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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)**

### **(1) VERY SUBSTANTIAL ACQUISITION; AND (2) CONTINUING CONNECTED TRANSACTION: FINANCE LEASE AND OPERATING LEASE SERVICES FRAMEWORK AGREEMENT**

#### **RENEWAL OF THE EXISTING FRAMEWORK AGREEMENT**

References are made to the announcement of the Company dated 20 July 2022 and the circular of the Company dated 22 August 2022, both in relation to, among other things, the Existing Framework Agreement.

As the Existing Framework Agreement and its annual caps will expire on 31 December 2024 and the Group intends to continue to carry on the transactions under the Existing Framework Agreement and to further extend the scope of transactions to operating lease service going forward, on 13 December 2024, the Company entered into the New Framework Agreement with CCHG, pursuant to which the Group agreed to provide Finance Lease Services and Operating Lease Service to CCHG for three (3) years commencing from 1 January 2025 subject to the approval of Independent Shareholders.

#### **LISTING RULES IMPLICATIONS**

Acquisitions of the Leased Assets by the Group form part and parcel of the transactions contemplated under the Finance Lease Services of the New Framework Agreement. Each acquisition of Leased Assets by the Group will constitute a transaction under Chapter 14 of the Listing Rules. As the respective highest applicable percentage ratio (as defined under the Listing Rules) calculated with reference to the expected annual Purchase Price payable by the Group to CCHG Group for acquisition of Leased Assets in connection with the transactions contemplated under the Finance Lease Services of the New Framework Agreement may (on individual or aggregate basis) exceeds 100%, the transactions contemplated thereunder will constitute a very substantial acquisition for the Company, subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, CCHG is interested in 53.14% of the total issued share capital of the Company and is the ultimate holding company of the Company. Thus, CCHG is a connected person of the Company under the Listing Rules. As such, the transactions contemplated under the New Framework Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Annual Caps exceeds 5%, the transactions contemplated under the New Framework Agreement are subject to announcement, reporting, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, pursuant to Rule 14A.52 of the Listing Rules, as the term of the Individual Agreement(s) to be entered into pursuant to the New Framework Agreement may exceed three (3) years, the Company has appointed INCU Corporate Finance Limited as the Independent Financial Adviser to provide an independent opinion, which will be set out in the circular to be made available to the Shareholders, to explain why the Individual Agreement(s) require a longer period and to confirm that it is a normal business practice for agreements of this type to be of such duration.

#### **INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the transactions contemplated under the New Framework Agreement, and its advice and recommendation will be set out in the circular to be made available to the Shareholders. The Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

#### **GM**

At the GM, a resolution will be proposed by the Company to seek the Independent Shareholders' approval on the New Framework Agreement, the Finance Lease Services and acquisitions of the Leased Assets contemplated thereunder, the Operating Lease Service and the Annual Caps. CCHG and its associates will abstain from voting for the resolution regarding the New Framework Agreement. The proposed resolution will be passed by way of an ordinary resolution and voted on by way of poll in accordance with the requirements of the Listing Rules.

#### **CIRCULAR**

A circular containing, among other things, (i) details of the New Framework Agreement; (ii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the New Framework Agreement; (iii) a letter of recommendation from the Independent Board Committee in relation to the New Framework Agreement; and (iv) a notice of the GM and a form of proxy are expected to be made available to the Shareholders on or before 8 January 2025 as additional time is needed to finalize the circular.

## RENEWAL OF THE EXISTING FRAMEWORK AGREEMENT

References are made to the announcement of the Company dated 20 July 2022 and the circular of the Company dated 22 August 2022, both in relation to, among other things, the Existing Framework Agreement.

As the Existing Framework Agreement and its annual caps will expire on 31 December 2024 and the Group intends to continue to carry on the transactions under the Existing Framework Agreement and to further extend the scope of transactions to operating lease service, on 13 December 2024, the Company entered into the New Framework Agreement with CCHG, pursuant to which the Group agreed to provide Finance Lease Services and Operating Lease Service to CCHG for three (3) years commencing from 1 January 2025 subject to the approval of Independent Shareholders.

## NEW FRAMEWORK AGREEMENT

The principal terms of the New Framework Agreement are set out as follows:

### Date

13 December 2024

### Parties

- (i) the Company; and
- (ii) CCHG

### Term

From 1 January 2025 to 31 December 2027 (both dates inclusive)

### Subject of the transaction

The relevant member of the Group will provide the following services in relation to the Leased Assets by way of, including but not limited to, sale and leaseback service, direct finance lease service and operating lease service:

#### (i) *Finance Lease Services*

- (a) under sale and leaseback service (the “**Sale and Leaseback Service**”), the relevant member of CCHG Group (as lessee) sells the Leased Assets to the relevant member of the Group (as lessor) at the amount the relevant member of the Group granted to and to be utilized by the relevant member of CCHG Group pursuant to Individual Agreements, and the relevant member of the Group then leases the Leased Assets back to the relevant member of CCHG Group for its use in return for the lease payments (comprising primarily the Purchase Price and the Finance Lease Payments);
- (b) under the direct finance leasing service (the “**Direct Finance Leasing Service**”, together with the Sale and Leaseback Service, the “**Finance Lease Services**”), the relevant member of the Group (as lessor) purchases or obtains the ownership

of the Leased Assets pursuant to the instructions given by the relevant member of CCHG Group, and the relevant member of the Group then leases the Leased Assets to the relevant member of CCHG Group (as lessee) for its use in return for the lease payments (comprising primarily the Purchase Price and the Finance Lease Payments).

