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

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**If you have sold or transferred** all your shares in **China Chengtong Development Group Limited**, you should at once hand this circular 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.

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**CHINA CHENGTONG DEVELOPMENT GROUP LIMITED**

**中國誠通發展集團有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 217)**

**MAJOR TRANSACTIONS:  
FIRST ENTRUSTED LOAN ARRANGEMENT  
AND SECOND ENTRUSTED LOAN ARRANGEMENT**

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## DEFINITIONS

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

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Company”	China Chengtong Development Group Limited, a company incorporated in Hong Kong and the Shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Corporate Guarantors”	南通好一家置業有限公司 (unofficial English translation as Nan Tong Hao Yi Jia Property Co., Ltd.) (whose principal business is property management), 青島藍城家居有限公司 (unofficial English translation as Qing Dao Lan Cheng Furniture Co., Ltd.) (whose principal business is venue leasing and property management in furniture mall) and 青島高科技工業園裝飾城有限公司 (unofficial English translation as Qing Dao High Technology Industrial Park Furniture City Co., Ltd.) (whose principal business is venue leasing) which are companies incorporated in the PRC with limited liability and controlled by the Individual Guarantors. Each of the Corporate Guarantors and its ultimate beneficial owners are Independent Third Parties
“Chengtong DT”	誠通發展貿易有限公司 (unofficial English translation being Chengtong Development Trading Company Limited), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Controlling Shareholder”	World Gain Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which, as at the date of the First Entrusted Loan Agreements and the Second Entrusted Loan Agreements, held 2,286,343,570 Shares, representing approximately 54.9% of the issued share capital of the Company. World Gain Holdings Limited is a controlling shareholder of the Company within the meaning of the Listing Rules
“Director(s)”	the director(s) of the Company
“First Borrower”	北京新世紀金悅酒店管理有限公司 (unofficial English translation as Beijing New Century Jin Yue Hotel Management Co., Ltd.), a company incorporated in the PRC with limited liability, being the borrower in the First Entrusted Loan Arrangement

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## DEFINITIONS

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“First Entrusted Loan”	the loan in the amount of RMB200,000,000 to be made pursuant to the First Entrusted Loan Agreements
“First Entrusted Loan Agreements”	the entrusted loan entrusted agreement dated 23 April 2012 entered into between Chengtong DT and SZ Development Bank; and the loan agreement dated 23 April 2012 entered into between SZ Development Bank and the First Borrower, all related to the First Entrusted Loan Arrangement
“First Entrusted Loan Arrangement”	the provision of the Entrusted Loan by Chengtong DT, through SZ Development Bank, to the First Borrower
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	party(ies) independent of and not connected with the Company and its connected persons
“Individual Guarantors”	Mr. Lai Zhu Jia (賴住佳) and Mr. Lai Jia Cheng (賴家程) who are Independent Third Parties and the ultimate controllers of the Second Borrower and the Corporate Guarantors
“Latest Practicable Date”	26 June 2012, being the last practicable date before the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC” or “China”	the People’s Republic of China, and for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Second Borrower”	好一家(上海)投資發展有限公司 (unofficial English translation as Hao Yi Jia (Shanghai) Investment Development Co., Ltd.), a company incorporated in the PRC with limited liability, being the borrower in the Second Entrusted Loan Arrangement

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## DEFINITIONS

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“Second Entrusted Loan”	the loan in the amount of RMB200,000,000 to be made pursuant to the Second Entrusted Loan Agreements
“Second Entrusted Loan Agreements”	the RMB entrusted loan agreement dated 10 May 2012 and its supplemental agreement dated 10 May 2012 entered into between Chengtong DT, SH Bank and the Second Borrower, all related to the Second Entrusted Loan Arrangement
“Second Entrusted Loan Arrangement”	the provision of the Second Entrusted Loan by Chengtong DT, through SH Bank, to the Borrower
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SH Bank”	Shanghai Bank (上海銀行), Nanhui branch (南匯支行), the lending agent of the Second Entrusted Loan
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SZ Development Bank”	Shenzhen Development Bank Co., Ltd. (深圳發展銀行股份有限公司), Beijing Guanyuan branch (北京官園支行), the lending agent of the First Entrusted Loan
“%”	per cent.

*In this circular (except for Appendix I), for the purpose of illustration only, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$1.22. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.*

*If there is any inconsistency between the Chinese names of the PRC entities mentioned in this circular and their English translations, the Chinese names shall prevail.*



**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)**

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Mr. Yuan Shaoli

Mr. Wang Hongxin

Mr. Wang Tianlin

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*Independent non-executive Directors:*

Mr. Kwong Che Keung, Gordon

Mr. Tsui Yiu Wa, Alec

Mr. Ba Shusong

29 June 2012

*To the Shareholders*

Dear Sir or Madam

**MAJOR TRANSACTIONS:  
FIRST ENTRUSTED LOAN ARRANGEMENT  
AND SECOND ENTRUSTED LOAN ARRANGEMENT**

**INTRODUCTION**

On 23 April 2012, the Board announced that Chengtong DT has instructed SZ Development Bank to act as a lending agent to, inter alia, release a loan in the principal amount of RMB200,000,000 (equivalent to HK\$244,000,000), which will be funded by the Group, to the First Borrower. The First Entrusted Loan Arrangement constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to Shareholders' approval under Rule 14.40 of the Listing Rules.

