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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)

**ANNOUNCEMENT**

**PROPOSED SUBSCRIPTION OF IBC A RIGHTS SHARES  
WAIVER GRANTED BY THE HONG KONG STOCK EXCHANGE  
IN RELATION TO LISTING RULE 21.04(3)(b)**

**SUMMARY**

As at the date of this announcement, the Company held 47,000,000 IBC A Shares. On 8 December 2009, IBC obtained the approval from its shareholders for the IBC A Rights Issue. Subject to Shareholders' approval, the Company plans to subscribe for its IBC A Rights Shares under the IBC A Rights Issue in full.

In order to proceed with the IBC Subscription, the Company is required to obtain the IBC Waiver from the Hong Kong Stock Exchange and the Shareholders' approval of the IBC Subscription.

The Company has applied for, and the Hong Kong Stock Exchange has granted, the IBC Waiver based on various IBC Waiver Conditions.

The purpose of this announcement is to provide the Shareholders with information on the IBC Subscription and the IBC Waiver in relation to the IBC Subscription.

**BACKGROUND**

Reference is made to the 2009 Circular in relation to, inter alia, the Disposal Mandates and the CMB Waiver. As mentioned in the 2009 Circular, IBC announced that it would seek its shareholders' approval for the IBC A Rights Issue. On 8 December 2009, IBC obtained such shareholders' approval, which will be valid for a period of 18 months (i.e. until June 2011).

Subject to Shareholders' approval, the Company plans to subscribe for its IBC A Rights Shares under the IBC A Rights Issue in full. The purpose of this announcement is to provide the Shareholders with information on the IBC Subscription and the IBC Waiver in relation to the IBC Subscription.

## **The IBC Interests**

From 1997 to 2001, the Company acquired a certain number of domestic shares of IBC. The Company's holding in IBC were converted into IBC A Shares pursuant to IBC's listing in Shanghai in 2007. Under the relevant PRC regulations, the Company's holdings in IBC were subject to a lock-up period of 12 months since the listing of IBC. After the Company's various disposals of its holdings in IBC and as at the date of this announcement, the Company held 47,000,000 IBC A Shares (i.e. the IBC Interests), representing approximately 0.94% of IBC's issued share capital based on publicly available information.

## **The IBC A Rights Issues**

On 8 December 2009, IBC obtained its shareholders' approval for the IBC A Rights Issue. According to information announced by IBC, the IBC A Rights Issue will be conducted on the basis of: (i) 2 IBC A Rights Shares for every 10 existing IBC A Shares (i.e. the Allocation Assumption); (ii) the net proceeds of the IBC A Rights Issue will be not more than RMB18 billion; and (iii) the IBC A Rights Shares will be issued at not less than RMB11.92 per IBC A Rights Share, being the most recently audited NAV of the IBC A Shares. Assuming the gross proceeds of the IBC A Rights Issue are RMB18 billion, the subscription price will be RMB18 per IBC A Rights Share (i.e. the Subscription Price Assumption) based on the total issued share capital of 5,000,000,000 IBC A Shares as at the date of this announcement.

## **The IBC Subscription**

As one of the IBC Waiver Conditions, the Company has undertaken to dispose of a minimum of 4,000,000 IBC A Shares by the ex-rights date to be announced by IBC. Please refer to the paragraph "REGULATORY ISSUES IN RELATION TO THE IBC SUBSCRIPTION – Conditions of the IBC Waiver" below for details. Based on the Allocation Assumption, the Company estimates that 8,600,000 IBC A Rights Shares will be allotted and issued to the Company in nil-paid form pursuant to the IBC A Rights Issue (subject to final determination of IBC). For the reasons discussed in the paragraph "REASONS FOR THE IBC SUBSCRIPTION" below, the Company plans to subscribe for its IBC A Rights Shares in full. Based on the Subscription Price Assumption, the Company estimates the cost of the IBC Subscription is approximately RMB154.8 million (subject to final determination of IBC). The IBC Subscription is also subject to Shareholders' approval as one of the IBC Waiver Conditions. Please refer to the paragraph "REGULATORY ISSUES IN RELATION TO THE IBC SUBSCRIPTION – Conditions of the IBC Waiver" below for details.

## **The Disposal Mandates**

It has been the Company's known policy to dispose of CMB Interests and IBC Interests in a gradual manner. In this connection, the Company obtained the Disposal Mandates from the Shareholders on 14 December 2009 to authorise the possible disposals of its interests in CMB and IBC.

## **Disposal of the CMB Interests and the CMB Waiver**

As disclosed in the 2009 Circular, as one of the CMB Waiver Conditions, the Company has undertaken to dispose of the CMB Interests such that the CMB Interests no longer account for more than 20% of the NAV of the Company within 6 months from the completion of the CMB A Rights Issue. Given that the CMB A Rights Issue was completed on 19 March 2010, the Company is expected to receive substantial proceeds from the disposal of the CMB Interests by September 2010.

