

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

If you have sold or transferred all your shares in China Chengtong Development Group Limited (“Company”), you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is addressed to the shareholders of the Company in connection with an extraordinary general meeting (“EGM”) of the Company to be held at 10:30 a.m. on Friday, 8 June 2007.

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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 AND CONNECTED TRANSACTIONS**

**in respect of**

**the acquisition of 52% of the equity interest in the Xian PRC Company  
and**

**the acquisition of the entire equity interest in the Luoyang PRC Company**

**Independent financial adviser to the  
Independent Board Committee and the Independent Shareholders**



**CIMB-GK Securities (HK) Limited**

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

A letter from the Board is set out on pages 7 to 24 of this circular. A letter from the Independent Board Committee is set out on page 25 of this circular. A letter from CIMB-GK containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 37 of this circular.

A notice convening the EGM to be held at Falcon Room II, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong at 10:30 a.m. on Friday, 8 June 2007 is set out on pages 54 to 56 of this circular. If you are not able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the Company’s share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1806–1807, 18th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

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## DEFINITIONS

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

“Articles”	the articles of association of the Company
“associate”	has the meaning ascribed to it under Chapters 1 and 14A of the Listing Rules
“Beijing CaoPu”	北京草埔園林綠化工程有限公司 (unofficial English name, Beijing CaoPu Garden Landscaping Engineering Limited), the new owner of a 48% interest in the Xian PRC Company who acquired such interest from the Xian 48% Equity Owner
“Board”	the board of Directors
“CBE”	China Beijing Equity Exchange (北京產權交易所)
“CCHG”	China Chengtong Holdings Group Limited, the ultimate holding company of the Company
“CCHK”	China Chengtong Hong Kong Company Limited, the holding company of World Gain, a controlling shareholder (as defined in the Listing Rules) of the Company
“CIMB-GK”	CIMB-GK Securities (HK) Limited, a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Xian and Luoyang Acquisitions
“Company”	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
“Deed of Guarantee”	a deed of guarantee dated 29 January 2007 entered into among Zhongshi, the Luoyang Vendor and CCHK whereby CCHK is to guarantee the payment by Zhongshi of the Luoyang Consideration Balance
“Director(s)”	the director(s) of the Company

## DEFINITIONS

“EGM”	the extraordinary general meeting of the Company convened to be held at Falcon Room II, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong at 10:30 a.m. on Friday, 8 June 2007 for the purposes of considering and, if thought fit, approving the Xian and Luoyang Acquisitions
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	in regard to the Xian and Luoyang Acquisitions, Shareholders other than the Luoyang Vendor and the Xian Vendor and their respective associates
“Independent Board Committee”	the independent committee of the Board comprising three independent non-executive Directors namely, Mr. Kwong Che Keung, Gordon, Mr. Tsui Yiu Wa, Alec and Mr. Lao Youan, established by the Board for the purpose of advising the Independent Shareholders in relation to the Xian and Luoyang Acquisitions
“independent third party”	a party who is independent of and not connected with the Company and any of the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries, or any of their respective associates
“Latest Practicable Date”	30 April 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Luoyang Acquisition”	the acquisition of the Luoyang Sale Equity pursuant to the Luoyang Acquisition Agreement
“Luoyang Acquisition Agreement”	collectively, the Luoyang Equity Transfer Agreement, the Luoyang Supplemental Agreement and the Luoyang Second Supplemental Agreement
“Luoyang Balance Payment Conditions”	the conditions for payment of the Luoyang Consideration Balance as mentioned in the paragraph headed “Consideration and terms of payment for the Luoyang Sale Equity” in the section headed “Letter from the Board” in this circular

## DEFINITIONS

“Luoyang Consideration”	the consideration that Zhongshi has to pay for the Luoyang Acquisition
“Luoyang Consideration Balance”	the balance of the Luoyang Consideration in the amount of RMB11,680,000 (equivalent to approximately HK\$11,680,000) that is to be paid to the Luoyang Vendor within 5 business days of fulfillment of the Luoyang Balance Payment Conditions
“Luoyang Equity Transfer Agreement”	an equity transfer agreement dated 29 January 2007 entered into between the Luoyang Vendor and Zhongshi relating to the Luoyang Acquisition
“Luoyang Indebtedness”	the principal amount of RMB2,994,779.1 (equivalent to approximately HK\$2,994,779.1), without interest, that was owing by the Luoyang PRC Company to the Luoyang Vendor
“Luoyang Land”	a piece of allocated land together with the buildings erected thereon, located at Gangchang Road, Guanlin Town, Luolong District, Luoyang City, Henan Province of the PRC, of site area of approximately 80,158.10 sq.m.
“Luoyang PRC Company”	洛陽城南中儲物流有限公司 (unofficial English name, Luoyang Southern City CMST Logistics Limited) (formerly known as 洛陽關林中儲物流中心 (unofficial English name, Luoyang Guanlin Zhongchu Logistics Centre)), a State owned enterprise established in the PRC wholly owned by the Luoyang Vendor immediately prior to completion of the Luoyang Acquisition
“Luoyang Sale Equity”	the 100% registered capital of the Luoyang PRC Company
“Luoyang Supplemental Agreement”	a supplemental agreement dated 29 January 2007 entered into by the Luoyang Vendor and Zhongshi relating to the Luoyang Acquisition
“Luoyang Second Supplemental Agreement”	a second supplemental agreement dated 15 March 2007 entered into between the Luoyang Vendor and Zhongshi relating to the Luoyang Acquisition
“Luoyang Vendor”	中國新元資產管理公司 (unofficial English name, China Xinyuan Asset Management Company), the owner of 100% of the registered capital of the Luoyang PRC Company and is a fellow subsidiary of the Company and beneficially wholly owned by CCHG

## DEFINITIONS

“New Luoyang PRC Company”	has the meaning as defined in the paragraph headed “Completion of the Luoyang Acquisition” in the section headed “Letter from the Board” in this circular
“PRC”	the People’s Republic of China excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Second Xian Supplemental Agreement”	an agreement dated 25 April 2007 entered into between the Xian PRC Company and Zhongshi to further clarify the rights and obligations of the Xian PRC Company and Zhongshi in relation to the Xian Outstanding Loan
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary shares which have a par value of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Third Party”	洛陽世祺房地產置業有限公司 (unofficial English name, Luoyang Shiqi Real Estate Limited), a company established in the PRC
“World Gain”	World Gain Holdings Limited, the controlling shareholder (as defined in the Listing Rules) of the Company
“Xian Acquisition”	the acquisition of the Xian Sale Equity pursuant to the Xian Acquisition Agreement
“Xian Acquisition Agreement”	collectively, the Xian Equity Transfer Agreement, the Xian Letter of Undertaking, the Xian Supplemental Agreement and the Second Xian Supplemental Agreement
“Xian and Luoyang Acquisitions”	collectively, the Luoyang Acquisition and the Xian Acquisition
“Xian Consideration”	the consideration that Zhongshi has to pay for the Xian Acquisition

## DEFINITIONS

“Xian Equity Transfer Agreement”	an equity transfer agreement dated 15 January 2007 entered into between the Xian Vendor and Zhongshi relating to the Xian Acquisition
“Xian Letter of Undertaking”	a letter of undertaking dated 11 January 2007 entered into by the Xian Vendor, Zhongshi and the Xian 48% Equity Owner relating to the Xian Acquisition
“Xian Outstanding Loan”	the aggregate principal amount of RMB26,000,000 (equivalent to approximately HK\$26,000,000) that was owing by the Xian PRC Company to the Xian Vendor as at 31 December 2006
“Xian PRC Company”	西安富祥房地產開發有限公司 (unofficial English name, Xian Fuxiang Real Estate Development Limited), a limited company established in the PRC owned as to 52% by the Xian Vendor and as to the remaining 48% by the Xian 48% Equity Owner as at the date of the Xian Equity Transfer Agreement
“Xian Property Development Agreement”	a property development agreement dated 19 July 2004 entered into between the Xian Vendor and the Xian 48% Equity Owner in relation to, among other matters, the development of the Xian Property Project
“Xian Property Project”	a commodity residential property development project known as 堤柳花園 (translated as Di Liu Garden) located at Xian City, Shaanxi Province of the PRC to be developed by the Xian PRC Company
“Xian Sale Equity”	52% of the registered capital of the Xian PRC Company
“Xian Supplemental Agreement”	a supplemental agreement dated 15 March 2007 entered into among the Xian Vendor, Zhongshi and Beijing Caopu
“Xian Vendor”	嘉成企業發展有限公司 (unofficial English name, Jiacheng Enterprise Development Company Limited), the owner of 52% of the registered capital of the Xian PRC Company and is a fellow subsidiary of the Company beneficially owned as to about 97.01% by CCHG

## DEFINITIONS

“Xian 48% Equity Owner”	陝西銀信西部投資開發有限公司 (unofficial English name, Shaanxi Yinxin Western Investment Development Limited), the owner of 48% equity interest in the Xian PRC Company as at the date of the Xian Acquisition Agreement
“Zhongshi”	中實投資有限責任公司 (unofficial English name, Zhongshi Investment Company Limited), a 70% owned subsidiary of the Company prior to the completion of the Zhongshi Acquisition Agreement
“Zhongshi Acquisition Agreement”	the conditional agreement dated 27 March 2007 made between 北京興合動力投資管理有限公司 (unofficial English name, Beijing Xinghe Dongli Investment Management Co., Ltd.) and China Chengtong Properties Group Limited, a wholly owned subsidiary of the Company, the details of which were announced by the Company in its announcement dated 27 March 2007
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

*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 rate at all.*



LETTER FROM THE BOARD



**CHINA CHENGTONG DEVELOPMENT GROUP LIMITED**  
**中國誠通發展集團有限公司**

*(Incorporated in Hong Kong with limited liability)*  
**(Stock Code: 217)**

*Executive Directors:*

Mr. Zhang Guotong  
*(Vice Chairman and Managing Director)*  
Mr. Wang Hongxin

*Registered Office:*

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

*Non-executive Directors:*

Mr. Ma Zhengwu *(Chairman)*  
Mr. Hong Shuikun  
Mr. Gu Laiyun  
Ms. Xu Zhen

*Independent non-executive Directors:*

Mr. Kwong Che Keung, Gordon  
Mr. Tsui Yiu Wa, Alec  
Mr. Lao Youan  
Mr. Ba Shusong

4 May 2007

*To the Shareholders*

Dear Sir or Madam

**DISCLOSEABLE AND CONNECTED TRANSACTIONS**

**in respect of**

**the acquisition of 52% of the equity interest in the Xian PRC Company  
and**

**the acquisition of the entire equity interest in the Luoyang PRC Company**

**INTRODUCTION**

On 22 March 2007, the Board announced that to further enhance the Group's property development business in the PRC, the Company had through its 70% owned subsidiary, Zhongshi, entered into the following agreements:

- (1) the Xian Acquisition Agreement in respect of the acquisition of 52% of the equity interest in the Xian PRC Company; and
- (2) the Luoyang Acquisition Agreement in respect of the acquisition of the entire equity interest in the Luoyang PRC Company.

## LETTER FROM THE BOARD

The Xian Acquisition and the Luoyang Acquisition when aggregated constitute (i) a discloseable transaction for the Company under Chapter 14 of the Listing Rules and (ii) a connected transaction for the Company under Chapter 14A of the Listing Rules which is subject to reporting and announcement requirements, and approval of the Independent Shareholders.

The primary purpose of this circular is to give you further information regarding, among other matters, the Xian and Luoyang Acquisitions, the advice of the Independent Board Committee to the Independent Shareholders and the advice from CIMB-GK to the Independent Board Committee and the Independent Shareholders and to give you notice of the EGM.

### XIAN ACQUISITION

#### The Xian Equity Transfer Agreement

1. Date

15 January 2007

2. Parties

Vendor: 嘉成企業發展有限公司 (unofficial English name, Jiacheng Enterprise Development Company Limited) (i.e., the Xian Vendor), the owner of 52% of the registered capital of the Xian PRC Company and is a fellow subsidiary of the Company beneficially owned as to about 97.01% by CCHG, the ultimate holding company of the Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the principal activity of the Xian Vendor is investment holdings.

Purchaser: 中實投資有限責任公司 (unofficial English name, Zhongshi Investment Company Limited) (i.e., Zhongshi), a 70% owned subsidiary of the Company as at the date of the Xian Equity Transfer Agreement.

