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CHINA CHENGTONG DEVELOPMENT GROUP LIMITED

中國誠通發展集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 217)

MAJOR AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF 30% INTEREST IN A 70% SUBSIDIARY FROM A CONNECTED PERSON

Reference is made to the announcement of the Company dated 9 January 2007 regarding, among other matters, the Acquisition. Further to such announcement, the Board is pleased to announce that the formal agreement for the purchase by the Company, through its wholly owned subsidiary, from a connected person of the Company of a 30% interest in the registered capital of Zhongshi was signed on 27 March 2007, the principal terms and conditions of which are set out in this announcement.

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Given that the Vendor is a substantial shareholder of a subsidiary of the Company, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements.

A circular containing details of the Acquisition and other information as prescribed under the applicable rules of the Listing Rules, together with a notice of an extraordinary general meeting convened for the purpose of considering and, if thought fit, approving the Acquisition, will be despatched to the shareholders of the Company as soon as practicable.

MAJOR AND CONNECTED TRANSACTION

Further to the Announcement, the Board is pleased to announce that the Purchaser, a wholly owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor for the Acquisition on 27 March 2007. The principal terms and conditions of the Acquisition Agreement are set out below:

The Acquisition Agreement

1. Date

27 March 2007

2. Parties

Vendor : 北京興合動力投資管理有限公司 (unofficial translation being Beijing Xinghe Dongli Investment Management Co., Ltd.), the owner of 30% of the registered capital of Zhongshi, which is principally engaged in investment holdings.

Purchaser : China Chengtong Properties Group Limited (中國誠通地產集團有限公司), a wholly owned subsidiary of the Company.

3. Assets acquired

The Sale Equity, being 30% of the registered capital of Zhongshi.

4. Consideration and terms of payment

Subject to adjustment as described in paragraph 7 below headed “Adjustment to the Consideration”, the consideration for the Acquisition payable by the Purchaser to the Vendor is RMB24,000,000 (equivalent to HK\$24,000,000) (“**Consideration**”) and will be paid in cash by internal resources, the payment terms of which are as follows:

- (a) RMB16,800,000 (equivalent to HK\$16,800,000) (i.e., 70% of the Consideration) is payable within 7 days from the date of the Acquisition Agreement (i.e., on or before 2 April 2007) (“**First Payment**”); and
- (b) on the basis that the Consideration is not required to be adjusted, RMB7,200,000 (equivalent to HK\$7,200,000) (i.e., 30% of the Consideration) (“**Second Payment**”) shall be payable within 45 days of the issuance of the Zhongshi Audited Account (“**Second Payment Date**”).

The Directors confirm that the Consideration was arrived at after arm’s length negotiations between the parties to the Acquisition Agreement and was by reference to the registered capital of RMB80,000,000 of Zhongshi. The original cost of the Sale Equity to the Vendor was RMB24,000,000, being its contribution to the registered capital of Zhongshi.

5. Conditions of the Acquisition

Completion of the Acquisition is conditional upon the followings conditions having been fulfilled (or waived by the Purchaser) within 6 months from the date of the Acquisition Agreement (or such later date as the parties may agree) (“**Long Stop Date**”):

- (1) the passing by the Independent Shareholders at an extraordinary general meeting of the Company approving and authorising the Acquisition and the terms and conditions of the Acquisition Agreement;
- (2) the obtaining by the Vendor of all necessary approvals from the relevant PRC approving authorities in relation to the Acquisition and the Acquisition Agreement in accordance with the applicable PRC laws and regulations;
- (3) satisfactory due diligence review by the Purchaser of the Sale Equity; and
- (4) a legal opinion (in form and substance satisfactory to the Purchaser) on the ownership of the Sale Equity, the legality and validity of the Acquisition and of all transactions contemplated under the Acquisition Agreement issued by a firm of legal advisers practising PRC laws.

The Purchaser may waive any of the above conditions (other than the above conditions (1) and (2) which must be fulfilled and cannot be waived) on or before the Long Stop Date.

If any of the above conditions are not fulfilled or, as the case may be, waived by the Purchaser on or before the Long Stop Date, the Purchaser can terminate the Acquisition Agreement by written notice given to the Vendor to this effect whereupon the First Payment as mentioned in paragraph 4(a) above shall be returned to the Purchaser on or before the date for payment as specified in the said written notice.

