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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)

**SCRIP DIVIDEND SCHEME IN RELATION TO
THE FINAL DIVIDEND AND SPECIAL DIVIDEND
FOR THE YEAR ENDED 31 DECEMBER 2011**

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LETTER FROM THE BOARD



CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

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(Incorporated in Hong Kong with limited liability)

(Stock Code: 133)

Executive Directors:

Mr. LI Yinquan (*Chairman*)

Mr. HONG Xiaoyuan

Mr. CHU Lap Lik, Victor

Ms. ZHOU Linda Lei

Mr. TSE Yue Kit

Ms. KAN Ka Yee, Elizabeth

(Alternate to Mr. CHU Lap Lik, Victor)

Registered Office:

1803, China Merchants Tower

Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

Non-executive Director:

Mr. KE Shifeng

Independent Non-executive Directors:

Mr. LI Kai Cheong, Samson

Mr. LIU Baojie

Mr. XIE Tao

Mr. ZHU Li

27 June 2012

To the Shareholders

Dear Sir or Madam,

**SCRIP DIVIDEND SCHEME IN RELATION TO
THE FINAL DIVIDEND AND SPECIAL DIVIDEND
FOR THE YEAR ENDED 31 DECEMBER 2011**

INTRODUCTION

On 29 March 2012, the Board of Directors of China Merchants China Direct Investments Limited (the “**Company**”) announced their recommendation of a final dividend (the “**Final Dividend**”) of US\$0.04 (or HK\$0.31) per ordinary share of US\$0.10 each (the “**Share**”) and a special dividend (the “**Special Dividend**”) of US\$0.08 (or HK\$0.62) per Share for the year ended 31 December 2011 to shareholders of the Company (“**Shareholders**”) whose names appear on the register of members of the Company on 23 May 2012 (the “**Record Date**”). The Final Dividend and Special Dividend, if approved, are

LETTER FROM THE BOARD

to be payable in cash, with an option to receive new, fully paid Shares in lieu of cash (the “**Scrip Dividend Scheme**”). At the annual general meeting held on 17 May 2012, the Final Dividend and Special Dividend were approved.

The purpose of this document is to set out the procedures which apply in relation to the Scrip Dividend Scheme and the action which should be taken by Shareholders in relation thereto.

DETAILS OF THE SCRIP DIVIDEND SCHEME

Under the Scrip Dividend Scheme, each Shareholder has the choice of receiving:

- (a) cash of US\$0.12 (or HK\$0.93) per Share; or
- (b) an allotment of new Shares with a nominal value of US\$0.10 each (“**New Shares**”) credited as fully paid and having an aggregate market value (as defined below) equal to, save for adjustment for fractions, the total amount of the Final Dividend and Special Dividend which such Shareholder could elect to receive in cash in respect of US\$0.12 (or HK\$0.93) per Share; or
- (c) partly cash and partly New Shares.

For the purpose of calculating the number of New Shares to be allotted, the market value of a New Share will be calculated as an amount equal to the average closing price of one Share on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) for the five trading days (on which such price is available) up to and including 4 July 2012 (the “**Average Closing Price**”). Consequently, it will not be possible to determine until the close of business on 4 July 2012, the exact number of New Shares to which those Shareholders electing to receive New Shares will be entitled. Accordingly, the number of New Shares which Shareholders will receive, in respect of the existing Shares registered in their names as at 23 May 2012 will be calculated as follows:

$$\begin{array}{l} \text{Number of New} \\ \text{Shares to be} \\ \text{received} \end{array} = \begin{array}{l} \text{Number of existing Shares} \\ \text{held on the Record Date for} \\ \text{which election for New} \\ \text{Shares is made} \end{array} \times \frac{\text{HK\$0.93}}{\text{Average Closing Price}}$$

An announcement setting out the basis of allotment of the New Shares will be published on the designated website of Hong Kong Exchanges and Clearing Limited (“**HKEX**”) at www.hkexnews.hk and on the Company’s own website at www.cmcdi.com.hk after the close of business on 4 July 2012. **The last day and time on which Shareholders will be entitled to elect their desired form of the Final Dividend and Special Dividend is 4:30 p.m. on Wednesday, 18 July 2012.** The number of New Shares to be received will be rounded down to the nearest whole number of the New Shares. Fractional entitlements to New Shares in respect of alternatives (b) and (c) above will be aggregated and sold and the benefit thereof will accrue to the Company. The New Shares to be issued pursuant to the Scrip Dividend Scheme will rank pari passu in all respects with the existing Shares except that they shall not rank for the Final Dividend and Special Dividend.

LETTER FROM THE BOARD

In accordance with the relevant regulations in the People's Republic of China ("PRC"), the Company understands that it is not required to withhold and pay enterprise income tax in the PRC when it distributes the Final Dividend and Special Dividend, whether in scrip form or in cash, to its non-resident enterprise shareholders.

ADVANTAGES OF THE SCRIP DIVIDEND SCHEME

The Scrip Dividend Scheme will give Shareholders the opportunity to increase their investment in the Company without incurring brokerage fee, stamp duty or dealing costs. The Scrip Dividend Scheme will also be to the advantage of the Company because, to the extent that the Shareholders do not elect to receive cash in lieu of New Shares, in whole or in part, such cash as would otherwise have been paid to Shareholders will be retained for use as working capital by the Company.

EFFECT OF THE SCRIP DIVIDEND SCHEME

Based on 151,499,036 Shares in issue as at the Record Date, if no election for New Shares is received, the total cash dividend payable by the Company would be approximately HK\$140,894,103.

