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# CHINA MERCHANTS DICHAIN (ASIA) LIMITED

## 招商迪辰(亞洲)有限公司\*

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 0632)

### VERY SUBSTANTIAL ACQUISITION AND RESUMPTION OF TRADING

Financial Adviser

***Hercules***

**Hercules Capital Limited**

#### **The Agreement**

On 15 July 2006, the Company entered into the Agreement with the Vendor, pursuant to which, the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to acquire the Sale Shares, which represents 40% of the issued share capital of the Joint Venture, at a total consideration of HK\$395.62 million, of which HK\$100 million will be paid by the Company in cash and the balance of HK\$295.62 million will be satisfied by the allotment and issue of the Consideration Shares to the Vendor and his nominees.

The Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules and is required to be made conditional on Shareholders' approval pursuant to Rule 14.49 of the Listing Rules. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition and therefore no Shareholder is required to abstain from voting on the proposed resolution to approve the Acquisition at the SGM.

A circular containing, among other matters, further details of the Acquisition and the notice of the SGM will be despatched to the Shareholders as soon as practicable.

#### **Resumption of trading**

At the request of the Company, trading in the Shares has been suspended from 9:30 a.m. on 17 July 2006 pending the issue of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 21 July 2006.

## **THE AGREEMENT**

**Date:** 15 July 2006

### **Parties:**

**Vendor:** Mr. Zhang Genyu, an independent third party not connected with the Company or its connected persons. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, Mr. Zhang has not acquired any equity interest in the Company or its subsidiaries and has no relationship with the Company or its associates at any time before the entering into of the Agreement.

**Purchaser:** the Company.

### **Subject Matter**

Subject to the fulfillment of the conditions set out below, the Company has agreed to acquire and the Vendor has agreed to sell the Sale Shares, representing 40% of the issued share capital of the Joint Venture, China Coal Energy Holdings Limited, for a total consideration of HK\$395.62 million. The Board has no present intention to acquire the remaining equity interest in the Joint Venture and the Joint Venture shall become an associated company of the Company after the Completion

### **Consideration**

The total consideration of the Acquisition is HK\$395.62 million, of which HK\$100 million will be paid by the Company in cash and the balance of HK\$295.62 million will be satisfied by the allotment and issue of the Consideration Shares to the Vendor and his nominees upon Completion. The cash consideration will be funded by the Group's internal financial resources, bank loans and/or funds to be raised by placement of new shares. As at the date hereof, the specific amount to be raised by various means of financing and arrangement of the share placement have not been finalized yet.

The consideration was arrived at after arm's length negotiations between the Company and the Vendor and on normal commercial terms, and was determined by taking into consideration of: (i) the unaudited consolidated net asset value (determined in accordance with the International Accounting Standards) of Taiyuan Sanxing Group, which shall be the principal assets of the Joint Venture, of approximately RMB177.6 million (equivalent to approximately HK\$172.4 million) as at 31 December 2005; and (ii) an indicative price earnings ratio of approximately 4.95 times (being the consideration divided by the indicative average profit guaranteed by the Vendor); and (iii) the guaranteed dividend of HK\$40 million to the Company for each of the financial years ending 31 December 2007 and 31 December 2008. The Directors, including the independent non-executive Directors, are of the opinion that the consideration is fair and reasonable and on normal commercial terms.

### **Consideration Shares**

The Consideration Shares to be issued at a price of HK\$3.90 per Share represents:

- (a) a discount of approximately 6.6% over the closing price of HK\$4.175 per Share as quoted on the Stock Exchange prior to the suspension of trading of the Shares on 14 July 2006; and
- (b) a discount of approximately 2.4% to the average closing price of approximately HK\$3.998 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 14 July 2006.

The issue price of HK\$3.90 per Consideration Share was arrived at by the Vendor and the Company after taking into account the trading prices of the Shares during the course of negotiation.

The Consideration Shares represent approximately 30.5% of the existing issued share capital of the Company, and approximately 23.4% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. The Consideration Shares, when issued on Completion, will rank pari passu in all respects with the existing Shares in issue. As of the date hereof, the Company has no intention to change the composition of the Board after the Completion.