On 10 May 2012, the Board announced that Chengtong DT has instructed SH Bank to act as a lending agent to, inter alia, release a loan in the principal amount of RMB200,000,000 (equivalent to HK\$244,000,000), which will be funded by the Group, to the Second Borrower. The Second Entrusted Loan Arrangement constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to Shareholders' approval under Rule 14.40 of the Listing Rules.

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## LETTER FROM THE BOARD

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Since no Shareholder would be required to abstain from voting if the Company were to convene a general meeting for the approval of the First Entrusted Loan Arrangement and the Second Entrusted Loan Arrangement, written shareholder's approval may be accepted in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules. The Controlling Shareholder, holding 2,286,343,570 issued Shares of, representing approximately 54.9% of the issued share capital of, the Company as at the date of the First Entrusted Loan Agreements and the Second Entrusted Loan Agreements, has given its written approval in respect of the First Entrusted Loan Arrangement and the Second Entrusted Loan Arrangement. Accordingly, no extraordinary general meeting of the Company will be convened for the purposes of approving the First Entrusted Loan Arrangement and the Second Entrusted Loan Arrangement.

This circular is despatched to the Shareholders for information purposes only and contains, among other things, (i) details about the First Entrusted Loan Arrangement and the Second Entrusted Loan Arrangement; and (ii) certain financial information of the Group.

### **FIRST ENTRUSTED LOAN AGREEMENTS**

The major terms of the First Entrusted Loan Agreements are set out below.

#### **Date**

23 April 2012 (after trading hours)

#### **Parties**

- (1) Chengtong DT (a wholly-owned subsidiary of the Company), as the lender;
- (2) SZ Development Bank, as the lending agent; and
- (3) the First Borrower, as the borrower.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of SZ Development Bank and its ultimate beneficial owners is an independent third party not connected with the Company and its connected persons.

SZ Development Bank is a bank in the PRC and is principally engaged in banking, financial and other financial related services.

The First Borrower is a company established in the PRC. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) the principal business of the First Borrower is operation of restaurant and catering services in the PRC and (ii) each of the First Borrower and its ultimate beneficial owners is an Independent Third Party.

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## LETTER FROM THE BOARD

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### **First Entrusted Loan Arrangement**

Chengtong DT instructed SZ Development Bank to act as a lending agent to, inter alia, release a loan in the principal amount of RMB200,000,000 (equivalent to HK\$244,000,000), which will be funded by the Group's internal resources, to the First Borrower.

The interest rate for the First Entrusted Loan is 16% per annum. Interests for the First Entrusted Loan shall be settled by the First Borrower on a quarterly basis.

### **Term**

The First Entrusted Loan will be for a term of one year and the actual commencement date shall base on the drawdown record of the First Entrusted Loan.

The First Entrusted Loan was drawdown by the First Borrower on 11 May 2012.

### **Early repayment by the First Borrower**

With the written consent of Chengtong DT, the First Borrower may early repay the principal amount of the First Entrusted Loan in whole or in part during the term.

### **Default interest rate**

If the First Borrower fails to repay the First Entrusted Loan or any interests accrued in accordance with the terms of the First Entrusted Loan Agreements, the Group shall have the right to (i) charge penalty interests calculated based an additional 50% of the original interest rate and the actual number of date of default and (ii) charge compound rate on the overdue interest accrued.

### **Handling charges by SZ Development Bank**

SZ Development Bank will receive handling charges of 0.1% of the principal amount of the First Entrusted Loan which will be borne by the First Borrower.

### **Security for the First Entrusted Loan**

In connection with the provision of the First Entrusted Loan to the First Borrower, Chengtong DT will obtain or has obtained (i) a joint liability personal guarantee from Mr. Sha Yan, the controlling shareholder and ultimate controller of the First Borrower; (ii) a joint liability guarantee from a company owned by the relatives of Mr. Sha Yan; and (iii) charges over certain real properties owned by certain relatives (or companies owned by them) of Mr. Sha Yan as security for the repayment of the First Entrusted Loan.

The Group has reviewed the financial information of the First Borrower and the corporate guarantors so as to assess their creditworthiness before entering into the First Entrusted Loan Arrangement. The Group considered that First Borrower has the ability to repay the First Entrusted Loan and the corporate guarantors have financial capability to honour the guarantee to the Group.



