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招商銀行股份有限公司

**CHINA MERCHANTS BANK CO., LTD.**

*(A joint stock company incorporated in the People's Republic of China with limited liability)*

**(H Share Stock Code: 03968)**

**(Preference Share Stock Code: 04614)**

## **CONTINUING CONNECTED TRANSACTIONS**

### **ENTERING INTO BUSINESS CO-OPERATION AGREEMENT WITH CM SECURITIES**

The Company, as approved by the Board, has entered into the Business Co-operation Agreement with CM Securities on 27 March 2018, for a term of three years commencing on 1 January 2018.

CM Steam Navigation is a substantial shareholder of the Company. Currently, it directly holds 13.04% of the equity interests in the total ordinary share capital of the Company. In turn, CM Group directly holds 100% of the equity interests in CM Steam Navigation and indirectly holds 44.09% of the equity interests in CM Securities, respectively. As at the date of this announcement, CM Group indirectly holds an aggregate of 29.97% of the equity interests in the total ordinary share capital of the Company (by way of equity interests held, right of control or relationship of parties acting in concert). Pursuant to the Hong Kong Listing Rules, CM Securities Group is a connected person of the Company as it is an associate of a connected person. The transactions contemplated under the Business Co-operation Agreement will be carried out on an on-going basis, thus constituting continuing connected transactions of the Company for the purposes of the Hong Kong Listing Rules.

Since one of the applicable percentage ratios (other than the profit ratio) in relation to the annual cap in respect of the service fees receivable from CM Securities Group under the Business Co-operation Agreement for each of 2018, 2019 and 2020 is more than 0.1% but less than 5%, the conduct of those transactions will accordingly constitute non-exempt continuing connected transactions of the Company, which are subject to the reporting and announcement requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

## **INTRODUCTION**

The Company, as approved by the Board, has entered into the Business Co-operation Agreement with CM Securities on 27 March 2018, for a term of three years commencing on 1 January 2018.

## **RELATIONSHIP BETWEEN THE PARTIES**

CM Steam Navigation is a substantial shareholder of the Company. Currently, it directly holds 13.04% of the equity interests in the total ordinary share capital of the Company. In turn, CM Group directly holds 100% of the equity interests in CM Steam Navigation and indirectly holds 44.09% of the equity interests in CM Securities, respectively. As at the date of this announcement, CM Group indirectly holds an aggregate of 29.97% of the equity interests in the total ordinary share capital of the Company (by way of equity interests held, right of control or relationship of parties acting in concert). Pursuant to the Hong Kong Listing Rules, CM Securities Group is a connected person of the Company as it is an associate of a connected person. The transactions contemplated under the Business Co-operation Agreement will be carried out on an on-going basis, thus constituting continuing connected transactions of the Company for the purposes of the Hong Kong Listing Rules.

## **BUSINESS CO-OPERATION AGREEMENT**

Principal terms of the Business Co-operation Agreement are as follows:

Date:	27 March 2018
Parties:	(a) the Company; and (b) CM Securities
Term:	From 1 January 2018 to 31 December 2020 (both days inclusive)
Description of transaction:	The Group will provide services relating to the provision of third parties custodian account, sales of funds, account custodian service and agency sales services for wealth management products and collective investment products to CM Securities Group. Members of the Group may, from time to time and as necessary, enter into separate implementation agreements with CM Securities Group for each of its specific investment products. The terms of any such implementation agreement will be governed by the Business Co-operation Agreement, and as such will not constitute new categories of continuing connected transactions
Pricing principles:	The service fees payable by CM Securities Group will be on an arm's length basis and calculated on normal commercial terms, and shall be priced in accordance with the following principles:  (i) to follow the fee as prescribed by the PRC Government; or  (ii) where there is no PRC Government prescribed fee but a Government guidance fee exists, to follow the Government guidance fee; or

- (iii) where there is neither a PRC Government prescribed fee nor a Government guidance fee, to follow the fees to be agreed between the parties based on arm's length negotiations. In any event, the service fees shall be at rate(s) no less favourable than those offered to independent third parties in the ordinary and usual course of business

Payment terms: Payments of the service fees will be settled in arrears by way of cash transfer, or such other manners as agreed by the parties and in accordance with the agreed timing and manners as specified in the implementation agreements to be entered into between the Group and CM Securities Group from time to time

The transactions contemplated under the Business Co-operation Agreement will be conducted on a non-exclusive basis. Payment terms are mainly settled according to the above pricing principles. Nonetheless, the Company will conduct enquiry process by which the Company will seek quotations from at least two securities firms, or make reference to the terms of several other contemporaneous transactions with unrelated third parties for similar products and services to determine if the price and terms offered by CM Securities Group are fair and reasonable and comparable to those offered by independent third parties.