Shareholders should note that the New Shares to be issued pursuant to the Scrip Dividend Scheme may give rise to notification requirements under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") for those Shareholders who may have notifiable interests (under the SFO, 5% or more interest in the issued share capital) in the Company. **Shareholders who are in any doubt as to how these provisions may affect them as a result of the New Shares arising from the Scrip Dividend Scheme are recommended to seek their own professional advice.**

DIVIDEND ELECTION FORM

A Dividend Election Form is enclosed with this document for use by Shareholders who wish to receive the Final Dividend and Special Dividend wholly in New Shares, or partly in cash and partly by the issue of New Shares, or to make a permanent election to receive new Shares in lieu of any future dividends in cash form, or to make a permanent election to receive the cash portion of the Final Dividend and Special Dividend and any future cash dividends in Hong Kong Dollars.

If you elect to receive the Final Dividend and Special Dividend wholly in the form of cash in US Dollars (or Hong Kong Dollars, if you have previously given instruction to receive cash dividend in Hong Kong Dollars), you should not complete the Dividend Election Form.

If you elect to receive the Final Dividend and Special Dividend wholly in New Shares, or partly cash and partly New Shares, or elect to receive the cash portion of the Final Dividend and Special Dividend and all future cash dividends in Hong Kong Dollars, you must use the enclosed Dividend Election Form. If you complete the Dividend Election Form but do not specify the number of existing Shares in respect of which you wish to receive New Shares under the Scrip Dividend Scheme, or if you elect to receive New Shares in respect of a greater number of Shares than your registered

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shareholding on the Record Date, you will be deemed to have exercised your election to receive New Shares in respect of all the Shares of which you were then registered as the holder. Besides, if you elect to receive New Shares in lieu of cash for the Final Dividend and Special Dividend for part of your registered shareholding, you will receive the cash portion of the Final Dividend and Special Dividend in US Dollars (or Hong Kong Dollars, if you have previously given instruction to receive cash dividend in Hong Kong Dollars).

Any Shareholder who does not wish to receive the Final Dividend and Special Dividend wholly in the form of cash or wish to elect to receive the cash portion of the Final Dividend and Special Dividend and all future cash dividends in Hong Kong Dollars must make an appropriate election on the Dividend Election Form in accordance with the instructions printed thereon and return it to the Company's Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Wednesday, 18 July 2012. No acknowledgment of receipt of the Dividend Election Form will be issued. If any Shareholder does not complete and return the Dividend Election Form by not later than 4:30 p.m. on Wednesday, 18 July 2012, the Shareholder will receive the Final Dividend and Special Dividend in the form of cash in US Dollars (or Hong Kong Dollars, if you have previously given instruction to receive cash dividend in Hong Kong Dollars).

OVERSEAS SHAREHOLDERS

The Company has made enquiries with legal counsels where its overseas Shareholders are based regarding possible legal and regulatory restrictions in allowing such overseas Shareholders to participate in the Scrip Dividend Scheme. The Directors have been advised by the relevant local counsels that the issue of scrip dividend to overseas Shareholders is not subject to or is exempted from legal restrictions or requirements. Accordingly, a copy of this document, together with the Dividend Election Form, is also sent to all overseas Shareholders whose names appear on the register of members of the Company on the Record Date, who are entitled to elect for receiving New Shares under the Scrip Dividend Scheme as set out in this document.

Shareholders who are resident in Australia (the "Australian Shareholders") should note that, according to advice obtained by the Company from local legal advisers in Australia, in some circumstances the Corporations Act 2001 (Cth) of Australia imposes certain restrictions on the on-sale of shares in Australia without a disclosure document in the 12 months following the original issue of shares in reliance on an exemption, unless an exception or exemption applies. The advice obtained indicates that ASIC Class Order [04/671] applies to create an exception. The Australian Shareholders are advised to consult their own professional advisers as to whether to elect to receive the Final Dividend and Special Dividend in scrip form or cash form and in relation to future sale of any Shares so acquired.

The issue of New Shares has not been, and will not be, registered under any applicable securities legislation and/or regulation of any territory outside Hong Kong. The participation in the Scrip Dividend Scheme by overseas Shareholders may be affected by the laws of their relevant jurisdictions. No Shareholders receiving a copy of this document and/or a Dividend Election Form in any territory outside Hong Kong may treat the same as an invitation to elect for New Shares unless in the relevant territory such invitation could lawfully be made

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to him without having to comply with any unfulfilled registration or other legal requirements. Shareholders with a registered address outside Hong Kong or otherwise resident outside Hong Kong should consult their professional advisers as to whether or not they are permitted to receive the Final Dividend and Special Dividend in the form of an issue of New Shares or if any governmental or other consent is required or other formalities need to be observed, as to the taxation consequences of their decision and as to whether there are any restrictions in relation to future sale of any Shares so acquired. Overseas Shareholders residing in a jurisdiction where it would be illegal for them to participate in the Scrip Dividend Scheme will be deemed to have received this document and/or Dividend Election Form for information only.

This document and the Dividend Election Form will not be registered in Hong Kong or in any other jurisdiction.

For the avoidance of doubt, this document and the Dividend Election Form do not constitute or form part of an offer or solicitation of any offer to buy securities of the Company to the public, and the Dividend Election Form is non-transferable.

LISTING AND DEALINGS

Application will be made to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the New Shares to be issued pursuant to the Scrip Dividend Scheme. Subject to the said application being granted by the Stock Exchange, it is expected that share certificates for the New Shares and/or cheques for cash dividend will be posted by ordinary mail to those entitled thereto at their own risk on or before Tuesday, 31 July 2012. Dealings of the New Shares on the Stock Exchange are expected to commence on 1 August 2012 after despatch to Shareholders of the certificates for the New Shares.

The primary listing of the existing Shares is on the Stock Exchange, and there is no official secondary listing of the existing Shares on any other stock exchange. No listing of, or permission to deal in, any of the existing Shares and/or New Shares on any stock exchange other than the Stock Exchange is being or is proposed to be sought.

Subject to the granting of listing of, and permission to deal in, the New Shares to be issued under the Scrip Dividend Scheme on the Stock Exchange, such New Shares will be accepted as eligible securities by Hong Kong Securities Clearing Company Limited for deposit, clearance and settlement in the Central Clearing and Settlement System. You should seek the advice of your stockbroker or other professional adviser for details of these settlement arrangements and how such settlement arrangements will affect your rights and interests.