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## LETTER FROM THE BOARD

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Details of the real properties that have been charged to the Group as security are as follows:

1. a piece of land located in Haidian District, Beijing, the PRC with site area of approximately 8,683.25 square meters;
2. a residential unit located at Fucheng Road, Haidian District, Beijing, the PRC with construction area of approximately 216.46 square meters;
3. a residential unit located at Huai Bai Shu Street, Xuanwu District, Beijing, the PRC with construction area of approximately 98.75 square meters;
4. three residential unit located at Haidian District (north side to the zoo), Beijing, the PRC with construction area of approximately 539.72 square meters, 367.18 square meters and 1052.6 square meters; and
5. a villas located at Yalong Bay in Sanya, Hainan, the PRC with construction area of approximately 617.94 square meters.

The above real properties are valued at approximately RMB390 million.

### **Further information of the First Entrusted Loan Arrangement**

#### *The First Borrower*

The First Borrower currently owns and manages a number of high grade Chinese restaurants in Beijing, the PRC. Its ultimate controlling shareholder, Mr. Sha Yan also owns or effectively controls various investments in real estate industry and mining industry.

The First Borrower was introduced to the Group by SZ Development Bank.

#### *Basis upon which the interest rate was determined*

The interest rate was agreed between the Group and the First Borrower having regard to (i) the interest rate for one-year term loan offered by the commercial banks in the PRC and (ii) the industry where the First Borrower operates.

### **SECOND ENTRUSTED LOAN AGREEMENTS**

The major terms of the Second Entrusted Loan Agreements are set out below.

#### **Date**

10 May 2012 (after trading hours)

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## LETTER FROM THE BOARD

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### **Parties**

- (1) Chengtong DT (a wholly-owned subsidiary of the Company), as the lender;
- (2) SH Bank, as the lending agent; and
- (3) the Second Borrower, as the borrower.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of SH Bank and its ultimate beneficial owners is an independent third party not connected with the Company and its connected persons.

SH Bank is a bank in the PRC and is principally engaged in banking, financial and other financial related services.

The Second Borrower is a company established in the PRC. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) the principal business of the Second Borrower is property development and operation of furniture shopping malls in the PRC and (ii) each of the Second Borrower and its ultimate beneficial owners is an Independent Third Party.

### **Second Entrusted Loan Arrangement**

Chengtong DT instructed SH Bank to act as a lending agent to, inter alia, release a loan in the principal amount of RMB200,000,000 (equivalent to HK\$244,000,000), which will be funded by the Group's internal resources, to the Second Borrower.

The interest rate for the Second Entrusted Loan is 18.5% per annum. Interests for the Second Entrusted Loan shall be settled by the Second Borrower on a monthly basis.

### **Term**

The Second Entrusted Loan will be for a term of one year and the actual commencement date shall base on the drawdown record of the Second Entrusted Loan.

The Second Entrusted Loan was drawdown by the Second Borrower on 16 May 2012.

### **Early repayment by the Second Borrower**

With the written consent of Chengtong DT, the Second Borrower may early repay the principal amount of the Second Entrusted Loan in whole or in part during the term.

### **Default interest rate**

If any other amount due under the Second Entrusted Loan Agreements is not paid in full when due, the Group shall have the right to charge default interest which shall accrue on the overdue sum at the rate of 27.75% until such amount has been paid in full.

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## LETTER FROM THE BOARD

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### **Handling charges by SH Bank**

The SH Bank will receive handling charges of 0.06% of the principal amount of the Second Entrusted Loan which will be borne by Chengtong DT.

### **Security for the Second Entrusted Loan**

In connection with the provision of the Second Entrusted Loan to the Second Borrower, Chengtong DT will obtain or has obtained (i) a joint liability personal guarantee from each of the Individual Guarantors; (ii) a joint liability guarantee from each of the Corporate Guarantors; and (iii) a charge over a piece of land as security for the repayment of the Second Entrusted Loan.

The Group has reviewed the financial information of the Second Borrower and the Corporate Guarantors so as to assess their creditworthiness before entering into the Second Entrusted Loan Arrangement. The Group considered that the Second Borrower has the ability to repay the Second Entrusted Loan and the Corporate Guarantors have financial capability to honour the guarantee to the Group.

The piece of land subject to security is situated at Pudong New District, Shanghai, the PRC with site area of approximately 18,569 square meters. The market value of such piece of land was approximately RMB512 million.

### **Further information of the Second Entrusted Loan Arrangement**

#### *The Second Borrower*

The Second Borrower is currently developing a piece of land with site area of approximately 18,569 square meters situated at Pudong New District, Shanghai, the PRC. It plans to develop an international furniture mall on the land.

Its ultimate controlling shareholders, Mr. Lai Zhu Jia and Mr. Lai Jia Cheng, own and operate a number of furniture malls in the PRC.

The Second Borrower was introduced to the Group by a commercial bank in the PRC.

#### *Basis upon which the interest rate was determined*

The interest rate was agreed between the Group and the Second Borrower having regard to (i) the interest rate for one-year term loan offered by the commercial banks in the PRC and (ii) the industry where the Second Borrower operates.