The Consideration Shares will be issued under a special mandate proposed to be sought from the Shareholders at the SGM and an application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

### **Guaranteed Profit and Dividend**

The Vendor has guaranteed to the Company that the Audited Net Profit for the three financial years ending 31 December 2009 shall in aggregate be not less than HK\$600 million. Should the aggregate Audited Net Profit falls below HK\$600 million, the Vendor has to pay the shortfall on dollar-to-dollar basis to the Joint Venture after the issuance of the audit report for the financial year ending 31 December 2009. The guaranteed profit was determined with reference to the past three years' financial performance and the future business development potential of Taiyuan Sanxing Group, which shall be the principal assets of the Joint Venture. As the coal and coke production capacities of Taiyuan Sanxing Group shall increase substantially after the acquisition of new production machinery and facilities in current year, the Vendor is confident that the Joint Venture can achieve the guaranteed profit in the coming years.

The Vendor has further guaranteed to the Company that if (i) the Audited Net Profit for each of the financial years ending 31 December 2007 and 31 December 2008 is less than HK\$200 million; and (ii) the dividend of the Joint Venture to be paid to the Company for each of the financial years ending 31 December 2007 and 31 December 2008 is less than HK\$40 million, the Vendor shall pay the shortfall of dividend on dollar-to-dollar basis to the Company so that the Company's dividend entitlement shall not be less than HK\$40 million in each of the financial year ending 31 December 2007 and 31 December 2008.

The Company at its sole discretion has the right to waive all or part of the liabilities and responsibilities of the Vendor under the above guarantees if the shortfalls arise as a result of changes in the PRC's national resources policies, substantial plunge in coal price and/or other reasonable factors acceptable to the Company such as any event, or series of events beyond the reasonable control of the Vendor, the Joint Venture or its subsidiaries (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God or interruption or delay in transportation, acts of terrorism or outbreak of epidemics including SARS or Avian Flu) which has or would have the effect of making any part of the guarantees incapable of performance in accordance with its terms.

### **Other Terms**

The Vendor has agreed to waive all loans, contingent liabilities and amount owing from Taiyuan Sanxing Group to the Vendor and his related parties and to forfeit all the recourse rights on such amounts upon Completion.

The Vendor has further agreed to pledge its 60% shareholding in the Joint Venture under a share charge in favour of the Company until the liabilities and responsibilities of the profit guarantee are fully discharged or the Joint Venture gets a listing status independently, whichever is earlier. As of the date hereof, the Joint Venture does not have any concrete listing plan.

The board of directors of the Joint Venture shall comprise seven members, four of which, including the chairman, shall be nominated by the Vendor while the rest of the members shall be nominated by the Company. Resolutions regarding changes in share capital, share transfer and placement, mergers and cooperation with other economic entities, project investment, acquisition and financing, bank financing, contingent liabilities and dividend of the Joint Venture and Taiyuan Sanxing Group should be agreed by directors nominated by the Company.

The Company and the Vendor have agreed that the Joint Venture shall distribute at least 50% of its profit after tax to its shareholders in proportion to their respective equity interests in the Joint Venture.

### **Conditions**

Completion shall be conditional upon the following conditions being fulfilled:

- (a) the Company is satisfied with the due diligence review;
- (b) the Board approving the Agreement;

- (c) the passing of the resolution by the Shareholders at the SGM approving the entering into of the Agreement by the Company;
- (d) the Listing Committee granting the listing of, and permission to deal in, the Consideration Shares; and
- (e) all necessary consents and approvals having been obtained from the relevant authorities for completing the acquisition of Taiyuan Sanxing by the Joint Venture and registration of Taiyuan Sanxing as a wholly foreign-owned enterprise in the PRC.

### **Completion**

Completion will take place on or before the seventh business day after the conditions of the Agreement have been fulfilled.

### **INFORMATION ON THE JOINT VENTURE**

The Joint Venture, with a total authorized and issued share capital of HK\$10,000, was incorporated in Hong Kong with limited liability and is wholly-owned by the Vendor. Before Completion, the Joint Venture shall increase its issued share capital to HK\$100 million, to be fully paid by the Vendor, and acquire the entire equity interest of Taiyuan Sanxing from the Vendor at a total consideration of RMB100 million (approximately HK\$97 million).

