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**CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED**

**招商局中國基金有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 133)**

## **POSSIBLE MAJOR TRANSACTION**

### **MANDATE IN RELATION TO THE DISPOSAL OF SHARES IN INDUSTRIAL BANK CO., LTD.**

#### **Possible Disposals of IBC A Shares**

As at the date of this announcement, the Company beneficially owns a total of 43,936,000 IBC A Shares, which are listed and freely tradable on the SSE, representing approximately 0.231 % interest in the issued share capital of IBC. If the Group proceeds with the Proposed IBC Disposal and on the assumption that all IBC A Shares held by the Group are to be disposed of, the Proposed IBC Disposal may constitute a major transaction of the Company under Chapter 14 of the Listing Rules, and be subject to the requirements of announcement, circular and shareholders' approval under the Listing Rules. The Board proposes to seek the approval of the Shareholders to grant a disposal mandate to the Directors to dispose of the IBC Interests during the Mandate Period on the terms set out in this announcement.

A circular, containing further details of the Proposed IBC Disposal together with the notice of the EGM for approving the IBC Disposal Mandate is expected to be despatched to the Shareholders on or about 21 February 2017.

## **BACKGROUND**

As at the date of this announcement, the Company beneficially owns 43,936,000 IBC A Shares. It has been the known policy of the Company to dispose of the IBC Interests held by the Group in a gradual manner. During the period between August 2016 and December 2016, the Company had disposed of 23,000,000 IBC A Shares. Depending on prevailing market conditions, the Company may from time to time further dispose of some or all of the IBC A Shares to realize its investments in IBC. The Proposed IBC Disposal may constitute a major transaction of the Company under Chapter 14 of the Listing Rules that would require compliance with the announcement, circular and shareholders' approval requirements under the Listing Rules. The Board proposes to seek the approval of the Shareholders at the EGM to grant a mandate to the Board to dispose of the IBC Interests for a period of 12 months from the date of the EGM.

## **THE PROPOSED IBC DISPOSAL**

### ***Maximum number of IBC A Shares to be disposed of***

As at the date of this announcement, the Company beneficially owns a total of 43,936,000 IBC A Shares, which are listed and freely tradable on the SSE, representing approximately 0.231% interest in the issued share capital of IBC based on publicly available information.

The Board proposes to seek the approval of the Shareholders to grant a disposal mandate to the Board to dispose of the IBC Interests during the Mandate Period. The IBC Interests, comprising the 43,936,000 IBC A Shares held by the Group as at the date of this announcement, represent the entire interest held by the Group in IBC.

As at the date of this announcement, the Group does not have any discussion with any party to dispose of the IBC Interests. Nevertheless, the Board is of the view that it would be in the best interests of the Shareholders and the Company for the Directors to have flexibility in disposing of the IBC Interests.

### ***Terms of the IBC Disposal Mandate***

The Company proposes to seek the IBC Disposal Mandate for the Proposed IBC Disposal at the EGM on the following terms:-

1. the Group will dispose of the IBC Interests in the open market through the trading system of the SSE;
2. the selling price of the IBC A Shares will be the market price of the IBC A Shares at the relevant times, where market price refers to the price allowed under the trading system of the SSE, but will not be less than RMB13.77 (equivalent to approximately HK\$15.39) per IBC A Share; and
3. the disposal mandate will be for a 12-month period from the date of passing of the relevant resolution(s) at the EGM.

### ***Basis for determining the minimum selling price***

The minimum selling price of RMB13.77 was determined with reference to the lowest price of IBC A Shares traded on the SSE in 2016. The minimum selling price reflects the lowest acceptable price to dispose of the IBC A Shares but is not the expected price at which the Company targets to dispose of the IBC A Shares. The Directors will consider various factors including general market conditions, progress of making new investments and performance of existing investments of the Company in exercising the IBC Disposal Mandate.