#### **HISTORICAL TRANSACTION AMOUNTS AND PROPOSED ANNUAL CAPS AND BASIS OF DETERMINATION**

For each of the three years ended 31 December 2017, the service fees paid by CM Securities Group to the Group for services relating to third parties custodian account, sales of funds, account custodian service and agency sales services for wealth management products and collective investment products were RMB463 million, RMB459 million and RMB207 million, respectively.

The Company proposes to set the annual cap for each of 2018, 2019 and 2020 in respect of service fees for the provision of third parties custodian account, sales of funds, account custodian service and agency sales services for wealth management products and collective investment products to be received from CM Securities Group at RMB500 million.

In determining the annual caps of the service fees for the transactions under the Business Co-operation Agreement, the Company has taken into account a number of factors, including the fact that the service fees (which is based on internal assessment in view of the prevailing operating conditions of the PRC market and the anticipated growth in demand for securities and financial services, with reference to the prevailing market conditions, the external factors that may give rise to unexpected fluctuations of the financial markets which is beyond the control of the Company and the underlying transaction volumes. Taking into account that the growth in service fees for third parties custodian account, sales of funds, account custodian service and agency sales services for wealth management products and collective investment products is market-driven in nature which the Company considers difficult to estimate, therefore, the Board believes that it is reasonable to set the annual cap for each of 2018, 2019 and 2020 at RMB500 million, so as to allow more room for further expansion of the transaction amounts between the Company and CM Securities Group, thereby enabling the Group to benefit from the continued growth of the PRC economy and the securities and financial markets, and to maximize the Company's revenue generated from such service fees.

## **REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS**

The Group has been working closely with CM Securities Group to expand the agency sales of securities and financial services and products. CM Securities Group has specialized teams to analyse the market trends, thus enabling it to devise diversified and quality securities and financial services and products to capture the market growth. Given the background of the Group with CM Group, the Group has over the years established a good and quality co-operation relationship with CM Securities Group. By entering into the Business Co-operation Agreement with CM Securities Group, the Group could maximise its benefits from the development of the securities and financial market, so as to facilitate the increase of returns for the Company and its shareholders as a whole.

## **INTERNAL CONTROL MEASURES FOR IMPLEMENTATION OF THE CONTINUING CONNECTED TRANSACTIONS**

The Company has established a series of internal control measures in order to ensure that the pricing mechanism and terms of the above transactions are fair and reasonable and no less favorable than the terms provided by third parties so as to ensure that they are in the interests of the Company and the Shareholders as a whole. Such internal control measures mainly include:

- (1) The external auditors of the Company will conduct a year-end audit annually, and will issue their opinion and letter to the Board in relation to the pricing policies and annual caps of the continuing connected transactions of the Company conducted during the financial year pursuant to the Hong Kong Listing Rules. In addition, according to the Hong Kong Listing Rules, the independent non-executive Directors of the Company will also conduct an annual review of the continuing connected transactions of the Company conducted during the financial year, and provide a confirmation regarding the transactional amounts and terms of the transactions in the annual report of the Company.
- (2) The Board of Supervisors is also responsible for, among others, the supervision of the continuing connected transactions of the Company and the review of the fairness of the transactions and whether the pricing of the transactions is fair and reasonable.
- (3) The Audit Committee under the Board of the Company shall each conduct regular internal assessments on the internal control measures and the financial information of the Company annually, in order to ensure that the internal control measures in respect of the connected transactions remain intact and effective. Furthermore, they convene relevant meetings at least once a year to discuss and assess the implementation of connected transactions. Meanwhile, the Legal and Compliance Department of the Company shall conduct prudent review and appraisal of the contracts to be entered into by the Company, and the Financial Accounting Department of the Company shall monitor the transactional amounts in a timely manner and manage the compliance during the process of business operations. The Board of Supervisors of the Company shall also effectively monitor the Board (including the audit committee thereunder) and senior management in respect of the performance of their duties relating to connected transactions and the implementation of relevant procedures.

