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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)**

### **DISCLOSEABLE TRANSACTION – FINANCE LEASE ARRANGEMENT**

On 18 October 2018, Chengtong Trading, an indirect wholly-owned subsidiary of the Company, entered into the Finance Lease Arrangement which comprises:

- (i) the Purchase Contract pursuant to which Chengtong Trading has agreed to purchase from Sichuan Honghua the Rig at a consideration of US\$17,166,262;
- (ii) the Rig Lease Contract pursuant to which Chengtong Trading has agreed to lease the Rig to Honghua Golden Coast for a term of six (6) years;
- (iii) the Consultancy Services Agreement pursuant to which Honghua Leasing has agreed to provide to Chengtong Trading the general corporate consultancy services and the consultancy services in relation to the oil and gas industry competition analysis;
- (iv) the Account Receivable Pledge Contract pursuant to which Honghua Golden Coast has agreed to pledge the Account Receivables and all their related interests in favour of Chengtong Trading to secure its obligations under the Rig Lease Contract and the other project documents in relation thereto; and
- (v) the Second-Hand Rig Purchase Agreement pursuant to which Honghua Leasing shall purchase the Rig from Chengtong Trading at the pre-agreed value upon the expiry of the Lease Term or the early termination of the Rig Lease Contract or when the Rig Lease Contract being revoked or invalidated.

As the highest percentage ratio (as defined under the Listing Rules) in respect of the transactions contemplated under the Finance Lease Arrangement exceeds 5% but is less than 25%, each of the transactions under the Finance Lease Arrangement constitutes a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

## **INTRODUCTION**

On 18 October 2018, Chengtong Trading, an indirect wholly-owned subsidiary of the Company, entered into the Finance Lease Arrangement which comprises:

- (i) the Purchase Contract pursuant to which Chengtong Trading has agreed to purchase from Sichuan Honghua the Rig at a consideration of US\$17,166,262;
- (ii) the Rig Lease Contract pursuant to which Chengtong Trading has agreed to lease the Rig to Honghua Golden Coast for a term of six (6) years;
- (iii) the Consultancy Services Agreement pursuant to which Honghua Leasing has agreed to provide to Chengtong Trading the general corporate consultancy services and the consultancy services in relation to the oil and gas industry competition analysis;
- (iv) the Account Receivable Pledge Contract pursuant to which Honghua Golden Coast has agreed to pledge the Account Receivables and all their related interests in favour of Chengtong Trading to secure its obligations under the Rig Lease Contract and the other project documents in relation thereto; and
- (v) the Second-Hand Rig Purchase Agreement pursuant to which Honghua Leasing shall purchase the Rig from Chengtong Trading at the pre-agreed value upon the expiry of the Lease Term or the early termination of the Rig Lease Contract or when the Rig Lease Contract being revoked or invalidated.

## **PURCHASE CONTRACT**

The principal terms of the Purchase Contract are set out as follows:

### **Date**

18 October 2018

## **Parties**

Vendor : Sichuan Honghua

Purchaser : Chengtong Trading

## **Purchase of the Rig**

Pursuant to the Purchase Contract, Chengtong Trading has agreed to purchase from the Sichuan Honghua the Rig at a consideration of US\$17,166,262 (equivalent to approximately HK\$133,896,843.60). The purchase price was agreed between Chengtong Trading and Sichuan Honghua after arm's length negotiation with reference to the prevailing market price of similar equipment. The purchase price shall be payable in cash by two instalments:

- (1) the first instalment, being 25% of the total purchase price, shall be paid within 10 days of the signing of the Purchase Contract; and
- (2) the second instalment, being 75% of the total purchase price, shall be paid on or before 25 December 2018.

The payment of the purchase price is subject to the fulfilment of certain conditions including the signing of the Rig Lease Contract, the Account Receivable Pledge Contract, the sublease agreement between Honghua Golden Coast and the end user of the Rig and the other project documents.

The purchase price will be satisfied by the internal resources of the Group.

## **RIG LEASE CONTRACT**

The principal terms of the Rig Lease Contract are set out as follows:

### **Date**

18 October 2018

### **Parties**

Lessor : Chengtong Trading

Lessee : Honghua Golden Coast

## **Subject matter of the lease**

The Rig purchased by Chengtong Trading under the Purchase Contract.

## **Legal title**

Chengtong Trading owns the legal title of the Rig during the Lease Term.

