THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor.

If you have sold or transferred all your shares in **China Merchants China Direct Investments Limited**, you should at once hand this circular, together with the enclosed proxy form, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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)

POSSIBLE VERY SUBSTANTIAL DISPOSALS
RENEWAL OF THE MANDATES FOR PROPOSED DISPOSAL OF SHARES IN CHINA MERCHANTS BANK CO., LTD. AND INDUSTRIAL BANK CO., LTD.

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

Financial adviser for the continuing connected transaction to the Company

ANGLO CHINESE
CORPORATE FINANCE, LIMITED 英高

Independent financial adviser for the continuing connected transaction to the Independent Board Committee and the Independent Shareholders

CIMB

CIMB Securities Limited

A letter from the Board is set out on pages 6 to 27 of this circular. A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders is set out on pages 28 to 29 of this circular. A letter from CIMB, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 30 to 43 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at Taishan Room, Level 5, Island Shangri-La, Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong on Thursday, 29 November 2012 at 3:00 p.m. is set out on pages 83 to 85 of this circular. Whether or not you are able to attend and/or vote at the EGM in person, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return it to the registered office of the Company at 1803, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from subsequently attending and voting in person at the EGM or any adjournment thereof should you so wish.

Hong Kong, 9 November 2012

CONTENTS

Unless the context otherwise requires, the following terms in this circular shall have the meanings set out below:

"2011 Disposal Mandates"	the disposal mandates granted to the Directors by the Shareholders at the extraordinary general meeting of the Company held on 5 December 2011 to dispose of up to 65,830,102 CMB A Shares, the 14,482,622 CMB A Rights Shares estimated to be allotted and issued to the Company pursuant to the CMB A Rights Issue and up to 44,624,000 IBC A Shares held by the Group for a period of 12 months from the date of passing of the relevant resolutions, the details of which were set out in the announcement of the Company dated 27 October 2011 and the circular of the Company dated 17 November 2011
"Assets of the Company" or "Assets"	all the assets of any description of the Company wheresoever and howsoever located
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	board of Directors
"CBRC"	China Banking Regulatory Commission
"CCT Announcement"	the announcement of the Company dated 18 October 2012 in relation to the Revised Management Agreement
"CIMB"	CIMB Securities Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Revised Management Agreement, the transaction contemplated thereunder and the proposed annual caps
"CMB"	招商銀行股份有限公司 (China Merchants Bank Co., Ltd.), a joint-stock commercial bank approved by the CBRC in the PRC with limited liability, whose A and H shares are listed on the SSE and the Stock Exchange respectively
"CMB A Rights Issue"	the rights issue of CMB A Shares on the basis of up to 2.2 CMB A Rights Shares for every 10 existing CMB A Shares, the details of which were set out in the circular issued by CMB on 25 July 2011
"CMB A Rights Shares"	the new CMB A Shares proposed to be allotted and issued pursuant to the CMB A Rights Issue

"CMB A Shares"	PRC-listed domestic shares of par value of RMB1.00 each in the registered capital of CMB
"CMB Disposal Mandate"	the disposal mandate proposed to be granted by the Shareholders to the Directors to dispose all or part of the CMB Interests during the Mandate Period, the terms of which are set out in the "Letter from the Board" of this circular
"CMB Interests"	the 53,830,102 CMB A Shares held by the Company as at the Latest Practicable Date and the 11,842,622 CMB A Rights Shares estimated to be allotted and issued to the Company pursuant to the CMB A Rights Issue which are freely tradable on the SSE, representing the entire interest held by the Group in CMB
"CMCIM"	China Merchants China Investment Management Limited, a fund management company incorporated in Hong Kong with limited liability and registered under the SFO
"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)
"Companies Ordinance"	Companies Ordinance, Chapter 32 of the Laws of Hong Kong
"Conditions"	the conditions imposed by the Stock Exchange on the waiver granted by the Stock Exchange from strict compliance with Listing Rule 21.04(3)(b) in relation to the subscription for the CMB A Rights Shares to be allotted and issued to the Company pursuant to the CMB A Rights Issue as disclosed in the announcement of the Company dated 20 September 2011 in relation to the proposed subscription for the CMB A Rights Shares by the Company pursuant to the CMB A Rights Issue
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Directors"	the directors of the Company
"Disposal Announcement"	the announcement of the Company dated 18 October 2012 in relation to the Proposed Disposals
"Disposal Mandates"	the CMB Disposal Mandate and the IBC Disposal Mandate

"EGM"	the extraordinary general meeting of the Company proposed to be held on 29 November 2012 to consider and, if thought fit, to approve the transaction contemplated under the Revised Management Agreement and the proposed annual caps and to approve the grant of mandates for the Proposed Disposals, the notice of which is set out on pages 83 to 85 of this circular
"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
"Group"	the Company, its subsidiaries, jointly controlled entities and associated companies
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IBC"	興業銀行股份有限公司 (Industrial Bank Co., Ltd.), a joint-stock commercial bank approved by the CBRC in the PRC with limited liability, whose A shares are listed on the SSE
"IBC A Shares"	PRC-listed domestic shares of par value of RMB1.00 each in the registered capital of IBC
"IBC Disposal Mandate"	the disposal mandate proposed to be granted by the Shareholders to the Directors to dispose of all or part of the IBC Interests during the Mandate Period, the terms of which are set out in the "Letter from the Board" of this circular
"IBC Interests"	the 44,624,000 IBC A Shares held by the Company as at the Latest Practicable Date which are freely tradable on the SSE, representing the entire interest held by the Group in IBC
"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
"Latest Practicable Date"	6 November 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