**(ii) Operating Lease Service**

- (a) under the operating lease service (the “**Operating Lease Service**”), the relevant member of the Group (as lessor) leases the Leased Assets to the relevant member of CCHG Group (as lessee) for its use in return for Operating Lease Payments.

As one of the major business segments of the Group, the Group provides Sale and Leaseback Service, Direct Finance Leasing Service and Operating Lease Service to its customers. The Group has included Direct Finance Leasing Service and Operating Lease Service in the New Framework Agreement with a view to actively expanding and diversifying the Group’s leasing services to prepare for industry transformation and future business development after taking into account the following:

- (i) the National Financial Regulatory Administration of the PRC encourages financial leasing company to optimize the leasing business structure by issuing the “Notice of the State Administration of Financial Supervision and Administration on Promoting Standardized Operation and Compliance Management of Financial Leasing Companies” (《國家金融監督管理總局關於促進金融租賃公司規範經營和合規管理的通知》) (the “**Notice**”) on 27 October 2023, whereby leasing companies are expected to enhance their direct leasing capabilities progressively. As of the date of this announcement, the Sale and Leaseback Service accounts for almost 100% of the Finance Lease Services of the Group in terms of the number of transactions. To align with the Notice which encouraged leasing companies to diversify their leasing activities, the Group expects to extend its services to Direct Finance Lease Service and Operating Lease Service with CCHG Group under the New Framework Agreement; and
- (ii) the Group plans to benefit from the successful implementation of the operating lease project it entered into with members of CCHG Group in 2024 as disclosed in the announcement of the Company dated 10 January 2024, and enter into further operating lease arrangements with members of CCHG Group in the future.

**Contract period**

Subject to the type of Leased Assets involved, the contract periods of the Individual Agreements are expected to range from:

- (i) 1 year to 8 years for the Sale and Leaseback Service;
- (ii) 1 year to 10 years for the Direct Finance Leasing Service; and
- (iii) 6 months to 16 years for the Operating Lease Service.

The Board considered that: (i) the Leased Assets involved in the Finance Lease Services and Operating Lease Service, such as power stations, energy storage power stations, power swap stations and power management systems, etc., are generally anticipated to have a longer

lifespan, the leased terms of which normally align with the expected payback period of the specific Leased Asset; and (ii) it is in line with current industry practice for the Group to enter into the Individual Agreements for the aforementioned contract periods as finance and operating leasing agreements involving leased assets which are of similar types and nature with the Leased Assets are generally entered into for similar contract periods.

Considering the above, the Board is of the view that it is in normal business practice, fair and reasonable, on the normal commercial terms to enter into Individual Agreements with longer terms ranging from 6 months to 16 years.

The Individual Agreements may have contract periods ending on a date after 31 December 2027. Subject to compliance with the applicable requirements under the Listing Rules, the Individual Agreements duly executed shall remain to have full force and effect for their respective contract periods even if the New Framework Agreement is expired or terminated and is not renewed. In this regard, under the Individual Agreements, the Group shall have the right to terminate or cancel any Individual Agreement if the Group can no longer perform or shall delay the performance of the obligations under the Individual Agreements contemplated under the New Framework Agreement due to requirements of the Stock Exchange, or any applicable laws and regulations (including but not limited to the Listing Rules). Upon termination or cancellation of the Individual Agreement, (i) the Finance Lease Payments and Operating Lease Payments (as the case may be) receivable by the Group will accrue up to the date of termination or cancellation; (ii) in relation to the Finance Lease Services only, the Leased Asset will be (x) assigned to the relevant lessee subject to repayment of all outstanding principal and settlement of all outstanding Finance Lease Payments and the nominal consideration for repurchase of the Leased Asset or (y) disposed by the Group as it considers appropriate in the event that the outstanding principal, outstanding Finance Lease Payment and the nominal consideration for repurchase of the Leased Asset were not repaid or settled in full in accordance with the terms of the Individual Agreement; and (iii) the relevant lessee will have no claim against the Group for such termination or cancellation. The Company will closely monitor the effectiveness and validity of the New Framework Agreement and the Individual Agreements, and shall comply with the relevant requirements in accordance with the Listing Rules as and when appropriate.

### **Purchase Price and Lease Payment**

The transactions contemplated under the New Framework Agreement shall be conducted on normal commercial terms through arm's length negotiations and shall not be less favourable than those offered to or provided by the Independent Third Parties for transactions of the same type.

For the transactions contemplated under the Finance Lease Services,

- (i) the Purchase Price under the Sale and Leaseback Service, representing the principal amount, shall be determined with reference to the net book value of Leased Assets and shall not be higher than such net book value. For the avoidance of doubt, the net book value of Leased Assets is the net book value of such Leased Assets as shown in the latest management accounts of the legal owner of the Leased Assets prior to the Group's acquisition of the Leased Assets.