RECOMMENDATION AND ADVICE

Whether or not it is to the Shareholders' advantages to receive New Shares or cash, in whole or in part, depends upon their own individual circumstances. The effect on the tax position of any Shareholder will depend on that Shareholder's particular circumstances. If you are in any doubt as to what to do, you should consult your professional advisers.

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Shareholders who are trustees are recommended to take professional advice as to whether the choice to receive cash or New Shares is within their powers and as to its effect having regard to the terms of the relevant trust instrument.

EXPECTED TIMETABLE

The last date on which transfers were accepted for
registration for participation in the issue of New Shares 4:30 p.m. on Wednesday,
23 May 2012

Fix the market value of a New Share
(5 trading days average) Wednesday, 27 June 2012
to Wednesday, 4 July 2012

Announcement setting out the basis of allotment of
the New Shares posted on the designated website of
HKEX and the Company's website after the close of business
on Wednesday, 4 July 2012

Latest time and date for return of
Dividend Election Form 4:30 p.m. on Wednesday, 18 July 2012

Despatch of share certificates for the New Shares
and/or cheques for cash dividend on or before Tuesday, 31 July 2012

Commencement of dealings in
the New Shares Wednesday, 1 August 2012

Yours faithfully,
LI Yinquan
Chairman

This appendix serves as an additional disclosure requirement pursuant to Rule 21.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) in connection with the listing documents of investment companies under Chapter 21 of the Listing Rules. This appendix includes particulars given in compliance with the Listing Rules for the purpose of giving information to the public with regard to the Company. The directors of the Company and the directors of the Investment Manager (as defined hereinbelow) collectively and individually accept full responsibility for the accuracy of the information contained in this appendix and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

PARTICULARS OF DIRECTORS OF THE COMPANY (THE “DIRECTORS”)

Name	Address
<i>Executive Directors:</i>	
Mr. LI Yinquan (<i>Chairman</i>)	Flat F, 30/F., Tower 13A, South Horizons, Hong Kong
Mr. HONG Xiaoyuan	Flat H, 24/F., Rich View Terrace, 26 Square Street, Sheung Wan, Hong Kong
Mr. CHU Lap Lik, Victor	Suites 2105-8, 21/F., Two Exchange Square, 8 Connaught Road Central, Hong Kong
Ms. ZHOU Linda Lei	Flat 3306, Block A, Hongway Garden, No. 8 New Market Street, Sheung Wan, Hong Kong
Mr. TSE Yue Kit	36D, Block 3, The Pacifica, 9 Sham Shing Road, Kowloon, Hong Kong
Ms. KAN Ka Yee, Elizabeth (<i>alternate to Mr. CHU Lap Lik, Victor</i>)	Suites 2105-8, 21/F., Two Exchange Square, 8 Connaught Road Central, Hong Kong
<i>Non-executive Director:</i>	
Mr. KE Shifeng	601, Block 52, No. 333 Jinxiu Road, Pudong, Shanghai, PRC
<i>Independent Non-executive Directors:</i>	
Mr. LI Kai Cheong, Samson	Flat F, 7/F., Block 1, Royal Ascot, 1 Tsun King Road, Shatin, New Territories, Hong Kong
Mr. LIU Baojie	4/F., Block 39, Baguio Villa, 555 Victoria Road, Pokfulam, Hong Kong

Name	Address
Mr. XIE Tao	24B, Merlin Champagne Town, No. 6 Liyuan Street, Tianzhu, Shunyi District, Beijing, PRC
Mr. ZHU Li	No. 701, Entrance 3, 16# Building, Dong Hua Shi Bei Li Xi Qu, Chongwen District, Beijing, PRC

Mr. LI Yinquan, aged 57, has been the Chairman and an Executive Director of the Company since July 2008. He is currently a Vice President of China Merchants Group Limited (“CMG”) and the Chairman of China Merchants Finance Holdings Company Limited, both of the companies are substantial shareholders of the Company. He is also a Director of China Merchants Holdings (International) Company Limited (its shares are listed on the Stock Exchange) and China Merchants Bank Co., Ltd. (its shares are listed on both the Shanghai Stock Exchange and the Stock Exchange). Mr. LI joined CMG in January 2000 and has served respectively as the General Manager of Finance Department, Deputy Chief Financial Officer, Chief Financial Officer and Vice President and Chief Financial Officer. Mr. LI previously worked with the Agricultural Bank of China for 14 years, where he held senior posts in various divisions and was the Deputy General Manger of Hong Kong Branch just before leaving for CMG. Mr. LI obtained a master degree in Economics from the Graduate School of the People’s Bank of China in 1986 and a master degree in Banking & Finance from the Finafrica Institute in Milan, Italy in 1988. He is also a qualified senior economist in China. Mr. LI was once honoured as “China CFO of the Year for 2005” and “China Best CIO for the Year 2006”.

Mr. HONG Xiaoyuan, aged 49, has been an Executive Director of the Company since June 2007. He is currently an Assistant President of CMG and the Managing Director of China Merchants Finance Holdings Company Limited, both of the companies are substantial shareholders of the Company. He is the Chairman of the Investment Manager. He is also a Director of China Merchants Bank Co., Ltd. (its shares are listed on both the Shanghai Stock Exchange and the Stock Exchange), China Merchants Securities Co., Ltd. (its shares are listed on the Shanghai Stock Exchange), Great Wall Securities Co., Ltd., China Credit Trust Co., Ltd. and Morgan Stanley Huaxin Fund Management Co., Ltd.; and the Chairman of China Merchants Holdings (UK) Limited, China Merchants Industry Development (Shenzhen) Limited, China Merchants Insurance Company Limited, Houlder Insurance Brokers Far East Limited and China Merchants Kunlun Equity Investment Management Co., Ltd.. Mr. HONG obtained a master degree in Economics from Peking University in 1988 and a master of science degree from The Australian National University in 1992.