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## LETTER FROM THE BOARD

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### ASSESSMENT OF CREDIT RISKS IN ASSOCIATION WITH THE ENTRUSTED LOAN

The management of the Group and the Board have considered and evaluated the following factors before entering into an entrusted loan arrangement:

**i) Value of the charged assets**

The Group usually appoints independent valuer to assess the value of the properties that will be the subject of the securities. The maximum amount of the loan will normally be not more than 50% of the value of the charged assets.

**ii) Choice of charged assets**

The Group will only accept real properties or shares of companies with proven track records as security for the entrusted loan. The Group will also undertake business due diligence on the assets to be subject to charge so as to ascertain the liquidity of the assets.

**iii) Source of funding of repayment**

The Group will evaluate whether the borrower or the guarantor will have adequate and stable source of income for the repayment of the entrusted loan.

**iii) Financial strength of the borrowers and the guarantors**

The Group will review the financial information of the borrower and the corporate guarantors so as to assess:

- whether their business operation is healthy;
- whether the cashflow is strong;
- whether the income source is stable; and
- whether there is any prior record of default in repayment of bank loan.

**iv) Risks in association with the realisation of the charged assets when default**

The Group will conduct legal due diligence on the title of the charged assets so as to ascertain whether there is any legal restriction on the realisation of the charged assets when default.

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## LETTER FROM THE BOARD

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### FURTHER INFORMATION ABOUT THE GROUP'S ENTRUSTED LOAN BUSINESS

#### (i) Current portfolio

As at the Latest Practicable Date, the following entrusted loans advanced by the Group were outstanding:

Date of announcement	Principal amount of the entrusted loan	Term	Principal business of the borrower	Principal place of business of the borrower
12 August 2011	RMB 50 million	2 September 2011 to 1 September 2012	Development and sale of real estates	Kun Shan Jiangsu Province
13 October 2011	RMB 40 million	14 October 2011 to 13 October 2012	Sales of automobiles and provision of after-sales services	Da Lian Liao Ning Province
1 April 2012	RMB 40 million	7 May 2012 to 11 April 2013	Property management	Guilin, Guangxi
23 April 2012	RMB 70 million	26 April 2012 to 25 October 2012	Property development and management	Beijing
23 April 2012	RMB 200 million	11 May 2012 to 10 May 2013	Operation of restaurant and catering services	Beijing
10 May 2012	RMB 200 million	16 May 2012 to 15 May 2013	Property development and operation of furniture shopping malls	Shanghai

#### (ii) Continuing monitoring measures

The Group has established a series of measures to monitor the credit risk and interest risk associated with the entrusted loans:

##### *Before the entrusted loan arrangement*

- Before entering into any entrusted loan arrangement, the management of the Group and the Board will consider and evaluate the credit risks, details of which are set out in the paragraph headed "Assessment of credit risks in association with the entrusted loan" above.
- Thereafter, the management will prepare a detailed proposal setting out the proposed terms of the entrusted loan, the background of the borrowers and guarantors, the financial performance of the borrowers and the corporate guarantors in the past three years and the details of (including the preliminary valuation of) the properties to be subject to charge. The proposal, together with the draft agreements, will be submitted to the Board for approval.

##### *After the entrusted loan arrangement*

- File management: The manager-in-charge shall establish a file for each entrusted loan project, containing all related agreements. The manager-in-charge shall create an electronic ledger for the project, so as to monitor the date of payment of interest and repayment of loan.

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## LETTER FROM THE BOARD

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- Principal and interest collections and prior notification: 10 days before the due date for payment, the manager-in-charge will notify the entrusted bank and the finance department of the borrower. 3 days before the due date for payment, the manager-in-charge will check with the entrusted bank whether the balance of the borrower in the entrusted bank is sufficient for the payment. If it is not sufficient, the manager-in-charge will notify the head of the finance department of the borrower and report to the management of the Group. On the due day for payment, the finance department and the operation department of the Group will check whether payment has been made by the borrower.
- Client management: In order to monitor the solvency of the borrower, the manager-in-charge and the staff of the entrusted bank shall periodically visit the borrower and the charged properties and check the financial information of the borrower at least quarterly. If there is any abnormal change, the manager-in-charge shall report to the management of the Group.
- Abnormal situations: When there is any abnormal change occurs, the risk management department and the legal department of the Group and the manager-in-charge will form an emergency team. The emergency team will work with the entrusted bank to design an appropriate solution, such as issuing written demand letter and legal letter to the borrower.

### **(iii) Future intention**

After considering the cashflow and funding requirements of the Group's ordinary business, if the Group has idle funds, the Group will consider to make further entrusted loan arrangement.