"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
"Mandate Period"	twelve calendar months from the date of passing of the relevant resolution(s) at the EGM
"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
"Proposed CMB Disposal"	the proposed disposal of all or part of the CMB Interests by the Group pursuant to the CMB Disposal Mandate
"Proposed Disposals"	the Proposed CMB Disposal and the Proposed IBC Disposal
"Proposed IBC Disposal"	the proposed disposal of all or part of the IBC Interests by the Group pursuant to the IBC Disposal Mandate
"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
"Remaining Group"	the Group excluding its investments in the CMB Interests and/or the IBC Interests
"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
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	share(s) of US$0.10 each in the share capital of the Company
"Shareholders"	the holder(s) of the Share(s)
"SSE"	Shanghai Stock Exchange
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"US$" or "US dollar"	United States dollars, the lawful currency of United States of America
"%"	per cent

For illustrative purposes in this circular only, RMB1 = HK$1.2267, US$1 = HK$7.7588 and US$1 = RMB6.3249.

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)

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)

Non-executive Director:
Mr. KE Shifeng

Independent Non-executive Directors:
Mr. LIU Baojie
Mr. XIE Tao
Mr. ZHU Li
Mr. TSANG Wah Kwong

Registered office:
1803, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

9 November 2012

To the Shareholders

Dear Sir or Madam,

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

POSSIBLE VERY SUBSTANTIAL DISPOSALS
RENEWAL OF THE MANDATES FOR PROPOSED DISPOSAL OF SHARES IN CHINA MERCHANTS BANK CO., LTD. AND INDUSTRIAL BANK CO., LTD.

1. INTRODUCTION

Reference is made to the CCT Announcement 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.

Reference is further made to the Disposal Announcement in relation to the Proposed Disposals. It has been the known policy of the Company to dispose of the CMB Interests and the IBC Interests held by the Group in a gradual manner. In view of the imminent expiry of the 2011 Disposal Mandates on 4 December 2012, the Board proposes to seek the approval of the Shareholders at the EGM to grant fresh mandates to the Board to dispose of the CMB Interests and the IBC Interests for another 12 months from the date of the EGM.

The purpose of this circular is to provide you with further details of (i) the Revised Management Agreement, the recommendation of the Independent Board Committee, the advice of CIMB to the Independent Board Committee and the Independent Shareholders; and (ii) the Proposed Disposals, and other disclosures required under the Listing Rules, including the financial information of the CMB Interests and the IBC Interests required under Rule 14.68(2) of the Listing Rules, together with the notice convening the EGM for approving (a) the Revised Management Agreement and the proposed annual caps; and (b) the Proposed Disposals, and other information required under the Listing Rules.

2. REVISED MANAGEMENT AGREEMENT

CMCIM is the present investment manager of the Company pursuant to the Existing Management Agreement. 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 terms of the Revised Management Agreement are as follows:-

(A) **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 *(Note 1)* represented by unlisted securities or interests: 2.25% of the book value *(Note 2)* (net of taxes);

(b) on the invested portion of the Assets of the Company *(Note 3)* 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 *(Note 3)*: 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.

Note 1: Assets of the Company include all the assets of its subsidiaries, jointly controlled entities and associated companies on a consolidated basis and is thus equivalent to the Assets of the Group;

Note 2: book value represents the fair value amount; and

Note 3: invested portion of the Assets of the Company refers to the portion of the Assets of the Company invested in listed or unlisted securities or interests, whereas un-invested portion of the Assets of the Company refers to the portion of those Assets other than the invested portion of the Assets, such as cash or receivables.

Investment committee approval: Decision on any single transaction (investment or realization) 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. As at the Latest Practicable Date, the investment committee comprised Mr. LI Yinquan, Mr. HONG Xiaoyuan, Mr. CHU Lap Lik, Victor and Ms. ZHOU Linda Lei.

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.

(B) **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:

	US$
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, which was approximately US$104.2 million for the year ended 31 December 2007, 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.

(C) 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 2012 interim report 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	**2011**	**2012**
	US$	*US$*	*US$*
	(audited)	*(audited)*	*(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

(D) 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.

(E) 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 interests of the Company and the 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 the Shareholders as a whole.

In considering the fees and terms under the Revised Management Agreement, the Board has engaged a financial adviser to conduct research on the terms of broadly comparable investment companies listed in Hong Kong. Having taken into account of the financial adviser's findings and opinions, the Board considered that Revised Management Agreement was entered into on normal commercial terms that are generally in line with the market practice of investment companies listed in Hong Kong.

(F) **Principal Changes to the Existing Management Agreement and Reasons for the Changes**

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 tradable 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 tradable 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 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.

Up to present, 2009 remains the most recent year in which the performance fee was paid. The High Watermark, being the NAV of a year after 2009 in which a performance fee is payable, was first introduced under the Existing Management Agreement in July 2010. In such circumstances, 2009 is adopted as the Reference Year for consideration of the NAV to determine whether a performance fee is payable, and is considered by the Board to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(G) **Listing Rules Implication**

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.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the transaction contemplated under the Revised Management Agreement and the proposed annual caps. CIMB has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the transaction contemplated under the Revised Management Agreement and the proposed annual caps.