## **Lease term**

The Rig shall be leased to Honghua Golden Coast for a period of six (6) years commencing from the date on which the second instalment of the total purchase price for the Rig is paid under the Purchase Contract. The Lease Term is expected to commence on 25 December 2018 and in any event by no later than 31 January 2019.

## **Leasing service fees and lease payment**

Honghua Golden Coast shall pay US\$413,000 (equivalent to approximately HK\$3,221,400) in a lump sum to Chengtong Trading as leasing service fees within ten (10) business days after the date of the Rig Lease Contract.

The total amount of lease payment over the Lease Term is estimated to be approximately US\$19,800,000 (equivalent to approximately HK\$154,440,000) which shall be paid by Honghua Golden Coast to Chengtong Trading in twelve (12) equal instalments on a semi-annual basis during the Lease Term.

The lease payment has been agreed after arm's length negotiations between the parties with reference to the total purchase price payable by Chengtong Trading for the purchase of the Rig under the Purchase Contract and the USD LIBOR (London Interbank Offered Rate) in respect of loans with a six-month term.

## **Security deposit**

Honghua Golden Coast agrees to pay a sum of US\$858,313 (equivalent to approximately HK\$6,694,841.40) as security deposit for the performance of its obligations under the Rig Lease Contract on or before 25 December 2018. Provided that there is no breach of any obligations under the agreement and other project documents on the part of Honghua Golden Coast and subject to the discharge and settlement of all secured obligations under the agreements and other project documents, the security deposit shall be returned to Honghua Golden Coast upon the expiry of the Lease Term.

## **Insurance**

Honghua Golden Coast shall, on its own costs, purchase, or procure the sublessee to purchase, the third party liability insurance, war insurance, political insurance and property all risk insurance (terrorism risk covered) to cover the Rig throughout the Lease Term. Chengtong Trading or its nominee shall be the insured and the first beneficiary of such insurances.

## **Escrow account**

The rental and other amounts received by Honghua Golden Coast from its customer for the sublease of the Rig shall be deposited into a separate bank account jointly managed by Chengtong Trading and Honghua Golden Coast. Honghua Golden Coast shall not withdraw any monies from such bank account or create any encumbrances over such account unless prior written consent from Chengtong Trading has been obtained.

## **Renewal**

Upon expiry of the Lease Term, Honghua Golden Coast shall be entitled to choose to renew the lease of the Rig or designate a third party to purchase the Rig. In the event Honghua Golden Coast chooses not to renew the lease of the Rig, Honghua Golden Coast shall designate a third party to purchase the Rig.

## **Early termination**

Provided that there is no breach of any obligations under the Rig Lease Contract and other project documents, Honghua Golden Coast shall be entitled to terminate the lease contract prior to the expiry of the Lease Term by giving ninety (90) days written notice to Chengtong Trading. In addition, Honghua Golden Coast shall also pay (or designate a third party to pay) the equipment purchase price within five (5) business days after Chengtong Trading has agreed on the early termination of the lease.

## **CONSULTANCY SERVICES AGREEMENT**

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

### **Date**

18 October 2018

**Parties**

Supplier : Honghua Leasing

Customer : Chengtong Trading

**Provision of consultancy services**

Honghua Leasing has agreed to provide to Chengtong Trading the general corporate consultancy services as well as the consultancy services in relation to the oil and gas industry competition analysis. The analysis shall be provided to Chengtong Trading on a semi-annual basis during the Lease Term.

Chengtong Trading shall pay US\$1,149,990 (equivalent to approximately HK\$8,969,922) to Honghua Leasing in thirteen (13) instalments. Upon the signing of the Rig Lease Contract, the first instalment amounting to US\$411,990 (equivalent to approximately HK\$3,213,522) shall be paid within ten (10) business days after Chengtong Trading has received from Honghua Golden Coast all the amounts then due under the Rig Lease Contract and the other project documents. The remaining fees amounting to US\$738,000 (equivalent to approximately HK\$5,756,400) shall be paid in twelve (12) equal instalments on a semi-annual basis during the Lease Term.

**ACCOUNT RECEIVABLE PLEDGE CONTRACT**

The principal terms of the Account Receivable Pledge Contract are set out as follows:

**Date**

18 October 2018

**Parties**

Pledgor : Honghua Golden Coast

Pledgee : Chengtong Trading

**Pledge of the Account Receivables**

Honghua Golden Coast has agreed to pledge the Account Receivables and all their related interests in favour of Chengtong Trading to secure its obligations under the Rig Lease Contract and the other project documents in relation thereto.