In the event that the net book value of Leased Assets cannot be ascertained, the Purchase Price under the Sale and Leaseback Service, representing the principal amount, shall then be determined with reference to the appraised value of the Leased Assets provided



by independent valuers and shall not be higher than such appraised value. For instance, where the lessee is a Public-Private Partnership (PPP) company, according to the PRC accounting standards, the leased asset might be classified as intangible assets or other assets in the financial statements and not accountable for any depreciation charges, the book value of the leased assets recorded in the financial statements does not reflect the actual usage condition and thus the fair value. In such case, the purchase price shall be determined based on their appraised value. Cost method (the “**Cost Method**”) shall generally be adopted because the information regarding the replacement cost of the Leased Assets is usually readily available or can be acquired by on-site inspections. The Cost Method is a method determining the value of an appraised asset by multiplying the replacement cost of the appraised asset by its newness rate. The value of the appraised asset is first to be obtained by estimating the replacement cost of the appraised asset, followed by deducting various estimated depreciation factors that currently exist in the appraised asset. The replacement cost is determined on the basis of the current market value of the appraised asset on the appraisal date, while the newness rate is determined through on-site inspection and calculation and analysis based on technical and economic factors.

- (ii) the Purchase Price under the Direct Finance Leasing Service, representing the principal amount, shall be calculated with reference to the actual purchase price of the relevant Leased Assets, and shall not be less than the actual purchase price paid by the relevant member of the Group for the acquisition of the Leased Assets.
- (iii) the Finance Lease Payments to be received by the Group will comprise of periodic payments by the lessee to the Group and other receivables to be received by the Group such as one-off service fees. The periodic payments by the lessee are calculated based on (x) a fixed interest rate throughout the lease term or (y) a variable interest rate that will be adjusted yearly as the LPR changes. For the avoidance of doubt, the Finance Lease Payments under variable interest rate method will take LPR as reference but will not be calculated exclusively based on LPR. LPR is not used as the basis for pricing, but provides a mechanism for the relevant member of the Group to adjust the Finance Lease Payments should the interest rates in the PRC fluctuate in the future. LPR is only stipulated as the pricing standard in the standard contracts of the relevant member of the Group to facilitate easy understanding. If, under an Individual Agreement, the amount of Leased Payment to be received by the Group shall be adjusted as LPRs change, adjustments will be made to such lease interest rate on an annual basis on 1 January every year except in the case where the lessee has overdue lease payment and has not paid all overdue payments and liquidated damages, the interest rate applied will not be adjusted when LPR is reduced. The amount of Finance Lease Payments shall be fair and reasonable, determined after arm’s length negotiation between the relevant member of the Group and CCHG Group taking into account the prevailing market price of the Leased Assets and the prevailing market conditions when the Individual Agreement is entered into. The Group, after taking into account the current market quotations on finance leasing activities, will also ensure that the lease interest rate strikes a balance between its own financing costs for acquiring the Leased Assets and the financing costs acceptable to its customer, namely the CCHG Group. The return rate, which is calculated with reference to of the total Finance Lease Payments to be received by the Group as a whole (taking into account the aggregate amounts of lease income and other receivables (including service fees, if any)), shall be at a rate not less favourable than that offered to Independent Third Parties for comparable leasing arrangements when the relevant Individual Agreement is entered into. In this regards, the Company has established internal guidelines for the types of projects to be developed and the minimum rates of

return. These guidelines impose respective pricing standards across specific industries, regardless of whether the transactions are connected, imposing the same pricing strategy and standard within a certain industry, thereby ensuring fairness and impartiality in transactions entered into with Independent Third Parties. The sum of total Finance Lease Payments and other receivables to be received by the Group under the Individual Agreements shall also not be less than the cost of financing incurred by the Group for the respective Individual Agreements. The expected profit margin from the transactions contemplated under the Individual Agreements will be comparable to those from finance lease transactions between the Group and Independent Third Parties.

For the transactions contemplated under the Operating Lease Service,

- (i) the amount of Operating Lease Payments to be received by the Group shall be fair and reasonable, and shall be calculated based on the cost of constructing or purchasing the Leased Assets (the “**Acquisition Cost**”), the estimated cost of maintaining or operating the Leased Assets and the insurance premium payable in respect of the Leased Assets during the relevant lease term, the estimated income that the Leased Assets can bring to CCHG Group during the relevant lease term, and the lease income and other receivables (including service fees, if any) charged for the leasing of comparable leased assets. The periodic lease income is calculated to obtain an average annual yield ranging from 4% to 8% of the Acquisition Cost. The return rate shall be at a rate not less favourable than that offered to Independent Third Parties for comparable leasing arrangements when the relevant Individual Agreement is entered into.

The Lease Payments shall be paid by the lessee during the relevant lease term by installments, which may be quarterly, semi-annually or otherwise, in the manner to be specified in the Individual Agreements.

### **Legal Title and Control over Leased Assets**

The Group shall own the legal title of the Leased Assets during the respective lease terms of the Individual Agreements.