Mr. CHU Lap Lik, Victor, aged 55, has been an Executive Director of the Company since June 1993 and holds directorship in the Investment Manager and a subsidiary of the Company. He is also Chairman of First Eastern Investment Group which is actively involved in direct investments in the PRC. Mr. CHU has served on the Central Policy Unit of the Hong Kong Government, the Council of the Stock Exchange, the Takeovers and Mergers Panel and the Advisory Committee of the Securities and Futures Commission. Outside of Hong Kong, Mr. CHU is a Foundation Board Member of the World Economic Forum in Geneva, a Board Member of Zurich Insurance Group and Siam Select Fund Limited. Mr. CHU took his law degree at University College London.

Ms. ZHOU Linda Lei, aged 43, has been an Executive Director of the Company since March 2008 and holds directorship in various subsidiaries of the Company. She was an Executive Director of the Company during the period from March 2002 to September 2005 and the Managing Director of the Investment Manager during the period from March 2002 to July 2005. Ms. ZHOU was re-appointed as the Managing Director of the Investment Manager in February 2008. Before joining the Investment Manager in April 2001, Ms. ZHOU worked with ASI as a Director of Business Development – Asia Pacific Region for three years and thereafter acted as a senior financial analyst and an advisor of Board of Advisory in iLink Global. Just prior to rejoining the Investment Manager in February 2008, Ms. ZHOU worked with China International Marine Containers (Group) Co., Ltd. and was responsible for leading the South America project team. Ms. ZHOU is currently a Director of China Business Network, Guangzhou Digital Media Group Ltd. and Inbank Media (China) Co., Ltd. and a Supervisor of Industrial Bank Co., Ltd.. Ms. ZHOU is also an Independent Non-executive Director of Jiangxi Shihong Co., Ltd. and China Merchants Fund Management Co., Ltd.. Ms. ZHOU has extensive experience in positioning foreign companies in China market and has actively involved with direct investments in China. Ms. ZHOU obtained her bachelor degree in Financial Accountancy from People’s (Renmin) University of China in 1989 and Master of Business Administration degree from California State University at Sonoma in 1993.

Mr. TSE Yue Kit, aged 50, has been an Executive Director of the Company since November 2000. He is also a Director of the Investment Manager. Mr. TSE is the General Manager in Direct Investment Division of China Merchants Finance Holdings Company Limited, which is a substantial shareholder of the Company. Mr. TSE has a number of years extensive experience in accounting, auditing, corporate finance as well as investment. Mr. TSE is licensed with the Securities and Futures Commission in Hong Kong as responsible officer. Mr. TSE obtained his bachelor degree with honours in Accountancy from the University of Exeter, UK.

Ms. KAN Ka Yee, Elizabeth (alternate to Mr. CHU Lap Lik, Victor), aged 54, has been an Alternate Director of the Company since May 1999. She is Managing Director of First Eastern Investment Group with which she is a founding member since its establishment in 1988. She serves on boards of various companies which include Monitise Asia Pacific Limited, Evolution Securities China Limited, Siam Select Fund Limited as well as certain subsidiaries of the Company. Ms. KAN was Deputy Managing Director and a Director of the Investment Manager from 1993 to 2006. Ms. KAN is licensed with the Securities and Futures Commission in Hong Kong. She is a Certified Public Accountant (U.S.A.) and a Fellow of the Hong Kong Institute of Certified Public Accountants. Ms. KAN is also a Member of the Hong Kong Securities Institute and a Fellow Member of the Hong Kong Institute of Directors. She began her professional career with the Hong Kong office of Arthur Andersen & Co. in the area of audit and business advisory services. Ms. KAN obtained her Bachelor of Science degree in Business Administration and Accounting and Bachelor of Arts degree in Economics from the University of Minnesota, Minneapolis, USA.

Mr. KE Shifeng, aged 46, has been a Non-executive Director of the Company since December 2009. He has 15 years investment experience. Mr. KE was employed by Martin Currie Investment Management Limited (“**Martin Currie**”) between 1997 and 2006 to provide research and investment management services to certain of its clients investing in the Greater China and Taiwan markets. He also served as a Director of Martin Currie from

February 2004 to June 2006. In 2006, Mr. KE and his partner left Martin Currie to form Heartland Capital Management Ltd. (“**Heartland**”); Heartland and Martin Currie established MC China Ltd. – a joint venture dedicated to running a range of specialist China strategies, including the China Fund Inc. (a NYSE listed company), Martin Currie China Hedge Fund and Martin Currie China A Share Fund. In November 2011, Mr. KE and his partner took over this joint venture and co-founded Open Door Capital Management. Mr. KE practiced law before moving to the Ministry of Labour and Social Security of the PRC where he had served from 1990 to 1996 and was responsible for the development of regulations and investment policies for pension funds. Mr. KE holds an MBA degree from The University of Edinburgh, UK.

Mr. LI Kai Cheong, Samson, aged 51, has been an Independent Non-executive Director of the Company since August 2008. He was the Alternate Director to Dr. The Hon. David LI Kwok-po during the period from May 1999 to August 2008. Mr. LI is the Deputy Chief Executive & Chief Investment Officer of The Bank of East Asia, Limited whose shares are listed on the Stock Exchange. Mr. LI has more than twenty years of experience specialising in fund management and securities dealing. He is also the Managing Director of East Asia Securities Company Limited, a member of the Stock Exchange, as well as a Director of various companies in broking and asset management businesses. Mr. LI has been a Member of the Listing Committee of the Stock Exchange since July 2010. Mr. LI is a Fellow of The Hong Kong Institute of Chartered Secretaries, the Institute of Chartered Secretaries & Administrators, and The Association of Chartered Certified Accountants. In addition, he is an Associate of the Hong Kong Institute of Certified Public Accountants and a Member of the Hong Kong Securities Institute. Mr. LI received his Professional Diploma in Accountancy from The Hong Kong Polytechnic University.

