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招商局港口控股有限公司

CHINA MERCHANTS PORT HOLDINGS COMPANY LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code: 00144)

**POTENTIAL DISCLOSEABLE TRANSACTION
CONCESSION AGREEMENT IN RELATION TO
HAMBANTOTA PORT, SRI LANKA**

SUMMARY

The Board is pleased to announce that on 25 July 2017, the Company, SLPA, GOSL, HIPG and HIPS have agreed on the terms of the Concession Agreement in relation to the development, management and operation of the Hambantota Port. The execution of the Concession Agreement is currently expected to take place on 29 July 2017. The Company will make a further announcement when the Concession Agreement has been entered into.

Pursuant to the Concession Agreement, SLPA and GOSL will grant (i) to HIPG, the sole and exclusive right to develop, operate and manage the Hambantota Port and (ii) to HIPS, the sole and exclusive right to develop, operate and manage the Common User Facilities, for the operation of the Hambantota Port. The term of the Concession Agreement shall commence on the Concession Agreement Effective Date for a term of 99 years unless otherwise terminated earlier in accordance with the terms of the Concession Agreement. The Company will agree to invest an amount of up to USD1,120.00 million (equivalent to approximately HKD8,736.00 million) into Hambantota Port and Hambantota port and marine-related activities of which the total amount to be paid to SLPA for the acquisition of the 85% issued share capital of HIPG shall be USD973.658 million (equivalent to approximately HKD7,594.53 million) (and HIPG shall use a portion of such amount to acquire 58% issued share capital of HIPS) and the remaining USD146.00 million

(equivalent to approximately HKD1,138.80 million) shall be deposited into a bank account in the name of the Company in Sri Lanka and will be utilised for such Hambantota port and marine-related activities, within one year, as may be agreed with GOSL and the Company shall be entitled to repatriate any amounts in the bank account at the expiration of such one year period if no agreement has been reached with GOSL for the use of such funds.

The Hambantota Port project is a project to develop a regional hub with its hinterland covering South Asia and East Africa. The port, with an attached industrial zone in Hambantota, will comprise of three phases.

As the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the total investment amount to be paid by the Company (by itself or through its affiliates or partners) under the Concession Agreement exceed 5% but are below 25%, the Concession Agreement, when entered into, and the transactions contemplated thereunder will constitute a discloseable transaction of the Company and are subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

BACKGROUND

The Board is pleased to announce that on 25 July 2017, the Company, SLPA, GOSL, HIPG and HIPS have agreed on the terms of the Concession Agreement in relation to the development, management and operation of the Hambantota Port. The execution of the Concession Agreement is currently expected to take place on 29 July 2017.

THE CONCESSION AGREEMENT

The key terms of the Concession Agreement are set out below:

- Parties:
- (1) The Company
 - (2) SLPA
 - (3) GOSL
 - (4) HIPG
 - (5) HIPS

As at the date of this announcement, both HIPG and HIPS have not been established but they will be established and will be wholly-owned by SLPA prior to the date of signing of the Concession Agreement. The parties agreed that, on the Concession Agreement Effective Date: (i) the Company (by itself or through its affiliates or partners) will acquire from SLPA such number of shares that is equivalent to 85% of the total issued share capital of HIPG and (ii) HIPG will acquire such number of shares that is equivalent to 58% of the total issued share capital of HIPS. SLPA will hold (i) 15% of the shares of HIPG and (ii) 42% of the shares of HIPS on the Concession Agreement Effective Date.

Subject matter: Pursuant to the Concession Agreement, SLPA and GOSL shall grant to:

- (a) HIPG, the sole and exclusive right to plan, finance, develop, operate, maintain and manage the Hambantota Port; and
- (b) HIPS, the sole and exclusive right to develop, operate and manage the Common User Facilities for the operation of the Hambantota Port.

Term: The term of the Concession Agreement shall commence on the Concession Agreement Effective Date for a term of 99 years unless otherwise terminated earlier in accordance with the following terms as set out in the Concession Agreement.

Exclusivity: During the first 15 years from the Concession Agreement Effective Date, SLPA and GOSL shall ensure that there shall be no, and shall not obtain any fresh tenders, grant any right to any third party, or discuss, negotiate or enter into any arrangement or agreement with any third party in relation to the development of port/terminal directly in competition with the port services and activities carried out at the Hambantota Port within 100 km perimeter from the periphery of the Hambantota Port (the “**Exclusive Limit**”) provided that such restriction shall not apply to the development by GOSL and SLPA of any fishery harbours, cruise terminals, marinas within the Exclusive Limit and similar developments and general cargo developments in the Ports of Galle and Oluvil.

