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## **CHINA CHENGTONG DEVELOPMENT GROUP LIMITED**

### **中國誠通發展集團有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 217)**

## **MAJOR AND CONNECTED TRANSACTION – DISPOSAL OF 41% OF THE EQUITY INTEREST IN THE TARGET COMPANY**

### **THE EQUITY TRANSFER**

The Board wishes to announce that after trading hours on 12 November 2019, the Vendor, a wholly-owned subsidiary of the Company, and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Vendor conditionally agreed to transfer and the Purchaser conditionally agreed to acquire the Relevant Equity at the Consideration of RMB24,664,100 (equivalent to approximately HK\$27,377,000).

Upon completion of the Equity Transfer, the Target Company will cease to be a subsidiary of the Company.

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

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

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

## **EGM**

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

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

## **GENERAL**

A circular containing, among other things, (1) the advice of the Independent Financial Adviser; (2) the recommendation of the Independent Board Committee; (3) details of the Equity Transfer Agreement and the Equity Transfer; (4) other information as required to be disclosed under the Listing Rules; and (5) the notice of the EGM and a form of proxy are expected to be despatched to the Shareholders on or before 4 December 2019 as more time is required to prepare the information to be contained in the circular.

## **THE EQUITY TRANSFER**

The Board wishes to announce that after trading hours on 12 November 2019, the Vendor, a wholly-owned subsidiary of the Company, and the Purchaser entered into the Equity Transfer Agreement, the principal terms of which are set out below:

### **Date**

12 November 2019

### **Parties**

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

## **Subject matter**

Subject to the terms and conditions of the Equity Transfer Agreement, the Vendor conditionally agreed to transfer and the Purchaser conditionally agreed to acquire the Relevant Equity, representing 41% of the entire equity interest of the Target Company.

## **Consideration**

The Consideration for the Relevant Equity is RMB24,664,100 (equivalent to approximately HK\$27,377,000) and shall be payable by the Purchaser to the Vendor in the following manner:

- (1) RMB2,466,400 (equivalent to approximately HK\$2,738,000), representing approximately 10% of the Consideration, shall be payable within five (5) Working Days after the fulfillment of all the conditions precedent as set out in the Equity Transfer Agreement; and
- (2) RMB22,197,700 (equivalent to approximately HK\$24,639,000), representing approximately 90% of the Consideration, shall be payable on the Completion Date.

The Consideration shall be paid by the Purchaser in cash. The Consideration was arrived at after arm's length negotiations between the Vendor and the Purchaser on normal commercial terms with reference to the Valuation conducted by the Valuer using the income approach. Based on such Valuation, the appraised value of the entire equity interest of the Target Company was approximately RMB60.16 million (equivalent to approximately HK\$66.78 million) as at 31 December 2018.

## **Conditions precedent**

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

- (1) the Equity Transfer having been approved by the Independent Shareholders by way of ordinary resolution(s) at the EGM of the Company in accordance with the Listing Rules;
- (2) all necessary authorisations, consents and approvals as may be required for the Vendor to perform and complete the Equity Transfer having been obtained; and
- (3) all necessary authorisations, consents and approvals as may be required for the Purchaser to perform and complete the Equity Transfer having been obtained.

If any of the conditions precedent as set out above has not been fulfilled before 9:00 a.m. on the Long Stop Date, the Equity Transfer Agreement (save and except for certain clauses such as confidentiality, notices and dispute resolution) shall terminate immediately, upon which the parties shall cease to have any rights and obligations under the Equity Transfer Agreement and neither the Vendor nor the Purchaser shall have any claim against the other party thereunder save for any antecedent breach.

### **Completion**

Within five (5) Working Days after the Purchaser has paid the first instalment of the Consideration, the Vendor shall procure the holding of the shareholders' meeting of the Target Company for approving matters relating to the Equity Transfer. Thereafter, the Vendor and the Purchaser shall procure the completion of the registration of the Equity Transfer at the relevant PRC registration authority within ten (10) Working Days after the aforesaid shareholders' meeting of the Target Company. The date on which the Equity Transfer is registered at the relevant PRC registration authority shall be the Completion Date.

Immediately upon completion of the Equity Transfer, the Vendor will remain interested in 10% of the equity interest of the Target Company. The Target Company will then cease to be a subsidiary of the Company and the financial information of the Target Company will no longer be consolidated into the Group's consolidated financial statements.

