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**(Stock Code: 144)**

## **MAJOR AND CONNECTED TRANSACTION**

### **ENTRUSTMENT AGREEMENT OVER 23.493% OF CHINA NANSHAN DEVELOPMENT (GROUP) INCORPORATION**

#### **SUMMARY**

The Board is pleased to announce that on 18 June 2010, the Company and its intermediate holding company, CMHK, entered into the Entrustment Agreement pursuant to which CMHK agreed to grant to the Company the management rights and the power to direct the voting right over 23.493% of China Nanshan Development (Group) Incorporation, or China Nanshan, for a one-off nominal consideration of RMB1.00. The Entrustment Agreement will take effect upon being approved by the Independent Shareholders at the EGM. The Entrusted Nanshan Shares are held by Guangye Investment which has entrusted CMHK with the management rights and the power to direct the voting right over the Entrusted Nanshan Shares and has further authorised CMHK to designate a subsidiary to exercise such management rights and power to direct the voting right.

China Nanshan is a joint stock limited company incorporated in the PRC, which is owned as to 37.014% by the Company, through its wholly-owned subsidiaries. Upon the Entrustment Agreement becoming effective, the Company will be able to exercise management rights and has the power to direct the voting right over 23.493% of the total issued share capital of China Nanshan. In accordance with Hong Kong Financial Reporting Standards, this, together with the 37.014% of the total issued share capital of China Nanshan which the Company beneficially owns, will result in the Company being able to consolidate the assets, liabilities and the

financial results of China Nanshan into the consolidated financial statements of the Company. However, as Guangye Investment has retained the right to receive dividend over the Entrusted Nanshan Shares, the Company will continue to be only entitled to any dividend declared and paid by China Nanshan in respect of its 37.014% shareholding in China Nanshan.

As CMHK is a substantial shareholder of the Company, CMHK is a connected person of the Company as defined under the Listing Rules. Upon the Entrustment Agreement becoming effective, the financial results of China Nanshan will be consolidated into the consolidated financial statements of the Company. Accordingly and adopting 100% of the assets, revenue and profit of China Nanshan in calculating the applicable percentage ratios set out in Rule 14.07, the ratios exceed 5%, and the Entrustment Agreement constitutes a non-exempt connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. In addition, since the applicable percentage ratios set out in Rule 14.07 of the Listing Rules exceed 25% but are less than 100%, the Entrustment Agreement also constitutes a major transaction of the Company and is subject to the notification, publication and shareholders' approval requirements under the Listing Rules.

The EGM will be convened to consider and, if thought fit, to approve the Entrustment Agreement. CMHK and its associates are required to abstain from voting on the ordinary resolution approving the Entrustment Agreement.

An Independent Board Committee, comprising all the independent non-executive Directors of the Company, has been established to advise the Independent Shareholders and an independent financial adviser will be retained to advise the Independent Board Committee and the Independent Shareholders in respect of the Entrustment Agreement.

A circular containing, among other things, the advice of the Independent Financial Adviser, the recommendations of the Independent Board Committee, the financial information in respect of the Nanshan Group together with the notice of the EGM, is expected to be despatched to the Shareholders within 10 business days from the date of this announcement.

The Board is pleased to announce that on 18 June 2010, the Company and CMHK entered into the Entrustment Agreement.

## **1 ENTRUSTMENT AGREEMENT**

Date: 18 June 2010

Parties: (1) The Company

(2) CMHK

Guangye Investment owns the Entrusted Nanshan Shares, representing 23.493% of the total issued share capital of China Nanshan. CMHK was entrusted by Guangye Investment with the management rights and the power to direct the voting right over the Entrusted Nanshan Shares. Under the agreement between CMHK and Guangye Investment, CMHK may designate its subsidiary to exercise the management rights and the power to direct the voting right over the Entrusted Nanshan Shares. Pursuant to the Entrustment Agreement, CMHK has agreed to grant to the Company the management rights and the power to direct the voting right over the Entrusted Nanshan Shares.

