

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**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**

Reference is made to the announcement dated 13 January 2010 in relation to the negotiation of a new investment management agreement with CMCIM. On 5 February 2010, the Company entered into the Revised Management Agreement with CMCIM in relation to the proposed re-appointment of CMCIM as the Company's investment manager for the Management Period.

CMCIM is a connected person of the Company pursuant to Rule 21.13 of the Listing Rules and the transaction contemplated under the Revised Management Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules. As it is expected that one or more of the applicable percentage ratios in respect of the proposed annual caps for the fees payable under the Revised Management Agreement for each of the three years ending 31 December 2012 may on an annual basis exceed 25%, such transaction constitutes non-exempt continuing connected transaction of the Company under Rule 14A.35 of the Listing Rules and will be subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

An independent board committee comprising all independent non-executive Directors of the Company, namely Mr. KUT Ying Hay, Mr. WANG Jincheng, Mr. LI Kai Cheong, Samson and Mr. LIU Baojie, has been formed to advise the Independent Shareholders in respect of the Revised 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 others, further details of the Revised 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 Revised Management Agreement and the proposed annual caps, will be despatched to the shareholders of the Company as soon as practicable.

## REVISED MANAGEMENT AGREEMENT

Reference is made to the announcement dated 13 January 2010 by the Company in which it was stated that an independent committee, comprising Mr. KUT Ying Hay, Mr. WANG Jincheng and Mr. LI Kai Cheong, Samson, had been formed to review the terms of the Existing Management Agreement. It was also announced that the independent committee had resolved to revise the terms of the Existing Management Agreement and the Company had notified CMCIM that it would not be automatically renewed upon expiry of the then current three year term.

On 5 February 2010, the Company entered into the Revised 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 14 July 2010.

### Principal terms

The principal terms of the Revised Management Agreement include:

- Condition: The Revised 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 commencing on 15 July 2010 and ending on 31 December 2012. Thereafter, subject to and conditional upon compliance with all applicable requirements under Chapter 14A of the Listing Rules (including but not limited to independent shareholders' approval, if applicable), the appointment of CMCIM under the Revised Management Agreement shall be automatically 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 Revised 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 shall be responsible for identifying and evaluating investment opportunities, executing investment decisions, monitoring and enhancing investments of the Company, making decisions on investments and realisations 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) 2.25% of the book value (net of taxes) of the invested portion of the assets of the Company; and

(b) 0.75% of the book value of the uninvested portion of the assets of the Company, 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 for the last quarter of each financial year.

*Performance fee:*

Conditional upon the NAV at the end of each financial year (as Adjusted) exceeding:

- (i) 112% of the NAV for the immediately preceding financial year (the “**Hurdle**”); and
- (ii) the higher of:
  - (a) the NAV for the Reference Year, or
  - (b) the NAV of the most recent financial year after the Reference Year and in which a performance fee was paid

(which, in the event of a capital change or distribution, shall be Adjusted) (the “**High Watermark**”),

the Company will also pay to CMCIM an annual performance fee in US dollars (or the HKD or RMB Equivalent of the same) equal to 15% of the amount by which the NAV of the Company as at the end of the relevant financial year (as Adjusted) exceeds the higher of the Hurdle or 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 purpose of calculating the performance fee:

- (1) the NAV (other than that for the calculation of the Hurdle) 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 accounting period;
  - (b) take account of any repurchases or redemption of Shares during any relevant accounting period; 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 Revised Management Agreement during any relevant accounting period.

- (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 USD 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; and
- (3) the “**Reference Year**” means the financial year ended 31 December 2009.

For the purpose of calculating the performance fee for the financial year ending 31 December 2010, the Hurdle shall be 115% of the NAV for the financial year ended 31 December 2009.

Investment committee approval: Decision on any single transaction (investment or realisation) of an investment amount of over US\$20 million will be subject to the approval of the investment committee of the Company as constituted by the Board from time to time.

Termination: Each of the Company and CMCIM may terminate the Revised 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 Revised 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 Revised Management Agreement at any time without compensation to CMCIM with the sanction of the Shareholders 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 Revised Management Agreement for the following periods will not exceed the following maximum amounts:

	<i>US\$</i>
For the year ending 31 December 2010	124,000,000
For the year ending 31 December 2011	128,000,000
For the year ending 31 December 2012	133,000,000

In computing the above proposed annual caps, the Directors have taken into account and made reference to the projected growth in the underlying value of the investment portfolio of the Company and the historical record of the management fee and performance fee received by CMCIM under the Existing Management Agreement.

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

### **Historical figures of fees paid under the Existing Management Agreement**

On 15 July 1993, 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 were similar to those of the Revised Management Agreement. The remuneration paid to CMCIM in the three financial years ended 31 December 2006, 2007 and 2008 were published in the annual reports of the Company for the relevant financial years.