#### The Xian Letter of Undertaking and the Xian Supplemental Agreement

The Xian Letter of Undertaking dated 11 January 2007 was entered into by the Xian Vendor, Zhongshi and the Xian 48% Equity Owner relating to the Xian Acquisition. The Xian Supplemental Agreement was entered into on 15 March 2007 by the Xian Vendor, Zhongshi and Beijing Caopu to clarify the payment terms of the Xian Outstanding Loan and the rights and obligations of Beijing Caopu relating to the Property Development Agreement. The Xian Acquisition Agreement was entered into in pursuance of the successful tender by Zhongshi in the public tender of the Xian Sale Equity.

## LETTER FROM THE BOARD

### **Asset to be acquired under the Xian Acquisition Agreement**

The Xian Sale Equity to be acquired under the Xian Acquisition Agreement comprises 52% of the registered capital of the Xian PRC Company held by the Xian Vendor. There is no restriction to the subsequent sale of the Xian Sale Equity pursuant to the terms of the Xian Acquisition Agreement.

### **Consideration and terms of payment for the Xian Sale Equity**

The Xian Consideration for the Xian Acquisition payable by Zhongshi is RMB25,600,000 (equivalent to approximately HK\$25,600,000), of which:

- (1) RMB7,000,000 (equivalent to approximately HK\$7,000,000), being approximately 27.34% of the Xian Consideration, was deposited with CBE as deposit on 8 January 2007; and
- (2) RMB18,600,000 (equivalent to approximately HK\$18,600,000), being approximately 72.66% of the Xian Consideration, was deposited with CBE on 15 January 2007.

The entire Xian Consideration was funded by internal resources of the Group and was released to the Xian Vendor on 19 January 2007, which was within 5 business days of the issuance of an equity transfer certificate (產權交易憑證) by CBE on 17 January 2007.

The Directors confirm that the Xian Consideration was arrived at after arm's length negotiations between the Xian Vendor and Zhongshi and was by reference to the valuation of the Xian PRC Company of a net assets value of approximately RMB43,469,671 (equivalent to approximately HK\$43,469,671) as at 31 May 2006 as appraised by an independent third party valuer by the application of re-install cost method. The Xian Consideration amounts to a premium of approximately 13.3% over the 52% net assets value of the Xian PRC Company as valued.

The original cost of the Xian Sale Equity to the Xian Vendor was RMB15,600,000.

### **Further amount payable or obligations to be assumed by Zhongshi in addition to the Xian Consideration under the Xian Acquisition Agreement**

#### *Xian Outstanding Loan*

As at 31 December 2006, the Xian PRC Company is indebted to the Xian Vendor in the amount of the Xian Outstanding Loan in the aggregate principal amount of RMB26,000,000 (equivalent to approximately HK\$26,000,000). Zhongshi is to assume the Xian PRC Company's obligation in making repayment of the Xian Outstanding Loan together with interest thereon to the Xian Vendor. It is the plan of the Group that the repayment of the Xian Outstanding Loan together with interest thereon will be funded by its internal resources.

## LETTER FROM THE BOARD

Pursuant to the terms of the Xian Supplemental Agreement, Zhongshi shall repay the entire amount of the Xian Outstanding Loan together with interest thereon within 45 days after the obtaining of the Independent Shareholders' approval to the Xian Acquisition at the EGM and the completion of the Xian Acquisition.

On 25 April 2007, the Xian PRC Company and Zhongshi entered into the Second Xian Supplemental Agreement to further clarify the rights and obligations of the Xian PRC Company and Zhongshi in relation to the Xian Outstanding Loan.

Pursuant to the Second Xian Supplemental Agreement, the Xian PRC Company and Zhongshi acknowledged and agreed that:

- (1) notwithstanding that Zhongshi has assumed the Xian PRC Company's obligation to repay the entire amount of the Xian Outstanding Loan together with interest accrued thereon to the Xian Vendor, the Xian PRC Company is still indebted to Zhongshi in the same amount repaid by Zhongshi to the Xian Vendor ("**Relevant Amount**");
- (2) the Relevant Amount together with the interest accrued thereon is repayable on demand by serving 30 days' notice to the Xian PRC Company; and
- (3) interest on the Relevant Amount shall be calculated at the annual rate of 12%.

The Xian Outstanding Loan was provided by the Xian Vendor to the Xian PRC Company at time when the Xian PRC Company did not possess the necessary credentials in obtaining bank loans. No collateral security was required by the Xian Vendor for the provision of the Xian Outstanding Loan to the Xian PRC Company. The Directors therefore consider that the repayment terms (including the interest rates payable) of the Xian Outstanding Loan are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

### *Property Development Agreement*

On 14 July 2004, the Xian Vendor and the Xian 48% Equity Owner entered into the Property Development Agreement in relation to, among other matters, the development of the Xian Property Project pursuant to which:

- the Xian 48% Equity Owner has undertaken to obtain approvals for the change of the plot ratio for the Xian Property Project; and
- further capital requirement that is required for the development of the Xian Property Project may be raised by the Xian PRC Company in the form of bank loan or by way of shareholders' loan from the Xian Vendor and the Xian 48% Equity Owner in proportion to their equity interests in the Xian PRC Company.

## LETTER FROM THE BOARD

Pursuant to the Xian Acquisition Agreement, Zhongshi is to assume all the rights and obligations as originally assumed by the Xian Vendor under the Property Development Agreement. Pursuant to the Xian Supplemental Agreement, Beijing Caopu is to assume all the rights and obligations as originally assumed by the Xian 48% Equity Owner under the Property Development Agreement. At present, the Xian PRC Company has not made any request for additional funding and there is no immediate capital requirement for the Xian Property Project.

### **Conditions of the Xian Acquisition**

Pursuant to the Xian Equity Transfer Agreement, the transfer of the Xian Sale Equity is conditional upon:

- (i) the Xian Vendor having completed all procedures in relation to the public tender of the Xian Sale Equity through CBE; and
- (ii) Zhongshi having obtained all relevant approvals and authorisations for the Xian Acquisition in accordance with its articles of association and the laws of the PRC.

All of the above conditions had been fulfilled as at 14 March 2007 and the new business licence of the Xian PRC Company was issued on 14 March 2007.

However, as advised by the PRC legal advisers of the Company, since it is agreed by the parties in the Xian Letter of Undertaking and the Xian Supplemental Agreement that in case the Independent Shareholders' approval of the Xian Acquisition is not forthcoming at the EGM, the Xian Vendor shall repurchase the Xian Sale Equity from Zhongshi at the Xian Consideration, the Acquisition will not be regarded as completed solely on the basis that the new business licence of the Xian PRC Company has been issued.

### **Completion of the Xian Acquisition**

As confirmed by the Xian Vendor and Zhongshi, the Xian Acquisition shall only be regarded as completed when the Company has obtained the Independent Shareholders' approval on the Xian Acquisition.

Other than the issuance of the transfer certificate (產權交易憑證) by CBE as mentioned and the procedural formalities in completing the registration procedures with the relevant Industrial and Commercial Bureau of the PRC for the change in ownership of the Xian Sale Equity, no other PRC governmental/regulatory bodies approval is required for completion of the Xian Acquisition pursuant to the terms of the Xian Acquisition Agreement.

The Xian PRC Company will become a 52% indirectly owned subsidiary of the Company after completion of the Xian Acquisition. The Xian PRC Company will be accounted for and consolidated in the accounts of Zhongshi as a subsidiary after completion

## LETTER FROM THE BOARD

of the Xian Acquisition. The consolidated accounts of Zhongshi, in turn, will continue to be accounted for and consolidated in the consolidated accounts of the Company as a subsidiary after completion of the Xian Acquisition. The assets of the Group will be increased by 100% of the assets of the Xian PRC Company and the goodwill arising upon completion of the Xian Acquisition (if any) less the consideration paid out by the Group for the Xian Acquisition. The liabilities of the Group will be increased by 100% of those the Xian PRC Company. If negative goodwill arises upon completion of the Xian Acquisition, it will be credited to the consolidated income statement of the Group. Minority interest on the accounts of Zhongshi will also reflect the 48% share of the assets and liabilities of the Xian PRC Company. After completion of the Xian PRC Company, there will be no immediate material positive effects on the earnings of the Group because the Xian PRC Company is still in the stage of property development. However, the Directors are confident that the Xian PRC Company will bring positive contributions to the Group in the future.

### **Repurchase of the Xian Sale Equity**

The Xian Acquisition constitutes (i) a discloseable transaction for the Company under Chapter 14 of the Listing Rules and (ii) a connected transaction for the Company under Chapter 14A of the Listing Rules which is subject to reporting and announcement requirements, and approval of the Independent Shareholders.

Zhongshi has obtained the new business licence of the Xian PRC Company in accordance with the applicable laws and regulations of the PRC. It is agreed by the parties in the Xian Letter of Undertaking and the Xian Supplemental Agreement that in case the Independent Shareholders' approval of the Xian Acquisition is not forthcoming at the EGM, the Xian Vendor shall repurchase the Xian Sale Equity from Zhongshi at the Xian Consideration and the Xian Acquisition will not be regarded as completed solely on the basis that the new business licence of the Xian PRC Company has been issued.

### **Information on the Xian PRC Company**

The Xian PRC Company is a limited company established in the PRC with registered capital of RMB30,000,000, of which RMB15,600,000 (52% of the registered capital) was owned by the Xian Vendor and the remaining RMB14,400,000 (48% of the registered capital) was owned by the Xian 48% Equity Owner as at the date of the Xian Equity Transfer Agreement. The Company was informed that the Xian 48% Equity Owner had disposed of its interest in 48% of the registered capital in the Xian PRC Company to Beijing CaoPu. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Beijing CaoPu and its ultimate beneficial owner are independent third parties.

The principal activities of the Xian PRC Company are the operation and development of property and information consultation service; retail and wholesale of construction materials, decoration materials, ordinary machinery, steel and metallic materials.

The Xian PRC Company is in the course of developing the Xian Property Project located at Xian City, Shaanxi Province of the PRC, comprising a piece of land of site area of approximately 79,135.50 sq.m. and is intended to be developed into a commodity

## LETTER FROM THE BOARD

residential property development project known as 堤柳花園 (translated as Di Liu Garden). The land use right certificate in respect of the piece of land has been issued. It is expected that the relevant permit for the commencement of the construction works in respect of the Xian Property Project will be obtained from the relevant PRC authority in the first quarter of 2008, subject to timely approval by the relevant PRC authority.

The audited total assets of the Xian PRC Company as at 31 May 2006 was approximately RMB54,594,681 (equivalent to approximately HK\$54,594,681). The Xian PRC Company was valued at a net assets value of approximately RMB43,469,671 (equivalent to approximately HK\$43,469,671) as at 31 May 2006 by an independent third party valuer. Based on the financial information of the Xian PRC Company prepared in accordance with accounting principles generally accepted in the PRC, the audited net losses (both before and after taxation and extraordinary items) of the Xian PRC Company for the two financial years ended 31 December 2005 are as follows:

	Year ended 31 December 2004 RMB'000	Year ended 31 December 2005 RMB'000
Net (losses) before taxation and extraordinary items	(390)	(364)
Net (losses) after taxation and extraordinary items	(390)	(364)

The Directors confirmed that there is no material adverse change to the financial position of the Xian PRC Company since 31 May 2006, the date of its latest audited accounts.

### LUOYANG ACQUISITION

#### The Luoyang Equity Transfer Agreement

1. Date

29 January 2007

2. Parties

Vendor: 中國新元資產管理公司 (unofficial English name, China Xinyuan Asset Management Company) (i.e., the Luoyang Vendor), the owner of 100% of the registered capital of the Luoyang PRC Company and is a fellow subsidiary of the Company and beneficially wholly owned by CCHG (the ultimate holding company of the Company).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the principal activity of the Luoyang Vendor is assets management, merger and acquisition, strategic planning and industrial investments.

Purchaser: Zhongshi, a 70% owned subsidiary of the Company as at the date of the Luoyang Equity Transfer Agreement.

## LETTER FROM THE BOARD

### **Luoyang Supplemental Agreement and the Luoyang Second Supplemental Agreement**

The Luoyang Supplemental Agreement dated 29 January 2007 was entered into by the Luoyang Vendor and Zhongshi relating to the Luoyang Acquisition. On 15 March 2007, the Luoyang Vendor and Zhongshi entered into the Luoyang Second Supplemental Agreement to clarify the rights of Zhongshi in the event of the Luoyang Vendor failing to effect payment of the relevant land premium payable and to obtain the State-owned land use right certificate in favour of the Luoyang PRC Company as more particularly set out in the paragraph headed "Other principal terms of the Luoyang Acquisition Agreement" below. The Luoyang Acquisition Agreement was entered into in pursuance of the successful tender by Zhongshi in the public tender of the Luoyang Sale Equity.

