huandao Industrial Development Limited), an indirect wholly-owned subsidiary of the CCHG, as borrower in relation to the provision of a loan in the principal amount of RMB10 million for a term of 18 months at an interest rate of 6% per annum, details of which are set out in the announcement of the Company dated 9 February 2021; and

(c) the extension agreement dated 2 September 2021 entered into between Huandao Hotel Investment as lender and China Huandao as borrower, in relation to the extension of the term of the loan in the principal amount of RMB30 million under the Loan Agreement for two years to 2 September 2023 upon the expiry of the original term of the Loan on 2 September 2021, details of which are set out in the announcement of the Company dated 2 September 2021.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor any of their respective close associates had any interests in a business, which competed or was likely to compete, directly or indirectly, with the business of the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules.

8. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, so far as was known to the Directors, none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

None of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

9. MISCELLANEOUS

(a) The registered office and the principal place of business of the Company is at Suite 6406, 64th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(b) The share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(c) The company secretary of the Company is Mr. Poon Tsz Kin, who is a fellow member of the Association of Chartered Certified Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

(d) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

10. DOCUMENTS ON DISPLAY

Copies of the following documents are on display and are published on the website of the Stock Exchange at www.hkexnews.com and the website of the Company at www.irasia.com/listco/hk/chengtong for a period of 14 days from the date of this circular:

(a) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 22 to 23 of this circular;

(b) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 24 to 45 of this circular;

(c) the written consent referred to in the paragraph headed "Expert's Qualification and Consent" in this Appendix; and

(d) the Finance Lease Services Framework Agreement.

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 OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a general meeting (the "**Meeting**") of China Chengtong Development Group Limited (the "**Company**") will be held at Conference Room of Suite 6406, 64/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 8 September 2022 at 2:00 p.m. to consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the finance lease services framework agreement (the "**Finance Lease Services Framework Agreement**") entered into between the Company and 中國誠通控股集團有限公司 (unofficial English translation being China Chengtong Holdings Group Limited) ("**CCHG**") dated 20 July 2022, copy of which is tabled at the Meeting and marked "A" and initialled by the Chairman of the Meeting for identification purpose, the financial leasing services to be offered by the Group and acquisitions of leased assets by the Group and its subsidiaries in connection therewith at the annual purchase price not exceeding the annual caps under the Finance Lease Services Framework Agreement, i.e. RMB500,000,000, RMB1,021,000,000 and RMB1,677,000,000 for the three years ending 31 December 2022, 2023 and 2024, respectively, and the transactions contemplated thereunder, be and are hereby approved;

(b) the annual caps for the total outstanding balance of the principal and the total amount of the Lease Payments (which will take into account the aggregate amounts of interests and other payables (including handling fees) to be received by the Group for the transactions contemplated under the Finance Lease Services Framework Agreement, i.e., RMB500,000,000, RMB1,021,000,000 and RMB1,677,000,000 for the years ending 31 December 2022, 2023 and 2024, respectively, as set out in the circular of the Company dated 22 August 2022 be and are hereby approved; and

(c) any one of the directors of the Company ("**Directors**") be and is hereby authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as he considers necessary, appropriate, desirable and expedient for the purposes of giving effect to or in connection with the Finance Lease Services Framework Agreement and all transactions contemplated thereunder, and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents or any terms thereof, which are not fundamentally different from those as provided in the Finance Lease Services Framework Agreement) as are, in the opinion of such Director, in the interest of the Company and its shareholders as a whole."

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

Hong Kong, 22 August 2022

Registered office and principal place of business of the Company:
Suite 6406, 64th Floor
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Notes:

(1) In view of the ongoing novel coronavirus (COVID-19) pandemic and recent requirements for prevention and control of its spread, the Company will implement certain preventive measures at the Meeting, the details of which are set out in the section headed "Precautionary Measures for the GM" on page 6 of the circular of the Company dated 22 August 2022, to safeguard the health and safety of the attending shareholders of the Company, staff and other stakeholders.

(2) A shareholder 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 in respect of which each such proxy is appointed. A proxy need not be a shareholder 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 are present at the Meeting, whether in person or by proxy, that one of the joint holders whose name stands first on the register of members of the Company in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.

(3) The Company does not in any way wish to diminish the opportunity available to the shareholders of the Company to exercise their rights and to vote, but is conscious of the pressing need to protect the shareholders from possible exposure to the COVID-19 pandemic. **For the health and safety of the shareholders, the Company would like to encourage shareholders to exercise their right to vote at the Meeting by appointing the chairman of the Meeting as their proxy instead of attending the Meeting in person. Physical attendance is not necessary for the purpose of exercising shareholders' rights.**

(4) 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 and transfer office, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 2:00 p.m. on Tuesday, 6 September 2022 or not later than 48 hours before the time appointed for holding any adjournment of the Meeting. Completion and return of the form of proxy will not preclude shareholders of the Company from attending and voting in person at the Meeting or any adjournment thereof should they so wish and, in such event, the form of proxy previously submitted shall be deemed to be revoked.

(5) For determining the entitlement of the shareholders of the Company to attend and vote at the Meeting, shareholders of the Company whose names appear on the register of members of the Company at 4:30 p.m. on Friday, 2 September 2022 shall be entitled to attend and vote at the Meeting. In order to be entitled to attend and vote at the Meeting, all completed share transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 2 September 2022.

(6) 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 of this circular, the executive directors of the Company are Mr. Zhang Bin, and Mr. Yang Tianzhou; non-executive director of the Company is Mr. Wang Daxiong; and the independent non-executive directors of the Company are Professor Chang Qing, Mr. Lee Man Chun, Tony and Professor He Jia.