## **REASONS FOR THE IBC SUBSCRIPTION**

The Company understands that there is no arrangement for trading in nil-paid IBC A Rights Shares under the IBC A Rights Issue. Based on the Assumptions and the price of RMB34.10 per IBC A Share (being the closing price of IBC A Shares as at the date of this announcement), the theoretical ex-rights price is approximately RMB31.42 per IBC A Share. If the Company does not subscribe for any of its IBC A Rights Shares, the Company will suffer a NAV loss of approximately RMB126.1 million for the IBC Interests on the ex-rights date based on the Assumptions (i.e. the Ex-rights Loss).

While it has been the Company's known policy to dispose of the IBC Interests in a gradual manner, the Company believes that the Shareholders will benefit from the Company's subscription of its IBC A Rights Shares in the IBC A Rights Issue, to be followed by disposal of such IBC A Rights Shares within a reasonable timeframe. In light of the above circumstances, the Company is of the view that the IBC Subscription would be in the best interests of the Shareholders.

## **REGULATORY ISSUES IN RELATION TO THE IBC SUBSCRIPTION**

### **Listing Rule 21.04(3)(b)**

Listing Rule 21.04(3)(b) provides that the investment company and its management must ensure compliance at all times while it remains listed under Chapter 21 of the Listing Rules with the requirement that "a reasonable spread of investments will be maintained by the investment company. Generally this will mean that the value of its holding of investments issued by any one company or body shall not exceed 20% of the investment company's NAV at the time when such investment is made".

### **The Investment Restriction**

As disclosed in the Prospectus, the Board has resolved the Investment Restriction in line with Listing Rule 21.04(3)(b) on the following terms at the time of the Company's initial public offering in 1993:

- (i) the Company will not purchase any security or make any investment if, as a result, more than 20% of the Company's NAV would be invested in any one company or enterprise;
- (ii) the Investment Restriction will not require the realisation of any investment of the Company where such Investment Restriction is breached as a result of any event outside the control of the Company occurring after the relevant investment is made, but no further investment may be made until the Investment Restriction can again be complied with; and

- (iii) the Investment Restriction may not be amended while the shares of the Company remain listed on the Hong Kong Stock Exchange except with the approval of the Shareholders in general meeting and with the prior written consent of the Hong Kong Stock Exchange (i.e. the Consent).

### **Steps Taken to Achieve a Balanced Portfolio**

As disclosed in the 2009 Circular, the Directors note that each of its holdings in CMB and IBC has exceeded 20% of the Company's NAV as a result of the rapid appreciation in CMB A Shares and IBC A Shares after their respective listings in Shanghai in 2002 and 2007. The Company fully appreciates the importance of maintaining a "reasonable spread of investments" and it takes the obligation to achieve a balanced portfolio seriously.

Since the expiry of the lock-up periods in early 2008, the Company has been actively disposing of its CMB A Shares and IBC A Shares. From early 2008 to date, the Company has disposed of 39,945,000 CMB A Shares and 37,000,000 IBC A Shares in open market. In addition, as one of the CMB Waiver Conditions, the Company has undertaken to dispose of the CMB Interests such that the CMB Interests no longer account for more than 20% of the NAV of the Company within 6 months from the completion of the CMB A Rights Issue. The Company also obtained the Disposal Mandates from the Shareholders on 14 December 2009 to authorise the possible disposals of its interests in CMB and IBC.

As an excessive cash component in the Company's portfolio (as a result of such disposals) would not achieve a reasonable spread of investments, the Company has taken active steps to identify and make new investments for portfolio adjustment. In an effort to strengthen the investment team, some investment staff has been hired recently and the Company expanded its Board by appointing two new non-executive Directors and one independent non-executive Director to help supervise the Company's affairs.

### **Circumstances of the Hong Kong Stock Exchange's IBC Waiver**

As at the date of this announcement, the IBC Interests account for approximately 34% of the Company's NAV based on the Company's unaudited consolidated accounts as at 28 February 2010. Since the IBC Subscription would constitute a further investment in IBC, it is therefore subject to Listing Rule 21.04(3)(b) and the Investment Restriction.

In order to proceed with the IBC Subscription, the Company is required to obtain the IBC Waiver from the Hong Kong Stock Exchange and the Shareholders' approval of the IBC Subscription.