### **Asset to be acquired under the Luoyang Acquisition Agreement**

The Luoyang Sale Equity acquired pursuant to the Luoyang Acquisition Agreement comprises 100% of the registered capital of the Luoyang PRC Company held by the Luoyang Vendor. There is no restriction to the subsequent sale of the Luoyang Sale Equity pursuant to the terms of the Luoyang Acquisition Agreement.

### **Consideration and terms of payment for the Luoyang Sale Equity**

The Luoyang Consideration for the Luoyang Acquisition payable by Zhongshi is RMB26,680,000 (equivalent to approximately HK\$26,680,000), of which:

- (1) RMB2,000,000 (equivalent to approximately HK\$2,000,000), being approximately 7.50% of the Luoyang Consideration, was deposited with CBE as deposit on 15 January 2007;
- (2) RMB13,000,000 (equivalent to approximately HK\$13,000,000), being approximately 48.73% of the Luoyang Consideration, was deposited with CBE as deposit on 1 February 2007; and
- (3) the Luoyang Consideration Balance of RMB11,680,000 (equivalent to approximately HK\$11,680,000), being approximately 43.77% of the Luoyang Consideration, is to be paid in cash to the Luoyang Vendor within 5 business days of fulfillment of the Luoyang Balance Payment Conditions as follows:
  - (a) the reallocation of the employees of the Luoyang PRC Company by the Luoyang Vendor;
  - (b) completion of the necessary registration procedures with the relevant PRC registration authorities for the change in equity interest and business type of the Luoyang PRC Company; and
  - (c) obtaining of a State-owned land use rights certificate for a change of the land use type to assignable land.

Conditions (a) and (c) above had not yet fulfilled as at the Latest Practicable Date. It is currently expected that conditions (a) and (c) will be completed by the end of June 2007. Condition (b) above was completed on 13 February 2007.



## LETTER FROM THE BOARD

The whole of the deposits in the total sum of RMB15,000,000 mentioned above for the Luoyang Consideration was released to the Luoyang Vendor on 9 February 2007, which was within 5 business days of the issuance of an equity transfer certificate (產權交易憑證) by CBE on 7 February 2007 and was funded by internal resources of the Group. The Luoyang Consideration Balance is intended to be funded by internal resources of the Group.

The Directors confirm that the Luoyang Consideration was arrived at after arm's length negotiations between the Luoyang Vendor and Zhongshi and was by reference to the valuation of the Luoyang PRC Company of net asset value of approximately RMB26,678,900 (equivalent to approximately HK\$26,678,900) as at 30 June 2006 as appraised by an independent third party valuer by the application of re-install cost method.

The Luoyang Sale Equity was transferred to the Luoyang Vendor at nil consideration by another company ultimately owned by CCHG.

### **Further amount payable or obligations to be assumed by Zhongshi in addition to the Luoyang Consideration under the Luoyang Acquisition Agreement**

#### *Luoyang Indebtedness*

Zhongshi is to repay the Luoyang Indebtedness that the Luoyang PRC Company is owing to the Luoyang Vendor in the sum of RMB2,994,779.1 (equivalent to approximately HK\$2,994,779.1), without interest, within three months of the date of fulfillment of the Luoyang Balance Payment Conditions. As at the Latest Practicable Date, as the Luoyang Balance Payment Conditions have not been satisfied in full, no payment has been made by Zhongshi in respect of the Luoyang Indebtedness. It is the plan of the Group that the repayment of the Luoyang Indebtedness will be funded by its internal resources.

### **Conditions of the Luoyang Acquisition**

Pursuant to the Luoyang Equity Transfer Agreement, the transfer of the Luoyang Sale Equity is conditional upon:

- (i) the Luoyang Vendor having completed all procedures in relation to the public tender of the Luoyang Sale Equity, the Luoyang Vendor having obtained all internal approvals and all approvals and authorisations from the relevant State-owned assets bureau and the relevant assets valuation report having filed with the relevant governmental authority; and
- (ii) Zhongshi having obtained all relevant approvals and authorisations for the Luoyang Acquisition.

All of the above conditions had been fulfilled as at 13 February 2007 and the new business licence of the New Luoyang PRC Company was issued on 13 February 2007.

## LETTER FROM THE BOARD

However, as advised by the PRC legal advisers of the Company, since the Luoyang Balance Payment Conditions have not yet fulfilled in full and the Luoyang Consideration Balance has not been paid to the Luoyang Vendor, the Luoyang Acquisition will not be regarded as completed.

### **Completion of the Luoyang Acquisition**

As confirmed by the Luoyang Vendor and Zhongshi, the Luoyang Acquisition shall only be regarded as completed when the Company has obtained the Independent Shareholders' approval on the Luoyang Acquisition. Notwithstanding the Luoyang Consideration Balance which is to be made pending fulfillment of the Luoyang Balance Payment Conditions, the new business licence (營業執照) was issued in the new name of 洛陽城南中儲物流有限公司 (unofficial English name, Luoyang Southern City CMST Logistics Limited) with the economic nature of the Luoyang PRC Company having changed from State-owned to limited company ("**New Luoyang PRC Company**").

Other than the issuance of the transfer certificate (產權交易憑證) by CBE as mentioned and the procedural formalities in completing the registration procedures with the relevant Industrial and Commercial Bureau of the PRC for the change in ownership of the Luoyang Sale Equity, no other PRC governmental/regulatory approval is required for completion of the Luoyang Acquisition pursuant to the terms of the Luoyang Acquisition Agreement.

The New Luoyang PRC Company will become an indirectly wholly owned subsidiary of the Company upon completion of the Luoyang Acquisition. The New Luoyang PRC Company will be accounted for and consolidated in the accounts of Zhongshi as a subsidiary after completion of the Luoyang Acquisition. The consolidated accounts of Zhongshi, in turn, will continue to be accounted for and consolidated in the consolidated accounts of the Company as a subsidiary after completion of the Luoyang Acquisition. The assets of the Group will be increased by 100% of the assets of the New Luoyang PRC Company and the goodwill arising upon completion of the Luoyang Acquisition (if any) less the consideration paid out by the Group for the Luoyang Acquisition. The liabilities of the Group will be increased by 100% of those the New Luoyang PRC Company. If negative goodwill arises upon completion of the Luoyang Acquisition, it will be credited to the consolidated income statement of the Group. After completion of the New Luoyang PRC Company, there will not be any immediate material effects on the earnings of the Group. However, the Directors are confident that the New Luoyang PRC Company will bring positive contributions to the Group in the future.

### **Repurchase of the Luoyang Sale Equity**

The Luoyang Acquisition constitutes (i) a discloseable transaction for the Company under Chapter 14 of the Listing Rules and (ii) a connected transaction for the Company under Chapter 14A of the Listing Rules which is subject to reporting and announcement requirements, and approval of the Independent Shareholders.

## LETTER FROM THE BOARD

Zhongshi had obtained the new business licence of the New Luoyang PRC Company in accordance with the applicable laws and regulations of the PRC. Since the Luoyang Balance Payment Conditions have not yet fulfilled in full and the Luoyang Consideration Balance has not been paid to the Luoyang Vendor, the Luoyang Acquisition will not be regarded as completed.

Zhongshi and the Luoyang Vendor entered into the Luoyang Supplemental Agreement on 29 January 2007 pursuant to which, among other matters, in case the Independent Shareholders' approval of the Luoyang Acquisition is not forthcoming at the EGM, the Luoyang Vendor shall (a) repurchase from Zhongshi the Luoyang Sale Equity at the Luoyang Consideration; and (b) refund the amount of the Luoyang Indebtedness (to the extent repaid) to Zhongshi.

### **Guarantee by CCHK**

Pursuant to the Deed of Guarantee dated 29 January 2007 entered into among Zhongshi, the Luoyang Vendor and CCHK (the holding company of World Gain, a controlling shareholder (as defined in the Listing Rules) of the Company), CCHK is to guarantee the payment by Zhongshi of the Luoyang Consideration Balance in the sum of RMB11,680,000 (equivalent to approximately HK\$11,680,000), being approximately 43.77% of the Luoyang Consideration. In the event of Zhongshi failing to make payment of the Luoyang Consideration Balance in accordance with the terms of the Luoyang Acquisition Agreement, CCHK shall effect payment of the Luoyang Consideration Balance within 10 business days of the receipt of a written request from the Luoyang Vendor requesting for payment in this regard. Part of the Luoyang Consideration in the sum of RMB15,000,000 was paid by Zhongshi to the Luoyang Vendor on 9 February 2007. The Luoyang Consideration Balance in the sum of RMB11,680,000 (equivalent to approximately HK\$11,680,000) will be paid to the Luoyang Vendor within 5 business days of fulfillment of the Balance Payment Conditions.

CCHK is the holding company of World Gain, the controlling shareholder (as defined in the Listing Rules) of the Company, and is therefore a connected person of the Company. Despite CCHK being a connected person of the Company, the provision of the above guarantee by CCHK to guarantee the obligations of Zhongshi (a 70% owned subsidiary of the Company) in making payment of the Luoyang Consideration Balance is fully exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules as it is on terms better to the Group (no interest will be charged by CCHK for any payment that may require to be made by CCHK) and no security over the assets of the Group is granted in respect of the provision of the above guarantee.

### **Other principal terms of the Luoyang Acquisition Agreement**

Pursuant to the Luoyang Supplemental Agreement and the Luoyang Second Supplemental Agreement, the Luoyang Vendor is to be responsible for applying for a change in the land use type in respect of the land used by the Luoyang PRC Company from allocated land to assignable land. The Luoyang Vendor has further guaranteed the obtaining of the State-owned land use right certificate in respect of such piece of land in

## LETTER FROM THE BOARD

favour of the Luoyang PRC Company with the land use type changed from allocated land to assignable land. The relevant land premium payable for such change shall be borne by the Luoyang Vendor and the related valuation costs and tax payable for such change are to be shared equally between the Luoyang Vendor and Zhongshi. In the event of the Luoyang Vendor failing to effect payment of the relevant land premium payable and to obtain the State-owned land use right certificate in favour of the Luoyang PRC Company as aforesaid, Zhongshi has the right to terminate the Luoyang Acquisition Agreement and to request for the payment of 5% of the Luoyang Consideration from the Luoyang Vendor for breach and a refund of the amount of the Luoyang Indebtedness (to the extent repaid) to Zhongshi. In the event that Zhongshi does not exercise its right to effect a termination of the Luoyang Acquisition in the aforesaid circumstances, Zhongshi has the right to request the Luoyang Vendor to effect payment of the relevant land premium to Zhongshi or to the New Luoyang PRC Company. As at the Latest Practicable Date, the obtaining of the State-owned land use right certificate as aforesaid mentioned is still pending.

The Luoyang Vendor has agreed to indemnify Zhongshi or the New Luoyang PRC Company:

- (a) for all losses that may be suffered by the Luoyang PRC Company as a result of any administrative penalties that may be levied by the relevant PRC authorities for the transfer of the land use right in respect of certain allocated land that was previously transferred to the Third Party. The said allocated land does not form part of the Luoyang Land.
- (b) for all losses that may be suffered by Zhongshi or the New Luoyang PRC Company in relation to (a) any omission that may have been made in submitting the relevant applications to and, in obtaining the relevant certificates from, the relevant PRC authorities in respect of the construction and completion of construction of certain properties that were jointly developed by the Luoyang PRC Company and the Third Party in obtaining the building ownership certificates for such properties; and (b) any monetary dispute between the Luoyang PRC Company and the Third Party. The aforesaid properties are no longer properties of the Luoyang PRC Company and does not form part of the Luoyang Land. It is the understanding of the Company, according to its due diligence review on the Luoyang PRC Company conducted on its behalf, that the monetary dispute between the Luoyang PRC Company and the Third Party mentioned above is relating to the refusal of the Third Party in making payment of a sum of about RMB50,000 to the Luoyang PRC Company as a result of unclear delineation in land boundary in respect of certain properties jointly developed by the Luoyang PRC Company and the Third Party.
- (c) for all losses that may be suffered by Zhongshi or the New Luoyang PRC Company in respect of the dispute between the Luoyang PRC Company and a third party transferee in relation to portion of the amount of consideration of RMB1,955,757.96 paid by the third party transferee to the Luoyang PRC Company for the transfer of certain property that does not form part of the Luoyang Land, which should have been paid but not yet been paid by the Luoyang PRC Company to the relevant PRC authority.

## LETTER FROM THE BOARD

- (d) for all losses that may be suffered by Zhongshi or the New Luoyang PRC Company in the event that the Luoyang Vendor shall fail to effect any of the following prior to completion of the Luoyang Acquisition:
  - (i) obtaining the relevant construction approvals for the construction of and, the building ownership certificates for, properties constructed by the Luoyang PRC Company
  - (ii) obtaining the relevant building ownership certificates under the name of the Luoyang PRC Company which are registered under its former name(s)
  - (iii) cancellation of the registration of the relevant building ownership in respect of properties of the Luoyang PRC Company that have been demolished
- (e) for all losses that may be suffered by Zhongshi or the New Luoyang PRC Company in the event that the Luoyang Vendor shall fail to effect a release of the closure order in respect of certain properties of the Luoyang PRC Company prior to completion of the Luoyang Acquisition.