Consideration: The Company will agree to invest an amount of up to USD1,120.00 million (equivalent to approximately HKD8,736.00 million) into Hambantota Port and Hambantota port and marine-related activities which will be paid in the following manner:

- the Company shall pay to SLPA the sum of USD973.658 million (equivalent to approximately HKD7,594.53 million) for the acquisition of the 85% issued share capital of HIPG (and HIPG shall use a portion of such amount to acquire 58% issued share capital of HIPS) in three tranches in the manner as set out below:
 - Tranche 1: approximately USD97.37 million (equivalent to approximately HKD759.49 million) (of which USD5.00 million (equivalent to approximately HKD39.00 million) will be satisfied by transferring to SLPA the security deposit which has previously been paid by the Company to GOSL) within one month after (i) the execution of the Project Documents, (ii) the satisfaction of all the conditions precedent under the Concession Agreement and (iii) the Concession Agreement Effective Date;
 - Tranche 2: approximately USD292.10 million (equivalent to approximately HKD2,278.38 million) within three months from the Concession Agreement Effective Date; and
 - Tranche 3: the remaining approximately USD584.20 million (equivalent to approximately HKD4,556.76 million) within six months from the Concession Agreement Effective Date; and

- within a period of 30 days from the payment of Tranche 3 above, the Company shall deposit a sum of USD146.00 million (equivalent to approximately HKD1,138.80 million) in a bank account in the name of the Company in Sri Lanka and shall utilise the amount for Hambantota port and marine-related activities, within one year, as may be agreed with GOSL and the Company shall be entitled to repatriate any amounts in the bank account at the expiration of such one year period if no agreement has been reached with GOSL for the use of such funds.

Conditions precedent:

The Concession Agreement is subject to the satisfaction of certain conditions precedent, including (i) the parties having obtained the relevant governmental or corporate approvals for the entry into the Concession Agreement; (ii) there being no breach by the parties of the warranties as specified in the Concession Agreement; (iii) transfer of 58% of the issued share capital of HIPS from SLPA to HIPG having been completed; and (iv) the existing management agreement with the port management company of the Hambantota Port and all other business contracts that such port management company has entered into with third parties in relation to the Hambantota Port having been terminated or assigned or novated.

If the conditions precedent are not satisfied within 180 days from the date of the Concession Agreement, the Company may at any time thereafter terminate the Concession Agreement upon written notice. In the event the Company exercises its right to terminate the Concession Agreement then GOSL shall cause the relevant authorities/escrow agent to release the security deposit in favour of the Company within 10 business days following the termination.

Initial divestment to SLPA:	If SLPA expresses its interest to purchase any shares in HIPG within 10 years from the Concession Agreement Effective Date, the Company agreed to divest a maximum of 20% of the issued share capital of HIPG from and out of the initial shareholding of 85% of the issued share capital of HIPG to SLPA on terms to be agreed between the Company and SLPA. Any purchases by SLPA shall be for a minimum of 5% of the issued share capital of HIPG and (i) if the purchase is to be made within five months from the Concession Agreement Effective Date, such purchase shall be based on the USD973.658 million paid by the Company for the 85% of the issued share capital of HIPG and that there will be no more than two transactions; and (ii) if the purchase is to be made after five months but within 10 years from the Concession Agreement Effective Date, such purchase shall be based on the higher of (a) the price per equity share of HIPG paid by the Company on the Concession Agreement Effective Date and (b) the prevailing fair value of the investment to be determined by an independent valuer.
Call option of SLPA	<p>Within six months following the expiry of 70 years from the Concession Agreement Effective Date, SLPA shall have the right to purchase the entire shareholding of the Company in HIPG at fair value to be determined by two valuers, of which one is to be appointed by SLPA and other by the Company, respectively.</p> <p>If SLPA has not exercised its rights to purchase the shareholding of the Company in HIPG pursuant to the above sub-paragraph, upon the expiry of 80 years from the Concession Agreement Effective Date, SLPA shall have the right to purchase the Company's share of the HIPG at the price of USD1, leaving the Company to continue to hold a 40% shareholding in HIPG.</p>
Termination:	A party may terminate the Concession Agreement if the other parties are in material breach of the Concession Agreement or if certain force majeure events occur.
Termination compensation:	Upon the termination of the Concession Agreement at the expiry of the term of 99 years from the Concession Agreement Effective Date, SLPA shall have the obligation to purchase all the shares of HIPG and HIPS held by their shareholders (other than those held by SLPA or GOSL) and the shareholders of HIPG and HIPS are obliged to transfer such shares to SLPA and GOSL at the price of USD1.