Taiyuan Sanxing is beneficially owned by the Vendor and is independent to the Company and any of its associates. It is principally engaged in coal mining and trading of coal, coke, gas and chemical products through its subsidiaries,

The Vendor has also undertaken to pay the sum of RMB 100 million on behalf of the Joint Venture to Taiyuan Sanxing so as to increase Taiyuan Sanxing's registered capital from RMB 100 million to RMB 200 million in order to acquire production machinery and increase the production capacity of Taiyuan Sanxing Group.

According to the mining exploitation permit (採礦許可證) issued by the Bureau of Land and Resources of Shanxi Province (山西省國土資源廳) on 25 September 2005, Shanxi Sanxing Coal and Coke Limited, a subsidiary of Taiyuan Sanxing, has the right to conduct mining activities in Shanxi Sanxing Coal Mine, which is located in Luliang area of Lin County in Shanxi, the PRC with a general mining area of approximately 5 square kilometers. The mining exploitation permit is valid until April 2007 and the Vendor has undertaken to procure the obtaining of renewal thereof upon its expiry.

In addition to the mining exploitation permit, Shanxi Sanxing Coal and Coke Limited also obtained the production safety license (安全生產許可證) issued by the Bureau of Coal Safety of Shanxi Province (山西省煤炭安全監察局) on 20 November 2005 which allows Shanxi Sanxing Coal and Coke Limited to conduct mining activities at the site from 22 November 2005 to 31 December 2007. The Vendor has undertaken to procure the obtaining of renewal of the production safety license upon its expiry.

The Resources Reserve Confirmation Letter (礦產資源儲量認定書) issued by the Bureau of Land and Resources of Shanxi Province (山西省國土資源廳) in April 2003 reported that the Shanxi Sanxing Coal Mine had total coal reserves of approximately 67.5 million tons and recoverable coal reserves of approximately 27 million tons.

Taiyuan Sanxing Group has been producing coal and coke since 2003 and it currently produces coal of 300,000 tons and coke of 300,000 tons per year. As a result of the expected acquisition of new production machinery and increase in the production capacity, the management of Taiyuan Sanxing Group expects that the annual production of coal and coke will be increased to 1 million tons and 600,000 tons respectively.

The information set out below has been extracted from the unaudited consolidated financial statements of Taiyuan Sanxing Group as prepared in accordance with the International Accounting Standards for the two years ended 31 December 2005:

	<b>Year ended</b>	
	<b>31 December 2005</b> <i>(RMB'million)</i>	<b>31 December 2004</b> <i>(RMB'million)</i>
Turnover	369.5	196.5
Profit before taxation	61.8	25.5
Profit after taxation and minority interest	35.3	15.3
Net Asset Value	177.6	109.8

## **REASONS FOR THE ACQUISITION**

The Group is principally engaged in operating bonded warehouse, provision of logistics and related services and logistics-related property investment in the PRC. To further increase the shareholders' value of the Company, the Company has been exploring new business opportunities for the Group actively. In view of the limited supply but ever increasing demand of natural resources and energy in the world, the Board is optimistic about the future prospect of the natural resources and energy industries. The Board is also of the opinion that diversification of the Group's business in the coal mining and related business can provide additional dividend revenue to the Group and reduce the Group's business risk. In addition, the profit and dividend guarantee provided by the Vendor shall secure high returns to the Group. In light of the above, the Directors, including the independent non-executive Directors, consider that the terms of the Agreement are fair and reasonable and are on normal commercial terms and that the entering into of the Agreement is in the interests of the Group and the Shareholders as a whole.

The Company intends to maintain its existing logistics business after the Acquisition.