The above closure order had been released prior to the Latest Practicable Date.

The Luoyang Vendor has agreed to provide Zhongshi with documentary proof confirming the ownership of a railway which it is built upon the Luoyang Land prior to completion of the Luoyang Acquisition. As at the Latest Practicable Date, the Luoyang Vendor has provided part of the documentary proof to the Group. The Luoyang Vendor has agreed to indemnify Zhongshi or the New Luoyang PRC Company for all losses that may be suffered by Zhongshi or the New Luoyang PRC Company in relation to the ownership of the railway.

The parties to the Luoyang Acquisition Agreement have agreed that the Luoyang Vendor shall be entitled to and shall bear the profit and loss of the Luoyang PRC Company during the period from 30 June 2006 and up to the date of completion of the change in business registration.

### **Information on the Luoyang PRC Company**

The Luoyang PRC Company was a State-owned enterprise established in the PRC with registered capital of RMB4,200,000, wholly-owned by the Luoyang Vendor immediately prior to completion of the Luoyang Acquisition.

The principal activities of the Luoyang PRC Company are (a) the organisation of the assets of the State in respect of storage and transportation; (b) international and domestic cargo transportation agency business; (c) materials allocation; and (d) logistics.

## LETTER FROM THE BOARD

The Luoyang PRC Company is the owner of the Luoyang Land comprising a piece of allocated land together with the buildings erected thereon, located at Luoyang City, Henan Province of the PRC, of site area of approximately 80,158.10 sq.m., which is currently used for industrial use. The State-owned land use right certificate in respect of the piece of land has been obtained.

The piece of land is currently zoned for commercial use and application can be made to the relevant PRC authorities for a change of its use from industrial to commercial. It is the intention of the Group to apply for a change of the usage of the Luoyang Land from industrial to commercial, subject to the market conditions, the Group's resources and the relevant legal requirements at that time. However, it is expected that the piece of land will continue to be used for industrial use prior to any change in its use.

The audited total assets of the Luoyang PRC Company as at 30 June 2006 was approximately RMB8,123,300 (equivalent to approximately HK\$8,123,300).

The Luoyang PRC Company was valued at a net assets value of approximately RMB26,678,900 (equivalent to approximately HK\$26,678,900) as at 30 June 2006 by an independent third party valuer.

Based on the financial information of the Luoyang PRC Company prepared in accordance with accounting principles generally accepted in the PRC, the net losses (both before and after taxation and extraordinary items) of the Luoyang PRC Company for the two financial years immediately preceding the date of the Luoyang Acquisition Agreement are as follows:

	<b>Year ended 31 December 2004 RMB'000 (audited)</b>	<b>Year ended 31 December 2005 RMB'000 (unaudited)</b>
Net (losses) before taxation and extraordinary items	(268)	(2,998)
Net (losses) after taxation and extraordinary items	(268)	(2,998)

The Directors confirmed that there is no material adverse change to the financial position of the New Luoyang PRC Company since 30 June 2006, the date of its latest audited accounts.

### *Risks associated with the Luoyang PRC Company*

The Group has identified the following major risks associated with the Luoyang PRC Company:

- (a) The Luoyang PRC Company has previously transferred certain allocated land to the Third Party.

## LETTER FROM THE BOARD

- (b) The relevant certificates from the relevant PRC authorities in respect of the construction and completion of construction of certain properties that were jointly developed by the Luoyang PRC Company and the Third Party and the building ownership certificates for such properties have not been obtained.
- (c) There was a dispute between the Luoyang PRC Company and the Third Party regarding certain properties not forming part of the Luoyang Land and previously jointly developed by the Luoyang PRC Company and the Third Party. It is the understanding of the Company, according to its due diligence review on the Luoyang PRC Company conducted on its behalf, that such dispute is relating to the refusal of the Third Party in making payment of a sum of about RMB50,000 to the Luoyang PRC Company as a result of unclear delineation in land boundary in respect of such properties.
- (d) There was a dispute between the Luoyang PRC Company and a third party transferee in relation to portion of the amount of consideration of RMB1,955,757.96 paid by the third party transferee to the Luoyang PRC Company for the transfer of certain property that does not form part of the Luoyang Land, which should have been paid but not yet been paid by the Luoyang PRC Company to the relevant PRC authority.
- (e) The Luoyang PRC Company has failed to:
  - (i) obtain the relevant construction approvals for the construction of and, the building ownership certificates for, properties constructed by the Luoyang PRC Company;
  - (ii) obtain the relevant building ownership certificates under the name of the Luoyang PRC Company which are registered under its former name(s); and
  - (iii) cancel the registration of the relevant building ownership in respect of properties of the Luoyang PRC Company that have been demolished.
- (f) Certain properties of the Luoyang PRC Company were previously subject to a closure order.

The Luoyang Vendor has agreed to indemnify Zhongshi or the New Luoyang PRC Company for all losses that may be suffered by Zhongshi or the New Luoyang PRC Company in respect of the above matters, the details of which is set out in the paragraph headed "Other principal terms of the Luoyang Acquisition Agreement" above.

### REASONS FOR AND BENEFIT OF THE XIAN AND LUOYANG ACQUISITIONS

During the financial year ended 31 December 2005, the Group's property development business initiated a good start by completing its residential development project in Beijing and the sale of the residential units of that project. In the later half of 2006, the Group acquired an indirect interest in a piece of land located at the Huzhou City of the Zhejiang

## LETTER FROM THE BOARD

Province of the PRC through the acquisition of Great Royal International Limited as announced in the announcements of the Company dated 20 and 21 June 2006. The Xian and Luoyang Acquisitions will increase the Group's land reserve and are in line with the Group's policy in further enhancing its property development business in the PRC and are beneficial to the Group in the long run. The Xian Property Project is intended to be developed as a commodity residential development, subject to approval of the relevant PRC government authorities. The Luoyang Land is currently used for industrial use as logistics centre and zoned for commercial use. Whether the Luoyang Land is to be converted for commercial use and if so, the exact timing and the commercial uses that are to be developed for, are subject to numerous factors, including without limitation, market conditions, market needs and the then prevailing PRC government policies on property development.

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

### REQUIREMENTS OF THE LISTING RULES

Each of the Xian Vendor and the Luoyang Vendor is a subsidiary of CCHG and is therefore a connected person of the Company under the Listing Rules.

The Xian Acquisition and the Luoyang Acquisition when aggregated constitute (i) a discloseable transaction for the Company under Chapter 14 of the Listing Rules and (ii) a connected transaction for the Company under Chapter 14A of the Listing Rules which is subject to reporting and announcement requirements, and approval of the Independent Shareholders.

Each of the Xian Vendor and the Luoyang Vendor and their respective associates are required to abstain from voting at the EGM approving the Xian and Luoyang Acquisitions. Each of the Xian Vendor and the Luoyang Vendor has confirmed that it and its associates (other than World Gain) do not hold any Shares as at the Latest Practicable Date.

### 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.

### EGM

The Company will convene the EGM at 10:30 a.m. on Friday, 8 June 2007 at Falcon Room II, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong to consider the Xian and Luoyang Acquisitions. A notice of the EGM is set out on pages 54 to 56 of this circular. So far as the Directors are aware, World Gain, the controlling shareholder of the Company holding approximately 30.10% of the issued share capital of the Company, is required to abstain from voting in respect of the resolutions proposed to be passed at the EGM in relation to the Xian and Luoyang Acquisitions, and no other Shareholder is required to abstain from voting at the EGM.



## LETTER FROM THE BOARD

A form of proxy for use at the EGM is also enclosed. If you are not able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrar Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

### POLL PROCEDURE

Pursuant to article 76 of the Articles, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (a) by the Chairman of the meeting; or
- (b) by at least three members present in person (or in case of a member being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (d) by a member or members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the Chairman that a resolution has been on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

Pursuant to Rule 13.39(4) of the Listing Rules, the vote of the Independent Shareholders taken at the EGM will be taken by poll, the results of which will be announced on the next business day after the EGM.

## LETTER FROM THE BOARD

### RECOMMENDATION

The Independent Board Committee comprising independent non-executive Directors, namely Mr. Kwong Che Keung, Gordon, Mr. Tsui Yiu Wa, Alec and Mr. Lao Youan, has been established to advise the Independent Shareholders as to the fairness and reasonableness of the terms of each of the Xian Acquisition and the Luoyang Acquisition. Your attention is drawn to the advice of the Independent Board Committee set out in its letter set out on page 25 of this circular. Your attention is also drawn to the letter of advice from CIMB-GK to the Independent Board Committee and the Independent Shareholders in respect of the terms of each of the Xian Acquisition and the Luoyang Acquisition set out on pages 26 to 37 in this circular.

The Independent Board Committee, having taken into account the advice of CIMB-GK, considers that the terms of each of the Xian Acquisition and the Luoyang Acquisition is on normal commercial terms and in the best interest of the Company and the Shareholders as a whole. The Independent Board Committee also considers that the terms of each of the Xian Acquisition and the Luoyang Acquisition are fair and reasonable so far as the Independent Shareholders are concerned and recommend the Independent Shareholders to vote in favour of the ordinary resolutions approving each of the Xian Acquisition and the Luoyang Acquisition at the EGM.

### ADDITIONAL INFORMATION

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

Yours faithfully,  
For and on behalf of the Board of  
**China Chengtong Development Group Limited**  
**Zhang Guotong**  
*Managing Director*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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



**CHINA CHENGTONG DEVELOPMENT GROUP LIMITED**

**中國誠通發展集團有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 217)**

4 May 2007

*To the Independent Shareholders*

**DISCLOSEABLE AND CONNECTED TRANSACTIONS**  
**in respect of**  
**the acquisition of 52% of the equity interest in the Xian PRC Company**  
**and**  
**the acquisition of the entire equity interest in the Luoyang PRC Company**

Dear Sir or Madam,

We refer to the circular issued by the Company to its Shareholders and dated 4 May 2007 ("**Circular**") of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

Under the Listing Rules, each of the Xian Acquisition and the Luoyang Acquisition constitutes a connected transaction for the Company and is thus subject to the approval of the Independent Shareholders at the EGM.

We have been appointed by the Board to consider the terms of each of the Xian Acquisition and the Luoyang Acquisition and to advise the Independent Shareholders in connection therewith and as to whether, in our opinion, such terms are fair and reasonable so far as the Independent Shareholders are concerned. CIMB-GK has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from CIMB-GK as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, CIMB-GK as set out in its letter of advice, we consider that the terms of each of the Xian Acquisition and the Luoyang Acquisition are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and is in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions approving each of the Xian Acquisition and the Luoyang Acquisition at the EGM.

Yours faithfully,  
For and on behalf of

**Independent Board Committee**

**Kwong Che Keung, Gordon    Tsui Yiu Wa, Alec    Lao Youan**

*Independent non-executive Directors*

## LETTER FROM CIMB-GK

*The following is the full text of a letter of advice prepared by CIMB-GK to the Independent Board Committee for the purpose of inclusion in this circular:*

 **CIMB**  
**CIMB-GK Securities (HK) Limited**

25/F Central Tower  
28 Queen's Road Central  
Hong Kong

4 May 2007

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

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RESPECT OF THE ACQUISITION OF 52% OF THE EQUITY INTEREST IN THE XIAN PRC COMPANY AND THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN THE LUOYANG PRC COMPANY**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Xian and Luoyang Acquisitions, details of which are set out in a circular ("Circular") to the Shareholders dated 4 May 2007, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in this circular unless the context otherwise requires.

The Independent Board Committee comprising independent non-executive Directors, namely Mr. Kwong Che Keung, Gordon, Mr. Tsui Yiu Wa, Alec and Mr. Lao Youan, has been established to advise the Independent Shareholders as to whether the terms of the Xian and Luoyang Acquisitions are fair and reasonable and whether the Xian and Luoyang Acquisitions are in the interests of the Company and the Shareholders as a whole.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular. We have also assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

## LETTER FROM CIMB-GK

We consider that we have reviewed sufficient information and documents to satisfy ourselves that we have a reasonable basis to assess the fairness and reasonableness of the terms of the Xian and Luoyang Acquisitions in order to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, the Xian PRC Company, the Luoyang PRC Company or any of its respective subsidiaries or associates.