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

	<b>For the financial year ended 31 December</b>			<b>For 6 months</b>
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>ended 30 June</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>2009</b>
	(Audited)	(Audited)	(Audited)	(Unaudited)
Management fee	3,969,821	16,828,839	13,584,553	5,757,182
Performance fee	17,324,174	104,240,057	-	30,095,868 (Note)
Total remuneration payable	21,293,995	121,068,896	13,584,553	35,853,050

*Note: This amount represents a provision made for the performance fee payable to CMCIM for the six months ended 30 June 2009. As disclosed in the Company's announcement dated 15 November 2009, in view of the exceptional market circumstances arising from the financial crisis and the recent performance of the Company's investments, CMCIM unilaterally offered to waive 50% of its entitlement to receive the performance fee for the year ended 31 December 2009 payable under the Existing Management Agreement, subject, if applicable, to any reporting and shareholders approval requirements under the Listing Rules.*

### **Condition of the Revised Management Agreement**

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

### **Reasons for entering into the Revised 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 has been the largest in terms of market capitalisation and this can be attributed to the contribution made by CMCIM together with its extensive connections in China. China Merchants Finance Holdings Company Limited 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 21.13 of the Listing Rules. Accordingly, the transaction contemplated under the Revised Management Agreement constitutes continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

As it is expected that one or more of the applicable percentage ratios in respect of the proposed annual caps for the fees payable under the Revised Management Agreement for each of the three years ending 31 December 2012 may on an annual basis exceed 25%, the transaction contemplated thereunder is subject to the reporting, announcement 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 recommendation of an independent financial adviser engaged by the Company and the Directors who did not express their views due to possible conflict of interest, are of the view that the terms of and the transaction contemplated under the Revised 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 Revised Management Agreement are fair and reasonable.

## **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 specialises 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 in 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 day-to-day management 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 comprising all independent non-executive Directors of the Company, namely Mr. KUT Ying Hay, Mr. WANG Jincheng, Mr. LI Kai Cheong, Samson and Mr. LIU Baojie, has been formed to advise the Independent Shareholders in respect of the Revised 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 Revised 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 Revised Management Agreement and the proposed annual caps.

CMCIM is owned as to 55% by China Merchants Finance Holdings Company Limited and as to 45% by Victor Chu China Investment Limited. As at the date of this announcement, the associates of China Merchants Finance Holdings Company Limited collectively hold 24.04% interests in the Company, whereas the associates of Victor Chu China Investment Limited collectively hold 2.16% interests in the Company. Therefore, the respective associates of China Merchants Finance Holdings Company Limited and Victor Chu China Investment Limited are deemed to have material interests in the transaction contemplated under the Revised Management Agreement and shall abstain from voting at the extraordinary general meeting.

A circular containing, among others, further details of the Revised 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 Revised Management Agreement and the proposed annual caps, will be despatched to the shareholders of the Company as soon as practicable.

## **DEFINITIONS**

“associates”	shall have the same meaning as is provided in the Listing Rules
“Board”	the board of directors of the Company
“Company”	China Merchants China Direct Investments Limited, a company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange with stock code 133
“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 (Chapter 571 of the Laws of Hong Kong)
“Directors”	the directors of the Company

“Existing Management Agreement”	the investment management agreement entered into between the Company and CMCIM dated 15 July 1993, the term of which will expire on 14 July 2010
“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. KUT Ying Hay, Mr. WANG Jincheng, Mr. LI Kai Cheong, Samson and Mr. LIU Baojie, to make recommendation to the Independent Shareholders in respect of the Revised Management Agreement and the proposed annual caps
“Independent Shareholders”	the shareholders of the Company other than the respective associates of China Merchants Finance Holdings Company Limited and Victor Chu China Investment Limited
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management Period”	the term of the appointment of CMCIM under the Revised Management Agreement
“NAV”	the net asset value of the Company calculated on the basis as set out in the Prospectus
“PRC”	the People’s Republic of China
“PRC Business Day”	a day other than a Saturday, Sunday or a public holiday in the PRC
“Prospectus”	the prospectus of the Company dated 15 July 1993
“Revised Management Agreement”	the investment management agreement dated 5 February 2010 entered into between the Company and CMCIM in relation to the re-appointment of CMCIM as the investment manager of the Company with effect from 15 July 2010
“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	the ordinary shares in the issued share capital of the Company of nominal value of US\$0.10 each



“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  
**ZHOU Linda Lei**  
*Director*

Hong Kong, 5 February, 2010

*As at the date hereof, the Board of Directors of the Company comprises eleven Directors, of which five are Executive Directors, namely Mr. LI Yinquan, Mr. HONG Xiaoyuan, Mr. CHU Lap Lik, Victor, Ms. ZHOU Linda Lei and Mr. TSE Yue Kit; two are Non-executive Directors, namely Mr. KE Shifeng and Mr. WANG Qi; and four are Independent Non-executive Directors, namely Mr. KUT Ying Hay, Mr. WANG Jincheng, Mr. LI Kai Cheong, Samson and Mr. LIU Baojie. In addition, Ms. KAN Ka Yee, Elizabeth is the Alternate Director to Mr. CHU Lap Lik, Victor.*