### **1.1 SCOPE OF THE ENTRUSTMENT**

#### *Rights granted to the Company*

Subject to the rights retained by Guangye Investment and the limitations set out in the paragraphs headed “Rights retained by Guangye Investment” and “Limitations on the rights” set out below, the Company is entitled to exercise all shareholders’ rights over the Entrusted Nanshan Shares including:

- (a) requiring Guangye Investment to exercise the voting rights attached to the Entrusted Nanshan Shares in accordance with the instructions of the Company;
- (b) participation in key decision making and selection of management of China Nanshan;
- (c) inspection of minutes of shareholders’ meetings and financial statements of China Nanshan;
- (d) supervision over the operating activities of China Nanshan; and
- (e) other shareholders’ rights provided under applicable laws, the articles of association of China Nanshan, shareholders’ resolutions, board resolutions and the Entrustment Agreement.

The directors appointed by Guangye Investment to the board of China Nanshan shall also act in accordance with the instructions of the Company and, subject to those matters set out in the paragraph “Limitations on the rights” below, shall exercise their voting rights in accordance with the directions of the Company. In the event that the directors nominated by Guangye Investment fail to act in accordance with the instructions of the Company, the Company shall notify CMHK and such matter shall be resolved between CMHK and Guangye Investment.

#### *Rights retained by Guangye Investment*

Under the Entrustment Agreement, Guangye Investment will retain certain rights over the Entrusted Nanshan Shares, including, in particular, the right to receive income and dividend over the Entrusted Nanshan Shares and the right to receive residual assets and properties upon the winding up of China Nanshan. As Guangye Investment is the owner of the Entrusted Nanshan Shares, Guangye Investment has the right to dispose of the Entrusted Nanshan Shares although it has committed to CMHK that it will not, without the prior written consent of CMHK, terminate the entrustment of the Entrusted Nanshan Shares to CMHK.

#### *Limitations on the rights*

The Company is required to, through CMHK, obtain the prior written consent of Guangye Investment when it exercises its management rights over the Entrusted Nanshan Shares in relation to certain important matters, such as merger, division, termination or liquidation of China Nanshan, and material acquisitions and disposals and other material transactions entered into by China Nanshan.

## **1.2 OTHER KEY TERMS OF THE ENTRUSTMENT AGREEMENT**

#### *Consideration*

The Company shall pay CMHK a one-off nominal consideration of RMB1.00 under the Entrustment Agreement, payable by the Company in cash within seven days after the Entrustment Agreement becoming effective.

#### *Condition precedent*

The Entrustment Agreement will take effect upon being approved by the Independent Shareholders at the EGM.

### *Exclusivity*

During the term of the entrustment, CMHK will not exercise any rights it may have over the Entrusted Nanshan Shares and will not grant any management rights and power to direct the voting right over the Entrusted Nanshan Shares to any third party.

### *Termination of entrustment*

The Entrustment Agreement is for an indefinite term and the entrustment of the management rights and the power to direct the voting right over the Entrusted Nanshan Shares by CMHK to the Company will only be terminated upon mutual agreement between CMHK and the Company.

## **2 INFORMATION ABOUT CHINA NANSHAN AND THE NANSHAN GROUP**

China Nanshan is a joint stock company established in 1982 with the approval of the State Council. As of the date of this announcement, the Company, through its wholly-owned subsidiaries, holds an aggregate 185,070,000 ordinary shares of China Nanshan, representing 37.014% of the total issued share capital of China Nanshan. The Entrusted Nanshan Shares are held by Guangye Investment and comprise 117,465,000 ordinary shares of China Nanshan, representing approximately 23.493% of the total issued share capital of China Nanshan. The remaining 39.493% interest in China Nanshan is held by Shenzhen Investment Holdings Co., Ltd., China National Offshore Oil Investment Co., Ltd., China Ocean Oilfields Services (Hong Kong) Limited and Clifford Wong Investments Limited as to 26.103%, 7.831%, 1.644% and 3.915%, respectively. To the best of the Directors' knowledge, the other shareholders of China Nanshan are third parties independent of the Company and the connected persons of the Company under the Listing Rules.