- (4) The Company has formulated a series of seamless measures relating to the management of connected transactions, such as internal regulations, internal control management handbook and internal control assessment management methods, to ensure that the pricing mechanism is transparent and the implementation of such pricing mechanism is subject to strict scrutiny by the Group and that connected transactions are conducted in a fair and reasonable manner and in the interests of the Company and its shareholders as a whole in all respect.

## **BOARD CONFIRMATION**

The Directors (including the independent non-executive Directors) considers that the Business Co-operation Agreement was: (i) entered into the ordinary and usual course of business of the Company; (ii) on normal commercial terms or better (in accordance with the terms on arm's length negotiation or terms no less favourable than the terms offered by the Company to independent third parties); and (iii) the terms and the proposed annual caps are fair and reasonable and in the interests of the Company and its shareholders as a whole. Also, having taken into consideration the fact that the transaction amounts for conducting services relating to the provision of third parties custodian account, sales of funds, account custodian service and agency sales services for wealth management products and collective investment products may vary significantly depending on the prevailing market conditions and the unexpected fluctuations of the securities and financial markets, the Directors (including the independent non-executive Directors) consider that the setting of the annual cap in respect of service fees for each of 2018, 2019 and 2020 under the Business Co-operation Agreement is in the interests of the Company and its shareholders as a whole.

Pursuant to Rule 14A.68(8) of the Hong Kong Listing Rules, Mr. Li Jianhong, Mr. Fu Gangfeng, Mr. Hong Xiaoyuan, Ms. Su Min, Mr. Zhang Jian (all being directors related to CM Group, and Ms. Su Min is also a director of CM Securities) and Mr. Wang Daxiong (being a director of CM Securities) had abstained from voting on the Board resolution in respect of the entering into of the Business Co-operation Agreement and the transactions contemplated thereunder (including each of the annual caps) in view of their position as related directors. The relevant resolution was voted and approved by the Directors who are unrelated to the transactions.

## **IMPLICATIONS UNDER HONG KONG LISTING RULES**

Since one of the applicable percentage ratios (other than the profit ratio) in relation to the annual cap of the service fees receivable from CM Securities Group under the Business Co-operation Agreement for each of 2018, 2019 and 2020 is more than 0.1% but less than 5%, the conduct of those transactions will accordingly constitute non-exempt continuing connected transactions of the Company, which are subject to the reporting and announcement requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

## GENERAL INFORMATION RELATING TO THE COMPANY AND CM SECURITIES

The Company is a joint stock company incorporated in the PRC with limited liability, the A Shares and the H Shares of which are listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, respectively. The Group provides customers with various wholesale and retail banking products and services, and maintains treasury businesses with proprietary purpose and on behalf of customers.

CM Securities is a joint stock limited company incorporated in the PRC, the A shares and H shares are listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, respectively. Its principal business includes securities brokerage, investment advisory, dealing in securities, advisory, underwriting and sponsoring, asset management and futures business, etc.

### DEFINITIONS

“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Board”	the Board of Directors of the Company;
“Business Co-operation Agreement”	the business co-operation agreement entered into between the Company and CM Securities on 27 March 2018;
“CM Group”	China Merchants Group Limited 招商局集團有限公司;
“CM Securities”	China Merchants Securities Co., Ltd. 招商證券股份有限公司;
“CM Securities Group”	CM Securities and its subsidiaries (for the purpose of this announcement, includes their respective associates);
“CM Steam Navigation”	China Merchants Steam Navigation Co., Ltd. 招商局輪船有限公司, a substantial shareholder of the Company;
“Company”	China Merchants Bank Co., Ltd. 招商銀行股份有限公司;
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Director(s)”	the director(s) of the Company, including independent non-executive Directors;
“Group”	the Company and its subsidiaries;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange;

“PRC” or “China”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“subsidiary(ies)”	has the meaning ascribed to it under the Hong Kong Listing Rules.

By order of the Board of Directors  
**China Merchants Bank Co., Ltd.**  
**Wang Liang Seng Sze Ka Mee Natalia**  
*Joint Company Secretaries*

27 March 2018

*As at the date of this announcement, the executive directors of the Company are Tian Huiyu and Li Hao; the non-executive directors of the Company are Li Jianhong, Fu Gangfeng, Sun Yueying, Hong Xiaoyuan, Su Min, Zhang Jian and Wang Daxiong; and the independent non-executive directors of the Company are Leung Kam Chung, Antony, Wong Kwai Lam, Pan Chengwei, Pan Yingli, Zhao Jun and Wong See Hong.*