### **Transition period**

Pursuant to the Equity Transfer Agreement, any profit or loss incurred by the Target Company for the Transition Period shall be borne by the original shareholders of the Target Company in accordance with their respective shareholding before completion of the Equity Transfer. The amount of profit or loss of the Target Company for the Transition Period shall be determined based on the audited financial information of the Target Company made up to and including the Completion Date. The Vendor or the Purchaser (as the case may be) shall deposit an amount equivalent to 41% of the amount of profit or loss which is determined as aforesaid to the bank account of the other party within ten (10) Working Days from the issuance date of the aforesaid audited financial information of the Target Company.

## INFORMATION OF THE TARGET COMPANY

The Target Company was established in 2010 and is currently owned as to 51% by the Vendor and as to 49% by the JV Partner. As at the date of this announcement, the Target Company is engaged in bulk commodity trading, principally in the trading of coal.

As at 30 June 2019, the total asset value and the net asset value of the Target Company as extracted from the unaudited consolidated financial statements of the Company as at 30 June 2019 were approximately HK\$79.18 million and approximately HK\$52.46 million respectively.

Certain financial information of the Target Company as extracted from the audited consolidated financial statements of the Company for the two years ended 31 December 2017 and 31 December 2018 is as follows:

	<b>For the year ended 31 December 2017</b>	<b>For the year ended 31 December 2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>approximately</i>	<i>approximately</i>
Turnover	684,775	614,721
Net profit before taxation	6,572	1,553
Net profit after taxation	5,218	771

## INFORMATION OF THE PARTIES

The Vendor is a wholly-owned subsidiary of the Company and is principally engaged in the business of bulk commodity trading of steel and non-ferrous metal.

The Purchaser is principally engaged in the business of exports and trading of aluminium, non-ferrous metals, coal, fuel oil and chemical products, and the provision of warehouse storage services.

The Purchaser is owned (i) as to 70% by CCHG, the ultimate holding company of the Company, which together with its subsidiaries are principally engaged in the business of equity operation, provision of financial services, assets management, integrated logistics, as well as development and utilisation of forestry pulp paper; and (ii) as to an aggregate of 30% by a limited partnership established in the PRC, namely Zhejiang Free Trade Zone Xingtong Investment Partnership (Limited Partnership), which is principally engaged in investment holding, and 12 individuals, namely Cao Fugen, Liu Wendong, Cao Weiliang, Yin Bo, Wang Lixiang, Xu Dilong, Yang Yihong, Xiao Xiao, Zhou Xuan, Zhang Kaihong, Ru Jianfeng, and Zhang Deheng.

The Directors confirm that to the best of their knowledge, information and belief having made all reasonable enquiry, other than CCHG and Liu Wendong (who is a director of a non-wholly owned subsidiary of the Company), each of the other ultimate beneficial owners of the Purchaser is an Independent Third Party.

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

The Group is principally engaged in finance leasing, property investment, property development, bulk commodity trade (including trading of coal, steel and non-ferrous metals) and hotel and marine travelling services.

The Group has been operating its bulk commodity trading business through the Target Company which principally involves the trading of coal and the Vendor which principally involves the trading of steel and non-ferrous metal, both exclusively in the PRC market.

The coal business of the Group is based in, and edging on, the geographical advantage of Zhuhai Gaolan port area. However, due to the tightened domestic supply and decrease in coal demand from downstream enterprises in recent years, the Group was unable to develop the coal trading business to an economic scale and the profit contribution from the coal trading business was nominal. In view of the above, the Group has been exploring other business opportunities for the bulk commodity business.

As disclosed in the announcement of the Company dated 25 October 2019, the Group has formed a strategic alliance with a wholly-owned subsidiary of the Purchaser and formed a joint venture in World Asia Properties Limited, which will focus on the development of international bulk commodity trade businesses by leveraging the Purchaser's operational expertise and international procurement and sales network. In order to better allocate the Group's resources and enhance the operational efficiency, the Directors consider that it is a right move to further strengthen the relationship of the Group with the Purchaser through the Equity Transfer.

The Directors consider that the Equity Transfer represents an adjustment in the business strategy of the Group. While the Group remains its presence in the domestic coal trading business, by disposing of the Relevant Equity, the Group is able to realise its investment in the existing coal trading business at an optimal price and divert its investment to the bulk commodity trading of steel and non-ferrous metals with a view to expand such business into the international market.