### **Conditions of the IBC Waiver**

The Company has applied for, and the Hong Kong Stock Exchange has granted, the IBC Waiver on the following IBC Waiver Conditions:-

- (i) the Company will obtain Shareholders' approval for the IBC Subscription;
- (ii) the Company will dispose of a minimum of 4,000,000 IBC A Shares by the ex-rights date of the IBC A Rights Issue;

- (iii) (a) by the end of June 2011 (if the IBC A Rights Issue is completed in 2010) or (b) within 6 months from the completion of the IBC A Rights Issue (if the IBC A Rights Issue is completed in 2011), the Company will further dispose of IBC A Shares such that its IBC Interests no longer exceed 20% of the Company's NAV; and
- (iv) the Company will publish an announcement on the grant of the IBC Waiver setting out relevant details including the circumstances and conditions imposed as soon as possible after the granting of the IBC Waiver.

The Company is of the view that the Consent required under the Investment Restriction has been satisfied by the grant of the IBC Waiver.

### **The Company's view on the IBC Waiver Conditions**

The IBC Waiver Conditions were imposed by the Hong Kong Stock Exchange after taking into account the circumstances of the IBC Subscription.

While the Board is strongly of the view that the IBC Subscription is in the best interests of the Shareholders, the Board believes that the regulatory concerns in terms of maintaining a reasonable spread of investments under Listing Rule 21.04(3)(b) by the introduction of IBC Waiver Conditions.

The Board believes that IBC Waiver Conditions (i) and (iv) will provide the Shareholders with sufficient information on the IBC Subscription such that the Shareholders will be able to make a fully informed decision on the IBC Subscription. This announcement is issued by the Company pursuant to IBC Waiver Condition (iv).

The Board believes that IBC Waiver Condition (ii) will ensure that the Company will not be required to contribute any new funds for the IBC Subscription other than the proceeds from the Disposal – so as to minimise the effect of making any “new investment” in IBC as restricted under Listing Rule 21.04(3)(b). The Disposal will be covered by the Disposal Mandates and is not subject to further Shareholders' approval.

The Board believes that IBC Waiver Condition (iii) will ensure the Company maintains a reasonable spread of investments by disposing of a portion of the IBC Interests within a reasonable timeframe.

In particular, the Company has carefully considered the impact of the disposal of the CMB Interests and the time required for the application of such proceeds in 2010 in assessing the appropriate time required to dispose of the IBC Interests under the IBC Waiver Condition (iii). The Board is of the view that an excessive cash component in the Company's portfolio would not achieve a reasonable spread of investments. Given that the Company will receive substantial proceeds from the disposal of the CMB Interests in the coming months, the Board believes that any substantial disposal of the IBC Interests in 2010 would be inappropriate as it would aggravate the issue of maintaining a suitable level of cash component and would not help achieve a reasonable spread of investments.

While the Company accepts that a period of 6 months after completion of the IBC A Rights Issue would be the reasonable time required for disposing of the IBC Interests such that its IBC Interests no longer exceed 20% of the Company's NAV, the Company as a minority shareholder of IBC, has no influence or control over the timing of the IBC A Rights Issue (which can take place in 2010 or by June 2011). In light of the Company's difficulties to sell down the IBC Interests in 2010, the Company would require some dealing flexibility in light of the uncertainty over the timing of the IBC A Rights Issue. The current timeframe set out in the IBC Waiver Condition (iii) will ensure the Company will be given at least 6 months to effect the disposal of the IBC Interests irrespective of the timing of the IBC A Rights Issue.

Moreover, the Company will seek to renew the disposal mandate for the IBC Interests if the satisfaction of IBC Waiver Condition (iii) would trigger any shareholders' approval requirement under Chapter 14 of the Listing Rules upon expiry of the Disposal Mandates on 13 December 2010.

**General Information**

As the discloseable transaction requirements would not be applicable to an issuer listed under Chapter 21 of the Listing Rules and each of the applicable size tests ratios of the IBC Subscription is less than 25%, the IBC Subscription would not trigger any implications under Chapter 14 of the Listing Rules. In addition, to the best of the Directors' knowledge, information and belief, having made reasonable enquiries, IBC is not a connected person for the Company under the Listing Rules and the IBC Subscription would not constitute a connected transaction for the Company.

**GENERAL**

It is currently expected that the EGM will be held in or around early May 2010 and the Company will issue a Shareholders' circular containing, among others, the notice of the EGM and proxy form as soon as practicable.