The minimum selling price for the IBC Disposal Mandate was also formulated by the Company with reference to the current price-to-book ratio of certain PRC listed banks. The Company has also taken into account the current price-to-book ratio of the IBC A Shares. In addition, in view of the performance of IBC A Shares, the current and future market conditions in the PRC and to ensure a more flexible financial position of the Company for new investment opportunities, the Board considers that the adoption of the lowest price of IBC A Shares traded on the SSE in 2016 as the current basis for determining the minimum selling price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The minimum selling price per IBC A Share of RMB13.77 represents:

- a discount of approximately 19.33% to the closing price of RMB17.07 per IBC A Share as quoted on the SSE as at 26 January 2017, the trading day immediately before the date of the this announcement; and
- a premium of approximately 12.87% to the lowest closing price of RMB12.20 per IBC A Share as quoted on the SSE since 1 January 2015 and up to and including the date of this announcement.

In order to maximize efficiency for the Directors to act under the dynamic market conditions and economic situation during the Mandate Period, the Directors consider that the deviation of the minimum selling price from the trading prices of the IBC A Shares as illustrated above is of strategic advantage to the Company and is in the interests of the Company and the Shareholders as a whole.

Having considered the above factors, the Directors consider that the minimum selling price of RMB13.77 per IBC A Share will allow flexibility for the Directors to accommodate fluctuations in the market conditions and enable the Directors to effectively exercise the IBC Disposal Mandate under the volatile market conditions, and is thus fair and reasonable as far as the Company and the Shareholders are concerned.

### ***Manner of disposal***

The Proposed IBC Disposal will comply with all relevant laws and regulations, including any applicable trading regulations governing the Proposed IBC Disposal in the PRC.

Under the IBC Disposal Mandate proposed to be granted to the Directors, the Group may dispose of all or part of the IBC Interests on the SSE through its trading system. The Group will delegate all necessary power to the Investment Manager to handle all matters relating to the Proposed IBC Disposal, who will be responsible for identifying appropriate opportunities for disposing of the IBC A Shares. On the other hand, the Company will form a board committee consisting of two members of

the investment committee of the Company to monitor the process of execution of disposal orders. To ensure regular review and monitoring of the disposals made by the Investment Manager, after the sales of every 5,000,000 IBC A Shares, the Investment Manager will be obliged to report to the board committee and any further disposals of IBC A Shares proposed by the Investment Manager will be subject to the approval by the board committee. All elaborations, discussions and decisions in relation to the timing, price and amount of the Proposed IBC Disposal will be kept confidential.

The Company will publish an announcement every month to disclose the number of IBC A Shares disposed of pursuant to the IBC Disposal Mandate on an aggregated basis and the net proceeds arising therefrom. Further, the Company will also adjust the change in fair value of the IBC A Shares (i.e. change in fair value of financial assets designated at fair value through profit or loss) in the announcement of net asset value of the Company to be published every month. Apart from making monthly announcements to disclose the number of IBC A Shares disposed of pursuant to the IBC Disposal Mandate and the net proceeds arising therefrom, the Company will also disclose the same in the 2017 interim report and 2017 annual report of the Company.

### ***Information about IBC***

According to the 2016 interim report of IBC and publicly available information, IBC has over 1,920 branches and offices throughout the PRC and has a branch in Hong Kong. As at 30 June 2016, IBC had a total share capital of RMB19,052 million.

From publicly available information, the Company understands that the main business activities of IBC include the provision of corporate and personal banking services, treasury businesses, and provision of asset management, leasing, trust, consumer finance and other financial services.

The following sets out a summary of audited financial information of IBC for the two years ended 31 December 2014 and 31 December 2015 which were prepared under the PRC accounting standards:

	<b>For the year ended 31 December</b>			
	<b>2015</b>		<b>2014</b>	
	<i>RMB million</i> <i>(audited)</i>	<i>HK\$ million</i> <i>equivalent</i>	<i>RMB million</i> <i>(audited)</i>	<i>HK\$ million</i> <i>equivalent</i>
Profit before taxation	63,244	70,700	60,598	67,743
Profit after taxation	50,207	56,126	47,138	52,696
Net asset value attributable to ordinary shareholders of IBC	287,743	321,668	244,976	273,859

As at 31 December 2015, the audited consolidated net asset value attributable to the ordinary shareholders of IBC amounted to approximately RMB287,743 million (equivalent to approximately HK\$321,668 million) and the audited net asset value per IBC A Share was RMB15.10 (equivalent to approximately HK\$16.88). The Group held approximately 0.351% interest of IBC as at the financial year end of both 2014 and 2015. The audited net asset value attributable to the IBC A Shares held by the Group was approximately RMB1,010 million (equivalent to approximately HK\$1,129 million) as at 31 December 2015. Dividend income received by the Group from IBC amounted to approximately RMB30.79 million (equivalent to approximately HK\$34.42 million) in 2014 and RMB38.15 million (equivalent to approximately HK\$42.65 million) in 2015. The change in fair value on IBC attributable to the Group amounted to gain of approximately US\$69.21 million (equivalent to approximately HK\$536.72 million) in 2014 and gain of approximately US\$5.86 million (equivalent to approximately HK\$45.44 million) in 2015 respectively.