The business scope of China Nanshan includes the development of land, development of ports and other related industrial, commercial, property and tourism development. The principal activity of China Nanshan is investment holding and the principal activities of the Nanshan Group are port operations, port-related operations and property development which are conducted through the subsidiaries of China Nanshan. The three principal subsidiaries of China Nanshan are Chiwan Wharf, Chiwan Petroleum and Nanshan Property Development.

Chiwan Wharf is a joint stock limited company incorporated in the PRC with B shares and A shares issued and listed on the Shenzhen Stock Exchange. The primary business of Chiwan Wharf is development and operations of containers, ports and port-related businesses. Chiwan Wharf is also engaged in transportation services and logistics businesses. Chiwan Wharf holds substantial stake in each of Chiwan Container Terminal Co., Ltd. (which operates berth numbers 9 to 13 at the Chiwan Port Area in Shenzhen), Shenzhen Chiwan Harbour Container Co., Ltd. (which operates berth number 8 at the Chiwan Port Area in Shenzhen) and the Mawan Companies (which operate berth numbers 0, 5, 6 and 7 at the Mawan Port Area in Shenzhen), as well as interests in operations in general and bulk cargo terminals business. As of the date of this announcement, China Nanshan holds approximately 57.51% interest in Chiwan Wharf and the Company, through its wholly-owned subsidiaries, also holds approximately 7.98% interest in Chiwan Wharf. As of the date of this announcement, Chiwan Wharf holds 37.5% interest in Shenzhen Cyber-Harbour Network Company Limited (a company incorporated in the PRC that specialises in e-business for the maritime logistics industry), 50% interest in Media Port Investments Limited (an investment holding company incorporated in the British Virgin Islands which holds interests in the Mawan Companies) and 20% interest in China Merchants Maritime & Logistics (Shenzhen) Limited (a company incorporated in the PRC and whose principal activities are the development and operation of the Shenzhen Qianhaiwan Logistics Park) and the Company holds a 62.5%, 50% and 60% interests, respectively, in each of these companies.

Chiwan Petroleum is a joint stock limited company incorporated in the PRC with B shares issued and listed on the Shenzhen Stock Exchange. The primary business of Chiwan Petroleum is the provision of ancillary and supporting services in connection with exploration, extraction and production of petroleum and natural gas. Chiwan Petroleum is also engaged in marine engineering and logistics support businesses. As of the date of this announcement, China Nanshan holds approximately 51.79% interest in Chiwan Petroleum.

Nanshan Property Development is a limited company incorporated in the PRC and is a wholly-owned subsidiary of China Nanshan. The primary business of Nanshan Property Development is property development, management and leasing.

In addition to the above principal subsidiaries, China Nanshan also holds, through its wholly-owned subsidiary, approximately 48.77% of Yahgee Modular House Co., Ltd., a joint stock limited company incorporated in the PRC with A shares issued and listed on the Shenzhen Stock Exchange and whose principal activity is the construction of modular houses.

As at the date of this announcement, China Nanshan also holds an aggregate 45% interest in Shenzhen Haiqin Engineering Supervision & Management Company Limited (a company incorporated in the PRC whose principal activities are the inspection and provision of advisory services in relation to ports construction works) and the Company holds the remaining 55% interest in such company.

According to the unaudited consolidated financial statements of China Nanshan for 2009 prepared in accordance with Hong Kong Financial Reporting Standards, the consolidated net asset value attributable to the shareholders of China Nanshan as at 31 December 2009 is HK\$4,945 million.

