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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)

**CONTINUING CONNECTED TRANSACTION
PROPOSED RE-APPOINTMENT OF CHINA MERCHANTS CHINA
INVESTMENT MANAGEMENT LIMITED
AS INVESTMENT MANAGER**

Financial adviser to the Company

ANGLO CHINESE 英高
CORPORATE FINANCE, LIMITED

On 15 October 2015, the Company entered into the New Management Agreement with CMCIM in relation to the proposed re-appointment of CMCIM as the Company's investment manager for the Management Period. The terms of the New Management Agreement are in all material respects the same as the terms of the Existing Management Agreement which was approved by the Independent Shareholders in 2012.

CMCIM is a connected person of the Company pursuant to Rule 14A.08 of the Listing Rules and the transaction contemplated under the New Management Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the proposed annual caps for the fees payable under the New Management Agreement for each of the three years ending 31 December 2018 exceed 5%, such transaction constitutes non-exempt continuing connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under the Listing Rules.

An independent board committee of the Company comprising all independent non-executive Directors, namely Mr. LIU Baojie, Mr. ZHU Li, Mr. TSANG Wah Kwong and Dr. LI Fang, has been formed to advise the Independent Shareholders in respect of the New Management Agreement and the proposed annual caps. An independent financial adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on these regards.

A circular containing, among other things, further details of the New Management Agreement, the recommendation of the Independent Board Committee, the advice of the independent financial adviser to the Independent Board Committee and the Independent Shareholders and a notice convening the extraordinary general meeting to approve the New Management Agreement and the proposed annual caps, will be distributed to the shareholders of the Company on or before 6 November 2015.

NEW MANAGEMENT AGREEMENT

On 15 October 2015, the Company entered into the New Management Agreement with CMCIM in relation to the proposed re-appointment of CMCIM as the Company's investment manager for the Management Period, immediately following the expiry date of the Existing Management Agreement on 31 December 2015.

Principal terms

The principal terms of the New Management Agreement include:

- Condition:** The New Management Agreement is conditional upon the approval by the Independent Shareholders at a general meeting of the Company in accordance with the requirements of the Listing Rules.
- Term of appointment:** The appointment of CMCIM is for a fixed term of three years, commencing on 1 January 2016 and ending on 31 December 2018. Thereafter, subject to the approval by the independent shareholders of the Company in accordance with the Listing Rules and compliance with all other applicable requirements under the Listing Rules, the appointment shall be renewed for further periods of three years after the expiry of each fixed term, unless either party shall at least six months prior to such expiry date give notice to the other party not to renew the appointment, whereupon the New Management Agreement will terminate at the end of the then current fixed period.
- Services:** CMCIM shall undertake all investment and management duties arising pursuant to the operation of the Company and its responsibilities shall include identifying and evaluating investment opportunities, executing investment decisions, monitoring and enhancing investments of the Company, making decisions on investments and realizations for the

Company in accordance with the investment objectives and policy of the Company as described in the Prospectus and as from time to time laid down by the Directors, managing the corporate affairs of the Company and dealing with its day-to-day administration.

- Remuneration: *Management fee:* The Company will pay to CMCIM an annual management fee in US dollars (or the HKD or RMB Equivalent of the same) equal to the aggregate of:
- (a) on the Invested Portion of the Assets of the Company represented by unlisted securities or interests: 2.25% of the book value (net of taxes);
 - (b) on the Invested Portion of the Assets of the Company represented by securities listed on a recognized stock exchange:
 - (i) during the lockup period following listing: 2.25% of the book value (net of taxes);
 - (ii) for the one year after the lockup period lapses: 1.75% of the book value (net of taxes);
 - (iii) thereafter: 1.50% of the book value (net of taxes); and
 - (iv) in respect of listed securities purchased from the secondary market: 1.50% of the book value (net of taxes); and
 - (c) on the Un-invested Portion of the Assets of the Company: 0.75% of the book value,

in each case as at the last day of the relevant quarter. Such fee shall be payable within 15 calendar days after the last day of the first 3 quarters of each financial year and within 15 calendar days after the publication of the audited financial results of the Company for the relevant financial year on the websites of the Company and the Stock Exchange.