### **REASONS FOR AND BENEFITS OF THE FIRST ENTRUSTED LOAN ARRANGEMENT AND THE SECOND ENTRUSTED LOAN ARRANGEMENT**

The terms of the First Entrusted Loan Agreements and the Second Entrusted Loan Agreements, including the interest rate applicable, were agreed by the parties after arm's length negotiations having taken into account the prevailing market interest rates and practices. The Directors considered that the China's monetary policy has been tightened leading to a high financing demand in the market. With a view to raising the return on capital and considering that the high interest rate market will not stay on hold in the long term, the Directors consider that the First Entrusted Loan Arrangement and the Second Entrusted Loan Arrangement would be beneficial to the Group in terms of return and risk control. In view of the above, the Directors (including independent non-executive Directors) are of the opinion that the terms of the First Entrusted Loan Agreements and the Second Entrusted Loan Arrangement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **FINANCIAL EFFECTS OF THE FIRST ENTRUSTED LOAN ARRANGEMENT AND THE SECOND ENTRUSTED LOAN ARRANGEMENT**

The First Entrusted Loan and the Second Entrusted Loan are recorded as entrusted loan receivables under current assets of the Group. The granting of the First Entrusted Loan and the Second Entrusted Loan will increase the loan receivables of the Group and will decrease the bank balances and cash of the Group. The interest income from the First Entrusted Loan Arrangement and the Second Entrusted Loan Arrangement will be recorded as other income of the Group.

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## LETTER FROM THE BOARD

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### LISTING RULES IMPLICATIONS

Each of the First Entrusted Loan Arrangement and the Second Entrusted Loan Arrangement constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to Shareholders' approval under Rule 14.40 of the Listing Rules. Since no Shareholder would be required to abstain from voting if the Company were to convene a general meeting for the approval of the First Entrusted Loan Arrangement and the Second Entrusted Loan Arrangement, written shareholder's approval may be accepted in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules. The Controlling Shareholder, holding 2,286,343,570 issued Shares of, representing approximately 54.9% of the issued share capital of, the Company as at the date of this announcement, has given its written approval in respect of the First Entrusted Loan Arrangement and the Second Entrusted Loan Arrangement. Accordingly, no extraordinary general meeting of the Company will be convened for the purposes of approving the First Entrusted Loan Arrangement and the Second Entrusted Loan Arrangement.

### GENERAL

The principal activities of the Group are bulk commodity trade business, trading of coal, property development, property investment in industrial and logistic land resources development and financial leasing.

There was no previous business or other relationship between the Company, the First Borrower, the Second Borrower (and their respective beneficial owners) any other borrowers of the Company in other entrusted loan arrangements within the past 12 months.

### RECOMMENDATION

The Directors are of the view that the terms of the First Entrusted Loan Agreements and the Second Entrusted Loan Agreements are fair and reasonable and are in the interests of the Company and the shareholders of the Company as a whole. If a general meeting were to be convened for the approval of the First Entrusted Loan Arrangement and the Second Entrusted Loan Arrangement, the Board would recommend the Shareholders to vote in favour of the resolution to approve the First Entrusted Loan Arrangement and the Second Entrusted Loan Arrangement at such general meeting.

### 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**  
**Wang Hongxin**  
*Managing Director*

## 1. INDEBTEDNESS

As at the close of business on 30 April 2012, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had outstanding borrowings of approximately HK\$1,933,836,000 and guarantees of approximately HK\$31,909,000, details of which are as follows:

*Borrowings:*

- (a) short-term bank borrowings in relation to discounted bills with recourse of approximately HK\$1,142,124,000, which were secured by the trade bills discounted to banks;
- (b) short-term bank loans of approximately HK\$61,500,000, which were secured by the land use right of a property held for development;
- (c) unsecured other loan of HK\$600,000, which was interest-free and repayable on demand;
- (d) unsecured loan from a non-controlling shareholder of a subsidiary of approximately HK\$554,000, which was interest-free and repayable on demand; and
- (e) corporate bonds of approximately HK\$729,058,000, which were interest bearing at 4.5% per annum and will mature on 19 May 2014.

*Guarantees:*

As at 30 April 2012, the Group had contingent liabilities in relation to guarantees of approximately HK\$31,909,000 given to banks in respect of mortgage loans granted to buyers of certain property units.

For the purpose of compiling this indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the applicable rates of exchange at the close of business on 30 April 2012.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 30 April 2012 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

## 2. WORKING CAPITAL

Taking into account the financial resources available to the Group and in the absence of unforeseen circumstances, and also taking into effect of the First Entrusted Loan Arrangement and the Second Entrusted Loan Arrangement, the Directors are of the opinion that the Group will have sufficient working capital to meet its present requirements for at least twelve months from the date of this circular.

## 3. FINANCIAL AND TRADING PROSPECTS

### **Bulk Commodity Trade and Trading of Coal**

Looking into the future, the Group will redirect its principal business activities toward bulk commodity and energy trade with the aim of becoming an international bulk commodity trade agency having influence in the global arena; expand into the upstream field of mineral resources when the time is ripe.