The Directors, excluding Mr. CHU Lap Lik, Victor and Ms. KAN Ka Yee, Elizabeth (being the alternate to Mr. CHU Lap Lik, Victor) who did not express their views due to possible conflict of interest by virtue of their beneficial interest in CMCIM, are of the view that the terms of and the transaction contemplated under the Revised Management Agreement are entered into, after arm's length negotiation, on normal commercial terms in the ordinary and usual course of business of the Company, generally in line with the market practice of investment companies listed in Hong Kong, and are fair and reasonable and in the interests of the Company and the 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. Mr. CHU Lap Lik, Victor and Ms. KAN Ka Yee, Elizabeth abstained from voting on the resolution of the Board to approve the Revised Management Agreement due to their material interest in such agreement.

3. THE PROPOSED DISPOSALS

The Company obtained the 2011 Disposal Mandates from the Shareholders to dispose of up to 65,830,102 CMB A Shares and the 14,482,622 CMB A Rights Shares estimated to be allotted and issued to the Company pursuant to the CMB A Rights Issue and up to 44,624,000 IBC A Shares held by the Group for a period of 12 months from the date of passing of the relevant resolutions at the extraordinary general meeting of the Company held on 5 December 2011. Details of the 2011 Disposal Mandates were set out in the announcement of the Company dated 27 October 2011 and the circular of the Company dated 17 November 2011.

Pursuant to the 2011 Disposal Mandates, the Company had disposed of an aggregate of 12,000,000 CMB A Shares as at the Latest Practicable Date. The Company disposed of a total of 5,500,000 CMB A Shares in June 2012, the aggregate net proceeds arising therefrom amounted to approximately RMB60.08 million. The Company further disposed of a total of 6,500,000 CMB A Shares in July 2012, the aggregate net proceeds arising therefrom amounted to approximately RMB69.56 million.

Having considered the general market conditions, the performance of IBC A Shares and the circumstances of the Company since the grant of the 2011 Disposal Mandates, the Company was of the view that no appropriate opportunity to dispose of IBC A Shares arose. Therefore, up to the Latest Practicable Date, the Company had not disposed of any IBC A Shares under the 2011 Disposal Mandates.

As at the Latest Practicable Date, 53,830,102 CMB A Shares and 44,624,000 IBC A Shares were held by the Company.

(A) **The Proposed CMB Disposal**

Maximum number of CMB A Shares to be disposed of

As at the Latest Practicable Date, the Company beneficially owned a total of 53,830,102 CMB A Shares, which are listed and freely tradable on the SSE, representing approximately 0.25% interest in the issued share capital of CMB based on publicly available information.

The Board proposes to seek the approval of the Shareholders to grant a disposal mandate to the Directors to dispose of the CMB Interests during the Mandate Period. The CMB Interests, comprising the 53,830,102 CMB A Shares held by the Company as at the Latest Practicable Date and the 11,842,622 CMB A Rights Shares estimated to be allotted and issued to the Company pursuant to the CMB A Rights Issue, represent the entire interest held by the Group in CMB.

As at the Latest Practicable Date, the Group did not have any discussion with any party to dispose of the CMB Interests. Nevertheless, the Board is of the view that it would be in the best interests of the Shareholders and the Company for the Directors to have flexibility in disposing of the CMB Interests.

After the expiry of the 2011 Disposal Mandates, if the Group proceeds with the Proposed CMB Disposal and on the assumption that all CMB A Shares held by the Group are to be disposed of, the Proposed CMB Disposal may constitute a very substantial disposal of the Company under Chapter 14 of the Listing Rules that would require compliance with the announcement, circular and shareholders' approval requirements under the Listing Rules.

Terms of the CMB Disposal Mandate

The Company proposes to seek the CMB Disposal Mandate for the Proposed CMB Disposal at the EGM on the following terms:

1. the Group will dispose of the CMB Interests in the open market through the trading system of the SSE;

2. the selling price of the CMB A Shares will be the market price of the CMB A Shares at the relevant times, where market price refers to the price allowed under the trading system of the SSE, but will not be less than RMB7.65 (equivalent to approximately HK$9.38) per CMB A Share; and

3. the disposal mandate will be for a 12-month period from the date of passing of the relevant resolution(s) at the EGM.

Basis for determining the minimum selling price

The minimum selling price of RMB7.65 was determined with reference to the net asset value per share of CMB as at 31 December 2011, which is the latest audited figure obtainable for determining the minimum selling price. The minimum selling price reflects the lowest acceptable price to dispose of the CMB A Shares but is not the expected price at which the Company targets to dispose of the CMB A Shares. The Directors will consider various factors including general market conditions, progress of making new investments and performance of existing investments of the Company in exercising the CMB Disposal Mandate.

As disclosed in the circular of the Company dated 17 November 2011, the minimum selling price for the disposal mandate for CMB A Shares obtained at the extraordinary general meeting of the Company held on 5 December 2011 was RMB7.20, which was determined on the basis of the net asset value of CMB for 2011 estimated by the Company with reference to the audited net asset value per share of CMB as at 31 December 2010 (adjusted as a result of distribution of dividend) and the average rate of return on equity of 16 PRC listed banks for the year ended 31 December 2010. Given the change in market conditions and performance of the CMB A Shares in the year 2012, if the same basis is adopted for determining the minimum selling price for the CMB Disposal Mandate this year, such price would be so high that the ability of the Directors to capture the right opportunities for disposing of CMB A Shares would be gravely hindered under volatile market conditions, which would not be in the interest of the Company and the Shareholders as a whole.