The transactions contemplated under the Finance Lease Services, comprising both the acquisition of Leased Assets and the provision of finance lease services, will be accounted for as a secured loan and recognized in accordance with HKFRS 9 Financial Instruments for accounting purposes. The Finance Lease Payments, in essence, represent the interest receivable by the Group and will be determined based on, among others, the pre-agreed fixed rates or the yearly-adjustable rate based on then-prevailing LPR, and the Leased Assets are, in substance, the security for the loan and are not revenue-generating assets with identifiable income stream. Moreover, as the Leased Assets are equipment or facilities used by the lessees in their ordinary course of production, the lessees would not separately account for the profits before tax and after tax of the Leased Assets.

The transactions contemplated under the Operating Lease Service, comprising the leasing of Leased Assets, will be accounted for as rental income on a straight-line basis over the term of the lease and recognized in accordance HKFRS 16 Leases for accounting purposes. The direct costs incurred in negotiating and arranging operating leases should be recognized in the income statement of the same period, or amortized over the lease term on the straight-line basis according to the depreciation policy.

## **CCHG Group’s Right to Repurchase the Leased Assets under the Finance Lease Services**

Subject to the repayment of the Purchase Price, the settlement of all the Finance Lease Payments and any other payables (if any) by the relevant member of CCHG Group to the Group in accordance with the terms of Individual Agreements, the relevant member of CCHG Group shall have the right to repurchase the Leased Assets at a nominal consideration ranging from RMB1.00 to RMB100.00 at the end of the relevant lease term to be specified in the relevant Individual Agreement, or in case of early termination, on a date to be agreed by the relevant member of the Group and CCHG Group.

For the avoidance of doubt, CCHG Group shall have no right to repurchase the Leased Assets under the Operating Lease Service during the respective lease terms in any circumstance.

### **Others**

The New Framework Agreement is conditional upon the approval by the Independent Shareholders of the New Framework Agreement.

The relevant member(s) of the CCHG Group and the relevant member(s) of the Group may from time to time enter into Individual Agreements in relation to the subject matters contemplated under the New Framework Agreement upon and subject to the terms and conditions in compliance with those of the New Framework Agreement.

## **Annual Caps and Basis of Determination**

### ***Finance Lease Services***

#### *Historical annual caps under the Existing Framework Agreement*

The annual caps on the principal and the lease payments (taking into account the aggregate outstanding amounts of interests and other payables (including handling fees)) to be received by the Group for the transactions contemplated under the Existing Framework Agreement for the years ended 31 December 2022, 2023 and 2024 are set out as follows:

	<b>For the years ended 31 December</b>		
	<b>2022</b>	<b>2023</b>	<b>2024</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Total principal and the lease payment	500,000	1,021,000	1,677,000
(taking into account the aggregate	(equivalent to	(equivalent to	(equivalent to
outstanding amounts of interests and	approximately	approximately	approximately
other payables (including handling fees))	HK\$535,000)	HK\$1,092,470)	HK\$1,794,390)
to be received by the Group			

#### *Proposed annual caps under the New Framework Agreement*

The proposed annual caps for the transactions contemplated under the Finance Lease Services (comprised of (a) the total amount of (i) Purchase Price (representing the total principal amount under the Finance Lease Services) which is calculated on a cumulative basis with RMB600 million, RMB300 million and RMB200 million for the years ending 31 December 2025, 2026 and 2027, respectively; and (ii) expected Finance Lease Payments during the relevant year (collectively, the “**New Transaction Amount**”); and (b) the outstanding



balances of all existing finance leases under the Existing Framework Agreement (for the avoidance of doubt, excluding the New Transaction Amount) (the “**Outstanding Balances**”)) for the years ending 31 December 2025, 2026 and 2027 are set out as follows:

	<b>For the years ending 31 December</b>		
	<b>2025</b>	<b>2026</b>	<b>2027</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total amount of Purchase Price	600,000	900,000	1,100,000
Total amount of the expected Finance Lease Payments (which will take into account the aggregate amounts of lease income and other receivables (including service fees, if applicable)) to be received by the Group	35,053	74,963	107,732
Outstanding Balances	<u>13,043</u>	<u>13,110</u>	<u>13,110</u>
Total amount (New Transaction Amount and Outstanding Balances)	<u><u>648,096</u></u>	<u><u>988,073</u></u>	<u><u>1,220,842</u></u>

The annual caps for the transactions contemplated under the Finance Lease Services are determined after taking into account the following:

- (i) the historical transaction amounts under the Existing Framework Agreement, in which the highest total outstanding principal and interest receivable amount on a cumulative basis under the Existing Framework Agreement were approximately RMB480.31 million, RMB508.27 million and RMB509.76 million up to the years ended 31 December 2022 and 2023 and the nine months ended 30 September 2024, respectively;
- (ii) the provision of a certain buffer to cater for the potential increase in the demand for the Leased Assets of the Group by CCCH Group and any potential fluctuation in the market prices of the relevant Leased Assets, taking into account the Group’s business plan and strategy to develop its energy storage projects;
- (iii) the estimated amounts to be utilized by the CCHG Group pursuant to the Individual Agreements to be entered into, together with lease income and other receivables including service fees, if applicable, from prospective finance lease services projects between the Group and CCHG Group. Based on the current estimations of the future market environment and the financing needs of CCHG Group, the Company is currently in discussions with CCHG Group regarding three prospective transactions for 2025 and one prospective transaction each for 2026 and 2027. The estimated amounts are RMB600 million, RMB300 million and RMB200 million for the years ending 31 December 2025, 2026 and 2027, respectively. Among the aforesaid prospective transactions in discussion, the Leased Assets will span across the facilities and equipment of various industries with a focus on energy generation, transportation, and manufacturing. These include without limitation the facilities and equipment related to photovoltaic power generation, wind power generation, railway construction, logistics vehicles, and paper, pulp, and cellulose production;