### A. THE XIAN ACQUISITION

#### **Principal factors and reasons considered**

In assessing the fairness and reasonableness of the Xian Acquisition, we have taken into account the following principal factors and reasons:

#### *Background and rationale*

The Group is principally engaged in property development, development of land resources, and strategic investment. As stated in the annual report of the Company for the year ended 31 December 2006, the Directors expected that the growth in the PRC economy will remain robust in future and the Group considered that the value of land resources in the PRC will continue to grow. Given the aforesaid, the Group will continue to focus on property development, development of land resources and strategic investment and identify new investment opportunities which are beneficial to the Group and the Shareholders.

The Xian Equity Transfer Agreement was entered into on 15 January 2007 in pursuance of the successful tender by Zhongshi in the public tender of the Xian Sale Equity. The Xian Sale Equity to be acquired under the Xian Acquisition Agreement comprises 52% of the registered capital of the Xian PRC Company held by the Xian Vendor. The Xian Supplemental Agreement was entered into on 15 March 2007 by the Xian Vendor, Zhongshi and Beijing Caopu to clarify the payment terms of the Xian Outstanding Loan and the rights and obligations of Beijing Caopu relating to the Property Development Agreement.

Pursuant to the Xian Equity Transfer Agreement, the transfer of the Xian Sale Equity is conditional upon (i) the Xian Vendor having completed all procedures in relation to the public tender of the Xian Sale Equity through CBE; and (ii) Zhongshi having obtained all relevant approvals and authorisations for the Xian Acquisition in accordance with its articles and the laws of the PRC. As advised by the Company, all of the above conditions had been fulfilled and the new business licence of the Xian PRC Company has been issued on 14 March 2007. However, as disclosed in the Letter from the Board, the PRC legal advisers of the Company advised that the Xian Acquisition would not be regarded as completed solely on the basis that the new business licence of the Xian PRC Company has been issued. Although the Xian Consideration was already paid to the Xian Vendor on 19 January 2007, it is agreed

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by the parties in the Xian Letter of Undertaking and the Xian Supplemental Agreement that in case the Independent Shareholders' approval of the Xian Acquisition is not forthcoming at the EGM, the Xian Vendor shall repurchase the Xian Sale Equity from Zhongshi at the Xian Consideration.

The Xian PRC Company is a limited company established in the PRC with registered capital of RMB30,000,000, of which RMB15,600,000 (52% of the registered capital) was owned by the Xian Vendor and the remaining RMB14,400,000 (48% of the registered capital) was owned by the Xian 48% Equity Owner as at the date of the Xian Equity Transfer Agreement. As noted from the Letter from the Board, the Xian 48% Equity Owner had disposed of its interest in 48% of the registered capital in the Xian PRC Company to Beijing CaoPu, an independent third party. As advised by the Company, the current principal activity of the Xian PRC Company is property development. Based on the financial information of the Xian PRC Company prepared in accordance with accounting principles generally accepted in the PRC, the net losses (both before and after taxation and extraordinary items) of the Xian PRC Company for the years ended 31 December 2004 and 2005 were approximately RMB390,000 and RMB364,000 respectively. The major asset of the Xian PRC Company is a piece of land with site area with approximately 79,135.50 sq.m., located at Xian City, Shaanxi Province of the PRC. The Xian PRC Company is in the course of developing the Xian Property Project which is intended to be developed into a residential property development project known or to be known as 堤柳花園 (translated as Di Liu Garden), subject to approval of the relevant PRC government authorities. The land use right certificate in respect of the piece of land has been issued. It is expected that the relevant permit for the commencement of the construction works in respect of the Xian Property Project will be obtained from the relevant PRC authority in the first quarter of 2008, subject to timely approval by the relevant PRC authority. The Xian Acquisition will increase the Group's land reserve and is in line with the Group's policy in further enhancing its property development business in the PRC.

Given the above, we concur with the views of the Directors and consider that the Xian Acquisition is in line with the stated business strategy of the Company to continue to focus on property development, development of land resources and strategic investment, and is in the interest of the Company and the Shareholders as a whole.

### *Consideration*

The Xian Consideration for the Xian Acquisition payable by Zhongshi is RMB25,600,000 (equivalent to approximately HK\$25,600,000). We note that the Xian Consideration was arrived at after arm's length negotiations between the Xian Vendor and Zhongshi and was determined with reference to the revalued net asset value of the Xian PRC Company (after taking into account the valuation performed by an independent PRC valuer ("PRC Valuer") based on the re-install cost method) as at 31 May 2006.

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Based on the audited net asset value (“NAV”) of the Xian PRC Company as at 31 May 2006, as adjusted by the valuation on the land and property values held by the Xian PRC Company (“Xian Valuation”) performed by B.I. Appraisals Limited, an independent valuer (“Independent Valuer”), the Xian Consideration represents a discount of approximately 5.7% to the 52% attributable interest in the unaudited adjusted NAV of the Xian PRC Company as at 31 May 2006 of approximately RMB27.14 million (equivalent to approximately HK\$27.14 million) (“Adjusted Xian NAV”).

As noted from the valuation report set out in Appendix I to the Circular, in performing the Xian Valuation, the Independent Valuer has adopted the direct comparison approach for the valuation of the Xian Property Project. We have been advised by the Independent Valuer that given the particulars of the Xian Property Project, the above valuation methodologies are commonly used in arriving at the Xian Valuation. As the Xian PRC Company is principally engaged in property development and investment and it is a common market practice to value a property company based on its asset base, we consider it appropriate to take into account the Adjusted Xian NAV of the Xian PRC Company in determining the fairness of the Xian Consideration.

Having regard to the above factors, and in particular that the Xian Consideration is at a discount to the 52% attributable interest in the unaudited Adjusted Xian NAV of the Xian PRC Company as at 31 May 2006, we consider the Xian Consideration to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### *Xian Outstanding Loan*

As at 31 December 2006, the Xian PRC Company is indebted to the Xian Vendor (the Xian Outstanding Loan) in the aggregate principal amount of RMB26,000,000 (equivalent to approximately HK\$26,000,000). The Xian Outstanding Loan was provided by the Xian Vendor to the Xian PRC Company at time when the Xian PRC Company did not possess the necessary credentials in obtaining bank loans. No collateral security was required by the Xian Vendor for the provision of the Xian Outstanding Loan to the Xian PRC Company. Zhongshi is to assume the Xian PRC Company’s obligation in making repayment of the Xian Outstanding Loan together with interest thereon to the Xian Vendor. As the Xian PRC Company will become the Group’s subsidiary upon completion of the Xian Acquisition, the Company considers it is reasonable to support the development of the Xian PRC Company.

On 25 April 2007, the Xian PRC Company and Zhongshi entered into the Second Xian Supplemental Agreement to further clarify the rights and obligations of the Xian PRC Company and Zhongshi in relation to the RMB26,000,000 outstanding loan (“Zhongshi Loan”). Pursuant to the Second Xian Supplemental Agreement, the Zhongshi Loan together with interest accrued thereon shall become repayable by

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the Xian PRC Company upon demand by Zhongshi by serving 30 days' notice to the Xian PRC Company at an interest rate of 12% per annum. Based on the lending rates published by the People's Bank of China as at 18 March 2007, being the latest update prior to the Latest Practicable Date, the annual interest rate for loans with lending period of one to three years was approximately 6.57%. We note that the Zhongshi Loan provides higher annual interest rates than the lending rates published by the People's Bank of China. We further note that any additional capital requirements for the development of the Xian Property Project by way of shareholders' loan will be provide by Zhongshi and Beijing Caopu on a pro rata basis in proportion to their equity interests in the Xian PRC Company.

Given the above, we concur with the views of the Directors and consider that the terms of the Zhongshi Loan are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

### **Possible Financial Effect**

#### *Net asset value and earnings*

The Xian PRC Company will become a 52% indirectly owned subsidiary of the Company after completion of the Xian Acquisition which will be accounted for and consolidated in the accounts of Zhongshi as a subsidiary after completion of the Xian Acquisition. The consolidated accounts of Zhongshi, in turn, will continue to be accounted for and consolidated in the consolidated accounts of the Company as a subsidiary after completion of the Xian Acquisition. As noted from the Letter from the Board, the Directors confirmed that there is no material change to the financial position of the Xian PRC Company since 31 May 2006, the date of its latest audited accounts.

As the Xian Consideration represents a discount of approximately 5.7% to the Adjusted Xian NAV, we consider that there will not be any material adverse impact on the net asset value nor the earnings of the Group immediately upon completion of the Xian Acquisition.

#### *Working capital*

The Xian Consideration was already paid to the Xian Vendor on 19 January 2007. As noted from the annual report of the Group for the year ended 31 December 2006, the bank balances and cash of the Group amounted to approximately HK\$117 million. We also noted from the Company's circular dated 1 March 2007 that approximately 80% of the net proceeds from the Company's rights issue of HK\$194 million will be used for investment opportunities in Hong Kong and the PRC. Given the above, we consider that the Xian Acquisition should not have any material adverse impact to the liquidity and cash flow position of the Group.



## **Recommendation**

Having considered the background and rationale, the consideration, the Xian Outstanding Loan and the possible financial effect of the Xian Acquisition, we consider the Xian Acquisition is fair and reasonable, based on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, and the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Xian Acquisition.

## **B. THE LUOYANG ACQUISITION**

### **Principal factors and reasons considered**

In assessing the fairness and reasonableness of the Luoyang Acquisition, we have taken into account the following principal factors and reasons:

#### *Background and rationale*

The Luoyang Equity Transfer Agreement was entered into on 29 January 2007 in pursuance of the successful tender by Zhongshi in the public tender of the Luoyang Sale Equity. The Luoyang Sale Equity acquired pursuant to the Luoyang Acquisition Agreement comprises 100% of the registered capital of the Luoyang PRC Company held by the Luoyang Vendor. The Luoyang Supplemental Agreement dated 29 January 2007 was entered into by the Luoyang Vendor and Zhongshi relating to the Luoyang Acquisition. On 15 March 2007, the Luoyang Vendor and Zhongshi entered into the Luoyang Second Supplemental Agreement to clarify the rights of Zhongshi in the event of the Luoyang Vendor failing to effect payment of the relevant land premium payable and to obtain the State-owned land use right certificate in favour of the Luoyang PRC Company as more particularly set out in the paragraph headed "Other principal terms of the Luoyang Acquisition Agreement" of this letter.

Pursuant to the Luoyang Equity Transfer Agreement, the transfer of the Luoyang Sale Equity is conditional upon (i) the Luoyang Vendor having completed all procedures in relation to the public tender of the Luoyang Sale Equity, the Luoyang Vendor having obtained all internal approvals and all approvals and authorisations from the relevant State-owned assets bureau and the relevant assets valuation report having been filed with the relevant governmental authority; and (ii) Zhongshi having obtained all relevant approvals and authorisations for the Luoyang Acquisition. As advised by the Company, all of the above conditions had been fulfilled and the new business licence of the New Luoyang PRC Company has been issued on 13 February 2007. However, as advised by the PRC legal advisers of the Company, since the Luoyang Balance Payment Conditions have not yet fulfilled in full and the Luoyang Consideration Balance has not been paid to the Luoyang Vendor, the Luoyang Acquisition will not be regarded as completed. Zhongshi is to repay the Luoyang Indebtedness that the Luoyang PRC Company is owing to the Luoyang Vendor in the sum of RMB2,994,779.1 (equivalent to approximately

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HK\$2,994,779.1), without interest, within three months of the date of fulfillment of the Luoyang Balance Payment Conditions. Furthermore, as advised by the PRC legal advisers, the Luoyang Acquisition shall only be regarded as completed when the Company has obtained the Independent Shareholders' approval on the Luoyang Acquisition. Zhonghai and the Luoyang Vendor entered into the Luoyang Supplemental Agreement on 29 January 2007 pursuant to which, among other matters, in case the Independent Shareholders' approval of the Luoyang Acquisition is not forthcoming at the EGM, the Luoyang Vendor shall (a) repurchase from Zhongshi the Luoyang Sale Equity at the Luoyang Consideration; and (b) refund the amount of the Luoyang Indebtedness (to the extent repaid) to Zhongshi.