The minimum selling price for the CMB Disposal Mandate was formulated by the Company with reference to the current price-to-book ratio of certain PRC listed banks. The Company has also taken into account the current price-to-book ratio of the CMB A Shares, which is considerably lower than the price-to-book ratio of the CMB A Shares at the time of determining the terms of the 2011 Disposal Mandates. In addition, in view of the performance of CMB A Shares, the current and future market conditions and to ensure a more flexible financial position of the Company for new investment opportunities, the Board considers that the adoption of the audited net asset value of CMB as at 31 December 2011 as the current basis for determining the minimum selling price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The minimum selling price per CMB A Share of RMB7.65 represents:

— a discount of approximately 26.30% to the closing price of RMB10.38 per CMB A Share as quoted on the SSE as at 6 November 2012, being the Latest Practicable Date; and

— a discount of approximately 19.81% to the lowest closing price of RMB9.54 per CMB A Share as quoted on the SSE in the last 12 months up to and including the Latest Practicable Date.

In order to maximize efficiency for the Directors to act under the dynamic market conditions and economic situation during the one-year Mandate Period, the Directors consider that the deviation of the minimum selling price from the trading prices of the CMB A Shares as illustrated above is of strategic advantage to the Company and is in the interests of the Company and the Shareholders as a whole.

Having considered the above factors, the Directors consider that the minimum selling price of RMB7.65 per CMB A Share will allow flexibility for the Directors to accommodate fluctuations in the market conditions and enable the Directors to effectively exercise the CMB Disposal Mandate under volatile market conditions, and is thus fair and reasonable as far as the Company and the Shareholders are concerned.

Manner of disposal

The Proposed CMB Disposal will comply with all relevant laws and regulations, including any applicable trading regulations governing the Proposed CMB Disposal in the PRC.

Under the CMB Disposal Mandate proposed to be granted to the Directors, the Group may dispose of all or part of the CMB Interests on the SSE through its trading system. The Group will delegate all necessary power to CMCIM, as the investment manager of the Company, to handle all matters relating to the Proposed CMB Disposal, who will be responsible for identifying appropriate opportunities for disposing of the CMB A Shares. On the other hand, the Company will form a board committee consisting of Mr. CHU Lap Lik, Victor and Ms. ZHOU Linda Lei of the investment committee of the Company to monitor the process of execution of disposal orders. To ensure regular review and monitoring of the disposals made by CMCIM, after the sales of every 6,000,000 CMB A Shares, CMCIM will be obliged to report to the board committee and any further disposals of CMB A Shares proposed by CMCIM will be subject to approval by the board committee. All elaborations, discussions and decisions in relation to the timing, price and amount of the Proposed CMB Disposal will be kept confidential.

The Company will publish an announcement every month to disclose the number of CMB A Shares disposed of pursuant to the CMB Disposal Mandate on aggregate basis and the net proceeds arising therefrom. Further, the Company will also adjust the change in fair value of the CMB A Shares (i.e. change in fair value of financial assets at fair value through profit or loss) in the announcement of net asset value of the Company to be published every month.

Information about CMB

According to the 2011 annual report of CMB and publicly available information, CMB has over 910 branches and offices throughout the PRC. Its A shares were first listed on the SSE in 2002 and its H shares were listed on the Stock Exchange in 2006. As at 31 December 2011, CMB had a total share capital of RMB21,577 million.

From publicly available information, the Company understands that the main business activities of CMB include: provision of corporate and personal banking services, treasury businesses, and provision of asset management, trust and other financial services.

The following sets out a summary of financial information of CMB for the two years ended 31 December 2011 which were prepared under the PRC accounting standards:

	For the year ended 31 December			
	2011		2010	
	(RMB million) *(audited)*	*HK$ million* *equivalent*	*(RMB million)* *(audited)*	*HK$ million* *equivalent*
Profit before taxation	47,122	57,805	33,343	40,902
Profit after taxation	36,129	44,319	25,769	31,611
Net asset value	164,997	202,402	134,006	164,385

As at 31 December 2011, the audited consolidated net asset value attributable to the owners of CMB amounted to approximately RMB164,997 million (equivalent to approximately HK$202,402 million) and the audited net asset value per CMB A Share was RMB7.65. The Group held a 0.31% and 0.31% interest of CMB at the financial year end of 2011 and 2010 respectively. The audited net asset value attributable to the CMB A Shares held by the Group was approximately RMB511 million (equivalent to approximately HK$627 million) as at 31 December 2011. Dividend income received by the Group from CMB amounted to approximately RMB19.09 million (equivalent to approximately HK$23.42 million) in 2011 and approximately RMB26.29 million (equivalent to approximately HK$32.25 million) in 2010. The change in fair value on CMB attributable to the Group amounted to loss of approximately US$9.58 million (equivalent to approximately HK$74.33 million) in 2011 and loss of approximately US$39.86 million (equivalent to approximately HK$309.27 million) in 2010 respectively.

As disclosed in the interim results of CMB for the six months ended 30 June 2012 prepared under the PRC accounting standards, the net asset value of CMB as at 30 June 2012 was RMB181,347 million and the net asset value per share was RMB8.40.