INFORMATION ABOUT THE HAMBANTOTA PORT

The Port of Hambantota is located at 6°07 North and 81°06 East at the Southern coast of Sri Lanka. The Hambantota Port project is a project to develop a major industrial and service port with an attached industrial zone in the Port of Hambantota and it is currently expected that the project will comprise of three phases. Phase 1 of the Hambantota Port was completed in December 2011 and has commenced operation since June 2012. Construction works for Phase 2 has commenced since September 2012 and was completed in April 2015.

Hambantota Port is a comprehensive deep-water port, with 10 berths in Phase I and II, and quay length of up to 3,487 meters; the berths are specialized to handle containers, bulk cargos, general cargos, RO-RO cargos and liquid bulk. Water depth alongside the quay and navigation channel is -17 meters, which makes Hambantota Port a deep-water port capable of handling super-mega vessels. Hambantota Port has great potential for future expansion, with its hinterland covering the South Asia and East Africa, and as a maritime hub in the region.

Notwithstanding that operations of certain portions of Phase 1 of the Hambantota Port has commenced, the parties have agreed that only the existing assets and construction works of the Hambantota Port will form part of the concession under the Concession Agreement and that any existing business and operations carried out under Phase 1 of the Hambantota Port will cease and be terminated prior to the Concession Agreement Effective Date. As a result, the concession in relation to the Hambantota Port to be granted to the Group under the Concession Agreement will be treated as if it is a concession for a new port.

REASONS FOR THE TRANSACTION

The core business of the Group includes port and port-related business. The Group has, in recent years, been actively exploring and, as and when deemed appropriate, capturing available opportunities overseas as one of the means to effectively add new growth drivers to its existing and sustainably growing ports business.

The Port of Hambantota is located on the Southern coast of Sri Lanka occupying a prime location within 10 nautical miles to the main shipping route from Asia to Europe and is also in a strategic position along the “Silk Road Economic Belt and the 21st Century Maritime Silk Road”.

Having already established a story of success in Port of Colombo through the development of the Colombo International Container Terminals Ltd., the addition of the Hambantota Port will provide the Group a platform to materialise synergies between the two major ports in Sri Lanka, unlocking the county’s potential to be a global maritime center.

The Group has been granted the sole and exclusive right for managing and collecting revenues for all port and marine-related operations covering container, ro-ro, general cargo, bulk cargo, bunkering, LNG, dry dock, warehousing, etc., as well as common user services such as navigation, wharfage, tug, etc. Furthermore, China Merchants Group Limited, the Group's parent company, has rich experience and resources in implementing the "Port + Park + City" Model (e.g. Shekou, Zhangzhou). The significant landmass of the project (approximately 11.5km² port area) gives leeway for the Group to implement and capitalize on the said model to add substantial value to the port operations and development. Furthermore, the Company has also entered into a cooperation framework agreement with China Harbour to explore possible future cooperation and joint development and operation in relation to the Hambantota Port and the industrial park adjacent to the Hambantota Port. Such cooperation may involve China Harbour taking a minority stake in Gainpro Resources Limited (a subsidiary of the Company) and the Company acquiring a minority stake in the industrial park. As at the date of this announcement, the detailed terms and conditions for such cooperation have not been agreed and no definitive documentation have been entered into and the Company will further comply with the necessary requirements under the Listing Rules if and when such cooperation materialises. The Company believes that if such cooperation materialised, it will generate further synergies and growth for the Hambantota Port.

The total investment amount of up to USD1,120.00 million (equivalent to approximately HKD8,736.00 million) under the Concession Agreement was determined with reference to, inter alia, the value of the existing assets and construction of Phases 1 and 2 of the Hambantota Port and also the expected revenue and other income that the Group may derive from the Hambantota Port during the term of the Concession Agreement, and will be funded by a combination of external bank financing and internal resources of the Group.

Taking into account of the above, the Directors, including the independent non-executive Directors, are of the view that the Concession Agreement is on normal commercial terms and will be entered into in the ordinary and usual course of business of the Group and that the terms of the Concession Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

None of the Directors have a material interest in the Concession Agreement nor are they required to abstain from voting in the relevant board resolution.