The net proceeds from the Equity Transfer will be used as general working capital of the Group.

Based on the preliminary assessment, it is expected that the Group will record a gain of approximately RMB3.13 million (equivalent to approximately HK\$3.47 million) as a result of the Equity Transfer, being the difference between the Consideration and the unaudited net asset value of the Target Company as at 31 October 2019 attributable to the Relevant Equity and after taking into account the estimated financial results of the Target Company for the Transition Period. The actual gain or loss as a result of the Equity Transfer to be recorded by the Group is subject to the final audit to be performed by the auditors of the Company.

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

None of the Directors has any material interests in the Equity Transfer and therefore none of the Directors is required to abstain from voting on the Board resolutions approving the Equity Transfer Agreement and the Equity Transfer.

## **IMPLICATIONS UNDER THE LISTING RULES**

### **Major transaction and connected transaction**

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

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

### **Profit forecast pursuant to Rule 14.61 of the Listing Rules**

Pursuant to the Valuation Report, the appraised value of the entire equity interest of the Target Company as at 31 December 2018 using the income approach was approximately RMB60.16 million (equivalent to approximately HK\$66.78 million) as assessed by the Valuer. Such Valuation constitutes a "profit forecast" pursuant to Rule 14.61 of the Listing Rules and is therefore subject to the following disclosure requirements as set out in Rule 14.62 of the Listing Rules:

The principal assumptions on which the Valuation has been based are as follows:

**A. *General assumptions***

- (1) all assets of the Target Company are being transacted in the market and were appraised in accordance with the terms of the prevailing market;
- (2) all assets of the Target Company are to be transacted in a competitive market with voluntary buyers and sellers in which the parties are of equal status, with sufficient time and opportunities for the parties to obtain market information, and transactions are conducted freely and reasonably without any undue influence and restrictions on the parties;
- (3) all assets of the Target Company are currently in use and will continue to be used on an on-going basis and the existing use of the assets will remain unchanged and continue to be used for the same purpose. Under such assumption, the change of use of the assets or the best use condition is disregarded; and
- (4) the Target Company will continue to operate in accordance with its business objectives in the external environment; the management of the Target Company is responsible and is capable of taking up responsibilities; and the Target Company is in legal operation and is capable of making profits to maintain sustainability.

**B. *Assumptions under the income approach***

- (1) there is no material change to the relevant laws, regulations, policies and the macroeconomic condition of the PRC; there is no material change to the political, economic and the social conditions of the respective regions in which the parties to the Equity Transfer Agreement are located; and there is no other unforeseeable factors or force majeure that may cause any material adverse impact;
- (2) the Target Company will operate on a going concern basis;
- (3) the management of the Target Company is responsible and capable of performing its duties;
- (4) unless otherwise stated, the Target Company is in full compliance of all relevant laws and regulations;



- (5) the accounting policies that the Target Company will adopt in the future will remain unchanged and consistent in all material aspects with the accounting policies adopted at the time when the Valuation Report was prepared;
- (6) based on the present management model and standard of the Target Company, the business scope and model of the Target Company will remain consistent;
- (7) there is no material change to the interest rates, exchange rates, tax base and tax rates as well as policy-based levies;
- (8) there is no force majeure or unforeseeable factors that will cause any material adverse impact to the Target Company;
- (9) the forecasted annual cash flow of the Target Company represents an even annual cash flow of the Target Company;
- (10) the market competitiveness of the Target Company will remain unchanged after the Valuation Reference Date; and
- (11) the Target Company will operate in accordance with its business plan and will cease to carry on business in bulk commodity trading of non-ferrous metals and sale of electricity after the Valuation Reference Date.

BDO Limited , the reporting accountants of the Company (“**Reporting Accountants**”) confirmed that they have performed procedures on the arithmetical accuracy and compilation of the discounted future estimated cash flows of the Target Company on which the Valuation was based, but did not report on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based. A letter from the Reporting Accountants is included in Appendix I to this announcement in compliance with Rule 14.62(2) of the Listing Rules.

The Board confirmed that it was satisfied that the discounted future estimated cash flows of the Target Company on which the Valuation was based has been made after due and careful enquiry. A letter from the Board is included in Appendix II to this announcement in compliance with Rule 14.62(3) of the Listing Rules.