As disclosed in the interim results of IBC for the six months ended 30 June 2016 prepared under the PRC accounting standards, the net asset value attributable to ordinary shareholders of IBC as at 30 June 2016 was RMB302,486 million and the net asset value per IBC A Share was RMB15.88.

The highest and lowest closing price of IBC A Shares as quoted on the SSE in the last 12 months up to and including the date of this announcement was RMB17.30 and RMB14.10 (equivalent to approximately HK\$19.34 and HK\$15.76) respectively. As at 26 January 2017, the trading day immediately before the date of this announcement, the closing price of IBC A Shares as quoted on the SSE was RMB17.07 (equivalent to approximately HK\$19.08).

#### ***Financial effect of the disposal of IBC Interests***

Based on the carrying amount of the IBC Interests as at 31 December 2015 which was US\$115.36 million (equivalent to approximately HK\$894.61 million) and the minimum selling price of RMB13.77 (equivalent to approximately HK\$15.39), the expected realized accounting loss on the disposal of the IBC Interests would be US\$28.15 million (equivalent to approximately HK\$218.30 million).

As at the date of this announcement, the IBC Interests account for approximately 18.21% of the Company's net asset value based on the Company's unaudited consolidated accounts as at 31 December 2016.

The Shareholders should note that the actual amounts of proceeds, accounting gain or loss and the effects on the net assets and earnings of the Group will depend on the actual selling prices of the Proposed IBC Disposal.

## **REASONS FOR AND BENEFITS OF THE PROPOSED IBC DISPOSAL**

As stated in the 2016 interim report of the Company, the Group will continue to make every effort to identify new investment projects, while maintaining an emphasis on investment opportunities in several sectors, including culture and media, healthcare, consumer goods (with particular focus on consumer-oriented projects in second and third tier cities), advanced manufacturing, non-traditional financial services, new energy, education, “Internet plus” and China’s strategic industries under the “One Belt and One Road” Initiatives, and to seek to optimize its mix of investments in order to create greater shareholder value. The proceeds from the Proposed IBC Disposal will put the Group into a better and more flexible financial position to take advantage of current and future investment opportunities should they arise.

In exercising the IBC Disposal Mandate, apart from the opportunities and progress of making new investments, the Directors will also consider the performance of IBC A Shares and other investments of the Company, the latest development and circumstances of IBC, general market conditions as well as the macro-economic environment of the PRC in general.

The Directors (including independent non-executive Directors) consider that the Proposed IBC Disposal represents a good opportunity to increase the cash flow of the Company. The Directors consider that the Proposed IBC Disposal will be conducted in the best interests of the Company and the Shareholders as a whole and the IBC Disposal Mandate will give flexibility to the Directors to dispose of the IBC Interests at the appropriate times and prices in order to maximize returns to the Group.

The Directors (including independent non-executive Directors) are of the view that the IBC Disposal Mandate under the Proposed IBC Disposal is fair and reasonable and in the interests of the Shareholders as a whole, after considering the business fundamentals of IBC, prevailing market sentiments and conditions, and the financial needs of the Group.

## **IMPLICATIONS OF THE PROPOSED IBC DISPOSAL UNDER THE LISTING RULES**

If the Group proceeds with the Proposed IBC Disposal and on the assumption that all IBC A Shares held by the Group are to be disposed of, the Proposed IBC Disposal may constitute a major transaction of the Company under Chapter 14 of the Listing Rules. The Proposed IBC Disposal would then be subject to the requirements of announcement, circular and shareholders’ approval under the Listing Rules. The Board thus proposes to seek the Shareholders’ approval of the IBC Disposal Mandate.