## **EFFECT ON SHAREHOLDING STRUCTURE**

Assuming no Shares will be issued and/or repurchased by the Company between the date of this announcement and up to Completion and a total of 75,800,000 Consideration Shares will be issued upon Completion, the shareholding structure of the Company immediately before and after Completion will be as follows:

	<b>Existing Shareholding</b>		<b>Shareholding immediately after the issue of Consideration Shares</b>	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Orient Day Developments Limited <sup>(Note 1)</sup>	141,805,800	57.00	141,805,800	43.69
Robert Fung Hing Piu and his associates <sup>(Note 2)</sup>	2,518,199	1.01	2,518,199	0.78
The Vendor and his nominees	—	—	75,800,000	23.35
Public Shareholders	104,437,961	41.99	104,437,961	32.18
<b>Total</b>	<b>248,761,960</b>	<b>100.00</b>	<b>324,561,960</b>	<b>100.00</b>

### *Notes:*

- Orient Day Developments Limited is a company incorporated with limited liability in the British Virgin Islands and is wholly and beneficially owned by Mr. Wong Kwan. Orient Day Developments Limited has become the controlling and single largest shareholder of the Company since May 2006.
- Dr. Robert Fung Hing Piu is a Director.
- The Vendor is independent of and not connected with Orient Day Developments Limited, Dr. Robert Fung Piu and their respective associates.

## GENERAL

The Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules and is required to be made conditional on Shareholders' approval pursuant to Rule 14.49 of the Listing Rules. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Vendor and his associates do not hold any Share as at the date of this announcement and no Shareholder has a material interest in the Acquisition and therefore no Shareholder is required to abstain from voting on the proposed resolution to approve the Acquisition at the SGM.

A circular containing, among other matters, further details of the Acquisition and the notice of the SGM will be despatched to the Shareholders as soon as practicable.

## RESUMPTION OF TRADING

At the request of the Company, trading in the Shares has been suspended from 9:30 a.m. on 17 July 2006 pending the issue of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 21 July 2006.

## DEFINITIONS

“Acquisition”	the acquisition by the Company of the Sale Shares pursuant to the Agreement
“Agreement”	the agreement for the sale and purchase of the Sale Shares dated 15 July 2006 entered into between the Company and the Vendor
“associates”	has the same meaning ascribed to it under the Listing Rules
“Audited Net Profit”	The audited consolidated net profit after tax of the Joint Venture and its subsidiaries, which shall be determined in accordance with the International Accounting Standards
“Board”	The board of Directors
“Company”	China Merchants DiChain (Asia) Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Completion”	Completion of the transactions contemplated under the Agreement
“Consideration Shares”	an aggregate of 75,800,000 new Shares to be issued by the Company at an issue price of HK\$3.90 per Share as part of the consideration for the Acquisition
“Directors”	The directors of the Company;
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Joint Venture”	China Coal Energy Holdings Limited, a company incorporated in Hong Kong with limited liability
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People's Republic of China
“SGM”	a special general meeting of the Company to be convened for approving the Agreement and the transactions contemplated thereunder
“Sale Shares”	40,000,000 ordinary shares of HK\$1.00 each in the issued share capital of the Joint Venture, representing 40% of its entire issued share capital
“Share(s)”	Ordinary share(s) of HK\$0.50 each in the capital of the Company

“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Taiyuan Sanxing”	Taiyuan Sanxing Coal Gasification (Group) Co., Ltd., an investment holding company incorporated in the PRC with limited liability
“Taiyuan Sanxing Group”	means Taiyuan Sanxing and its subsidiaries
“Vendor”	Mr. Zhang Genyu, an independent third party not connected with the Company or its connected persons
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi Yuan, the lawful currency of the PRC
“%”	per cent.

As at the date hereof, the Board comprises six executive Directors, namely Mr. Wong Yuk Kwan (alias: Wong Kwan), Mr. Lin Xi Zhong, Mr. Chan Yiu Keung, Mr. Cheung Kwok Yu, Mr. Zhou Li Yang, Mr. Zheng Yingsheng; one non-executive Director, namely Dr. Robert Fung Hing Piu; and three independent non-executive Directors, namely Dr. Anwar Ibrahim, Dr. Lee G. Lam and Mr. Victor Yang.

On Behalf of the Board  
**China Merchants DiChain (Asia) Limited**  
**Wong Kwan**  
*Chairman*

Hong Kong, 20 July 2006

\* *For identification purpose only*

“Please also refer to the published version of this announcement in The Standard”