The unaudited consolidated net profits (both before and after taxation and extraordinary items) of China Nanshan for the two years ended 31 December 2008 and 31 December 2009 prepared in accordance with Hong Kong Financial Reporting Standards are set out below:

	<b>For the financial year ended</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2008</b>	<b>2009</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>
Consolidated profit before taxation and extraordinary items	1,793	1,354
Consolidated profit after taxation and extraordinary items	1,582	1,149

Upon the Entrustment Agreement becoming effective, the Company will be able to exercise management rights and direct the voting right over 23.493% of the total issued share capital of China Nanshan. In accordance with Hong Kong Financial Reporting Standards, this, together with the 37.014% of the total issued share capital of China Nanshan which the Company beneficially owns, will result in the Company being able to consolidate the assets, liabilities and the financial results of China Nanshan into the consolidated financial statements of the Company. However, as Guangye Investment has retained the right to receive dividend over the Entrusted Nanshan Shares, the Company will continue to be only entitled to any dividend declared and paid by China Nanshan in respect of its 37.014% shareholding in China Nanshan.

### **3 REASONS FOR THE TRANSACTION**

The core business of the Group includes port and port-related business. It has been the strategy of the Group to continue to strengthen and develop its port and port-related business through enhancement of the capabilities of existing ports assets as well as investment in new projects, acquisition of quality port-related business, and expansion into container-related logistics services inclusive of leasing of properties and warehouses.

The Company has through these years been endeavouring to raise the operating efficiencies of the ports at the West Shenzhen Ports Zone through aligning the interests of these various ports. The Directors expect the Entrustment Agreement, which will enable the Company to further influence, through its ability to direct the voting rights of the directors appointed by Guangye Investment to the board of China Nanshan, the business operations of Nanshan Group and thereby enabling the Company to better align the ports operations of the Nanshan Group with those of the Group and to further strengthen the Group's presence in the West Shenzhen Ports Zone, in order to bring strategic benefits to the Group.

The terms of the Entrustment Agreement, including the nominal consideration of RMB1.00, have been determined through arm's length negotiations between the parties. The Directors, other than the independent non-executive Directors, consider that the Entrustment Agreement has been entered into on normal commercial terms, is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Further details of the resolution of the Directors approving the entering into of the Entrustment Agreement and the view of the independent non-executive Directors, after considering the advice from the Independent Financial Adviser, will be set out in the circular.

### **4 GENERAL INFORMATION**

The Company is one of the leading port investors and developers in China with investments and operations which span across, among others, Hong Kong, Shenzhen, Shanghai, Ningbo, Qingdao, Tianjin, Xiamen Bay and Zhanjiang. The Company also has investments in port projects in Vietnam.

CMHK, the intermediate holding company of the Company incorporated in Hong Kong, was formed on 11 December 1987 as an investment holding company and is an indirect wholly-owned subsidiary of CMG. The principal activities of CMHK are transportation (ports and related services, toll roads, energy shipping and logistics) and financial services (banking, securities, funds and insurance) through its subsidiaries.



Guangye Investment is a company incorporated in the PRC and is a subsidiary of Guangdong Guangye Asset Management Limited Company, a state-owned enterprise established in 2000 with the authorization of the Guangdong provincial government and which is responsible for the administration and management of certain state-owned asset as authorized by the Government.

## **5 LISTING RULES IMPLICATIONS**

CMHK holds indirectly 1,352,647,266 shares in the Company, representing approximately 55.59% of the issued shares of the Company as at the date of this announcement. As CMHK is a substantial shareholder of the Company, CMHK is a connected person of the Company as defined under the Listing Rules.

Upon the Entrustment Agreement becoming effective, the financial results of China Nanshan will be consolidated into the consolidated financial statements of the Company. Accordingly and adopting 100% of the assets, revenue and profit of China Nanshan in calculating the applicable percentage ratios set out in Rule 14.07, the ratios exceed 5% and the Entrustment Agreement constitutes a non-exempt connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. In addition, since the applicable percentage ratios set out in Rule 14.07 of the Listing Rules exceed 25% but are less than 100%, the Entrustment Agreement also constitutes a major transaction of the Company and is subject to the notification, publication and shareholders' approval requirements under the Listing Rules.