6. Completion of the Acquisition

Completion of the Acquisition is to take place within 14 business days from the date of fulfillment or, as the case may be, waiver of the above conditions set out in paragraph 5 above (other than the above conditions 5(1) and (2) which must be fulfilled and cannot be waived).

Zhongshi will become a 100% indirectly owned subsidiary of the Company after completion of the Acquisition.

7. Adjustment to the Consideration

The Vendor and the Purchaser shall jointly procure the auditors responsible for the auditing of the Zhongshi Audited Accounts shall make available the Zhongshi Audited Accounts to the parties. The Consideration is subject to adjustment if the after-tax profits as shown on the Zhongshi Audited Accounts is not equal to RMB40,000,000.

If in accordance with the Zhongshi Audited Accounts:

- (a) the amount of after-tax profits is equal to RMB40,000,000, no adjustment will be made to the Consideration;
- (b) the amount of after-tax profits is more than RMB40,000,000, the Consideration will be adjusted upward as follows:

$$A = B \times 30\%$$

where:

A = the amount of upward adjustment to be made to the Consideration (in RMB)

B = the amount by which the after-tax profits exceeds RMB40,000,000 provided that where such excessive amount is more than RMB10,000,000, such excessive amount shall be deemed as RMB10,000,000

- (c) the amount of after-tax profits is less than RMB40,000,000 or there is an after-tax loss, the Consideration will be adjusted downward as follows:

$$C = D \times 30\%$$

where:

C = the amount of downward adjustment to be made to the Consideration (in RMB), in any event must not be negative

D = (aa) RMB40,000,000, when there is no after-tax profits or loss; or

(bb) the difference between RMB40,000,000 and the after-tax profits as shown in the Zhongshi Audited Accounts, when the after-tax profits is less than RMB40,000,000; or

(cc) the amount of after-tax loss (in positive term) plus RMB40,000,000, when there is an after-tax loss

The amount of upward adjustment that needs to be made to the Consideration shall be paid by the Purchaser to the Vendor on the Second Payment Date and the maximum amount of the upward adjustment is RMB3,000,000. Taking into account such maximum upward adjustment, the maximum amount of the Consideration (as adjusted) shall be RMB27,000,000.

If the amount of downward adjustment to be made to the Consideration:

- (a) is equal to the amount of the Second Payment, no Second Payment shall be payable by the Purchaser to the Vendor on the Second Payment Date;

- (b) is less than the amount of the Second Payment, the Second Payment will be reduced by an amount equal to the amount of the downward adjustment and only the balance of the amount after such deduction shall be payable on the Second Payment Date; and
- (c) is more than the amount of the Second Payment, no Second Payment shall be payable by the Purchaser on the Second Payment Date and instead, the Vendor shall pay to the Purchaser on the Second Payment Date the amount by which the amount of the downward adjustment exceeds the amount of the Second Payment.

8. Information on Zhongshi

The principal activities of Zhongshi are property development and investment management. Zhongshi is the developer of a residential/commercial development project known as 融城 (City of Mergence) located at Nos. 9 and 11, Baiwanzhuang Dajie, Xicheng District, Beijing, the PRC.

The unaudited total assets of Zhongshi attributable to a 30% interest in Zhongshi as at 30 June 2006 was approximately HK\$51,513,000. Based on financial information of Zhongshi prepared in accordance with accounting principles generally accepted in Hong Kong as extracted from the published audited consolidated financial statements of the Company for the year ended 31 December 2005 and the unaudited financial statements of Zhongshi for the financial year ended 31 December 2006, the unaudited net profits (both before and after taxation and extraordinary items) attributable to Zhongshi for the two years ended 31 December 2006 are as follows:

	Year ended 31 December 2005 HK\$'000 audited	Year ended 31 December 2006 HK\$'000 unaudited
Net profits <i>before</i> taxation and extraordinary items	8,219	55,636
Net profits <i>after</i> taxation and extraordinary items	4,762	37,276

9. Reasons for and benefit of the Acquisition

The Directors consider that the Acquisition will enable the Group to leverage on the property development expertise and experience of Zhongshi in the PRC market and Zhongshi will be acting as the platform for the furtherance of the Group's property development business in the PRC.