- Performance fee:* Conditional upon the NAV at the end of each financial year (as Adjusted) exceeding the higher (the “**High Watermark**”) of:
- (a) the NAV for the Reference Year, and
 - (b) the NAV of the most recent financial year after the Reference Year and in which a performance fee was paid,
- the Company will pay to CMCIM an annual performance fee in US dollars (or the HKD or RMB Equivalent of the same) equal to 8% of the amount by which the NAV as at the end of the relevant financial

year (as Adjusted) exceeds the High Watermark. Such fee shall be payable as soon as practicable after the publication of the audited financial results of the Company for the relevant financial year on the websites of the Company and the Stock Exchange, and in any event not later than 180 calendar days after the publication of the same.

For the purposes of calculating the management fee and/or the performance fee:

- (1) the NAV and, where applicable, the High Watermark shall be adjusted (“**Adjusted**”) in a fair and reasonable manner as the Company and CMCIM shall agree (or in default of agreement by the auditors of the Company acting as experts and not as arbitrators who shall be required to certify that such adjustment is fair and reasonable) so as to:
 - (a) take account of any adjustments to the share capital of the Company during any relevant financial year;
 - (b) take account of any buy-back or redemption of Shares during any relevant financial year; and
 - (c) take no account of (that is, include in the calculation of the NAV as if such distributions had never been made or fees paid) any distributions or dividends made by the Company or any fees paid to CMCIM pursuant to the New Management Agreement during any relevant financial year(s);
- (2) the “**HKD or RMB Equivalent**” of a US dollar amount shall be determined by converting the US dollar amount into HKD or RMB (as the case may be) at the middle exchange rate between US\$ and HKD or RMB (as the case may be) published by the State Administration of Foreign Exchange of the PRC on the date of payment of the relevant sum, or if such date falls on a date other than a PRC Business Day, the immediately preceding PRC Business Day;
- (3) the “**Reference Year**” means the financial year ended 31 December 2014;

- (4) the “**Invested Portion of the Assets of the Company**” refers to the portion of the Assets of the Company invested in listed or unlisted securities or interests, whereas the “**Un-invested Portion of the Assets of the Company**” refers to the portion of those Assets other than the Invested Portion of the Assets such as cash and receivables;
- (5) the “**book value**” represents the fair value amount of the Assets; and
- (6) the aggregate amount of annual management fee and performance fee payable by the Company to CMCIM each year under the New Management Agreement will not exceed the relevant annual cap to be approved by the Independent Shareholders at the extraordinary general meeting of the Company to be convened in accordance with the requirements of the Listing Rules.

Termination: Each of the Company and CMCIM may terminate the New Management Agreement with immediate effect if the other party goes into liquidation or is unable to pay its debts or otherwise becomes insolvent; or commits any material breach of the New Management Agreement which is not remedied within 60 days from the date of a written request that the breach be remedied.

The Company is also entitled to terminate the New Management Agreement at any time without compensation to CMCIM with the sanction of the shareholders of the Company in general meeting if the Company suffers major losses due to the gross negligence of CMCIM.

Proposed annual caps

The Company expects that the total annual remuneration payable to CMCIM under the New Management Agreement for the following periods will not exceed the following maximum amounts:

	<i>US\$</i>
For the year ending 31 December 2016	80,000,000
For the year ending 31 December 2017	82,500,000
For the year ending 31 December 2018	85,000,000

In computing the above proposed annual caps, the Directors have taken into account and made reference to the potential growth in the underlying value of the investment portfolio of the Company, the historical record of the management fee and performance fee received by CMCIM and the fee rates under the New Management Agreement. Since the Company became listed on the Stock Exchange in 1993, CMCIM was only entitled to performance fees under the previous investment management agreements for the financial years 2006, 2007 and 2009, and under the Existing Management Agreement for the financial year 2014, during which years the value of the Company's investment portfolio increased substantially. Since the amount of the performance fee payable is directly related to the valuation of the investment portfolio of the Company which is volatile in nature and may fluctuate from year to year, reference has been made to the highest performance fee paid in prior years under the previous investment management agreements and the Existing Management Agreement as the basis and adjusted for the fee rates under the New Management Agreement for determining the above proposed annual caps.