Mr. LIU Baojie, aged 48, has been an Independent Non-executive Director of the Company since December 2009. He has over 15 years of experience in the financial services industry. He is currently Chief Executive Officer of Huaneng Invesco WLR Investment Consulting Company Ltd., and prior to this, he had worked for two other investment management companies focusing on China investment. Before that he held various positions with financial institutions, including Bank of America, ICEA Capital Limited and J.P. Morgan, etc. Mr. LIU holds an MBA degree from University of Utah, USA.

Mr. XIE Tao, aged 48, was appointed as an Independent Non-executive Director of the Company on 28 October 2011. He is currently the Chief Executive Officer and a Director of Agria Corporation, a company listed on the New York Stock Exchange. Previously, Mr. XIE engaged in the advisory practice at PricewaterhouseCoopers for 22 years where he led the China market corporate finance practice of PricewaterhouseCoopers and served on the firm’s management board. Mr. XIE has extensive experience in China related cross-border investments, merger and acquisition and corporate restructuring. Mr. XIE is also a Director of PGG Wrightson Limited, a company listed on the New Zealand Stock Exchange; an Independent Non-executive Director of China Mengniu Dairy Company Limited, a company listed on the Stock Exchange and Tongyu Heavy Industry Ltd., a company listed on the Shenzhen Stock Exchange. Mr. XIE received his bachelor degree in Physics from Peking University and is a Member of The Association of Chartered Certified Accountants, UK.

Mr. ZHU Li, aged 63, was appointed as an Independent Non-executive Director of the Company on 28 October 2011. He is now the founding partner of Beijing Hong Lu Hao Lin Investment Management Centre (Limited Partnership). Previously, Mr. ZHU worked in the State Commission for Restructuring Economic System of the PRC from 1982 to 1992. He served as the Head of the Finance Department and the Deputy Director of the Macro System Division. During that period, he had been to Germany to study finance and learned and worked in various commercial banks. In October 1992, Mr. ZHU became the first Secretary General of the China Securities Regulatory Commission (“CSRC”) once after it was established, and served as the Deputy Chairman and Secretary General of the CSRC from August 1994. Since 1996, he had worked in various financial institutions in China, including serving as the Vice President of the Agricultural Development Bank of China, the President of China Galaxy Securities Company Limited and the Chairman of China Galaxy Financial Holdings Limited, etc. Mr. ZHU not only possesses years of experience in the financial services industry, but also has years of experience in the decision-making departments for state’s economy and finance in China. In particular, he had contributed to the establishment, regulation and development of China’s securities market during his term in the CSRC. Mr. ZHU received his bachelor degree from Beijing School of Economics.

INVESTMENT MANAGER INFORMATION

Investment Manager

Name	Address
China Merchants China Investment Management Limited (“CMCIM” or the “Investment Manager”)	1803, China Merchants Tower Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong

Directors of the Investment Manager

Name	Address
Mr. HONG Xiaoyuan	Flat H, 24/F., Rich View Terrace, 26 Square Street, Sheung Wan, Hong Kong
Mr. CHU Lap Lik, Victor	Suites 2105-8, 21/F., Two Exchange Square, 8 Connaught Road Central, Hong Kong
Ms. ZHOU Linda Lei	Flat 3306, Block A, Hongway Garden, No. 8 New Market Street, Sheung Wan, Hong Kong
Mr. NG Chi Keung	1D, Block 21, Greenwood Terrace, 26-28 Sui Wo Road, Shatin, New Territories, Hong Kong
Mr. WU Huifeng	Flat B, 12/F., Borita Building, 135-143 Third Street, Hong Kong

Name	Address
Mr. TSE Yue Kit	36D, Block 3, The Pacifica, 9 Sham Shing Road, Kowloon, Hong Kong
Mr. YAM Kam Shing	Suites 2105-8, 21/F., Two Exchange Square, 8 Connaught Road Central, Hong Kong
Ms. HO Man Yi (<i>alternate to Mr. CHU Lap Lik, Victor</i>)	Suites 2105-8, 21/F., Two Exchange Square, 8 Connaught Road Central, Hong Kong

The following are the qualification and details of the directors of the Investment Manager based on information provided by the Investment Manager:–

Mr. HONG Xiaoyuan, aged 49, has been the Chairman and a Director of the Investment Manager since June 2007. He also acts as an Executive Director of the Company. He is currently an Assistant President of CMG and the Managing Director of China Merchants Finance Holdings Company Limited, both of the companies are substantial shareholders of the Company. He is also a Director of China Merchants Bank Co., Ltd. (its shares are listed on both the Shanghai Stock Exchange and the Stock Exchange), China Merchants Securities Co., Ltd. (its shares are listed on the Shanghai Stock Exchange), Great Wall Securities Co., Ltd., China Credit Trust Co., Ltd. and Morgan Stanley Huaxin Fund Management Co., Ltd.; and the Chairman of China Merchants Holdings (UK) Limited, China Merchants Industry Development (Shenzhen) Limited, China Merchants Insurance Company Limited, Houlder Insurance Brokers Far East Limited and China Merchants Kunlun Equity Investment Management Co., Ltd.. Mr. HONG obtained a master degree in Economics from Peking University in 1988 and a master of science degree from The Australian National University in 1992.

Mr. CHU Lap Lik, Victor, aged 55, has been a Director of the Investment Manager since October 1992. He also acts as an Executive Director of the Company and holds directorship in a subsidiary of the Company. He is also Chairman of First Eastern Investment Group which is actively involved in direct investments in the PRC. Mr. CHU has served on the Central Policy Unit of the Hong Kong Government, the Council of the Stock Exchange, the Takeovers and Mergers Panel and the Advisory Committee of the Securities and Futures Commission. Outside of Hong Kong, Mr. CHU is a Foundation Board Member of the World Economic Forum in Geneva, a Board Member of Zurich Insurance Group and Siam Select Fund Limited. Mr. CHU took his law degree at University College London.