The highest and lowest closing price of CMB A Shares as quoted on the SSE in the last 12 months up to and including the Latest Practicable Date were RMB13.10 and RMB9.54 (equivalent to approximately HK$16.07 and HK$11.70) respectively. As at the Latest Practicable Date, the closing price of CMB A Shares as quoted on the SSE was RMB10.38 (equivalent to approximately HK$12.73).

(B) **The Proposed IBC Disposal**

Maximum number of IBC A Shares to be disposed of

As at the Latest Practicable Date, the Company beneficially owned a total of 44,624,000 IBC A Shares which are listed and freely tradable on the SSE, representing approximately 0.41% interest in the issued share capital of IBC based on publicly available information.

The Board proposes to seek the approval of the Shareholders to grant a disposal mandate to the Directors to dispose of the IBC Interests during the Mandate Period. The IBC Interests, comprising the 44,624,000 IBC A Shares held by the Company as at the Latest Practicable Date, represent the entire interest held by the Group in IBC.

As at the Latest Practicable Date, the Group did not have any discussion with any party to dispose of the IBC Interests. Nevertheless, the Board is of the view that it would be in the best interests of the Shareholders and the Company for the Directors to have flexibility in disposing of the IBC interests.

After the expiry of the 2011 Disposal Mandates, if the Group proceeds with the Proposed IBC Disposal and on the assumption that all IBC A Shares held by the Group are to be disposed of, the Proposed IBC Disposal may constitute a very substantial disposal of the Company under Chapter 14 of the Listing Rules that would require compliance with the announcement, circular and shareholders' approval requirements under the Listing Rules.

Terms of the IBC Disposal Mandate

The Company proposes to seek the IBC Disposal Mandate for the Proposed IBC Disposal at the EGM on the following terms:

1. the Group will dispose of the IBC Interests in the open market through the trading system of the SSE;

2. the selling price of the IBC A Shares will be the market price of the IBC A Shares at the relevant times, where market price refers to the price allowed under the trading system of the SSE, but will not be less than RMB10.68 (equivalent to approximately HK$13.10) per IBC A Share; and

3. the disposal mandate will be for a 12-month period from the date of passing of the relevant resolution(s) at the EGM.

Basis for determining the minimum selling price

The minimum selling price of RMB10.68 was determined with reference to the net asset value per share of IBC as at 31 December 2011, which is the latest audited figure obtainable for determining the minimum selling price. The minimum selling price reflects the lowest acceptable price to dispose of the IBC A Shares but is not the expected price at which the Company targets to dispose of the IBC A Shares. The Directors will consider various factors including general market conditions, progress of making new investments and performance of existing investments of the Company in exercising the IBC Disposal Mandate.

As disclosed in the circular of the Company dated 17 November 2011, the minimum selling price for the disposal mandate for IBC A Shares obtained at the extraordinary general meeting of the Company held on 5 December 2011 was RMB10.00, which was determined on the basis of the net asset value of IBC for 2011 estimated by the Company with reference to the audited net asset value per share of IBC as at 31 December 2010 (adjusted as a result of distribution of dividend) and the average rate of return on equity of 16 PRC listed banks for the year ended 31 December 2010. Given the change in market conditions and performance of the IBC A Shares in the year 2012, if the same basis is adopted for determining the minimum selling price for the IBC Disposal Mandate this year, such price would be so high that the ability of the Directors to capture the right opportunities for disposing of IBC A Shares would be gravely hindered under volatile market conditions, which would not be in the interests of the Company and the Shareholders as a whole.

The minimum selling price for the IBC Disposal Mandate was formulated by the Company with reference to the current price-to-book ratio of certain PRC listed banks. The Company has also taken into account the current price-to-book ratio of the IBC A Shares, which is considerably lower than the price-to-book ratio of the IBC A Shares at the time of determining the terms of the 2011 Disposal Mandates. In addition, in view of the performance of IBC A Shares, the current and future market conditions and to ensure a more flexible financial position of the Company for new investment opportunities, the Board considers that the adoption of the audited net asset value of IBC as at 31 December 2011 as the current basis for determining the minimum selling price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The minimum selling price per IBC A Share of RMB10.68 represents:

— a discount of approximately 15.97% to the closing price of RMB12.71 per IBC A Share as quoted on the SSE as at 6 November 2012, being the Latest Practicable Date; and

— a discount of approximately 7.85% to the lowest closing price of RMB11.59 per IBC A Share as quoted on the SSE in the last 12 months up to and including the Latest Practicable Date.

In order to maximize efficiency for the Directors to act under the dynamic market conditions and economic situation during the one-year Mandate Period, the Directors consider that the deviation of the minimum selling price from the trading prices of the IBC A Shares as illustrated above is of strategic advantage to the Company and is in the interests of the Company and the Shareholders as a whole.

Having considered the above factors, the Directors consider that the minimum selling price of RMB10.68 per IBC A Share will allow flexibility for the Directors to accommodate fluctuations in the market conditions and enable the Directors to effectively exercise the IBC Disposal Mandate under volatile market conditions, and is thus fair and reasonable as far as the Company and the Shareholders are concerned.

Manner of disposal

The Proposed IBC Disposal will comply with all relevant laws and regulations, including any applicable trading regulations governing the Proposed IBC Disposal in the PRC.