The following are the qualifications of the experts who have given their opinion and advice included in this announcement:

<b>Name</b>	<b>Qualification</b>
BDO Limited	Certified Public Accountants
Beijing Zhonglin Assets Appraisal Co., Ltd.	Qualified independent valuer in the PRC

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Reporting Accountants and the Valuer is an Independent Third Party.

As at the date of this announcement, each of the Reporting Accountants and the Valuer does not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person to subscribe for securities in any member of the Group.

Each of the Reporting Accountants and the Valuer has given and has not withdrawn its written consent to the publication of this announcement with inclusion of its report and all reference to its name (including its qualification) in the form and context in which it appears.

## **EGM**

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

## GENERAL

A circular containing, among other things, (1) the advice of the Independent Financial Adviser; (2) the recommendation of the Independent Board Committee; (3) details of the Equity Transfer Agreement and the Equity Transfer; (4) other information as required to be disclosed under the Listing Rules; and (5) the notice of the EGM and a form of proxy are expected to be despatched to the Shareholders on or before 4 December 2019 as more time is required to prepare the information to be contained in the circular.

## DEFINITIONS

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

“Board”	means the board of Directors
“CCHG”	means 中國誠通控股集團有限公司(unofficial English translation being China Chengtong Holdings Group Limited), a company incorporated in the PRC with limited liability and the ultimate holding company of the Company
“Company”	means China Chengtong Development Group Limited (中國誠通發展集團有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Completion Date”	means the date on which the Equity Transfer is duly registered at the relevant PRC registration authority
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	means the consideration payable by the Purchaser to the Vendor for the transfer of the Relevant Equity
“Director(s)”	means the director(s) of the Company
“EGM”	means an extraordinary general meeting of the Company to be convened for the purposes of, among other matters, considering and, if thought fit, approving the Equity Transfer Agreement and the Equity Transfer contemplated thereunder

“Equity Transfer”	means the transfer of the Relevant Equity pursuant to the Equity Transfer Agreement
“Equity Transfer Agreement”	means the equity transfer agreement dated 12 November 2019 entered into between the Vendor and the Purchaser in respect of the Equity Transfer
“Group”	means the Company and its subsidiaries
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	means the independent board committee of the Company comprising all independent non-executive Directors, which has been established by the Board to advise the Independent Shareholders in respect of the terms of the Equity Transfer Agreement and the Equity Transfer contemplated thereunder
“Independent Financial Adviser”	means Celestial Capital Limited, a corporation licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer contemplated under the Equity Transfer Agreement
“Independent Shareholder(s)”	means Shareholder(s) other than those who are required by the Listing Rules to abstain from voting on the resolution(s) approving the Equity Transfer Agreement and the Equity Transfer contemplated thereunder
“Independent Third Party”	means a third party independent of the Company and its connected persons
“JV Partner”	means 廣州市天鵝湖貿易發展有限公司, a company incorporated in the PRC with limited liability and a shareholder holding 49% of the equity interest of the Target Company as at the date of this announcement

“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	means 31 March 2020 (or such other date as the Vendor and the Purchaser may agree in writing)
“PRC”	means the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Previous Transaction”	means the formation of joint venture in World Asia Properties Limited between the Group and a wholly-owned subsidiary of the Purchaser as disclosed in the announcement of the Company dated 25 October 2019
“Purchaser”	means 中國誠通國際貿易有限公司(unofficial English translation being China Chengtong International Co. Ltd.), a company incorporated in the PRC with limited liability and a non-wholly owned subsidiary of CCHG
“Relevant Equity”	means 41% of the equity interest of the Target Company to be transferred by the Vendor to the Purchaser pursuant to the Equity Transfer Agreement
“RMB”	means Renminbi, the lawful currency of the PRC
“Shareholder(s)”	means holder(s) of the ordinary share(s) of the Company
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Target Company”	means 誠通能源廣東有限公司(unofficial English translation being Chengtong Energy Guangdong Company Limited), a company incorporated in the PRC with limited liability which is owned as to 51% by the Vendor and as to 49% by the JV Partner as at the date of this announcement
“Transition Period”	means the period commencing from the Valuation Reference Date to the Completion Date
“Valuation”	means the valuation of the entire equity interest of the Target Company conducted by the Valuer as at 31 December 2018

“Valuation Reference Date”	means 31 December 2018
“Valuation Report”	means the valuation report dated 29 August 2019 issued by the Valuer in respect of the Valuation
“Valuer”	means Beijing Zhonglin Assets Appraisal Co., Ltd., a qualified independent valuer in the PRC
“Vendor”	means 誠通發展貿易有限公司(unofficial English translation being Chengtong Development Trading Co., Limited), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Working Day”	means a statutory working day as designated by the State Council of the PRC
“%”	means per cent.