**Shareholders and investors should note that the IBC A Rights Issue will be subject to various conditions and its terms are subject to final determination of IBC. The indicative figures mentioned in this announcement are derived from the Assumptions and may be subject to change. Shareholders and investors are recommended to exercise caution in dealing in or exercising their rights in relation to securities in the Company.**

**DEFINITIONS**

“2009 Circular”	the circular issued by the Company on 27 November 2009 in relation to, inter alia, the Disposal Mandates and the CMB Waiver
“Allocation Assumption”	the assumed allocation ratio of 2 IBC A Rights Shares for every 10 existing IBC A Shares, being the allocation basis for the IBC A Rights Issue as announced by IBC
“Assumptions”	the Allocation Assumption and Subscription Price Assumption
“Board”	the board of Directors

“CMB”	China Merchants Bank Co., Ltd., a joint-stock commercial bank incorporated in the PRC with limited liability, whose A shares are listed on the Shanghai Stock Exchange and H shares are listed on the Hong Kong Stock Exchange
“CMB A Rights Issue”	the rights issue of CMB A Shares on the basis of 1.3 CMB A Rights Shares for every 10 existing CMB A Shares which was completed on 19 March 2010
“CMB A Rights Shares”	the new CMB A Shares allotted and issued pursuant to the CMB A Rights Issue
“CMB A Share(s)”	PRC-listed domestic share(s) in the registered capital of CMB
“CMB Interests”	125,170,102 CMB A Shares held by the Company as at the date of this announcement (after completion of the CMB A Rights Issue)
“CMB Subscription”	the subscription of the CMB A Rights Shares allotted and issued to the Company pursuant to the CMB A Rights Issue
“CMB Waiver”	the Hong Kong Stock Exchange’s waiver (in relation to Listing Rule 21.04(3)(b)) regarding the CMB Subscription
“CMB Waiver Conditions”	the conditions imposed on the CMB Waiver, details of which have been set out in the 2009 Circular
“Company”	China Merchants China Direct Investments Limited, a limited company incorporated in Hong Kong with limited liability whose Shares are listed on the Hong Kong Stock Exchange under Chapter 21 of the Listing Rules
“Consent”	as described in the paragraph “REGULATORY ISSUES IN RELATION TO THE IBC SUBSCRIPTION – The Investment Restriction” in this announcement
“Directors”	the directors of the Company, including the independent non-executive directors of the Company
“Disposal”	the disposal of a minimum of 4,000,000 IBC A Shares to be made by the Company before the ex-rights date of the IBC A Rights Issue
“Disposal Mandates”	the Company’s disposal mandates of its interests in CMB and IBC granted by the Shareholders on 14 December 2009

“EGM”	an extraordinary general meeting of the Company to be held to consider and approve, inter alia, the IBC Subscription in or around early May 2010
“Ex-rights Loss”	as described in the paragraph “REASONS FOR THE IBC SUBSCRIPTION” in this announcement
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IBC”	Industrial Bank Co., Ltd, a joint-stock commercial bank incorporated in the PRC with limited liability, whose A shares are listed on the Shanghai Stock Exchange
“IBC A Rights Issue”	the proposed rights issue of IBC A Shares on the basis of 2 IBC A Rights Shares for every 10 existing IBC A Shares
“IBC A Share(s)”	PRC-listed domestic share(s) in the registered capital of IBC
“IBC Interests”	47,000,000 IBC A Shares held by the Company as at the date of this announcement
“IBC A Rights Shares”	the new IBC A rights shares to be allotted and issued pursuant to the IBC A Rights Issue
“IBC Subscription”	the subscription of the IBC A Rights Shares to be allotted and issued to the Company pursuant to the IBC A Rights Issue
“IBC Waiver”	the Hong Kong Stock Exchange’s waiver (in relation to Listing Rule 21.04(3)(b)) regarding the IBC Subscription
“IBC Waiver Conditions”	as described in the paragraph “REGULATORY ISSUES IN RELATION TO THE IBC SUBSCRIPTION – Conditions of the IBC Waiver” in this announcement
“Investment Restriction”	as described in the paragraph “REGULATORY ISSUES IN RELATION TO THE IBC SUBSCRIPTION - The Investment Restriction” in this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“NAV”	net asset value
“PRC”	the People’s Republic of China
“Prospectus”	the Company’s prospectus dated 15 July 1993
“RMB”	Renminbi, the lawful currency of the PRC



“Shanghai Stock Exchange”	The Shanghai Stock Exchange
“Shareholders”	the shareholders of the Company
“Subscription Price Assumption”	the assumed subscription price of RMB18 per IBC A Rights Share
“%”	per cent.

By Order of the Board  
**ZHOU Linda Lei**  
*Director*

Hong Kong, 12 April 2010

*As at the date hereof, the Board of Directors of the Company comprises eleven Directors, of which five are Executive Directors, namely Mr. LI Yinquan, Mr. HONG Xiaoyuan, Mr. CHU Lap Lik, Victor, Ms. ZHOU Linda Lei and Mr. TSE Yue Kit; two are Non-executive Directors, namely Mr. KE Shifeng and Mr. WANG Qi; and four are Independent Non-executive Directors, namely Mr. KUT Ying Hay, Mr. WANG Jincheng, Mr. LI Kai Cheong, Samson and Mr. LIU Baojie. In addition, Ms. KAN Ka Yee, Elizabeth is the Alternate Director to Mr. CHU Lap Lik, Victor.*