As China will remain the world's irreplaceable workshop in the short run and urbanisation development proceeds, there will continue to be enormous demands for raw materials and energy. As such, bulk commodity, energy and materials trading not only accommodates the needs of national economic development, but is congruent with the principal activities and industrial advantages of China Chengtong Holdings Group Limited, the Group's ultimate controlling shareholder. All of these favourable factors, coupled with the sufficient capital within the Group, have laid a solid foundation for the Group's business expansion with risks under control.

### **Property Development and Property Investment**

The Group has two property development projects, namely "CCT-Champs-Elysees" located in Zhucheng of Shangong Province, PRC and "Chengtong International City" located in Dafeng of Jiangshu Province. Apart from selling the completed units on hand, the Group will continue proceeding with the development of uncompleted residential spaces of Phase I of CCT-Champs-Elysees and section II of the initial development area of Chengtong International City.

In December 2011, the Group entered into the sales and purchase agreement to sell 12% interest in Chengtong Enterprises Investment Limited, a wholly-owned subsidiary of the Group, for a consideration of RMB51.54 million. The transaction is expected to complete this year. Through the introduction of strategic partners and a professional team, the Group will enhance the capabilities of professional operation in property development and property investment segments, especially the ability to generate cash inflows and profit.

### **Financial Leasing**

誠通融資租賃有限公司 (unofficial translation as Chengtong Financial Leasing Company Limited), the Group's wholly-owned subsidiary set up in September 2010, will continue recording income from the existing finance lease arrangement. The Group will consider to enter into new financial leasing transactions if there are suitable opportunities.

### **Capital Injection Project**

In 2011, the Group entered into an agreement with its controlling shareholder for the acquisition of marine tourism-related assets located in Hainan Province, China. Completion of the acquisition is expected to take place in this year. After completion, the Group will have additional marine tourism-related net assets amounting to approximately RMB250 million (subject to adjustment). To further develop and enlarge hotel operation and marine travel business in Hainan will become one of the focuses of the Group in the future. Pursuant to the agreement, if the conditions precedent to the completion have not been satisfied (or, where applicable, waived by the Company) on or before 30 June 2012 (or such later date as agreed by the parties), such agreement shall cease and terminate. As at the Latest Practicable Date, the conditions precedent to the completion of the acquisition have not yet fulfilled. It is the intention of the Company to extend the long stop date for the fulfillment of the conditions precedent. The Company will publish further announcement in this regard in accordance with the Listing Rules.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. 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:

Name of Director	Nature of interest	Number of Shares	Approximate percentage of interest
Zhang Guotong	Beneficial owner	365	0.000009%
Yuan Shaoli	Beneficial owner	300,000	0.0072%
Wang Hongxin	Beneficial owner	600,000	0.0144%
Wang Tianlin	Beneficial owner	400,000	0.0096%

- (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) Mr. Zhang Guotong and Mr. Yuan Shaoli are directors of World Gain Holdings Limited and China Chengtong Hong Kong Company Limited, which are controlling shareholders of the Company and have an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

- (d) As at the Latest Practicable Date,
- (i) none of the Directors had any direct or indirect interest in any assets which have 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 since 31 December 2011, being the date to which the latest published audited accounts of the Group were made up; and
- (ii) none of the Directors was materially interested in contract or arrangement subsisting as at the Latest Practicable Date which is 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 Holdings Limited	Beneficial owner (Note 2)	2,286,343,570 (L)	54.91%
China Chengtong Hong Kong Company Limited	Interest in controlled corporation (Note 2)	2,286,343,570 (L)	54.91%
	Beneficial owner	718,485,943 (L) (Note 3)	17.26%
China Chengtong Holdings Group Limited	Interest in controlled corporation (Note 2)	3,004,829,513 (L)	72.17%

*Notes:*

- The letter "L" represents the entity's interest in the Shares.
- The entire issued share capital of World Gain Holdings Limited is beneficially owned by China Chengtong Hong Kong Company Limited, the entire issued share capital of which is beneficially owned by China Chengtong Holdings Group Limited. Both of China Chengtong Hong Kong Company Limited and China Chengtong Holdings Group Limited are deemed to be interested in all the Shares held by World Gain Holdings Limited under the SFO.
- These Shares represent the consideration Shares which may be allotted and issued to China Chengtong Hong Kong Company Limited upon completion of the Acquisition Agreement (as defined in the circular of the Company dated 30 September 2011) (assuming the consideration to be payable by the Company under the Acquisition Agreement is adjusted to its maximum extent).