## **SECOND-HAND RIG PURCHASE AGREEMENT**

The principal terms of the Second-Hand Rig Purchase Agreement are set out as follows:

### **Date**

18 October 2018

### **Parties**

Vendor : Chengtong Trading

Purchaser : Honghua Leasing

### **Purchase of the Second-Hand Rig**

The parties have agreed on the formula for calculating the value of the Rig by reference to the purchase price under the Purchase Contract and an internal rate of return of 7.5% to be generated from the total cash flow of the lease project. Based on this formula, the value of the Rig at the end of the Lease Term shall be US\$1,733,792.46 (equivalent to approximately HK\$13,523,581.19). Honghua Leasing shall purchase the Rig at the pre-agreed value upon the expiry of the Lease Term or the early termination of the Rig Lease Contract or when the Rig Lease Contract is being revoked or invalidated. Within ten (10) business days upon the signing of the Rig Lease Contract, Honghua Leasing shall pay US\$1,733,792.46 (equivalent to approximately HK\$13,523,581.19) to Chengtong Trading as prepayment of the purchase price of the Rig. Therefore, if the Rig Lease Contract expires pursuant to its original term and all secured obligations under the agreements and other project documents on the part of Honghua Golden Coast has been fully discharge and settled, the ownership of the Rig will be vested on Honghua Leasing automatically upon the expiry of the Lease Term. On the other hand, if the Rig Lease Contract is terminated, Honghua Leasing shall pay additional amount for the purchase of the Rig based on the pre-agreed value.

### **REASONS FOR AND BENEFITS OF THE FINANCE LEASE ARRANGEMENT**

The entering into of the Finance Lease Arrangement is in the ordinary and usual course of business of Chengtong Trading and it is expected that Chengtong Trading will earn an income of approximately US\$3,630,000 (equivalent to approximately HK\$28,314,000), being the difference between (A) the aggregate of the leasing service fees, the interest income (being the difference between the estimated total lease payment under the Rig Lease Contract and the total purchase price to be paid by Chengtong Trading for the Rig under the Purchase Contract) and the estimated total purchase price to be received by Chengtong Trading for the Rig under the Second-Hand Rig Purchase Agreement and (B) the total consultancy service fees payable to Honghua Leasing under the Consultancy Services Agreement.

The terms of the Finance Lease Arrangement, including the purchase price of the Rig, the lease payment, the leasing service fees and the consultancy service fees, were arrived at after arm's length negotiation between the parties with reference to the value of the Rig and the prevailing terms for comparable equipment sale and purchase as well as lease agreements.

The Directors are of the view that the terms of the Finance Lease Arrangement are fair and reasonable and are in the interests of the Company and the shareholders of the Company as a whole.

## **INFORMATION ON THE GROUP, CHENGTONG TRADING, SICHUAN HONGHUA, HONGHUA GOLDEN COAST AND HONGHUA LEASING**

The Group is principally engaged in property investment, property development, finance leasing, bulk commodity trade (including trading of coal, steel and non-ferrous metals) and hotel and marine travelling services. The Company is incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange.

Chengtong Trading is incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company. Its principal business activity is selling and spare parts supply of equipment.

Sichuan Honghua is a company established in the PRC, and is principally engaged in the research, design, manufacturing and service of equipment for petroleum exploration. Honghua Leasing is a company established in the PRC, and is principally engaged in the financial leasing, leasing, purchase of equipment for leasing and maintenance and repair of leased equipment. Honghua Golden Coast is a company incorporated in Dubai, United Arab Emirates and is principally engaged in the sale of rig and related spare parts. Each of Sichuan Honghua and Honghua Golden Coast is an indirect wholly-owned subsidiary of Honghua Group. Honghua Leasing is a wholly-owned subsidiary of Honghua Financial Leasing (Shenzhen) Co., Ltd., whose 60% equity interest is indirectly held by Honghua Group. The financial statements of both Honghua Financial Leasing (Shenzhen) Co., Ltd. and Honghua Leasing will not be consolidated into the accounts of Honghua Group. Honghua Group, together with its subsidiaries, is principally engaged in manufacturing drilling rigs, offshore engineering, and oil & gas exploitation equipment and providing drilling services and is listed on the Stock Exchange (stock code: 196). As at the date of this announcement, the Company holds approximately 4.74% of the total issued share capital of Honghua Group.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) Honghua Group and its ultimate substantial beneficial owners as publicly disclosed by Honghua Group and (ii) Honghua Leasing and its ultimate beneficial owners (excluding Honghua Group) are Independent Third Parties.