The Luoyang PRC Company was a State owned enterprise established in the PRC with registered capital of RMB4,200,000, all of which was owned by the Luoyang Vendor immediately prior to completion of the Luoyang Acquisition. As advised by the Company, the current principal activity of the Luoyang PRC Company is the storage and transportation business. Based on the financial information of the Luoyang PRC Company prepared in accordance with accounting principles generally accepted in the PRC, the net losses (both before and after taxation and extraordinary items) of the Luoyang PRC Company for the years ended 31 December 2004 and 2005 were approximately RMB268,000 and RMB2,998,000 respectively. The major asset of the Luoyang PRC Company is the Luoyang Land, comprising a piece of allocated land together with the buildings erected thereon, located at Gangchang Road, Guanlin Town, Luolong District, Luoyang City, Henan Province of the PRC, of site area of approximately 80,158.10 sq.m., which is currently used for industrial use. The State-owned land use right certificate in respect of the piece of land has been obtained. The piece of land is currently zoned for commercial use and application can be made to the relevant PRC authorities for a change of its use from industrial to commercial. It is the intention of the Group to apply for a change of the usage of the Luoyang Land from industrial to commercial, subject to the market conditions, the Group's resources and the relevant legal requirements at that time. However, it is expected that the piece of land will continue to be used for industrial use prior to any change in its use. The Luoyang Acquisition will increase the Group's land reserve and is in line with the Group's policy in further enhancing its property development business in the PRC.

Given the above, we concur with the views of the Directors and consider that the Luoyang Acquisition is in line with the stated business strategy of the Company to continue to focus on property development, development of land resources and strategic investment, and is in the interest of the Company and the Shareholders as a whole.

### *Consideration*

The Luoyang Consideration for the Luoyang Acquisition payable by Zhongshi is RMB26,680,000 (equivalent to approximately HK\$26,680,000). We note that the Luoyang Consideration was arrived at after arm's length negotiations between the Luoyang Vendor and Zhongshi and was by reference to the revalued NAV of the Luoyang PRC Company (after taking into account the valuation performed by the PRC Valuer based on the re-install cost method) as at 30 June 2006.

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As noted from the valuation report set out in Appendix I to the Circular, in performing the Luoyang Valuation, the Independent Valuer has adopted the depreciated replacement cost approach for the Luoyang Land, which is based on an estimate of the market value for the existing use of land in the property, and the costs to reproduce or replace the buildings and structures. We have been advised by the Independent Valuer that given the particulars of the Luoyang PRC Company, the above valuation methodologies are commonly used in arriving at the Luoyang Valuation (as defined below). As noted from the valuation report, the Independent Valuer has ascribed no commercial value to the Luoyang Land, as the State-owned land use right certificate for the Luoyang Land with the land use type changed from allocated land to assignable land remained outstanding as at the date of the valuation report. However, the Independent Valuer is of the opinion that the market value of the Luoyang Land as at the date of the valuation would be RMB32,200,000 assuming that the State-owned land use right certificate for the Luoyang Land has been changed from allocated land to assignable land with all land premium settled in full and that the land use rights of the property have been granted for a term of 50 years for storage use. We further noted that assuming that the land use rights of the land could be changed from industrial use to commercial use for a term of 40 years with land premium settled in full, the market value of the Luoyang Land would be RMB51,500,000.

Pursuant to the Luoyang Supplemental Agreement and the Luoyang Second Supplemental Agreement, the Luoyang Vendor has guaranteed the obtaining of the State-owned land use right certificate in respect of the Luoyang Land in favour of the Luoyang PRC Company with the land use type changed from allocated land to assignable land. The relevant land premium payable for such change shall be borne by the Luoyang Vendor. Based on the audited NAV of the Luoyang PRC Company as at 30 June 2006, as adjusted by the valuation on the Luoyang Land ("Luoyang Valuation") performed by the Independent Valuer of RMB32,200,000 (assuming that the State-owned land use right certificate for the Luoyang Land has been changed from allocated land to assignable land), the Luoyang Consideration represents a discount of approximately 8.9% to the unaudited adjusted NAV of the Luoyang PRC Company as at 30 June 2006 of approximately RMB29.3 million (equivalent to approximately HK\$29.3 million) ("Adjusted Luoyang NAV").

Having regard to the above factors, and in particular that the Luoyang Consideration is at a discount to the unaudited Adjusted Luoyang NAV of the Luoyang PRC Company as at 30 June 2006, we consider the Luoyang Consideration to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### *Other principal terms of the Luoyang Acquisition Agreement*

As noted from the Luoyang Supplemental Agreement and the Luoyang Second Supplemental Agreement, the Luoyang Vendor is to be responsible for applying for a change in the land use type in respect of the land used by the Luoyang PRC Company from allocated land to assignable land. The Luoyang Vendor has further

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guaranteed the obtaining of the State-owned land use right certificate in respect of such piece of land in favour of the Luoyang PRC Company with the land use type changed from allocated land to assignable land. The relevant land premium payable for such change shall be borne by the Luoyang Vendor and the related valuation costs and tax payable for such change are to be shared equally between the Luoyang Vendor and Zhongshi. In the event of the Luoyang Vendor failing to effect payment of the relevant land premium payable and to obtain the State-owned land use right certificate in favour of the Luoyang PRC Company as aforesaid, Zhongshi has the right to terminate the Luoyang Acquisition Agreement and to request for the payment of 5% of the Luoyang Consideration from the Luoyang Vendor for breach and a refund of the amount of the Luoyang Indebtedness (to the extent repaid) to Zhongshi. In the event that Zhongshi does not exercise its right to effect a termination of the Luoyang Acquisition in the aforesaid circumstances, Zhongshi has the right to request the Luoyang Vendor to effect payment of the relevant land premium to Zhongshi or to the New Luoyang PRC Company. As at the Latest Practicable Date, the obtaining of the State-owned land use right certificate as aforesaid mentioned is still pending.

As noted from the Letter from the Board of this Circular, the Group has identified the following major risks associated with the Luoyang PRC Company:

- (a) The Luoyang PRC Company has previously transferred certain allocated land to the Third Party.
- (b) The relevant certificates from the relevant PRC authorities in respect of the construction and completion of construction of certain properties that were jointly developed by the Luoyang PRC Company and the Third Party and the building ownership certificates for such properties have not been obtained.
- (c) There was a dispute between the Luoyang PRC Company and the Third Party regarding certain properties not forming part of the Luoyang Land and previously jointly developed by the Luoyang PRC Company and the Third Party. It is the understanding of the Company, according to its due diligence review on the Luoyang PRC Company conducted on its behalf, that such dispute is relating to the refusal of the Third Party in making payment of a sum of about RMB50,000 to the Luoyang PRC Company as a result of unclear delineation in land boundary in respect of such properties.
- (d) There was a dispute between the Luoyang PRC Company and a third party transferee in relation to portion of the amount of consideration of RMB1,955,757.96 paid by the third party transferee to the Luoyang PRC Company for the transfer of certain property that does not form part of the Luoyang Land, which should have been paid but not yet been paid by the Luoyang PRC Company to the relevant PRC authority.

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- (e) The Luoyang PRC Company has failed to:
  - (i) obtain the relevant construction approvals for the construction of and, the building ownership certificates for, properties constructed by the Luoyang PRC Company;
  - (ii) obtain the relevant building ownership certificates under the name of the Luoyang PRC Company which are registered under its former name(s); and
  - (iii) cancel the registration of the relevant building ownership in respect of properties of the Luoyang PRC Company that have been demolished.
- (f) Certain properties of the Luoyang PRC Company were previously subject to a closure order.

In order to address the risks as stated above, pursuant to the Luoyang Supplemental Agreement and the Luoyang Second Supplemental Agreement, the Luoyang Vendor has agreed to indemnify Zhongshi or the New Luoyang PRC Company as follows:

- (i) for all losses that may be suffered by the Luoyang PRC Company as a result of any administrative penalties that may be levied by the relevant PRC authorities for the transfer of the land use right in respect of certain allocated land that was previously transferred to the Third Party. The said allocated land does not form part of the Luoyang Land.
- (ii) for all losses that may be suffered by Zhongshi or the New Luoyang PRC Company in relation to (a) any omission that may have been made in submitting the relevant applications to and, in obtaining the relevant certificates from, the relevant PRC authorities in respect of the construction and completion of construction of certain properties that were jointly developed by the Luoyang PRC Company and the Third Party in obtaining the building ownership certificates for such properties; and (b) any monetary dispute between the Luoyang PRC Company and the Third Party. The aforesaid properties are no longer properties of the Luoyang PRC Company and does not form part of the Luoyang Land. It is the understanding of the Company, according to its due diligence review on the Luoyang PRC Company conducted on its behalf, that the monetary dispute between the Luoyang PRC Company and the Third Party mentioned above is relating to the refusal of the Third Party in making payment of a sum of about RMB50,000 to the Luoyang PRC Company as a result of unclear delineation in land boundary in respect of certain properties jointly developed by the Luoyang PRC Company and the Third Party.

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- (iii) for all losses that may be suffered by Zhongshi or the New Luoyang PRC Company in respect of the dispute between the Luoyang PRC Company and a third party transferee in relation to portion of the amount of consideration of RMB1,955,757.96 paid by the third party transferee to the Luoyang PRC Company for the transfer of certain property that does not form part of the Luoyang Land, which should have been paid but not yet been paid by the Luoyang PRC Company to the relevant PRC authority.
- (iv) for all losses that may be suffered by Zhongshi or the New Luoyang PRC Company in the event that the Luoyang Vendor shall fail to effect any of the following prior to completion of the Luoyang Acquisition:
  - (i) obtaining the relevant construction approvals for the construction of and, the building ownership certificates for, properties constructed by the Luoyang PRC Company
  - (ii) obtaining the relevant building ownership certificates under the name of the Luoyang PRC Company which are registered under its former name(s)
  - (iii) cancellation of the registration of the relevant building ownership in respect of properties of the Luoyang PRC Company that have been demolished
- (v) for all losses that may be suffered by Zhongshi or the New Luoyang PRC Company in the event that the Luoyang Vendor shall fail to effect a release of the closure order in respect of certain properties of the Luoyang PRC Company prior to completion of the Luoyang Acquisition. As advised by the Company, the above closure order has been released prior to completion of the Luoyang Acquisition.

The Luoyang Vendor has agreed to provide Zhongshi with documentary proof confirming the ownership of a railway which it is built upon the Luoyang Land prior to completion of the Luoyang Acquisition. The Luoyang Vendor has agreed to indemnify Zhongshi or the New Luoyang PRC Company for all losses that may be suffered by Zhongshi or the New Luoyang PRC Company in relation to the ownership of the railway.

Given that i) the properties mentioned in the above items (a) to (d) do not form part of the Luoyang Land and the value of these properties does not affect the Adjusted Luoyang NAV (which was computed based on the audited NAV of the Luoyang PRC Company as at 30 June 2006, as adjusted by the Luoyang Valuation); ii) the closure order has been released in relation to the properties mentioned in item (f); and iii) pursuant to a PRC legal opinion dated 3 April 2007, the above indemnity provided by the Luoyang Vendor is legally enforceable, we consider that the above undertaking or indemnity provided by the Luoyang Vendor in favour of Zhongshi or the New Luoyang PRC Company pursuant to the Luoyang Supplemental Agreement and the Luoyang Second Supplemental Agreement would protect the Company against possible losses arising from the various title defects and disputes relating to properties owned by the Luoyang PRC Company.

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### **Possible financial effect**

#### *Net asset value and earnings*

The New Luoyang PRC Company will become an indirectly wholly owned subsidiary of the Company upon completion of the Luoyang Acquisition which will be accounted for and consolidated in the accounts of Zhongshi as a subsidiary after completion of the Luoyang Acquisition. The consolidated accounts of Zhongshi, in turn, will continue to be accounted for and consolidated in the consolidated accounts of the Company as a subsidiary after completion of the Luoyang Acquisition. As noted from the Letter from the Board, the Directors confirmed that there is no material change to the financial position of the New Luoyang PRC Company since 30 June 2006, the date of its latest audited accounts.

As the Luoyang Consideration represents a discount of approximately 8.9% to the Adjusted Luoyang NAV, we consider that there will not be any material adverse impact on the net asset value or the earnings of the Group immediately upon completion of the Luoyang Acquisition.

#### *Working capital*

RMB15,000,000 of the Luoyang Consideration was already paid to the Luoyang Vendor on 9 February 2007. The Luoyang Consideration Balance of approximately RMB11,680,000 will be paid within 5 business days of fulfillment of the Luoyang Balance Payment Conditions and is intended to be funded by internal resources of the Group. As noted from the annual report of the Group for the year ended 31 December 2006, the bank balances and cash of the Group amounted to approximately HK\$117 million. We also noted from the Company's circular dated 1 March 2007 that approximately 80% of the net proceeds from the Company's rights issue of HK\$194 million will be used for investment opportunities in Hong Kong and the PRC. Given the above, we consider that the Luoyang Acquisition should not have any material adverse impact to the liquidity and cash flow position of the Group.

### **Recommendation**

Having considered the background and rationale, the consideration, other principal terms of the Luoyang Acquisition Agreement and the possible financial effect of the Luoyang Acquisition, we consider the Luoyang Acquisition is fair and reasonable, based on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, and the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Luoyang Acquisition.