- (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/Amount of registered capital	Approximate percentage of interest
Chengtong Development International Trading Limited	Sky Land Enterprises Limited	225 shares of HK\$1 each	45.00%
杭州瑞能金屬材料有限公司 (unofficial English translation as Hangzhou Ruineng Metals Co., Ltd.)	杭州善翔金屬材料有限公司 (unofficial English translation as Hangzhou Shanxiang Metals Co., Ltd.)	Registered capital of RMB22,500,000	45.00%
誠通大豐海港開發有限公司 (Unofficial translation as Chengtong Dafeng Harbour Development Limited)	大豐市大豐港開發建設有限公司 (Unofficial translation as Dafeng City Dafeng Harbour Development Construction Limited)	Registered capital of RMB50,000,000	33.33%
大豐瑞能燃料有限公司 (Unofficial translation as Dafeng Ruineng Fuel Company Limited)	韶關市曲江旭達燃料有限公司 (Unofficial translation as Shaoguan City Qu Jiang Xu Da Fuel Limited)	Registered capital of RMB24,500,000	49.00%

- (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 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. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business of the Group, were entered into by the Company or its subsidiaries during the period commencing two years preceding the date of this circular and are or may be material:

- (a) a sale and purchase agreement dated 12 August 2010 entered into among 中實投資有限公司 (Zhongshi Investment Company Limited) (“**Zhongshi**”) as vendor, 洛陽眾合置業有限公司 (unofficial English translation as Luoyang Zhonghezhiye Company Limited) (“**Luoyang Zhonghezhiye**”) as purchaser and 洛陽城南中儲物流有限公司 (unofficial translation as Luoyang Southern City CMST Logistic Limited) (“**Luoyang Logistic**”), pursuant to which Luoyang Zhonghezhiye agreed to purchase, and Zhongshi agreed to sell, the entire equity interest in Luoyang Logistic and the loan owed by Luoyang Logistic to Zhongshi for a total consideration of RMB61,850,000;
- (b) a fifth supplemental agreement dated 29 October 2010 entered into between the Company, China Chengtong Holdings Group Limited (“**CCHG**”) and China Chengtong Hong Kong Company Limited (“**CCHK**”) further extending the long stop date of the sale and purchase agreement dated 15 October 2008 and made between the Company, CCHK and CCHG in relation to the acquisition by the Company of the entire issued share capital of a company to be incorporated in the British Virgin Islands with limited liability which will be the holding company of a company to be incorporated in Hong Kong which will act as the holding company of 連雲港中儲物流有限公司 (unofficial translation being Lianyungang CMST Logistics Limited), a company established in the PRC with limited liability at a consideration of RMB181,000,000, subject to adjustment (“**Second SP Agreement**”);
- (c) a sale and purchase agreement dated 14 December 2010 entered into between Shine Ocean Limited, a wholly-owned subsidiary of the Company, as vendor and Hongkong Flying Swallow Group Co. Ltd (“**Hongkong Flying Swallow**”) as purchaser in relation to the sale and purchase of the entire issued share capital of China Chengtong Properties Group Limited at the consideration of HK\$40,910,000;
- (d) a sale and purchase agreement dated 14 December 2010 entered into between Ocean-Land (China Investments) Limited, a wholly-owned subsidiary of the Company, as vendor and Hongkong Flying Swallow as purchaser in relation to the sale and purchase of the entire issued share capital of Talent Dragon Limited at the consideration of HK\$95,250,000;
- (e) a subscription agreement dated 11 May 2011 entered into among the Company, Agricultural Bank of China Limited Hong Kong Branch, ABCI Capital Limited, The Bank of East Asia, Limited, Wing Lung Bank Limited and China Merchants Securities (HK) Co., Ltd. (together, the “**Managers**”), pursuant to which the Managers agreed to subscribe and pay for or procure subscriptions and payment for the RMB600,000,000 4.5% bonds due in 2014 (the “**Bonds**”) issued by the Company; and the Bonds were to be issued at 100% of the aggregate principal amount, i.e. RMB600,000,000;