## **6 EGM**

The EGM will be convened to consider and, if thought fit, to approve the Entrustment Agreement. CMHK and its associates are required to abstain from voting on the ordinary resolution approving the Entrustment Agreement.

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

An Independent Board Committee, comprising all the independent non-executive Directors of the Company, has been established to advise the Independent Shareholders and an independent financial adviser will be retained to advise the Independent Board Committee and the Independent Shareholders in respect of the Entrustment Agreement.

## 8 DESPATCH OF CIRCULAR

A circular containing, among other things, the advice of the Independent Financial Adviser, the recommendations of the Independent Board Committee, the financial information in respect of the Nanshan Group together with the notice of the EGM, is expected to be despatched to the Shareholders within 10 business days from the date of this announcement.

### DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“China Nanshan”	中國南山開發(集團)股份有限公司 (China Nanshan Development (Group) Incorporation), a joint stock limited company incorporated in the PRC
“Chiwan Wharf”	深圳赤灣港航股份有限公司 (Shenzhen Chiwan Wharf Holdings Limited), a joint stock limited company established under the laws of the PRC, whose B shares and A shares are listed on the Shenzhen Stock Exchange
“Chiwan Petroleum”	深圳赤灣石油基地股份有限公司 (Shenzhen Chiwan Petroleum Base Limited), a joint stock limited company established under the laws of the PRC, whose B shares are listed on the Shenzhen Stock Exchange
“CMHK”	China Merchants Holdings (Hong Kong) Company Limited, the intermediate holding company of the Company incorporated in Hong Kong
“CMG”	China Merchants Group Limited, a company incorporated in the PRC and the ultimate holding company of the Company
“Company”	China Merchants Holdings (International) Company Limited, a company incorporated in Hong Kong with limited liability and whose ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited

“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve the Entrustment Agreement
“Entrusted Nanshan Shares”	the 117,465,000 ordinary shares of China Nanshan held by Guangye Investment, representing 23.493% of the issued share capital of China Nanshan and the subject matter under the Entrustment Agreement
“Group”	the Company together with its subsidiaries
“Guangye Investment”	廣東省廣業投資控股有限公司 (Guangdong Guangye Investment Holdings Limited), a company incorporated in the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee comprising all the independent non-executive Directors, namely Mr. Tsang Kam Lan, Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John and Mr. Li Ka Fai David
“Independent Shareholders”	Shareholders other than CMHK and its associates
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mawan Companies”	深圳媽灣港航有限公司 (Shenzhen Mawan Wharf Co., Ltd.), 深圳媽灣港務有限公司 (Shenzhen Mawan Port Services Co., Ltd.) and 深圳媽港倉碼有限公司 (Shenzhen Mawan Terminals Co., Ltd.), being companies established under the laws of the PRC
“Nanshan Group”	China Nanshan together with its subsidiaries
“Nanshan Property Development”	深圳南山房地產開發有限公司 (Shenzhen Nanshan Property Development Company Limited), a company established under the laws of the PRC

“PRC”	The People’s Republic of China which, for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Shareholders”	the shareholders of the Company
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules

By Order of the Board  
**China Merchants Holdings (International) Company Limited**  
**Fu Yuning**  
*Chairman*

Hong Kong, 18 June 2010

*As at the date of this announcement, the Board comprises Dr. Fu Yuning, Mr. Li Yinquan, Mr. Hu Zheng, Mr. Meng Xi, Mr. Su Xingang, Mr. Yu Liming, Mr. Hu Jianhua, Mr. Wang Hong and Mr. Liu Yunshu as executive Directors; and Mr. Tsang Kam Lan, Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John and Mr. Li Ka Fai David as independent non-executive Directors.*