GENERAL INFORMATION

SLPA is a public corporation constituted under the provisions of the Sri Lanka Ports Authority Act, No. 51 of 1979, and having its principal office at No.19, Chaitya Road, Colombo 1, Sri Lanka. The principal activities of SLPA are developing and maintaining port services at the commercial ports of Sri Lanka.

GOSL is the Government of the Democratic Socialist Republic of Sri Lanka. GOSL has been involved in the development of the Hambantota Port and its infrastructure and specifically the financing, construction, operation and management of the Hambantota Port.

HIPG is a private limited liability company incorporated in Sri Lanka and is a wholly-owned subsidiary of SLPA as at the date of this announcement. The principal activities of HIPG are owning the port assets, managing daily operation of the Hambantota Port and responsible for the future development of Phase 3 and the further expansion of the Hambantota Port.

HIPS is a private limited liability company incorporated in Sri Lanka and is a wholly-owned subsidiary of SLPA as at the date of this announcement. The principal activities of HIPS are to develop, operate, maintain and manage the Common User Facilities.

To the best of the Directors' knowledge, information and belief having made all enquiries, each of SLPA, GOSL, HIPG and HIPS and each of their respective ultimate beneficial owners are third parties independent of the Company and the connected persons of the Company.

LISTING RULES IMPLICATIONS

Since the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the total investment amount to be paid by the Company (by itself or through its affiliates or partners) under the Concession Agreement exceed 5% but are below 25%, the Concession Agreement, when entered into, and the transactions contemplated thereunder will constitute a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

The Company will make a further announcement when the Concession Agreement has been entered into.

DEFINITIONS

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

“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors of the Company
“China Harbour”	China Harbour Engineering Company Limited (中國港灣工程有限責任公司), a company incorporated in the PRC and a third party independent from the Company and its connected persons
“Company”	China Merchants Port Holdings Company Limited (招商局港口控股有限公司), a company incorporated in Hong Kong and whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited
“Common User Facilities”	the common user facilities (including breakwater and channel) which facilitate the business and operations of HIPG of the Hambantota Port
“Concession Agreement”	the form of the concession agreement to be entered into amongst the Company, SLPA, GOSL, HIPG and HIPS in relation to the development, management and operation of the Hambantota Port
“Concession Agreement Effective Date”	the day the last outstanding condition precedent under the Concession Agreement has been satisfied, waived or extended as the case may be, in writing by the respective parties
“connected person”	has the meaning ascribed to this term under Rule 14A.06 of the Listing Rules
“Directors”	the directors of the Company
“GOSL”	the Government of the Democratic Socialist Republic of Sri Lanka, where the context requires to mean the said Government of Sri Lanka represented by the Secretary Ministry of Ports and Shipping
“Group”	the Company and its subsidiaries

“Hambantota Port”	the port of Hambantota located at 6°07 North and 81°06 East at the Southern of Sri Lanka and as gazetted
“HIPG”	Hambantota International Port Group (Private) Limited, a private limited liability company incorporated in Sri Lanka and a wholly-owned subsidiary of SLPA as at the date of this announcement
“HIPS”	Hambantota International Port Services Company (Private) Limited, a private limited company incorporated in Sri Lanka and a wholly-owned subsidiary of SLPA as at the date of this announcement
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Project Documents”	the Concession Agreement and other definitive agreements as may be required for the execution, implementation and performance of the Hambantota Port and will include any financing documents to be entered into by HIPG and HIPS in respect of financing of the Hambantota Port
“PRC”	the People’s Republic of China which, for the purpose of this announcement, exclude Hong Kong, Macau Special Administrative Region and Taiwan
“SLPA”	Sri Lanka Ports Authority, a public corporation constituted under the Sri Lanka Ports Authority Act, No. 51 of 1979
“subsidiary (ies)”	has the meaning ascribed to it under the Listing Rules

“USD” United States dollars, the lawful currency of the United States of America

“%” per cent.

For reference only, an exchange rate of USD1.00 to HKD7.80 has been used for the conversion of United States dollars into Hong Kong dollars in this announcement.

By Order of the Board
China Merchants Port Holdings Company Limited
Li Xiaopeng
Chairman

Hong Kong, 25 July 2017

As at the date of this announcement, the Board comprises Mr. Li Xiaopeng, Mr. Hu Jianhua, Mr. Wang Hong, Mr. Hua Li, Mr. Bai Jingtao, Mr. Wang Zhixian, Mr. Zheng Shaoping and Ms. Shi Wei as executive directors; and Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John, Mr. Li Ka Fai David and Mr. Bong Shu Ying Francis as independent non-executive directors.