- (iv) the outstanding principal amount and lease payments expected to be received by the Group from the CCHG Group under the existing finance leases under the Existing Framework Agreement;
- (v) the Group's potential risk exposure should the members of the CCHG Group were unable to make timely repayments;
- (vi) the current financing market conditions, including the interest rates and fees arrangement and level of similar services provided by Independent Third Parties, and the potential adjustments to be made by the People's Bank of China to the LPR(s) in the future. In the case of any adjustment to the LPR(s) made by the People's Bank of China in the future, the Finance Lease Payments to be specified in the Individual Agreements will be determined with reference to the adjusted LPR(s); and
- (vii) the nature, estimated value and expected lifespan of the Leased Asset.

### ***Operating Lease Service***

The proposed annual caps for the transactions contemplated under the Operating Lease Service for the years ending 31 December 2025, 2026 and 2027 are set out as follows:

	<b>For the years ending 31 December</b>		
	<b>2025</b>	<b>2026</b>	<b>2027</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total Operating Lease Payments (taking into account the aggregate outstanding amounts of lease income and other payables (including service fees, if applicable)) to be received by the Group	<u>20,326</u>	<u>38,766</u>	<u>48,209</u>

The annual caps for the transactions contemplated under the Operating Lease Service are determined after taking into account the following:

- (i) the outstanding lease payments expected to be received by the Group from the CCHG Group under the Group's existing operating lease arrangement with CCHG Group (the "**Existing Operating Lease Arrangement**"), details of which was disclosed in the announcement of the Company dated 10 January 2024. Pursuant to the Existing Operating Lease Arrangement, the amount of the then adjusted lease payment receivable under the Existing Operating Lease Arrangement expected to be received by the Group on an annual basis will not exceed RMB5.07 million (equivalent to approximately HK\$5.42 million) in each of the financial years during its lease term;
- (ii) the Group's overall business plan for Operating Lease Service with the CCHG Group including to enter into new operating leases with CCHG Group on arrangements similar to the Existing Operating Lease Arrangement, taking into account the Group's service capacity, the estimated demand for Operating Lease Service by CCHG Group and the prospective operating lease services projects in the aggregate estimated lease income of RMB108 million (equivalent to approximately HK\$115.56 million) over the three years ending 31 December 2025, 2026 and 2027. In particular, the Group has been in discussion with members of CCHG Group to explore and discuss potential operating

lease projects with a view to have a better understanding of their expected demand of the Operating Lease Service and the potential projects scale and thereby deduce the estimated amount receivable by the Group in the next three years ending 31 December 2025, 2026 and 2027 based on comparable return rate; and

- (iii) the Group's potential risk exposure should the members of the CCHG Group were unable to make timely repayments or terminate the Individual Agreements prematurely after the Group obtains ownership of the Leased Assets, thereby potentially preventing the Group from achieving the estimated returns.

## Historical Transaction Amounts

### *Finance Lease Services*

The historical transaction amounts of the finance lease services under the Existing Framework Agreement are set out below:

	For the years ended 31 December		For the 9 months ended 30 September
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
The highest total outstanding principal amount and interest receivable amount on a cumulative basis	Approximately 480,310	Approximately 508,270	Approximately 509,760

### *Operating Lease Service*

The aggregate Operating Lease Payments received by the Group from CCHG Group were nil, nil and approximately RMB1.10 million for the years ended 31 December 2022 and 2023 and the nine months ended 30 September 2024, respectively.

The historical transaction amounts of the operating lease service provided by the Group to CCHG are set out below:

	For the years ended 31 December		For the 9 months ended 30 September
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Aggregate operating lease payments received by the Group from CCHG Group	nil	nil	Approximately 1,100

## **REASONS FOR AND BENEFITS OF THE NEW FRAMEWORK AGREEMENT**

The Group is principally engaged in leasing, property development and investment, marine recreation services and hotel business. The Group intends to strategically develop and accelerate the scale of its leasing business, including Finance Lease Services and Operating Lease Service. By entering into the New Framework Agreement, it enables the Group to extend its leasing business cooperation with CCHG Group which has reliable repayment capability.

CCHG is a state-owned company established in the PRC on 22 January 1998 with paid-in capital of RMB20.6 billion. CCHG is one of the two national capital operation group companies directly under the State-owned Assets Supervision and Administration Commission (the “SASAC”), a conglomerate principally engaged in fund investment, equity management, asset management, financial services and nurturing of strategic emerging industries.

As of 31 December 2023, the total assets of CCHG Group amounted to approximately RMB578.5 billion, representing a year-on-year increase of 5.6%. Moreover, in 2023, the revenue and net profit of CCHG Group amounted to approximately RMB53.1 billion and RMB4.6 billion, respectively. In view of the financial position and performance of CCHG Group, the Company considers that CCHG Group has a substantial asset base and liquidity to satisfy the liability as they fall due and is therefore one of our core target customers for our financial leasing business.