In the event that the Group finds out that the counterparty is a connected person before disposing of the IBC Interests, the Group will strictly follow the announcement, reporting, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules as may be applicable.

A circular, containing further details of, and other disclosures in connection with, the Proposed IBC Disposal required under the Listing Rules, together with the notice of the EGM for approving the IBC Disposal Mandate is expected to be despatched to the Shareholders on or about 21 February 2017.

To the best of the knowledge and belief of the Directors having made all reasonable enquiry, no Shareholder has a material interest in the matters which are the subject of the IBC Disposal Mandate such that it must abstain from voting, and, accordingly, all Shareholders will be permitted to vote at the EGM.

## **INFORMATION ABOUT THE COMPANY**

The Company is an investment company, the Shares of which are listed on the Main Board of the Stock Exchange. The Group specializes in investing in the PRC, and its investment objective is to acquire quality investments, principally in unlisted enterprises, in the PRC. The Group may also invest in China-concept shares, “H” shares, “B” shares and any shares listed on the Stock Exchange provided that the main businesses or incomes of such companies are derived from the PRC including Hong Kong.

## **GENERAL**

Whether the Company decides to proceed with the Proposed IBC Disposal (or not to proceed) will depend on a number of factors including without limitation prevailing market sentiments and market conditions at the proposed time of executing the Proposed IBC Disposal. The decision will also be subject to compliance by the Company with all applicable laws and regulations and all applicable requirements under the Listing Rules. While the Company currently intends to proceed with the Proposed IBC Disposal, it should be emphasized there is no assurance that the Company will necessarily proceed with any part of the Proposed IBC Disposal.

**The Shareholders and other public investors of the Company are therefore advised to exercise extreme caution when dealing in the Shares.**

## **DEFINITIONS**

Unless the context otherwise requires, the following terms in this announcement shall have the meanings set out below:-

“Board”	board of Directors
“Company”	China Merchants China Direct Investments Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Stock Exchange (Stock Code: 133)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting proposed to be convened by the Company to consider and, if thought fit, to approve the grant of mandate for the Proposed IBC Disposal

“Group”	the Company, its subsidiaries, jointly controlled entities and associated companies
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IBC”	興業銀行股份有限公司 (Industrial Bank Co., Ltd.), a joint-stock commercial bank approved by the China Banking Regulatory Commission in the PRC with limited liability, whose A shares are listed on the SSE (Stock Code: 601166.SH)
“IBC A Share(s)”	PRC-listed domestic share of par value of RMB1.00 each in the registered capital of IBC
“IBC Disposal Mandate”	the disposal mandate proposed to be granted by the Shareholders to the Directors to dispose of all or part of the IBC Interests during the Mandate Period, the terms of which are set out in this announcement
“IBC Interests”	the 43,936,000 IBC A Shares held by the Group as at the date of this announcement which are freely tradable on the SSE, representing the entire interest held by the Group in IBC
“Investment Manager”	China Merchants China Investment Management Limited, a fund management company incorporated in Hong Kong with limited liability and registered under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mandate Period”	twelve calendar months from the date of passing of the relevant resolution(s) at the EGM
“PRC”	People’s Republic of China
“Proposed IBC Disposal”	the proposed disposal of all or part of the IBC Interests by the Group pursuant to the IBC Disposal Mandate
“RMB”	Renminbi, the lawful currency of the PRC



“Share(s)”	share(s) of the Company
“Shareholder(s)”	shareholder(s) of the Company
“SSE”	Shanghai Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of United States of America
“%”	per cent

*For illustrative purposes in this announcement only, RMB1=HK\$1.1179, US\$1=HK\$7.7549 and US\$1=RMB6.9370.*

By Order of the Board  
**WANG Xiaoding**  
*Director*

Hong Kong, 3 February 2017

*As at the date hereof, the executive Directors are Mr. HONG Xiaoyuan, Mr. LI Yinquan, Mr. CHU Lap Lik, Victor, Mr. WANG Xiaoding and Mr. TSE Yue Kit; the non-executive Director is Mr. KE Shifeng; and the independent non-executive Directors are Mr. LIU Baojie, Mr. ZHU Li, Mr. TSANG Wah Kwong and Dr. LI Fang. In addition, Ms. KAN Ka Yee, Elizabeth is the alternate Director to Mr. CHU Lap Lik, Victor.*