Under the IBC Disposal Mandate proposed to be granted to the Directors, the Group may dispose of all or part of the IBC Interests on the SSE through its trading system. The Group will delegate all necessary power to CMCIM, as the investment manager of the Company, to handle all matters relating to the Proposed IBC Disposal, who will be responsible for identifying appropriate opportunities for disposing of the IBC A Shares. On the other hand, the Company will form a board committee consisting of Mr. HONG Xiaoyuan and Mr. CHU Lap Lik, Victor of the investment committee of the Company to monitor the process of execution of disposal orders. To ensure regular review and monitoring of the disposals made by CMCIM, after the sales of every 4,000,000 IBC A Shares, CMCIM will be obliged to report to the board committee and any further disposals of IBC A Shares proposed by CMCIM will be subject to approval by the board committee. All elaborations, discussions and decisions in relation to the timing, price and amount of the Proposed IBC Disposal will be kept confidential.

The Company will publish an announcement every month to disclose the number of IBC A Shares disposed of pursuant to the IBC Disposal Mandate on aggregate basis and the net proceeds arising therefrom. Further, the Company will also adjust the change in fair value of the IBC A Shares (i.e. change in fair value of financial assets at fair value through profit or loss) in the announcement of net asset value of the Company to be published every month.

Information about IBC

According to the 2011 annual report of IBC and publicly available information, IBC has over 670 branches and offices throughout the PRC. As at 31 December 2011, IBC had a total share capital of RMB10,786 million. From publicly available information, the Company understands that the main business activities of IBC include: taking deposits from the public; granting short, medium and long-term loans; handling domestic and international settlements; handling bills and notes acceptances and discounting; issuing financial bonds; acting as agent for the issue and encashment of and underwriting government bonds; trading government bonds and financial bonds; acting as agent for the issue of quoted securities other than stocks; trading quoted securities other than stocks, either on its own behalf or on behalf of clients; asset custody business; engaging in inter-bank lendings and borrowings; trading foreign currencies, either on its own behalf or on behalf of clients; providing foreign exchange services; engaging in credit card business; providing letters of credit and guarantees services; engaging in agency collections and payments as well as insurance agency business; providing safe deposit box services; providing financial consultancy, credit investigations, advisory and attestation services; finance leasing; trust business; trust related services and other businesses approved by the CBRC.

The following sets out a summary of financial information of IBC for the two years ended 31 December 2011 which were prepared under the PRC accounting standards:

	For the year ended 31 December			
	2011		2010	
	(RMB million) (audited)	*HK$ million equivalent*	*(RMB million) (audited)*	*HK$ million equivalent*
Profit before taxation	33,664	41,296	24,005	29,447
Profit after taxation	25,505	31,287	18,521	22,720
Net asset value	115,209	141,327	91,995	112,850

As at 31 December 2011, the audited consolidated net asset value attributable to the owners of IBC amounted to approximately RMB115,209 million (equivalent to approximately HK$141,327 million) and the audited net asset value per IBC A Share was RMB10.68. The Group held a 0.41% and 0.83% interest of IBC at the financial year end of 2011 and 2010 respectively. The audited net asset value attributable to the IBC A Shares held by the Group was approximately RMB472 million (equivalent to approximately HK$579 million) as at 31 December 2011. Dividend income received by the Group from IBC amounted to approximately RMB17.50 million (equivalent to approximately HK$21.47 million) in 2011 and RMB21.68 million (equivalent to approximately HK$26.59 million) in 2010. The change in fair value on IBC attributable to the Group amounted to loss of approximately US$5.84 million (equivalent to approximately HK$45.31 million) in 2011 and loss of approximately US$91.90 million (equivalent to approximately HK$713.03 million) in 2010 respectively.

As disclosed in the interim results of IBC for the six months ended 30 June 2012 prepared under the PRC accounting standards, the net asset value of IBC as at 30 June 2012 was RMB129,722 million and the net asset value per share was RMB12.03.

The highest and lowest closing price of IBC A Shares as quoted on the SSE in the last 12 months up to and including the Latest Practicable Date were RMB14.68 and RMB11.59 (equivalent to approximately HK$18.01 and HK$14.22) respectively. As at the Latest Practicable Date, the closing price of IBC A Shares as quoted on the SSE was RMB12.71 (equivalent to approximately HK$15.59).

(C) **Reasons for and Benefits of the Proposed Disposals**

As stated in the 2012 interim report of the Company, the Group will continue to make every effort to identify new investment projects, while maintaining an emphasis on investment opportunities in consumer goods (with particular focus on consumer-oriented projects in second and third tier cities), culture and media, advanced manufacturing, non-traditional financial services, energy and agriculture. The Group will also continually seek to optimize its mix of investments in order to create greater shareholder value. The proceeds from the Proposed Disposals (if the CMB Disposal Mandate or the IBC Disposal Mandate is exercised in part or in full) are intended to be applied to present and future investments of the Group and will put the Group in a better and more flexible financial position to take advantage of current and future investment opportunities should they arise.

In exercising the CMB Disposal Mandate and the IBC Disposal Mandate, apart from the opportunities and progress of making new investments, the Directors will also consider the performance of CMB A Shares, IBC A Shares and other investments of the Company, the latest development and circumstances of CMB and IBC, general market conditions as well as the macroeconomic environment of the PRC in general.

Upon approval of the CMB Disposal Mandate by the Shareholders, the Company will prioritize its efforts to satisfy the Conditions to dispose of the CMB A Shares within 6 months from the completion of the CMB A Rights Issue such that its CMB Interests no longer exceed 20% of the NAV within the stipulated time frame, while taking into account general market conditions, progress of making new investments and performance of CMB A Shares, IBC A Shares and other investments of the Company.