Moreover, the Company has established entrusted business relationship with CCHG Group on financial leasing contemplated under the Existing Framework Agreement with CCHG Group. In view of the cooperation history between CCHG Group and the Group, the Group is expected to benefit from CCHG Group’s better understanding of the operations of the Group which would allow more expedient and efficient cooperation. In addition, it also allows the Group to secure stable and long-term revenue income from the provision of Finance Lease Services and Operating Lease Service to CCHG Group, a customer of the Group with sound financial position, substantial business and positive reputation in the PRC.

The provision of Finance Lease Services and Operating Lease Service by the Group to CCHG Group under the New Framework Agreement is in the ordinary and usual course of business of the Group while the Group will in return receive a stable revenue and cashflow stream during the term of the New Framework Agreement. Furthermore, by entering into the New Framework Agreement with CCHG, the Group may leverage the positive brand image and market position of CCHG, which would allow the Group to target a broader spectrum of premium finance lease customers and accelerate client growth, and in turn, foster the growth and smooth development and operations of the Group.

The transactions contemplated under the New Framework Agreement will be satisfied by the general working capital of the Group.

The Directors (excluding the independent non-executive Directors who will express their view after receiving advice from the Independent Financial Adviser) are of the view that the terms under the New Framework Agreement are on normal commercial terms in the ordinary and usual course of business of the Group, fair and reasonable, and in the interests of the Company and its shareholders as a whole.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Mr. Zhang Bin, an executive Director and chairman of the Board, is also the chairman of China Health and Elderly Care Group Co., Ltd., a wholly-owned subsidiary of CCHG and a member of CCHG Group. Mr. Zhang Bin has therefore abstained from voting on the Board resolution in relation to the New Framework Agreement. Save as Mr. Zhang Bin, none of the Directors has any material interest in the New Framework Agreement or is required to abstain from voting on the Board resolution in relation to the New Framework Agreement.

## INFORMATION ON THE PARTIES

The Company is a limited company incorporated in Hong Kong on 11 August 1972. The Group is principally engaged in leasing, property development and investment, marine recreation services and hotel business. The Group's leasing business is mainly carried out through Chengtong Financial Leasing as its principal business.

CCHG is a state-owned enterprise established in the PRC with limited liability and the ultimate holding company of the Company. The major businesses of CCHG and its subsidiaries include fund investment, equity management, asset management, financial services and nurturing of strategic emerging industries.

## INTERNAL CONTROL MEASURES AND RISK MANAGEMENT

To safeguard the interest of the Shareholders, the Group has adopted, among others, the following internal control and risk management procedures to ensure that continuing connected transactions will be conducted within the New Framework Agreement:

### Review and Approval before entering into the Individual Agreements

- (i) The business department of Chengtong Financial Leasing ("**Business Department**") will carry out due diligence on the potential lessee including its background, business profile, industry ranking, financial position, credit rating, compliance records and loan repayment records, and identify the intended use of the principal amount with the potential lessee.
- (ii) The legal department of Chengtong Financial Leasing ("**Legal Department**") will carry out due diligence on the titles of the Leased Assets. To be considered as acceptable Leased Assets, such assets must be legally tradable and the lessee must possess clear and good titles.
- (iii) The review and appraisal department of Chengtong Financial Leasing ("**Review Department**") will then further assess and scrutinize each transaction, carry out risk assessments. In assessing the risk profile of the lessee, the following factors will be considered: (i) source of funds available for repayment, including the profitability, equity position and cash flow condition of the lessee; (ii) the valuations of the Leased Asset when they are being sold in secondary markets to discharge the debt of the lessee; (iii) the risk and return analysis of other financing projects between the Group and other Independent Third Party lessees with similar background; and (iv) the market conditions and outlook of lessee's business.



- (iv) The Review Department will also record and calculate, among others, the amount of Purchase Price and expected Lease Payment payable or receivable by the Group. When 80% of the relevant annual cap is reached, the Review Department will notify the Business Department, the finance department of Chengtong Financial Leasing (“**Finance Department**”) and the company secretary of the Company to carry out necessary and appropriate actions to ensure the Annual Caps will not be exceeded.
- (v) A committee (the “**Committee**”) will be formed to consider and approve the business proposal taking into account the due diligence reports prepared by the Business Department and the record and calculation of the principal amount and expected Lease Payments payable or receivable by the Group prepared by the Review Department. Business proposals shall only be approved by the committee if the Annual Caps will not be exceeded upon entering into the transaction(s) contemplated under such business proposal. Subject to the approval of the committee, each of the Individual Agreements shall be further submitted to the Chengtong Financial Leasing’s board of directors, the Company’s executive committee, and the Board, as the case may be, for final approval.