The above proposed annual caps in respect of the remuneration payable under the New Management Agreement are subject to the approval of the Independent Shareholders.

Historical figures of fees paid under the Existing Management Agreement

On 18 October 2012, the Company and CMCIM entered into the Existing Management Agreement for the appointment of CMCIM as the investment manager of the Company the terms of which are the same in all material respects to those of the New Management Agreement. The remuneration paid to CMCIM in the two financial years ended 31 December 2013 and 2014 were published in the annual reports of the Company for the relevant financial years and the remuneration paid to CMCIM for the 6 months ended 30 June 2015 was published in the interim report 2015 of the Company.

The following is a summary of the remuneration paid to CMCIM as extracted from the Company's financial statements:

	For the financial year ended 31 December		For 6 months ended 30 June
	2013	2014	2015
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Management fee	9,353,307	10,195,170	5,862,346
Performance fee	-	10,821,857	-
Total remuneration payable	9,353,307	21,017,027	5,862,346

Condition of the New Management Agreement

The New Management Agreement is conditional upon the approval by the Independent Shareholders at the extraordinary general meeting to be held by the Company.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW MANAGEMENT AGREEMENT

CMCIM has provided investment management services to the Company since 15 July 1993 and the Board is of the view that it would be in the interest of the Company and its shareholders as a whole to continue with the existing relationship with CMCIM. Among the investment companies listed in Hong Kong, the Company is one of the largest in terms of market capitalization and is the largest in terms of net asset value and these can be attributed to the contribution made by CMCIM together with its extensive connections in China. CMG (through its associates) and Victor Chu China Investment Limited control 55% and 45% respectively of CMCIM. This relationship has secured some valuable investments for the Company. Moreover, CMCIM's knowledge of and relationships with the existing investee companies are valuable and therefore maintaining continuity would be beneficial to the Company and its shareholders as a whole.

LISTING RULE IMPLICATIONS

CMCIM, as the investment manager of the Company since 1993, is a connected person of the Company pursuant to Rule 14A.08 of the Listing Rules. Accordingly, the transaction contemplated under the New Management Agreement constitutes continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed annual caps for the fees payable under the New Management Agreement for each of the three years ending 31 December 2018 exceed 5%, the transaction contemplated thereunder is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under the Listing Rules.

VIEWS OF DIRECTORS

The Directors, excluding the independent non-executive Directors who will form their opinion after considering the advice from the independent financial adviser appointed by the Company, are of the view that the terms of and the transaction contemplated under the New Management Agreement are on normal commercial terms in the ordinary and usual course of business of the Company and are fair and reasonable and in the interests of the Company and its shareholders as a whole; and that the proposed annual caps in respect of the fees payable under the New Management Agreement are fair and reasonable.

Each of Mr. CHU Lap Lik, Victor and Ms. KAN Ka Yee, Elizabeth (being alternate Director to Mr. CHU Lap Lik, Victor) is interested in the New Management Agreement and has abstained from voting on (and has not been counted in the quorum for) the relevant resolutions of the Board approving the same.

INFORMATION IN RESPECT OF THE COMPANY AND CMCIM

The Company is an investment company, the Shares of which are listed on the Main Board of the Stock Exchange under Chapter 21 of the Listing Rules. The Company specializes in investing in the PRC. Its investment objective is to acquire quality investments, principally in unlisted enterprises, in the PRC. The Company may also invest in China-concept shares, “H” shares, “B” shares and any shares listed on the Stock Exchange provided that the main businesses or incomes of such companies are derived from the PRC including Hong Kong.

CMCIM is a fund management company which manages the investment portfolio and deals with day-to-day administration of the Company. Pursuant to the Existing Management Agreement, CMCIM is responsible for identifying and researching prospective investments for the Company. The Board is responsible for formulating the Company’s overall investment strategy and guidelines that CMCIM shall follow in making investments.

