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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 18 October 2012, 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 2015 may exceed 5%, 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. LIU Baojie, Mr. XIE Tao, Mr. ZHU Li and Mr. TSANG Wah Kwong, 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 on or about 9 November 2012.

REVISED MANAGEMENT AGREEMENT

On 18 October 2012, 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 31 December 2012.

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 1 January 2013 and ending on 31 December 2015. 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 of CMCIM under the Revised Management Agreement shall be renewed for further periods of three years after the expiry of each fixed term, unless either party shall at least 6 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 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 Board, 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 the following calculations:

- (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 (as hereinafter defined) 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 on a quarterly basis 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 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 “**High Watermark**”),

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 of the Company 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 purpose of calculating 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 repurchases 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 Revised 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 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.

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 by written notice 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 2013	76,000,000
For the year ending 31 December 2014	78,500,000
For the year ending 31 December 2015	81,000,000

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, the historical record of the management fee and performance fee received by CMCIM and the revised fee rates under the Revised 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 agreement for the financial years 2006, 2007 and 2009, 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 agreement as the basis and adjusted for the revised fee rates under the Revised Management Agreement for determining the above proposed annual caps.

The above 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 5 February 2010, 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 similar to those of the Revised Management Agreement. The remuneration paid to CMCIM in the two financial years ended 31 December 2010 and 2011 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 2012 was published in the interim report 2012 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
	2010 US\$ (audited)	2011 US\$ (audited)	2012 US\$ (unaudited)
Management fee	11,519,577	9,869,331	4,707,947
Performance fee	-	-	-
Total remuneration payable	11,519,577	9,869,331	4,707,947

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 is one of the largest in terms of market capitalization 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.

Principal changes to the Existing Management Agreement and reasons for the changes

The term under the Existing Management Agreement will expire on 31 December 2012 and will be renewed under the Revised Management Agreement. The proposed principal changes to the terms of the Existing Management Agreement are as follows:-

Management fee

Under the Existing Management Agreement, the annual management fee is calculated on the basis of 2.25% of the invested portion of the Assets regardless as to whether the Assets were represented by listed or unlisted securities or interests. It is proposed that in respect of listed securities, the annual management fee will be modified to take into account that the Company may be restricted from selling the listed shares for a certain period of time after the listing of such shares (the “**Lockup Period**”) and of when they become freely tradeable by the Company. It is therefore proposed that the Company will pay to CMCIM an annual management fee on the invested portion of the Assets 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).

The reduced management fee for listed securities upon they become freely tradeable by the Company is in line with the management fees generally charged in respect of listed securities in the market. It is proposed that the management fee in respect of invested portion of the Assets represented by unlisted securities or interests and un-invested portion of the Assets will remain unchanged.

Performance fee

Under the Existing Management Agreement, the Company will pay a performance fee to CMCIM conditional upon the NAV at the end of each financial year 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 the performance fee was paid;

the Company will also pay to CMCIM an annual performance fee equal to 15% of the amount by which the NAV as at the end of the relevant financial year exceeds the higher of the Hurdle or the High Watermark.

As at 30 September 2012, the unaudited NAV was US\$441.62 million. Taking into account the adjustments required under the Existing Management Agreement, the NAV would have to increase by approximately 23.31% to exceed the High Watermark. Accordingly, it is not expected that any performance fee is likely to become due in respect of 2012.

It is proposed that the High Watermark or its method of calculation under the Revised Management Agreement shall not be altered. Accordingly, the NAV will be required to increase by 23.31% from the latest available NAV before a performance fee will be paid. In the nearer term, the Hurdle would not therefore have been expected to be relevant as the increase required to reach the High Watermark exceeds the Hurdle.

As an incentive to CMCIM, the terms of the investment management agreement commencing with the inception of the Company in 1993 have envisaged participation by CMCIM in the performance of the Company achieved through its investment management contribution. The terms were first altered in 2010 to include, inter alia, the High Watermark. Given the demanding High Watermark in the shorter term and to provide CMCIM with further incentive to achieve performance beyond the High Watermark, the Company and CMCIM have agreed a variation to the performance fee to eliminate the Hurdle in exchange for the reduction of the participation percentage from 15% to 8%. Through this change, CMCIM will participate in any gain above the High Watermark, but at a materially lower rate. It is emphasized that no performance fee will be payable for a particular financial year unless the High Watermark is exceeded at the end of that financial year.

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 2015 may exceed 5%, 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 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 comprising all independent non-executive Directors of the Company, namely Mr. LIU Baojie, Mr. XIE Tao, Mr. ZHU Li and Mr. TSANG Wah Kwong, 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 26.91% interests in the Company, whereas Victor Chu China Investment Limited and/or its associates collectively hold 2.04% interests in the Company. Therefore, the respective associates of China Merchants Finance Holdings Company Limited 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 Revised Management Agreement and shall abstain from voting at the extraordinary general meeting.

The Company confirms that, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, CMCIM and the ultimate beneficial owners of CMCIM are connected persons of the Company.

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 on or about 9 November 2012.

DEFINITIONS

“Assets of the Company” or “Assets”	all the assets of any description of the Company wheresoever and howsoever located;
“associates”	shall have the same meaning as is provided in the Listing Rules
“Board”	board of Directors
“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 of Hong Kong
“Directors”	the directors of the Company
“Existing Management Agreement”	the investment management agreement entered into between the Company and CMCIM dated 5 February 2010, the term of which will expire on 31 December 2012
“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. XIE Tao, Mr. ZHU Li and Mr. TSANG Wah Kwong, 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 associates of China Merchants Finance Holdings Company Limited and Victor Chu China Investment Limited and/or its associates
“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
“Quarter”	a three calendar month period ending on 31 March, 30 June, 30 September and 31 December in each calendar year
“Revised Management Agreement”	the investment management agreement dated 18 October 2012 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 1 January 2013

“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) of US\$0.10 each in the 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
“%”	percent

By Order of the Board
ZHOU Linda Lei
Director

Hong Kong, 18 October 2012

As at the date hereof, the Executive Directors of the Company are Mr. LI Yinquan, Mr. HONG Xiaoyuan, Mr. CHU Lap Lik, Victor, Ms. ZHOU Linda Lei and Mr. TSE Yue Kit; the Non-executive Director is Mr. KE Shifeng; and the Independent Non-executive Directors are Mr. LIU Baojie, Mr. XIE Tao, Mr. ZHU Li and Mr. TSANG Wah Kwong. In addition, Ms. KAN Ka Yee, Elizabeth is the Alternate Director to Mr. CHU Lap Lik, Victor.