### **Pricing Terms**

- (i) The Business Department will be responsible for obtaining at least two relevant LPRs promulgated by the National Interbank Funding Center in principal to negotiations for the proposed terms and conditions of the relevant Individual Agreements. However, in cases where the Leased Assets pertain to certain specialized strategic emerging industries, such as the energy storage industry, the business model might be unique and market limitations may restrict the availability of comparable samples. Consequently, the Business Department may face challenges in securing at least two relevant LPRs, as is typically required. The Review Department and the Finance Department will then verify the LPR(s) quoted by the Business Department through independent searches on external databases to ensure its accuracy and compare the relevant LPR(s) with the terms of the Individual Agreement, where appropriate, compare the pricing terms of such Individual Agreement to those of similar transactions with Independent Third Parties and conduct analysis of pricing terms under each Individual Agreement to ensure that the terms under the Individual Agreement available to the Group are no less favourable than those offered by the Group to other Independent Third Parties. They shall evaluate the transaction terms under each Individual Agreement, in particular, the fairness and reasonableness of the pricing terms thereunder.
- (ii) The Company has internal guidelines for the types of projects to be developed and their minimum rates of return. The Review Department will be responsible for maintaining the effectiveness of and compliance with the internal guidelines concerning minimum rates of return. The Review Department will review the internal guidelines twice a year to consider if adjustment to the minimum return rate is necessary and to ensure they align with industry practices and market standards with the prerequisite that the sum of total Finance Lease Payments and other receivables to be received by the Group under the Individual Agreements shall also not be less than the cost of financing incurred by the Group for the respective Individual Agreements. Additionally, the Finance Department will further cross-check the aforesaid reviews conducted by the Review Department annually to ensure the internal guidelines have been complied with for the transactions contemplated under the New Framework Agreement.

## Monitoring and Risk Management

- (i) The Company's risk management department ("**Risk Management Department**") will oversee and guide the implementation of the continuing connected transactions contemplated under the New Framework Agreement and control the risk thereof and to formulate solutions in resolving any risk which may arise in connection therewith. In particular, the Committee will conduct ongoing review of the actual amount utilized in respect of the Annual Caps. Where the Committee anticipates that the aggregate transaction amounts of the Individual Agreements, including the annual caps in relation to the Operating Lease Service, will exceed the Annual Cap upon review, it will notify the management of the Company immediately and the Company shall take necessary measures to ensure full compliance with the applicable requirements under the Listing Rules.
- (ii) The Risk Management Department will conduct the sampling inspection at least twice per annum for not less than 50% of the transactions contemplated under the Individual Agreements to inspect the comprehensiveness and effectiveness of the Group's internal control measures continuing connected transactions, and periodically review and examine the progress of the continuing connected transactions.
- (iii) In respect of the credit risk assessment in relation to the provision of Finance Lease Services and Operating Lease Service by the Group to CCHG Group, the Review Department will conduct ongoing review of the economic feasibility and effectiveness of the credit risk control measures of and evaluate the credit risks associated with the relevant transaction contemplated under the relevant Individual Agreement based on the due diligence materials provided by the Business Department and combined with supplementary on-site investigation from time to time. Furthermore, the Review Department will enhance its scrutiny of the financial conditions of the members of CCHG Group as lessees, ensuring comprehensive oversight that spans several critical areas. This scrutiny will include without limitation an assessment of asset structure and quality, focusing on the quality of accounts receivable, asset impairment provisions, and inventory composition and quality. Additionally, the structure of liabilities and debt repayment capabilities will be examined, particularly the composition of loans from major financial institutions, the pressures of imminent repayments, and the management of accounts payable. Lastly, a thorough analysis of both short-term and long-term debt repayment capabilities will be conducted, reviewing key financial ratios such as the debt-to-asset ratio, current ratio, and other relevant cash flow indicators in conjunction with the cash flow statements.
- (iv) The Company will engage external auditors to review the data of the continuing connected transactions twice a year in compliance with the annual reporting and review requirements under the Listing Rules and provide confirmation in the Company's annual report on whether such transactions are entered into in the ordinary course of business on normal commercial terms or better and are carried out pursuant to the terms thereof, and whether the terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole.
- (v) The audit committee of the Company will review the implementation of the continuing connected transactions twice a year.

## **LISTING RULES IMPLICATIONS**

Acquisitions of the Leased Assets by the Group form part and parcel of the transactions contemplated under the Finance Lease Services of the New Framework Agreement. Each acquisition of Leased Assets by the Group will constitute a transaction under Chapter 14 of the Listing Rules. As the respective highest applicable percentage ratio (as defined under the Listing Rules) calculated with reference to the expected annual Purchase Price payable by the Group to CCHG Group for acquisition of Leased Assets in connection with the transactions contemplated under the Finance Lease Services of the New Framework Agreement may (on individual or aggregate basis) exceeds 100%, the transactions contemplated thereunder will constitute a very substantial acquisition for the Company, subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, CCHG is interested in 53.14% of the total issued share capital of the Company and is the ultimate holding company of the Company. Thus, CCHG is a connected person of the Company under the Listing Rules. As such, the transactions contemplated under the New Framework Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of each of the Annual Caps for the Financial Lease Services and the Operating Lease Service exceed 5%, the Financial Lease Services and Operating Lease Services contemplated under the New Framework Agreement are subject to announcement, reporting, annual review, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, pursuant to Rule 14A.52 of the Listing Rules, as the term of the Individual Agreement(s) to be entered into pursuant to the New Framework Agreement may exceed three (3) years, the Company has appointed INCU Corporate Finance Limited as the Independent Financial Adviser to provide an independent opinion, which will be set out in the circular to be made available to the Shareholders, to explain why the Individual Agreement(s) require a longer period and to confirm that it is a normal business practice for agreements of this type to be of such duration.