Ms. ZHOU Linda Lei, aged 43, has been the Managing Director of the Investment Manager since February 2008. She also acts as an Executive Director of the Company and holds directorship in various subsidiaries of the Company. She was an Executive Director of the Company during the period from March 2002 to September 2005 and the Managing Director of the Investment Manager during the period from March 2002 to July 2005. Ms. ZHOU was re-appointed as the Managing Director of the Investment Manager in February 2008. Before joining the Investment Manager in April 2001, Ms. ZHOU worked with ASI as a Director of Business Development – Asia Pacific Region for three years and thereafter acted as a senior financial analyst and an advisor of Board of Advisory in iLink Global. Just

prior to rejoining the Investment Manager in February 2008, Ms. ZHOU worked with China International Marine Containers (Group) Co., Ltd. and was responsible for leading the South America project team. Ms. ZHOU is currently a Director of China Business Network, Guangzhou Digital Media Group Ltd. and Inbank Media (China) Co., Ltd. and a Supervisor of Industrial Bank Co., Ltd.. Ms. ZHOU is also an Independent Non-executive Director of Jiangxi Shihong Co., Ltd. and China Merchants Fund Management Co., Ltd.. Ms. ZHOU has extensive experience in positioning foreign companies in China market and has actively involved with direct investments in China. Ms. ZHOU obtained her bachelor degree in Financial Accountancy from People's (Renmin) University of China in 1989 and Master of Business Administration degree from California State University at Sonoma in 1993.

Mr. NG Chi Keung, aged 52, has been the Deputy Managing Director of the Investment Manager since May 2006. Mr. NG is an Executive Director of First Eastern Investment Group with which he has been associated since the group's founding in 1988. Prior to joining First Eastern Investment Group, Mr. NG worked at the Jardine Freight Service Group. Mr. NG has over 20 years of experience in direct investment and merger and acquisition transactions. He has held management position with several First Eastern-related funds including China Canton Investment Limited and CMEC GE Capital China Industrial Holdings Limited. Mr. NG is a Responsible Officer licensed with the Securities and Futures Commission in Hong Kong. He obtained his MBA from the Warwick Business School, UK.

Mr. WU Huifeng, aged 38, has been a Director of the Investment Manager since February 2001. He is currently an Assistant General Manager of China Merchants Finance Holdings Company Limited, which is a substantial shareholder of the Company. He is also a Supervisor of China Merchants Securities Co., Ltd. and Morgan Stanley Huaxin Fund Management Co., Ltd. Mr. WU joined China Merchants Finance Holdings Company Limited in June 1999 and has served respectively as the General Manager of Finance & Audit Division and Human Resources Division and has held the present post since July 2008. Mr. WU previously worked with China Nanshan Development (Group) Incorporation and Shanghai Chengnan Property Development Company as finance staff before leaving for China Merchants Finance Holdings Company Limited. Mr. WU studied accountancy at the Shanghai University of Finance and Economics and obtained a bachelor degree in Economics in 1996, and completed an on-the-job master course at the National School of Economics at Peking University in 2011.

Mr. TSE Yue Kit, aged 50, has been a Director of the Investment Manager since August 2000. He also acts as an Executive Director of the Company. Mr. TSE is the General Manager in Direct Investment Division of China Merchants Finance Holdings Company Limited, which is a substantial shareholder of the Company. Mr. TSE has a number of years extensive experience in accounting, auditing, corporate finance as well as investment. Mr. TSE is licensed with the Securities and Futures Commission in Hong Kong as responsible officer. Mr. TSE obtained his bachelor degree with honours in Accountancy from the University of Exeter, UK.

Mr. YAM Kam Shing, aged 47, has been a Director of the Investment Manager since May 2006. He is also an Executive Director of the First Eastern Investment Group and Evolution Securities Asia Limited. Mr. YAM has over 20 years of experience in the finance and investment industry obtained from Bank of China Hong Kong Branch, Peregrine Investments Holdings and other institutions. In 1996 to 2000, he was a senior investment

manager in the Investment Manager. Mr. YAM received his MBA and Bachelor of Social Science from The Chinese University of Hong Kong and Second Bachelor degree in Chinese Laws from Tsinghua University in Beijing.

Ms. HO Man Yi (alternate to Mr. CHU Lap Lik, Victor), aged 48, has been an Alternate Director of the Investment Manager since May 2006. She is an Executive Director of the First Eastern Investment Group responsible for finance and administration. Prior to joining the First Eastern Investment Group in 1992, she worked for the Hong Kong office of Arthur Andersen in the area of audit and business advisory services for over 5 years and was the Financial Controller of a listed company in Hong Kong. Ms. HO has extensive direct investment experience in China, primarily in due diligence and financial accounting. She is a Fellow of The Association of Chartered Certified Accountants in the UK as well as the Hong Kong Institute of Certified Public Accountants. Ms. HO obtained her Professional Diploma in Accountancy from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University).

CMCIM is a company incorporated in Hong Kong with limited liability and a licensed corporation under the SFO authorised to carry out regulated activities of type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management). CMCIM is formed by CMG, which is a substantial shareholder of the Company, and First Eastern Investment Group. CMG is the major shareholder of CMCIM.

On 5 February 2010, an Investment Management Agreement (the “**IMA**”) was entered into between the Company and CMCIM, which was approved by the independent shareholders of the Company on 25 March 2010. The IMA became effective on 15 July 2010 and is for a fixed term ending on 31 December 2012. Under the IMA, CMCIM undertakes all investment and management duties arising pursuant to the operation of the Company and is 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 of the Company dated 15 July 1993 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. CMCIM is entitled to a management fee and a performance fee as described in the section “Fees and Expenses” below.

Save as disclosed, none of the Directors or directors of the Investment Manager or any associate of any of those persons, is or will become entitled to receive any part of any brokerage charged to the Company, or any re-allowance of other types on purchases charged to the Company.