The Directors believe that the terms of the Acquisition are fair and reasonable and in the interests of the Shareholders as a whole.

10. Requirements of the Listing Rules

The Acquisition constitutes a major transaction for the Company under the Listing Rules. Given that the Vendor is a substantial shareholder of a subsidiary of the Company (i.e. owner of 30% of the registered capital of Zhongshi), the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements.

The Vendor and its associates are required to abstain from voting on the resolution to be proposed at the extraordinary general meeting of the Company convened for the purpose of, among other matters (if any) approving the Acquisition. To the best knowledge of the Directors, none of the Vendor and its associates hold any shares in the Company as at the date of this announcement.

A circular containing details of the Acquisition and other information as prescribed under the applicable rules of the Listing Rules, together with a notice of an extraordinary general meeting convened for the purpose of considering and, if thought fit, approving the Acquisition, will be despatched to the shareholders of the Company as soon as practicable.

GENERAL

The principal activities of the Group are property investment, property development, trade and production of cement, and investment holding in Hong Kong and the PRC.

The Company will establish an independent board committee (which will comprise only the independent non-executive Directors) to advise the Independent Shareholders as to whether the terms of the Acquisition are fair and reasonable and whether the Acquisition is in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the independent financial adviser.

In this connection, an independent financial adviser will be appointed by the Company to advise the independent board committee and the Independent Shareholders as to whether the terms of the Acquisition are fair and reasonable and whether the Acquisition is in the interests of the Company and the Shareholders as a whole, and to advise the relevant Independent Shareholders on how to vote.

The circular containing details of the Acquisition, the advice and recommendation of the independent board committee and the letter from the independent financial adviser to the independent board committee and the Independent Shareholders together with a notice convening an extraordinary general meeting will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless otherwise as defined above or as the case may be, unless the context otherwise requires:

“Acquisition”	the proposed acquisition of the Sale Equity by the Group pursuant to the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the conditional agreement dated 27 March 2007 made between the Vendor and the Purchaser
“Announcement”	the announcement of the Company dated 9 January 2007 regarding, among other matters, the Acquisition
“associate(s)”	has the meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	China Chengtong Development Group Limited (中國誠通發展集團有限公司), a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	the shareholders of the Company (other than the Vendor and its associates)
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Purchaser”	China Chengtong Properties Group Limited (中國誠通地產集團有限公司), a wholly owned subsidiary of the Company and the purchaser named in the Acquisition Agreement
“Sale Equity”	the 30% of the registered capital in Zhongshi owned by the Vendor as at the date of the Acquisition Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Vendor”	北京興合動力投資管理有限公司 (unofficial translation being Beijing Xinghe Dongli Investment Management Co., Ltd.), the owner of the Sale Equity and the vendor named in the Acquisition Agreement
“Zhongshi”	中實投資有限責任公司 (unofficial translation being Zhongshi Investment Company Limited), a 70% owned subsidiary of the Company immediately prior to the execution of the Acquisition Agreement
“Zhongshi Audited Account”	the financial statements to be prepared by Zhongshi in respect of its property development under the name of 融城 (unofficial translation being City of Mergence) in Beijing, the PRC comprising a profit and loss account for the period up to 31 December 2007 and a balance sheet as at 31 December 2007, which shall be prepared in accordance with generally accepted accounting principles in the PRC and on the other basis as set out in the Acquisition Agreement and audited by a firm of PRC auditors agreed by the Purchaser and the Vendor

Unless the context requires otherwise, translation of RMB into HK\$ are made, for illustration purpose only, at the rate of RMB1 = HK\$1. No representation is made that any amounts in RMB or HK\$ could have been or could be converted at the above rate or at any rates or at all.

As at the date of this announcement, the executive Directors are Mr. Zhang Guotong and Mr. Wang Hongxin; the non-executive Directors are Mr. Ma Zhengwu, Mr. Hong Shuikun, Mr. Gu Laiyun and Ms. Xu Zhen; and the independent non-executive Directors are Mr. Kwong Che Keung, Gordon, Mr. Tsui Yiu Wa, Alec and Mr. Lao Youan.

By order of the board of directors of
China Chengtong Development Group Limited
Zhang Guotong
Managing Director

Hong Kong, 27 March 2007