The Directors (including independent non-executive Directors) consider that the Proposed Disposals represent a good opportunity to increase the cash flow of the Company. The Directors consider that the Proposed Disposals will be conducted in the best interests of the Company and the Shareholders as a whole and the CMB Disposal Mandate and the IBC Disposal Mandate will give flexibility to the Directors to dispose of the CMB Interests and the IBC Interests at the appropriate times and prices in order to maximize returns to the Group.

The Directors (including independent non-executive Directors) are of the view that the CMB Disposal Mandate and the IBC Disposal Mandate under the Proposed Disposals are fair and reasonable and in the interests of the Shareholders as a whole, after considering the business fundamentals of CMB and IBC, prevailing market sentiments and conditions, and the financial needs of the Group.

(D) **Financial Effects of the Proposed Disposals**

As at the Latest Practicable Date, the CMB Interests accounted for approximately 19.52% of the NAV based on the Company's unaudited consolidated accounts as at 30 September 2012. Based on the carrying amount of the CMB Interests held by the Company as at 31 December 2011 which was US$101.41 million (equivalent to approximately HK$786.82 million) and the minimum selling price of RMB7.65 (equivalent to approximately HK$9.38), the expected realized accounting loss on the disposal of the CMB Interests is US$36.30 million (equivalent to approximately HK$281.64 million).

As at the Latest Practicable Date, the IBC Interests accounted for approximately 19.12% of the NAV based on the Company's unaudited consolidated accounts as at 30 September 2012. Based on the carrying amount of the IBC Interests as at 31 December 2011 which was US$88.60 million (equivalent to approximately HK$687.43 million) and the minimum selling price of RMB10.68 (equivalent to approximately HK$13.10), the expected realized accounting loss on the disposal of the IBC Interests is US$13.25 million (equivalent to approximately HK$102.80 million).

Based on the unaudited pro forma financial information of the Remaining Group in respect of the Proposed CMB Disposal and the Proposed IBC Disposal as set out in Appendix II to this circular, it is believed that the Proposed Disposals would not have any material adverse effects on the total assets and total liabilities of the Group.

The Shareholders should note that the actual amounts of proceeds, accounting gain or loss and effects on the net assets and earnings of the Group depend on the actual selling price of the CMB A Shares and the IBC A Shares disposed of by the Group pursuant to the Disposal Mandates.

Apart from making monthly announcements to disclose the number of the CMB A Shares and the IBC A Shares disposed of pursuant to the Disposal Mandates and the proceeds arising therefrom, the Company will also disclose the same in the interim report and annual report of the Company.

(E) **Implications under the Listing Rules**

If the Group proceeds with the Proposed CMB Disposal and the Proposed IBC Disposal after the expiry of the 2011 Disposal Mandates, the aggregate of all the shares to be disposed of under the Proposed Disposals may constitute a very substantial disposal of the Company under Chapter 14 of the Listing Rules. The Proposed Disposals would then be subject to the requirements of announcement, circular and the Shareholders' approval under the Listing Rules. The Board thus proposes to seek the Shareholders' approval of the CMB Disposal Mandate and the IBC Disposal Mandate.

In the event that the Group finds out that the counterparty is a connected person before disposing of the CMB Interests and/or the IBC Interests, the Group will strictly follow the announcement, reporting, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

4. EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at Taishan Room, Level 5, Island Shangri-La, Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong on Thursday, 29 November 2012 at 3:00 p.m. at which resolutions will be proposed to the Shareholders to consider and, if thought fit, to approve (a) the Revised Management Agreement and the proposed annual caps; and (b) the Proposed Disposals, is set out on pages 83 to 85 of this circular.

In accordance with Rule 13.39(4) of the Listing Rules, votes for the resolution at the EGM shall be taken by poll. An announcement of the poll results of the EGM will be published on the date of the EGM or the business day following the EGM.

CMCIM is owned as to 55% by China Merchants Finance Holdings Company Limited and as to 45% by Victor Chu China Investment Limited, which is majority owned by Mr. CHU Lap Lik, Victor. As at the Latest Practicable Date, the associates of China Merchants Finance Holdings Company Limited collectively held 26.91% in the Company, whereas Victor Chu China Investment Limited and/or its associates held 2.04% 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 are regarded as having material interests in the transaction contemplated under the Revised Management Agreement and shall abstain from voting at the EGM.

To the best of the knowledge and belief of the Directors having made all reasonable enquiry, no Shareholder has a material interest in the matters which are the subject of the Proposed Disposals such that it must abstain from voting, and, accordingly, all Shareholders are permitted to vote at the EGM on the resolution to approve the Proposed Disposals.

5. ACTION TO BE TAKEN

A form of proxy for use at the EGM is also enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's registered office at 1803, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

6. GENERAL INFORMATION

The Company is an investment company, the Shares of which are listed on the Main Board of the Stock Exchange. 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.

Whether the Company decides to proceed with the Proposed Disposals (or not to proceed) will depend on a number of factors including without limitation prevailing market sentiments and market conditions at the proposed time of executing the Proposed Disposals. The decision will also be subject to compliance by the Company with all applicable requirements under the Listing Rules. While the Company currently intends to proceed with the Proposed Disposals after the applicable requirements under the Listing Rules are complied with, it should be emphasized that save for the disposal of further CMB A Shares to the extent that the interest of the Group in CMB would not exceed 20% of the NAV within 6 months from the completion of the CMB A Rights Issue as part of the Conditions, there is no assurance that the Company will necessarily proceed with any part of the Proposed Disposals. **The Shareholders and other public investors of the Company are therefore advised to exercise extreme caution when dealing in the Shares.**

The Proposed CMB Disposal and the Proposed IBC Disposal are independent of each other and not inter-conditional.