FEES AND EXPENSES

The Company pays to CMCIM an annual management fee, payable quarterly in arrears, 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.

Conditional upon the net asset value (the “NAV”) of the Company at the end of each financial year exceeding: (a) 112% of the NAV of the Company for the immediately preceding financial year (the “Hurdle”); and (b) the higher of: (i) the NAV of the Company for the financial year of 2009 (the “Reference Year”), or (ii) the NAV of the Company of the most recent financial year after the Reference Year and in which a performance fee be paid (the “High Watermark”), the Company also pays to CMCIM an annual performance fee equal to 15% of the amount by which the NAV of the Company as at the end of the relevant financial year exceeds the higher of the Hurdle or the High Watermark.

The management fee payable to CMCIM for the year ended 31 December 2011 amounted to US\$9,869,331. No performance fee was payable to CMCIM for the year ended 31 December 2011.

INVESTMENT OBJECTIVES AND POLICY

The Company is an investment company traded on the Stock Exchange. The Company specialises in investing in China. Its investment objective is to acquire quality investments in China, principally in unlisted enterprises.

The Company may also invest not more than US\$10 million in hi-tech projects including through initial public offerings and/or pre-listing placements; and not more than 10% of the NAV of the Company in China-concept shares, “H” shares, “B” shares and any shares listed in Hong Kong provided that the main businesses or incomes of such companies are derived from the PRC including Hong Kong.

INVESTMENT RESTRICTIONS

Neither the Memorandum nor the Articles of Association of the Company contain any restrictions on the investment powers of the Company. However, under the Listing Rules relating to the listing of investment companies, certain restrictions on investments are required. In part to meet such requirements, the board of directors of the Company (the “Board”) has resolved that the Company will not:

- (a) either on its own or in conjunction with any connected person, take legal or effective management control of any company or body in which it invests nor itself own or control more than 30% (or such lower percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) of the voting of such company or body;
- (b) purchase any security or make any investment if, as a result, more than 20% of the NAV of the Company would be invested in any one company or enterprise;
- (c) invest in units or shares issued by a unit trust, mutual fund, open or closed-ended investment company or trust or other similar investment vehicle if, as a result, more than 10% of the NAV of the Company will be invested in such securities;

- (d) buy or sell commodities, precious metals, options, warrants or futures (or any contracts associated therewith), except (other than in the case of commodities and precious metals) for hedging purposes;
- (e) make loans (except for acquiring convertible debentures with a view to converting the same into the common equity of a company), provided that for the purpose of this restriction the making of shareholders loans by the Company to any investee company, the making of deposits, the acquisition of bonds, debentures, other debt securities, short term commercial paper, certificates of deposit and bankers acceptances or other debt instruments or obligations or money market instruments shall not be deemed to be the making of a loan; or
- (f) enter into any hedging transaction (not being a currency exchange transaction on a spot or forward basis) unless (i) it is covered and (ii) such transaction is in the form of an instrument traded on a recognised stock exchange or options and futures market.

The Company has to comply with investment restrictions (a) and (b) above at all times while it remains listed as an investment company under Chapter 21 of the Listing Rules.

The above limitations apply as at the date of the relevant transaction or commitment to invest. Changes in the portfolio do not have to be effected merely because owing to appreciations or depreciations in value, or by reason of the receipt of, or subscription for, any rights, bonuses or benefits in the nature of capital or of any acquisition or merger or scheme of arrangement for amalgamation, reconstruction or conversion or exchange or of any repayment or redemption, any of the limits would thereby be breached, but regard shall be had to these limits when considering changes or additions to the investment portfolio. None of the limitations will prohibit the Company from investment in wholly-owned subsidiaries for the purpose of making investments but if the Company establishes any such subsidiaries the limitations will apply on a consolidated basis.

DISTRIBUTION POLICY

Surpluses arising from the realisation of direct investments will generally not be available for distribution and will instead be reinvested. All income received by the Company after deducting expenses and provisions for the diminution in value of investments, if any, will to the extent permitted by law normally be paid out as a dividend. A portion of the distributable income may, however, at the discretion of the Board, be retained for future investment. Subject to these constraints, it is the intention of the Directors that the Company will pay dividend in July in each year.

TAXATION

Hong Kong Profits Tax is currently calculated at the rate of 16.5% on the estimated assessable profits. PRC Enterprise Income Tax in the PRC is calculated at the rates prevailing in the relevant regions.

The PRC promulgated the Law of the PRC on Enterprise Income Tax (the “**Tax Law**”) by Order No. 63 of the President of the PRC on 16 March 2007. The State Council of the PRC issued Implementation Regulations of the Tax Law and the Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax (Guo Fa [2007] No. 39) on 6 December 2007 and 26 December 2007 respectively. Accordingly, the applicable Enterprise Income Tax rate for a PRC subsidiary of the Company in 2011 is 24% and such tax rate will be increased to 25% in 2012. Other PRC incorporated entities which were incorporated after 15 March 2007, are subject to 25% tax rate for Enterprise Income Tax with effect from 1 January 2008. The applicable PRC tax rate for the Company as non-resident is 10%.

BORROWING POWER

The Articles of Association of the Company do not contain any restriction on the amount or type of borrowings by the Company. However, as a matter of policy, the Company and its subsidiaries will not borrow, or give guarantees in respect of borrowings or other obligations if, at the time of any such transaction, their aggregate liability in respect thereof would exceed 50% of the NAV of the Company and it is currently envisaged that any such borrowings would be used only for short-term funding requirements. For these purposes, back-to-back arrangements involving the deposit of one currency against the advance of another will not be treated as borrowings.