Yours faithfully,

For and on behalf of

**CIMB-GK Securities (HK) Limited**

**Alex Lau**

*Executive Vice President*

**Heidi Cheng**

*Senior Vice President*

*The following in the text of the letter and valuation certificates received from B.I. Appraisals Limited, an independent property valuer, prepared for the purpose of incorporation in this circular, in connection with their valuation of the property interests held by Xian PRC Company and Luoyang PRC Company as at 4 May 2007.*



## **B.I. Appraisals Limited** **保柏國際評估有限公司**

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Website: www.bisurveyors.com.hk

4 May 2007

The Directors  
China Chengtong Development Group Limited  
Suite 6406, 64th Floor, Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong

Dear Sirs,

In accordance with the instructions from China Chengtong Development Group Limited (hereinafter referred to as the "Company") for us to value the properties (please refer to Summary of Values below for details), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of each of such property interests as at 31 March 2007 (hereinafter referred to as the "Date of Valuation").

It is our understanding that this valuation document is to be used for reference purpose in relation to the proposed acquisitions of the equity interests of the companies which hold such properties; and for the purpose of inclusion in a circular issued by the Company regarding the proposed acquisition date 4 May 2007.

This letter, forming part of our valuation report, identifies the properties being valued, explains the basis and methodology of our valuation, and lists out the assumptions and the title investigation we have made in the course of our valuation, as well as the limiting conditions.

### **BASIS OF VALUATION**

Our valuation of each of the properties is our opinion of its market value which we would define as intended to mean "an estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."



We have valued the properties on the basis that each of them is considered individually. We have not allowed for any discount for the properties to be sold to a single party nor taken into account any effect on the values if the properties are to be offered for sale at the same time as a portfolio.

Our valuations have been carried out in accordance with The HKIS Valuation Standards on Properties (1st Edition 2005) issued by the Hong Kong Institute of Surveyors and under generally accepted valuation procedures and practices, which are in compliance with Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Practice Note 12 issued by The Stock Exchange of Hong Kong Limited.

## VALUATION METHODOLOGY

In arriving at the value of the property interest in Property No. 1 which is a vacant land pending for development, we have adopted the Direct Comparison Approach assuming such property interest is capable of being sold in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence or offerings as available in the relevant market.

In arriving at the market value of the property interest in Property No. 2, which is a warehouse complex held and occupied by 洛陽城南中儲物流有限公司 (Luoyang Southern City CMST Logistics Limited), owing to the nature of the buildings and structures erected thereon, there are no readily identifiable comparable sale transactions; the property cannot be valued by comparison with open market transactions. Therefore, we have adopted the Depreciated Replacement Cost ("DRC") Approach, which is based on an estimate of the market value for the existing use of the land in the property, and the costs to reproduce or replace in new conditions the buildings and structures being valued in accordance with current construction costs for similar buildings and structures in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The DRC Approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

## VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that each of the property interests is sold in the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement that would serve to affect the value of such property interest. In addition, no account has been taken of any option or right of pre-emption concerning or effecting sales of the property interest and no forced sale situation in any manner is assumed in valuation.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests valued nor for any expenses or taxation which may be incurred in effecting sales. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature that could affect their value.

## TITLE INVESTIGATION

We have been provided by the Company with copies of title documents relating to the properties and copies of the legal opinions prepared respectively by Li Wen & Partners and Han Kun Law Offices, the Company's legal advisers as to PRC law (hereinafter referred to as the "PRC Legal Advisers") regarding the title to the properties. We have not examined the original documents to verify the ownership and to ascertain the existence of any amendments that may not appear on the copies handed to us. All documents have been used for reference only. In the course of our valuations, we have relied on the advices given by the Company and the PRC Legal Advisers regarding the title to the interest in the properties.

## LIMITING CONDITIONS

We have inspected the exterior, and where possible, the interior of the properties. However, no structural survey has been made nor have any tests been carried out on any of the building services provided in the properties. We are, therefore, not able to report that the properties are free from rot, infestation or any other structural defects. Yet, in the course of our inspections, we did not note any serious defects.

We have not conducted any on-site measurement to verify the correctness of the site and floor areas of the properties but have assumed that the areas shown on the documents furnished to us are correct. Dimensions, measurements and areas included in the valuation certificates attached are based on information contained in the documents provided to us by the Company and are therefore approximations only.

Moreover, we have not carried out any site investigations to determine or otherwise the suitability of the ground conditions, the presence or otherwise of contamination and the provision of or otherwise suitability for services etc. for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred in the event of any future development.

We have relied to a considerable extent on the information provided by the Company and the advice given to us on such matters as planning approvals, statutory notices, easements, tenure, particulars of occupancy, development proposal, site and floor areas and all other relevant matters in the identification of the properties. We have not seen original planning consents and have assumed that the properties are erected, occupied and used in accordance with such consents.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised by the Company that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

**REMARKS**

Unless otherwise stated, all monetary amounts stated in our valuation report are in Renminbi (RMB).

We hereby confirm that we have neither present nor prospective interests in the Company, the properties or the values reported herein.

Our valuations are summarized below and the valuation certificates are attached herewith.

Yours faithfully,  
For and behalf of  
**B.I. APPRAISALS LIMITED**  
**William C. K. Sham**  
*Registered Professional Surveyor (G.P.)*  
*China Real Estate Appraiser*  
*MRICS, MHKIS, MCIREA*  
*Executive Director*

*Note:* Mr. William C. K. Sham is a qualified valuer on the approved List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the Hong Kong Institute of Surveyors. Mr. Sham has over 25 years' experience in the valuation of properties in Hong Kong and has over 10 years' experience in the valuation of properties in the People's Republic of China and the Asia Pacific regions.

## SUMMARY OF VALUES

<b>Property</b>	<b>Market value in existing state as at 31 March 2007 (RMB)</b>
1. A parcel of land (Lot No. YT6-99-13) at west of Chan He and south of Xianning Road, Xian City, Shaanxi Province, the PRC	76,000,000
2. Land and buildings of the warehouse complex of Luoyang Guanlin Zhongchu Logistics Centre at Gangchang Road, Guanlin Town, Luolong District, Luoyang City, Henan Province, the PRC	No commercial value
	<hr/>
<b>Total:</b>	<b>76,000,000</b>

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
1. A parcel of land (Lot No. YT6-99-13) at west of Chan He and south of Xianning Road, Xian City, Shaanxi Province, the PRC	<p>The property comprises a parcel of land with a site area of approximately 79,135.50 sq.m. (851,815 sq.ft.).</p> <p>It is planned to be developed into a residential complex with a total gross floor area of approximately 229,200 sq.m. (2,467,109 sq.ft.), the details of which are as follows:</p>	The property is currently a vacant site pending for development.	RMB76,000,000

Use	Approximate Gross Floor Area	
	(sq. m.)	(sq. ft.)
Residential	199,200	2,144,189
Commercial	5,000	53,820
Basement Carpark	25,000	269,100
Total	<u>229,200</u>	<u>2,467,109</u>

The land use rights of the property have been granted for residential use for a term due to expire on 20 August 2074.

## Notes:

- (1) Pursuant to a set of Certificate of State-owned Land Use 西雁國用(2006出)第0296號 (Xi Yan Guo Yung (2006 Chu) No. 0296) issued by Xian Municipal State-owned Land Resources Bureau on 28 April 2006, the land use rights of the property have been granted to 西安富祥房地產開發有限公司 (Xian Fuxiang Real Estate Development Limited) for residential use for a term due to expire on 20 August 2074.
- (2) Pursuant to the information provided, the property is planned to be developed into a residential complex with a total gross floor area of approximately 229,200 sq.m. which is expected to take approximately 4 years to complete.
- (3) The opinion of Li Wen & Partners is summarized as below:
  - (a) Xian Fuxiang Real Estate Development Limited is in possession of a proper legal title to the land use rights of the property with land use premium settled in full.
  - (b) Xian Fuxiang Real Estate Development Limited is entitled to develop the land in accordance with the planning requirements stated in the relevant Certificate of state-owned Land Use and the Permit for Construction Land Use.

- (c) The property is free from encumbrances; and the interest in any part or the whole of the property is not subject to any transfer/sale agreement.
  - (d) The property is not involved in any seizure, distraint, realization, or entanglement or dispute and in not subject to any onerous restrictions by any deed, terms and conditions.
- (4) The status of title and grant of major approvals, consents or licences in accordance with the information provided by the Company and the opinion of Li Wen & Partners are as follows:

Contract for Grant of State-owned Land Use Rights	Yes
Permit for Construction Land Use Planning	Yes
Certificate of State-owned Land Use	Yes
Certificate of Building Ownership	No

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
2. Land and buildings of the warehouse complex of Luoyang Guanlin Zhongchu Logistics Centre at Gangchang Road, Guanlin Town, Luolong District, Luoyang City, Henan Province, the PRC	<p>The property comprises a warehouse complex occupying a parcel of land with a site area of approximately 80,158.10 sq.m. (862,822 sq.ft.).</p> <p>The warehouse complex comprises various blocks of 1 to 2-storey building and structures for warehouse, office and ancillary uses. The buildings and structures were built in the period between 1965 and 2006.</p> <p>The total gross floor area of the property (excluding the structures) is approximately 28,691.48 sq.m. (308,835 sq.ft.).</p> <p>The land use rights of the property have been obtained by way of administration appropriation for storage use. However, according to the Luoyang Municipal Master Land Use Plan, the property falls within an area planned to be a "commercial/financial land use" zone.</p>	The property is occupied by Luoyang Guanlin Zhongchu Logistics Centre for storage purpose.	No commercial value  (See Notes 9 and 10 below)

## Notes:

- (1) Pursuant to a set of Certificate of State-owned Land Use 洛市國用(2002)字第5-0062號 (Luo Shi Guo Yung (2002) Zi No. 5-0062) issued by Luoyang Municipal People's Government in November 2002, the land use rights of the land in the property with a site area of 80,158.10 sq.m. have been administratively appropriated to 洛陽關林中儲物流中心 (Luoyang Guanlin Zhongchu Logistics Centre) for storage use for a term not specified in the said Certificate of State-owned Land.
- (2) Pursuant to 12 sets of Certificate of Building Ownership Nos. 16480 to 16484 and 16486 to 16492 all issued by 洛陽市郊區土地清查房產發證領導小組 on 18 May 1989, the building ownership for 26 blocks of building with a total gross floor area of 21,940.78 sq.m. is vested in 中國物資儲運鄭州公司關林庫 (China Wu Zi Chu Yun Zhengzhou Company Guan Lin Warehouse). According to the remarks made on Certificates of Building Ownership Nos. 16480, 16481 and 16491, the registration of six out of the ten blocks of buildings stated in these certificates with a total gross floor area of 1,802.75 sq.m. have been deleted as these six blocks have been demolished.
- (3) Pursuant to a set of Certificate of Building Ownership No. 16736 issued by 洛陽市郊區土地清查房產發證領導小組 on 20 April 1996, the building ownership for 4 blocks of buildings with a total gross floor area of 2,642.98 sq.m. is vested in 中儲洛陽公司關林分公司 (Zhong Chu Luoyang Company Guan Lin Branch).
- (4) We understand that the certificates of building ownership for the remaining 9 blocks of buildings in the property with a total gross floor area of approximately 5,910.47 sq.m. have not been obtained.