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

Hong Kong, 12 November 2019

*In this announcement, for the purpose of illustration only, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$1.11. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.*

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

## APPENDIX I – LETTER FROM THE REPORTING ACCOUNTANTS



Tel : +852 2218 8288  
Fax: +852 2815 2239  
www.bdo.com.hk

25<sup>th</sup> Floor Wing On Centre  
111 Connaught Road Central  
Hong Kong

### **INDEPENDENT ASSURANCE REPORT ON THE ARITHMETICAL ACCURACY OF THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE TARGET COMPANY**

To the Board of Directors of China Chengtong Development Group Limited

We refer to the discounted future estimated cash flows on which the valuation (“**Valuation**”) dated 29 August 2019 prepared by Beijing Zhonglin Assets Appraisal Co., Ltd. with respect to the valuation of the fair value of equity interest in Chengtong Energy Guangdong Co. Limited (the “**Target Company**”) as at 31 December 2018 is based. The Valuation is prepared based in part on discounted future estimated cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

#### **Directors’ Responsibility for the Discounted Future Estimated Cash Flows**

The directors of China Chengtong Development Group Limited (the “**Directors**”) are solely responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

#### **Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements”, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### **Reporting Accountants’ Responsibility**

It is our responsibility to report, as required by paragraph 29(2) of Appendix 1B of the Listing Rules, on the calculations of the discounted future estimated cash flows on which the Valuation is based.

We conducted our work in accordance with the terms of our engagement and Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the discounted future estimated cash flows in accordance with the bases and assumptions as set out in the Valuation. We performed procedures on the arithmetical accuracy and compilation of the discounted future estimated cash flows in accordance with the bases and assumptions. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

### **Opinion**

In our opinion, so far as the arithmetical accuracy of the calculations is concerned, the discounted future estimated cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

### **Other Matters**

Without modifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Target Company or an expression of an audit or review opinion on the Valuation.

The preparation of the discounted future estimated cash flows on which the Valuation is based does not involve the adoption of accounting policies. The discounted future estimated cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 29(2) of Appendix 1B of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

**BDO Limited**

*Certified Public Accountants*

Hong Kong, 12 November 2019



## APPENDIX II – LETTER FROM THE BOARD



### CHINA CHENGTONG DEVELOPMENT GROUP LIMITED

### 中國誠通發展集團有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 217)**

Date: 12 November 2019

The Stock Exchange of Hong Kong Limited  
12th Floor, Two Exchange Square  
8 Connaught Place  
Central, Hong Kong

Dear Sirs,

Company: China Chengtong Development Group Limited (中國誠通發展集團有限公司)  
 (“**Company**”)  
Stock code: 217  
Transaction: Major and Connected Transaction in relation to the disposal of 41% of the equity  
 interest (“**Equity Transfer**”) in 誠通能源廣東有限公司 (unofficial English  
 translation being Chengtong Energy Guangdong Company Limited) (“**Target  
 Company**”)  
Subject: Confirmation in relation to profit forecast pursuant to Rule 14.62(3) of the  
 Listing Rules

We refer to the valuation report dated 29 August 2019 prepared by Beijing Zhonglin Assets Appraisal Co., Ltd. with respect to the valuation of the fair value of the equity interest in the Target Company as at 31 December 2018 (“**Valuation**”).

We have reviewed and discussed among ourselves about the Valuation, which forms the basis for determining the consideration for the Equity Transfer. We note that the income approach applied in the Valuation constitutes a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”). We have also considered the letter from BDO Limited, the reporting accountants of the Company, dated 12 November 2019 regarding the arithmetical accuracy and compilation of the discounted future estimated cash flows of the Target Company, upon which the Valuation is based.

On the basis of the above, in compliance with Rule 14.62(3) of the Listing Rules, we confirm that the discounted future estimated cash flows of the Target Company on which the Valuation was based has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of the Board of

**China Chengtong Development Group Limited**

**Li Shufang**

*Executive director*