RISKS RELATING TO THE COMPANY

The Company is an investment company with the principal investment objective of achieving earnings in the form of capital appreciation through investing in a diversified portfolio of investments in listed or unlisted enterprises established and/or conducting business in Hong Kong and/or the PRC. These investments will be subject to market fluctuations and to the risks inherent in all investments. Shareholders should also be aware that the Company’s income and the NAV of the Company are liable to be adversely affected by external factors beyond the control of the Company. As a result, income of the Company and the NAV of the Company may therefore go down as well as go up, subject to the prevailing market conditions.

FOREIGN EXCHANGE POLICY AND EXCHANGE CONTROL

The investments held by the Company are denominated principally in Renminbi (“**RMB**”). It is not currently possible to hedge the RMB against the US dollar at competitive rates, nor is it the Directors’ present intention to hedge the Company’s currency exposure. However, the Directors reserve the right to enter into arrangements to hedge the Company’s currency exposure, if such arrangements become desirable in the future.

Remittance of profits out of China

The outward remittance of profits and dividends by foreign investors and the repatriation of their investments are governed by relevant regulations in China. Generally speaking, foreign investors may remit out of China dividends derived from investments in joint venture companies in China. However, remittance by foreign investors of any other amounts (including, for instance, proceeds of sale arising from a disposal by a foreign

investor of any of its investments in China) out of China may be subject to the approval of relevant regulatory authorities, and there is no certainty that such approval may be obtained at all times.

INVESTMENT PORTFOLIO

The following are the details of all listed investments and all other investments with a value of more than 5% of the Company's gross assets as at 31 December 2011 and also details of at least the ten largest investments of the Company. Save to the investments disclosed herein, there are no other listed investments and no other investments with a value of more than 5% of the Company's gross assets as at 31 December 2011.

Name of investee companies	Description of the business <i>(Note)</i>	Proportion of investee's capital owned	Investment cost <i>(US\$ million)</i>	Directors' valuation / Market value <i>(US\$ million)</i>	Dividend received during the year <i>(US\$ million)</i>	% of the Company's net assets as at year end attributable to the investments
China Merchants Bank Co., Ltd.	1	0.31%	12.53	124.01	2.96	26.00%
Industrial Bank Co., Ltd.	2	0.41%	11.55	88.60	2.71	18.58%
China Credit Trust Co., Ltd.	3	6.94%	50.49	84.62	6.41	17.74%
Guangzhou Digital Media Group Ltd.	4	21.00%	30.74	47.74	3.12	10.01%
NBA China, L.P.	5	1% preferred equity	23.00	24.79	–	5.20%
Shandong Jinbao Electronics Co., Ltd.	6	25.91%	7.85	22.87	–	4.79%
China Business Network	7	5.29%	18.10	20.90	–	4.38%
NTong Technology Co., Ltd.	8	12.34%	10.41	10.55	–	2.21%
Unibank Media Group Inc.	9	7.62%	10.98	9.72	–	2.04%
China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership)	10	10.15%	6.81	6.41	–	1.34%

Notes:

- China Merchants Bank Co., Ltd. ("CMB") is the China's first joint-stock commercial bank, with shares listed on the Shanghai Stock Exchange since 2002 and on the Stock Exchange since 2006. In addition to its network of over 880 branches and offices across China, CMB also owns 100% of

Wing Lung Bank in Hong Kong and has established a branch and a representative office in New York, the United States, and a representative office in London, the United Kingdom. In addition, a Taipei representative office was officially established on 15 March 2011.

2. Industrial Bank Co., Ltd. (“**IBC**”) is a joint-stock commercial bank incorporated in the PRC, with shares listed on the Shanghai Stock Exchange since 2007. IBC has a network of over 640 branches and offices across China.
3. China Credit Trust Co., Ltd. was established in 1995 in the PRC. Its principal activities are trust management, fund management, investments and loan financing.
4. Guangzhou Digital Media Group Ltd. was established in Guangzhou, Guangdong in 1993. It is engaged in the operation of cable television transmission and internet broadband access.
5. NBA China, L.P. is a limited liability partnership incorporated in the Cayman Islands in 2007. It has exclusive rights to operate the NBA’s businesses in the Greater China Region, including television broadcasting rights, advertising, sponsorship, events, digital media, and merchandising, among other new businesses.
6. Shandong Jinbao Electronics Co., Ltd. was established in Zhaoyuan, Shandong in 1993. It is engaged in the production and sale of copper foil and laminate.
7. China Business Network (“**CBN**”) was established in Shanghai in 2003 and is currently one of the financial information providers with the greatest breadth of media communication channels for financial information in China. CBN’s business segments include television (that is, CBN Channel and CBN | Ning Xia Satellite TV), newspapers, radio, magazines, websites, and research institutes. CBN is also actively exploring digital media.
8. NTong Technology Co., Ltd. was established in Beijing in 2002. It is principally engaged in software development, operation and maintenance of information technology systems and systems integration.
9. Unibank Media Group Inc. was established in Beijing in 2011 as an operating entity after a merger and reorganisation. It is principally engaged in commercial advertising through its video display network, located in banking service outlets in China.
10. China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) (“**China Media Investment**”) was established in Shanghai, and is the first fund in the culture and media sector approved for registration by the National Development and Reform Commission of the PRC. Total capital of RMB5 billion is expected to be raised, of which the initial capitalisation amounts to RMB2 billion. China Media Investment has an investment horizon of 10 years. The scope of investments of China Media Investment includes major projects in broadcasting and media, publishing, animation and creative media, as well as in direct investments in the culture and media sector in both China and overseas.

PROVISION FOR DIMINUTION IN VALUE OF INVESTMENTS

The following is an analysis of any provision made for diminution in value of investments of the Company as at 31 December 2011.

Name of investee company	Investment cost	Provision made	Book value	Reason for the provision
	<i>(US\$ million)</i>	<i>(US\$ million)</i>	<i>(US\$ million)</i>	
China Merchants Plaza (Shanghai) Property Co., Ltd.	5.69	5.69	–	Provision made in year 2000 due to substantial leverage, high financing costs and significant accumulated losses of the investee company