- (5) We have been advised that China Wu Zi Chu Yun Zhengzhou Company Guan Lin Warehouse and Zhong Chu Luoyang Company Guan Lin Branch were the former names of Luoyang Guanlin Zhongchu Logistics Centre.
- (6) We have been further advised that Luoyang Guanlin Zhongchu Logistics Centre has been renamed as Luoyang Southern City CMST Logistics Limited in February 2007.
- (7) The opinion of Han Kun Law Offices is summarized as below:
- (a) Luoyang Guanlin Zhongchu Logistics Centre is in possession of a proper legal title to the land use rights of the property as well as 24 blocks of building erected thereon. However, as the land use rights were obtained by way of administrative appropriation, they cannot be disposed of freely.
- (b) Applications for the change of the name of the owner have been made to the relevant authority.
- (c) Those buildings, of which the certificates of building ownership have not been obtained, cannot be transferred, sold, mortgaged or leased.
- (d) The land use right as well as the buildings in the property is not subject to any mortgage or other encumbrances.
- (8) According to the current urban planning requirements, portion of the subject parcel of land with a site area of 5,706.20 sq.m. has to be used as a green belt. Hence, the development use land area of the property is 74,451.90 sq.m., on which our valuation was based.
- (9) We have relied on the aforesaid legal opinion and ascribed no commercial value to the property. However, for reference purpose, we are of the opinion that the market value of the property (including the land and those buildings with Certificates of Building Ownership obtained) as at the Date of Valuation would be RMB32,200,000 assuming that transferable land use rights of the land in the property were granted to Luoyang Guanlin Zhongchu Logistics Centre and all land premium settled in full and the Certificate of State-owned Land Use having been obtained and that the land use rights of the property have been granted for a term of 50 years for storage use.
- (10) Assuming that the land use rights of the land in the property would have been obtained by way of grant for commercial use for a term of 40 years with land premium settled in full, the market value of the subject parcel of land would be reasonably assessed to be RMB51,500,000.
- (11) The status of title and grant of major approvals, consents or licences in accordance with the information provided by the Company and the opinion of Han Kun Law Offices are as follows:
- |  |     |
|--|-----|
| Certificate of State-owned Land Use      | Yes |
| Certificate of Building Ownership (part) | Yes |



## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

## 2. DIRECTORS' INTERESTS

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

### Interests in share options of the Company

Name of Director	Date of grant	Exercisable period	Exercise price (HK\$)	Number of underlying Shares subject to share options	Approximate percentage of shareholding (note)
<i>Directors</i>					
Ma Zhengwu	8.3.2004	9.3.2005 to 8.3.2008	0.364	600,000	0.023%
	8.3.2004	9.3.2006 to 8.3.2009	0.364	600,000	0.023%
Zhang Guotong	8.3.2004	9.3.2005 to 8.3.2008	0.364	600,000	0.023%
	28.9.2004	29.9.2005 to 28.9.2008	0.245	3,000,000	0.114%
	8.3.2004	9.3.2006 to 8.3.2009	0.364	600,000	0.023%

Name of Director	Date of grant	Exercisable period	Exercise price (HK\$)	Number of underlying Shares subject to share options	Approximate percentage of shareholding (note)
Hong Shuikun	8.3.2004	9.3.2005 to 8.3.2008	0.364	600,000	0.023%
	8.3.2004	9.3.2006 to 8.3.2009	0.364	600,000	0.023%
Gu Laiyun	8.3.2004	9.3.2005 to 8.3.2008	0.364	600,000	0.023%
	28.9.2004	29.9.2005 to 28.9.2008	0.245	2,000,000	0.076%
	8.3.2004	9.3.2006 to 8.3.2009	0.364	600,000	0.023%
Xu Zhen	8.3.2004	9.3.2005 to 8.3.2008	0.364	300,000	0.011%
	8.3.2004	9.3.2006 to 8.3.2009	0.364	300,000	0.011%

*Note:* The percentage of shareholding is calculated on the basis of 2,630,556,458 Shares in issue as at the Latest Practicable Date.

- (b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.
- (c) As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

- (d) As at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up, and which was significant in relation to the business of the Group.

### 3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

- (a) As at the Latest Practicable Date, so far as is known to the Directors, the following persons, other than a director or chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name of Shareholder	Nature of interest	Number of Shares	Approximate percentage of interest
World Gain	beneficial owner (Note 2)	791,814,913(L)	30.10%
CCHK	controlled corporation (Note 2)	791,814,913(L)	30.10%
CCHG	controlled corporation (Note 2)	791,814,913(L)	30.10%

*Notes:*

- The letter "L" represents the entity's interest in the Shares.
- The entire issued share capital of World Gain is beneficially owned by CCHK, the entire issued share capital of which is beneficially owned by CCHG. Both of CCHK and CCHG are deemed to be interested in all the Shares held by World Gain under the SFO.
- The percentage of shareholding is calculated on the basis of 2,630,556,458 Shares in issue as at the Latest Practicable Date.

- (b) As at the Latest Practicable Date, so far as is known to the Directors, the following entities were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of other members of the Group:

Name of subsidiary	Name of shareholder	Number of shares	Approximate percentage of interest
Chengtong Hua Da Trading Limited	Hong Kong Hua Da Chemical Industry Company Limited	49 ordinary shares of HK\$1 each	49%
China-eDN.com Limited	Diagonal Trading Limited	2,000,000 shares of HK\$1 each	20%
Suzhou Nanda Cement Co. Ltd	蘇州市望亭水泥廠 unofficial English name, Suzhou Wangting Cement Plant) formerly known as 蘇州市吳縣望亭水泥廠 (unofficial English name, Suzhou Wu Xian Wangting Cement Plant)	Registered capital of US\$5,069,600	28.97%
Zhongshi	北京興合動力投資管理有限公司 (translated as Beijing Xinghe Dongli Investment Management Co., Ltd.)	Registered capital of RMB24,000,000	30%

- (c) Save as disclosed in this circular, so far as is known to the Directors, there is no other person who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, had a direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

#### 4. DIRECTORS' SERVICE CONTRACTS

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

## 5. OTHER INTERESTS OF THE DIRECTORS AND THE EXPERT

As at the Latest Practicable Date:

- (i) none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2006, being the date of the latest published audited accounts of the Group, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Group;
- (ii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the Group taken as a whole;
- (iii) CIMB-GK, B. I. Appraisals Limited, Li Wen & Partners and Han Kun Law Offices did not have any direct or indirect interest in any assets which have, since 31 December 2006, being the date of the latest published audited accounts of the Group, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Group; and
- (iv) CIMB-GK, B. I. Appraisals Limited, Li Wen & Partners and Han Kun Law Offices were not materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the Group taken as a whole.

## 6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance know to the Directors to be pending or threatened by or against any member of the Group.

## 7. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the experts who have given opinion or advice contained in this circular:

Name	Qualification
CIMB-GK	A corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
B.I. Appraisals Limited	Registered professional surveyors
Li Wen & Partners	Legal advisers on PRC laws
Han Kun Law Offices	Legal advisers on PRC laws

As at the Latest Practicable Date, none of CIMB-GK, B.I. Appraisals Limited, Li Wen & Partners and Han Kun Law Offices was beneficially interested in the share capital of any member of the Group nor had it 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 nor did it have any interest, either direct or indirect, in any assets which had been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

#### **8. CONSENT**

CIMB-GK, B.I. Appraisals Limited, Li Wen & Partners and Han Kun Law Offices have given and have not withdrawn their written consents as to the issue of this circular with the inclusion herein of their opinions or letters and/or reference to their names, opinions or letters in the form and context in which they respectively appear.

#### **9. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, save for the Xian and Luoyang Acquisitions and the proposed acquisition of 30% interest in Zhongshi contemplated by the Zhongshi Acquisition Agreement as announced by the Company in its announcement dated 27 March 2007, the Directors confirmed that there is no material adverse change in the financial or trading position of the Group since 31 December 2006, being the date to which the latest published audited accounts of the Group were made up.

#### **10. COMPETING BUSINESS**

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

#### **11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of the Company in Hong Kong at Suite 6406, 64th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours from 4 May 2007 up to and including 18 May 2007 and at the EGM:

- (1) the Xian Equity Transfer Agreement;
- (2) the Xian Letter of Undertaking;
- (3) the Xian Supplemental Agreement;
- (4) the Second Xian Supplemental Agreement;

- (5) the Luoyang Equity Transfer Agreement;
- (6) the Luoyang Supplemental Agreement; and
- (7) the Luoyang Second Supplemental Agreement.

## 12. MISCELLANEOUS

- (1) The registered and head office of the Company is located at Suite 6406, 64th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (2) The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (3) The company secretary of the Company is Mr. Lai Ka Fai, Albert, a solicitor in Hong Kong.
- (4) The qualified accountant of the Company is Ms. Chan Yuet Kwai, *FCCA FCCA*.

## NOTICE OF EGM



### CHINA CHENGTONG DEVELOPMENT GROUP LIMITED

### 中國誠通發展集團有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 217)**

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“**Meeting**”) of China Chengtong Development Group Limited (“**Company**”) will be held on Friday, 8 June 2007 at Falcon Room II, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong at 10:30 a.m., for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as Ordinary Resolutions of the Company:

#### ORDINARY RESOLUTIONS

1. **“THAT** the form and substance of the equity transfer agreement dated 15 January 2007 entered into between 嘉成企業發展有限公司 (unofficial English name, Jiacheng Enterprise Development Company Limited) (“**Xian Vendor**”) (as vendor) and 中實投資有限責任公司 (unofficial English name, Zhongshi Investment Company Limited) (“**Zhongshi**”) (as purchaser) (as varied and supplemented by a letter of undertaking dated 11 January 2007 entered into by the Xian Vendor, Zhongshi and 陝西銀信西部投資開發有限公司 (unofficial English name, Shaanxi Yinxin Western Investment Development Limited), a supplemental agreement dated 15 March 2007 entered into among the Xian Vendor, Zhongshi and 北京草埔園林綠化工程有限公司 (unofficial English name, Beijing CaoPu Garden Landscaping Engineering Limited) and a second supplemental agreement dated 25 April 2007 entered into among the Xian PRC Company (as defined below) and Zhongshi) (“**Xian Acquisition Agreement**”) for the acquisition of 52% of the registered capital of 西安富祥房地產開發有限公司 (unofficial English name, Xian Fuxiang Real Estate Development Limited) (“**Xian PRC Company**”), (a copy of the Xian Acquisition Agreement marked “A” and initialed by the chairman of the Meeting for identification purpose has been tabled at the meeting) be and are hereby approved; and the directors of the Company (“**Directors**”) or a duly authorised committee of the board of Directors be and are hereby authorised to do all such acts and things (including, without limitation, signing, executing (under hand or under seal), perfecting and delivery of all agreements, documents and instruments,) which are in their opinion necessary, appropriate, desirable or expedient to implement or to give effect to the terms of the Xian Acquisition Agreement and all transactions contemplated thereunder and all other matters incidental thereto or in connection therewith and to agree to and make such variation, amendment and waiver of any of the matters relating thereto or in connection therewith that are, in the opinion of the Directors, not material to the terms of the Xian Acquisition Agreement and all transactions contemplated thereunder and are in the interests of the Company”.



## NOTICE OF EGM

2. “**THAT** the form and substance of the equity transfer agreement dated 29 January 2007 entered into between 中國新元資產管理公司 (unofficial English name, China Xinyuan Asset Management Company) (“**Luoyang Vendor**”) (as vendor) and 中實投資有限責任公司 (unofficial English name, Zhongshi Investment Company Limited) (“**Zhongshi**”) (as purchaser) (as varied and supplemented by a supplemental agreement dated 29 January 2007 entered into by the Luoyang Vendor and Zhongshi and a second supplemental agreement dated 15 March 2007 entered into between the Luoyang Vendor and Zhongshi) (“**Luoyang Acquisition Agreement**”) for the acquisition of 100% of the registered capital of 洛陽城南中儲物流有限公司 (unofficial English name, Luoyang Southern City CMST Logistics Limited (formerly known as 洛陽關林中儲物流中心 (unofficial English name, Luoyang Guanlin Zhongchu Logistics Centre)), (a copy of the Luoyang Acquisition Agreement marked “B” and initialed by the chairman of the Meeting for identification purpose has been tabled at the meeting) be and are hereby approved; and the directors of the Company (“**Directors**”) or a duly authorised committee of the board of Directors be and are hereby authorised to do all such acts and things (including, without limitation, signing, executing (under hand or under seal), perfecting and delivery of all agreements, documents and instruments,) which are in their opinion necessary, appropriate, desirable or expedient to implement or to give effect to the terms of the Luoyang Acquisition Agreement and all transactions contemplated thereunder and all other matters incidental thereto or in connection therewith and to agree to and make such variation, amendment and waiver of any of the matters relating thereto or in connection therewith that are, in the opinion of the Directors, not material to the terms of the Luoyang Acquisition Agreement and all transactions contemplated thereunder and are in the interests of the Company”.

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

Hong Kong, 4 May 2007

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

## NOTICE OF EGM

*Notes:*

1. For the above resolutions, shareholders can refer to the circular of the Company dated 4 May 2007 in relation to the discloseable and connected transactions for further details.
2. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company. In case of joint holders of any Shares, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such Shares as if he/she were solely entitled thereto; but if more than one joint holder be present at the Meeting personally or by proxy, that one of the joint holders so present whose name stands first on the register of members in respect of such Shares shall alone be entitled to vote in respect thereof.
3. 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 of the Company, Computershare Hong Kong Investor Services Limited at 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
4. Completion and return of the accompanying form of proxy will not preclude members of the Company from attending and voting in person at the meeting or any adjournment thereof should they so wish.
5. The above resolutions will be voted on a poll. Each of the Xian Vendor (as defined in resolution no. 1 above) and the Luoyang Vendor (as defined in resolution no. 2 above) and their respective associates are required to abstain from voting on such resolutions.

*As at the date of this notice, 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, Mr. Lao Youan and Mr. Ba Shusong.*