## IMPLICATION UNDER THE LISTING RULES

As the highest percentage ratio (as defined under the Listing Rules) in respect of the transactions contemplated under the Finance Lease Arrangement exceeds 5% but is less than 25%, each of the transactions under the Finance Lease Arrangement constitutes a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

## DEFINITIONS

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

“Account Receivables”	means	any of and all the liabilities (whether present or future, actual or contingent) owed to Honghua Golden Coast by the sublessee of the Rig under (i) the sublease agreement and (ii) any other contracts that may be entered into between Honghua Golden Coast and such sublessee from time to time in relation to the Rig and through which receivables are generated
“Account Receivable Pledge Contract”	means	the account receivable pledge contract entered into between Honghua Golden Coast as pledgor and Chengtong Trading as pledgee on 18 October 2018 in relation to the creation of a pledge over the Account Receivables and all their related interests
“Board”	means	the board of Directors
“Chengtong Trading”	means	Chengtong Trading (International) Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary 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
“connected person(s)”	means	has the meaning ascribed to it under the Listing Rules

“Consultancy Services Agreement”	means	the consultancy services agreement entered into between Honghua Leasing as supplier and Chengtong Trading as customer on 18 October 2018 in relation to the provision of the general corporate consultancy services and the consultancy services in relation to the oil and gas industry competition analysis
“Directors”	means	the directors of the Company
“Rig”	means	the 70DB rig manufactured by Sichuan Honghua
“Rig Lease Contract”	means	the rig lease contract entered into between Chengtong Trading as lessor and Honghua Golden Coast as lessee on 18 October 2018 in relation to the leasing of the Rig
“Honghua Group”	means	Honghua Group Limited (宏華集團有限公司) an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 196)
“Finance Lease Arrangement”	means	the arrangement contemplated under the Purchase Contract, the Rig Lease Contract, the Consultancy Services Agreement, the Account Receivable Pledge Contract and the Second-Hand Rig Purchase Agreement
“Group”	means	the Company and its subsidiaries as at the date of this announcement
“HK\$”	means	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	means	the Hong Kong Special Administrative Region of the PRC
“Honghua Golden Coast”	means	Honghua Golden Coast Equipment FZE (unofficial Chinese translation being 宏華金海岸設備有限公司), a company incorporated in Dubai, United Arab Emirates with limited liability and an indirect wholly-owned subsidiary of Honghua Group

“Honghua Leasing”	means	Honghua Leasing (Tianjin) Co., Ltd. (宏華租賃(天津)有限公司), a company established in the PRC with limited liability, is a wholly-owned subsidiary of Honghua Financial Leasing (Shenzhen) Co., Ltd., whose 60% equity interest is indirectly held by Honghua Group. The financial statements of both Honghua Financial Leasing (Shenzhen) Co., Ltd. and Honghua Leasing will not be consolidated into the accounts of Honghua Group
“Independent Third Party(ies)”	means	third party(ies) independent of the Company and its connected persons
“Lease Term”	means	the term of the lease of the Rig under the Rig Lease Contract, being six (6) years
“Listing Rules”	means	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	means	the People’s Republic of China and, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Purchase Contract”	means	the Purchase Contract entered into between Sichuan Honghua as vendor and Chengtong Trading as purchaser on 18 October 2018 in relation to the purchase of the Rig
“RMB”	means	Renminbi, the lawful currency of the PRC
“Second-Hand Rig Purchase Agreement”	means	the second-hand rig purchase agreement entered into between Chengtong Trading and Honghua Leasing on 18 October 2018 in relation to the purchase of the Rig by Honghua Leasing
“Sichuan Honghua”	means	四川宏華石油設備有限公司(unofficial English translation being Sichuan Honghua Petroleum Equipment Co., Ltd.), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of Honghua Group
“Stock Exchange”	means	The Stock Exchange of Hong Kong Limited

“US\$” or “USD” means United States dollars, the lawful currency of the United States

“%” means per cent.

*In this announcement, amounts quoted in US\$ have been converted into HK\$ at the rate of US\$1.00 to HK\$7.80. 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.*

By order of the Board  
**China Chengtong Development Group Limited**  
**Zhang Bin**  
*Managing Director*

Hong Kong, 18 October 2018

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