## **INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the transactions contemplated under the New Framework Agreement, and its advice and recommendation will be set out in the circular to be made available to the Shareholders. The Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

## **GM**

At the GM, a resolution will be proposed by the Company to seek the Independent Shareholders' approval on the New Framework Agreement, the Finance Lease Services and acquisitions of the Leased Assets contemplated thereunder, the Operating Lease Service and the Annual Caps. CCHG and its associates will abstain from voting for the resolution regarding the New Framework Agreement. The proposed resolution will be passed by way of an ordinary resolution and voted on by way of poll in accordance with the requirements of the Listing Rules.

## CIRCULAR

A circular containing, among other things, (i) details of the New Framework Agreement; (ii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the New Framework Agreement; (iii) a letter of recommendation from the Independent Board Committee in relation to the New Framework Agreement; and (iv) a notice of the GM and a form of proxy are expected to be made available to the Shareholders on or before 8 January 2025 as additional time is needed to finalize the circular.

## DEFINITIONS

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

“30%-controlled companies”	has the meaning ascribed to it under the Listing Rules
“Annual Caps”	means, for the purpose of Chapter 14A of the Listing Rules, the proposed annual caps for (i) the Finance Lease Services and (ii) the Operating Lease Service of New Framework Agreement for each of the three financial years ending 31 December 2025, 2026 and 2027, respectively, as set out in this announcement
“Board”	means the board of Directors
“CCHG”	means China Chengtong Holdings Group Limited, a state-owned enterprise established in the PRC with limited liability and the ultimate holding company of the Company
“CCHG Group”	means CCHG, its subsidiaries and 30%-controlled companies excluding the Group
“Chengtong Financial Leasing”	means Chengtong Financial Leasing Company Limited, a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Company”	means 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
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	means the directors of the Company
“Existing Framework Agreement”	means the finance lease services framework agreement dated 20 July 2022 entered into between the Company and CCHG

“Finance Lease Payment(s)”	means the lease payment(s) or any other receivables to be received by the Group under the Individual Agreements in relation to Finance Lease Services (excluding Purchase Price, nominal consideration for repurchase of the Leased Asset(s), any refundable deposits, or other refundable sums) and any additional interest incurred due to a delay by CCHG Group in remitting the amounts payable to the Group (if applicable)
“GM”	means the general meeting of the Company to be held to consider and approve the Annual Caps and the acquisitions of Leased Assets and transactions contemplated under the New Framework Agreement
“Group”	means the Company and its subsidiaries
“HK\$”	means Hong Kong dollar, the lawful currency of Hong Kong
“HKFRS”	means Hong Kong Financial Reporting Standards, as issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	means the independent committee of the Board, comprising all three independent non-executive Directors, established to advise the Independent Shareholders in respect of the continuing connected transactions under the New Framework Agreement
“Independent Financial Adviser”	means INCU Corporate Finance Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Cap.571 of the laws of Hong Kong), being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions under the New Framework Agreement
“Independent Shareholders”	means Shareholders who do not have a material interest in the Existing Framework Agreement and the New Framework Agreement
“Independent Third Party(ies)”	means third party(ies) independent of the Company and its connected persons
“Individual Agreement(s)”	means the individual agreement(s) to be entered into between the member(s) of the Group and member(s) of CCHG Group pursuant to the New Framework Agreement



“Lease Payment(s)”	means the Finance Lease Payment(s) and/or the Operating Lease Payment(s) (as the case may be)
“Leased Assets”	means the assets to be leased by the Group pursuant to Individual Agreements, which is expected to include but not limited to vessels, turbine power units, containers, papermaking facilities, UPS facilities, medium and low voltage cabinets, air-conditioning facilities, cabinet equipment, servers, vehicles, battery units, equipment for battery cell production, construction equipment, drainage and sewage treatment facilities, thermal incinerators, electricity generators, power stations, energy storage power stations, power swap stations, transformers, inverters, power management systems and related equipment, or any other logistics, storage, transportation or production related equipment and facilities
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“LPRs”	means the relevant loan prime rates as promulgated by the National Interbank Funding Center under the People’s Bank of China
“New Framework Agreement”	means the finance lease and operating lease services framework agreement dated 13 December 2024 entered into between the Company and CCHG
“Operating Lease Payment(s)”	means the lease payment(s) or any other receivables to be received by the Group under the Individual Agreements in relation to Operating Lease Service (excluding any refundable deposits or other refundable sums) and any additional interest incurred due to a delay by CCHG Group in remitting the amounts payable to the Group (if applicable)
“PRC”	means the People’s Republic of China and, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Purchase Price”	means the consideration payable by the Group for purchasing, or obtaining the legal ownership of, the Leased Assets
“RMB”	means Renminbi, the lawful currency of the PRC
“Shareholders”	means holders of shares of the Company
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“%”	means per cent.

*In this announcement, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$1.07. 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.*

*The English names of all PRC entities in this announcement are for identification purpose only.*

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

Hong Kong, 13 December 2024

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