GENERAL

An independent board committee of the Company comprising all independent non-executive Directors, namely Mr. LIU Baojie, Mr. ZHU Li, Mr. TSANG Wah Kwong and Dr. LI Fang, has been formed to advise the Independent Shareholders in respect of the New Management Agreement and the proposed annual caps. An independent financial adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the New Management Agreement and the proposed annual caps.

An extraordinary general meeting will be convened at which ordinary resolution(s) will be proposed to consider and, if thought fit, approve the New Management Agreement and the proposed annual caps.

CMCIM is owned as to 55% by CMG (through its associates) and as to 45% by Victor Chu China Investment Limited. As at the date of this announcement, the associates of CMG collectively hold 27.59% interests in the Company, whereas Victor Chu China Investment Limited and/or its associates collectively hold 1.99% interests in the Company. Therefore, the respective associates of CMG and Victor Chu China Investment Limited and/or its respective associates, as the case may be, are deemed to have material interests in the transaction contemplated under the New Management Agreement and shall abstain from voting at the extraordinary general meeting.

A circular containing, among other things, further details of the New Management Agreement, the recommendation of the Independent Board Committee, the advice of the independent financial adviser to the Independent Board Committee and the Independent Shareholders and a notice convening the extraordinary general meeting to approve the New Management Agreement and the proposed annual caps, will be distributed to the shareholders of the Company on or before 6 November 2015.

DEFINITIONS

“Assets of the Company” or “Assets”	all the assets of any description of the Company and its subsidiaries, including but not limited to the interests held in jointly controlled entities and associated companies as shown in the accounts of the Company, wheresoever and howsoever located
“associates”	shall have the same meaning as provided in the Listing Rules
“Board”	the board of directors of the Company from time to time
“Company”	China Merchants China Direct Investments Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 0133)
“CMCIM”	China Merchants China Investment Management Limited, a fund management company incorporated in Hong Kong with limited liability and registered under the Securities and Futures Ordinance
“CMG”	China Merchants Group Limited, a company incorporated in the PRC with limited liability which is the ultimate holding company of CMCIM and also a substantial shareholder of the Company
“Directors”	the directors of the Company
“Existing Management Agreement”	the investment management agreement entered into between the Company and CMCIM dated 18 October 2012, the term of which will expire on 31 December 2015
“HK\$” or “HKD”	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 of the Company comprising all independent non-executive Directors of the Company, namely Mr. LIU Baojie, Mr. ZHU Li, Mr. TSANG Wah Kwong and Dr. LI Fang, to make recommendation to the Independent Shareholders in respect of the New Management Agreement and the proposed annual caps
“Independent Shareholders”	the shareholders of the Company other than the associates of CMG and Victor Chu China Investment Limited and/or its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Management Period”	the term of appointment of CMCIM under the New Management Agreement
“NAV”	the net asset value of the Company calculated on the basis as set out in the Prospectus
“New Management Agreement”	the investment management agreement dated 15 October 2015 entered into between the Company and CMCIM in relation to the provision of investment management services with effect from 1 January 2016
“PRC”	the People’s Republic of China, which for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC Business Day”	a day other than a Saturday, Sunday or a public holiday in the PRC
“Prospectus”	the prospectus dated 15 July 1993 issued by the Company in connection with the placing of Shares on the terms described therein
“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	the ordinary shares in the issued share capital of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$” or “US dollar”	United States Dollars, the lawful currency of the United States of America
“%”	per cent

By Order of the Board
WANG Xiaoding
Director

Hong Kong, 15 October 2015

As at the date hereof, the executive Directors of the Company are Mr. HONG Xiaoyuan, Mr. LI Yinquan, Mr. CHU Lap Lik, Victor, Mr. WANG Xiaoding and Mr. TSE Yue Kit; the non-executive Director is Mr. KE Shifeng; and the independent non-executive Directors are Mr. LIU Baojie, Mr. ZHU Li, Mr. TSANG Wah Kwong and Dr. LI Fang. In addition, Ms. KAN Ka Yee, Elizabeth is the alternate Director to Mr. CHU Lap Lik, Victor.