- (f) an entrusted loan agreement dated 26 July 2011 entered into among 誠通實業投資有限公司 (unofficial translation as Chengtong Industrial Investment Limited) (“**Chengtong Industrial**”), a wholly-owned subsidiary of the Company, as the lender, 中國物流有限公司 (unofficial English translation being China Logistics Limited) (“**CLC**”) as the borrower and Agricultural Bank of China Limited (中國農業銀行股份有限公司), Beijing Xi Cheng branch (“**ABC**”) as the lending agent, pursuant to which Chengtong Industrial instructed ABC to act as a lending agent to, inter alia, release a loan in the principal amount of RMB35,000,000, which will be funded by the Group, to CLC;
- (g) a loan agreement dated 26 July 2011 entered into between the Company and CCHK, pursuant to which the Company provides a short-term loan in the principal amount of HK\$35,000,000 to CCHK;
- (h) the sale and purchase agreement dated 27 July 2011 and entered into between the Company, CCHK and CCHG in relation to the acquisition by the Company of the entire issued share capital of Huandao International Limited for a consideration of RMB254,000,000 (subject to adjustment) (“**Original Acquisition Agreement**”);
- (i) an entrusted fund management agreement dated 12 August 2011 entered into among 誠通融資租賃有限公司 (unofficial English translation as Chengtong Financial Leasing Company Limited) (“**Chengtong Financial Leasing**”), an wholly-owned subsidiary of the Company, as the principal and beneficiary, Anxin Trust & Investment Co., Ltd. as the trustee (“**Trust Company**”), and 昆山力天投資發展有限公司 (unofficial English translation as Kun Shan Li Tian Investment Development Co., Ltd.) as the borrower (“**Borrower**”), pursuant to which Chengtong Financial Leasing will entrust a fund in the amount of RMB50 million to the Trust Company for on-lending to the Borrower; and
- (j) the supplemental agreement dated 29 August 2011 and entered into between the Company, CCHK and CCHG to amend certain terms of the Original Acquisition Agreement;
- (k) the entrusted loan master agreement dated 12 October 2011 entered into between Chengtong Financial Leasing and Bank of Communications Co., Ltd., Qingdao branch; the single entrusted loan agreement dated 12 October 2001 entered into between Chengtong Financial Leasing, Bank of Communications Co., Ltd., Qingdao branch and 大連裕祥汽車銷售服務有限公司 (unofficial English translation as Dalian Yuxiang Automobile Sales & Service Co., Ltd) (“**Dalian Yuxiang**”) and the supplemental agreement dated 12 October 2011 entered into between Chengtong Financial Leasing and Dalian Yuxiang, all related to the provision of an entrusted loan in the amount of RMB40,000,000 by Chengtong Financial Leasing, through Bank of Communications Co., Ltd., Qingdao branch, to Dalian Yuxiang;
- (l) the entrusted loan agreement dated 8 December 2011 entered into between Chengtong Financial Leasing, 北京銀信興業房地產開發有限公司 (unofficial English translation as Beijing Yinxin Xingye Real Estates Development Co., Ltd) (“**Beijing Yinxin**”) and China Minsheng Banking Corp., Ltd. head office related to the provision of an entrusted loan of RMB100,000,000 by Chengtong Financial Leasing, through China Minsheng Banking Corp., Ltd. head office, to Beijing Yinxin and its termination agreement dated 19 January 2012 entered by Chengtong Financial Leasing and Beijing Yinxin;

- (m) the conditional sale and purchase agreement dated 19 December 2011 entered into between the Company and Wantong Enterprise Investment Co. Ltd. in relation to the disposal of 12 issued shares of US\$1 of Chengtong Enterprises Investment Limited and 12% of the shareholder's loan owed by Chengtong Enterprises Investment Limited to the Company and remains outstanding as at completion date at the consideration of RMB51,542,923.63;
- (n) the entrusted loan master agreement dated 30 March 2012 entered into between Chengtong Financial Leasing and Bank of Communications Co., Ltd., Qingdao branch; and the single entrusted loan agreement dated 30 March 2012 entered into between Chengtong Financial Leasing, Bank of Communications Co., Ltd., Qingdao branch and 桂林誠通置業管理有限公司 (unofficial English translation as Guilin Chengtong Estates Management Limited) (“**Guilin Chengtong**”), all related to the provision of an entrusted loan of RMB40,000,000 by Chengtong Financial Leasing, through Bank of Communications Co., Ltd., Qingdao branch, to Guilin Chengtong;
- (o) the entrusted loan agreement dated 23 April 2012 entered into between Chengtong Financial Leasing, Bank of Communications Co., Ltd., Qingdao branch and 北京西海龍湖置業有限公司 (unofficial English translation as Beijing West Sea Dragon Lake Properties Limited) (“**Beijing West Sea**”) related to the provision of an entrusted loan of RMB70,000,000 by Chengtong Financial Leasing, through Bank of Communications Co., Ltd., Qingdao branch, to Beijing West Sea;
- (p) the First Entrusted Loan Agreements; and
- (q) the Second Entrusted Loan Agreements.

## 6. LITIGATION

In September 2010, Chengtong Industrial, a wholly-owned subsidiary of the Company, has lodged a litigation to the court in the PRC as plaintiff against a tenant, requesting for termination of a tenancy agreement for reason of the breach of such tenancy agreement by, among other matters, the unauthorised sub-lease of the leased property, construction of an unauthorised structure (the “**Buildings**”) and transfer of the Buildings to a third party, by the tenant.

In September 2011, the court in the PRC has released the court order in favour of Chengtong Industrial to terminate such tenancy agreement with the tenant and the tenant has to transfer the ownership of the Buildings to Chengtong Industrial at a consideration of approximately RMB5,028,000 (equivalent to approximately HK\$6,134,000) for acquiring the Buildings. In September 2011, the tenant and a third party lodged an appeal to the court in the PRC. In May 2012, the court of the PRC has dismissed the appeal.

Save as disclosed above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

**7. 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.

**8. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011, being the latest published audited financial statements of the Group were made up.

**9. 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, Wan Chai, Hong Kong.
- (3) The company secretary of the Company is Ms. Cheng Ka Wai, a practising solicitor in Hong Kong.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the Company's registered office at Suite 6406, 64th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekdays, except public holidays, from the date of this circular up to and including 20 July 2012:

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts referred to in the paragraph headed "Material contracts" in this appendix; and
- (c) the annual reports of the Company for the years ended 31 December 2010 and 2011.