7. RECOMMENDATION

Your attention is drawn to the letters from the Independent Board Committee and CIMB set out on pages 28 to 29 and pages 30 to 43 of this circular, respectively. The Independent Board Committee, having taken into account the advice of CIMB, considers that the terms of the Revised Management Agreement and the proposed annual caps are fair and reasonable so far as the interests of the Independent Shareholders are concerned, and that the entering into of the Revised Management Agreement is on normal commercial terms and in the ordinary and usual course of business of the Company and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Directors, excluding Mr. CHU Lap Lik, Victor and Ms. KAN Ka Yee, Elizabeth (being the alternate to Mr. CHU Lap Lik, Victor) who did not express their views due to possible conflict of interest by virtue of their beneficial interest in CMCIM, recommend that all Independent Shareholders should vote in favour of the relevant resolution to be proposed at the EGM.

Further, the Directors consider that the Proposed Disposals are fair and reasonable and will be conducted in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including all the independent non-executive Directors) recommends the Shareholders to vote in favour of the relevant resolutions as set out in the notice of the EGM.

8. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By Order of the Board
ZHOU Linda Lei
Director

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)

9 November 2012

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular of the Company dated 9 November 2012 (the "**Circular**") to the Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the terms of the Revised Management Agreement and the proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned.

CIMB has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of transaction contemplated under the Revised Management Agreement and the proposed annual caps.

Your attention is drawn to the "Letter from the Board" set out on pages 6 to 27 of the Circular which contains, inter alia, information about the terms of the Revised Management Agreement and the proposed annual caps, and the "Letter from CIMB" set out on pages 30 to 43 of the Circular which contains its advice in respect of the transaction contemplated under the Revised Management Agreement and the proposed annual caps together with the principal factors taken into consideration in arriving at such.

Having considered the terms of the Revised Management Agreement and having taken into account the factors and reasons considered by and the advice of CIMB, we consider that the entering into of the Revised Management Agreement is on normal commercial terms and in the ordinary and usual course of business of the Company. We also consider that the terms of the Revised Management Agreement and the proposed annual caps are fair and reasonable so far as the interests of the Independent Shareholders are concerned and that the entering into of the Revised Management

Agreement is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the transaction contemplated under the Revised Management Agreement and the proposed annual caps.

Yours faithfully,
LIU Baojie **XIE Tao** **ZHU Li** **TSANG Wah Kwong**
Independent Board Committee

Set out below is the text of the letter of advice from CIMB, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, prepared for the purpose of inclusion in this circular.

CIMB Securities Limited

Units 7706-08, Level 77
International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

9 November 2012

To the Independent Board Committee and the Independent Shareholders of
China Merchants China Direct Investments Limited

Dear Sirs,

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

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Revised Management Agreement and the proposed annual caps (the "**Proposed Annual Caps**") for the continuing connected transaction contemplated under the Revised Management Agreement during the Management Period commencing on 1 January 2013 and ending on 31 December 2015, details of which are contained in a circular of the Company (the "**Circular**") to the Shareholders dated 9 November 2012, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

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 investment manager of the Company for the Management Period from 1 January 2013 to 31 December 2015. CMCIM, as the investment manager of the Company, 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 a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Proposed Annual Caps exceed 5% on an annual basis, the Revised Management Agreement and the transaction contemplated thereunder and the Proposed Annual Caps are subject to the reporting, announcement and the Independent Shareholders' approval requirements under the Listing Rules.

CMCIM is owned as to 55% and 45% by China Merchants Finance Holdings Company Limited and Victor Chu China Investment Limited, respectively. Given that the associates of China Merchants

Finance Holdings Company Limited collectively held 26.91% interests in the Company and Victor Chu China Investment Limited and/or its associates collectively held 2.04% interests in the Company as at the Latest Practicable Date, the respective associates of China Merchants Finance Holdings Company Limited and Victor Chu China Investment Limited and/or its respective associates are deemed to have material interests in the transaction contemplated under the Revised Management Agreement and thus shall abstain from voting at the EGM.

The Independent Board Committee comprising Mr. LIU Baojie, Mr. XIE Tao, Mr. ZHU Li and Mr. TSANG Wah Kwong, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to (i) the terms of the Revised Management Agreement and the transaction contemplated thereunder; and (ii) the Proposed Annual Caps.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts provided, and the opinions expressed by the Directors and the management of the Company and contained or referred to in the Circular. The Directors have declared in a responsibility statement set out in Appendix IV to the Circular that they collectively and individually accept full responsibility for the accuracy of the information in respect of the Group contained in the Circular.

We consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules including the notes thereto to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the information and facts contained or referred to in the Circular, the information provided by the Company and our review of relevant public information. We have also assumed that the information, facts and representations contained or referred to in the Circular were true and accurate at the time they were made and up to the date of the EGM. We have not, however, conducted an independent verification of the information nor have we conducted any form of investigation into the businesses and affairs or the prospects of the Company, CMCIM, or any of their respective subsidiaries or associates. We have no reason to doubt the truth, accuracy and completeness of the information, facts and representations provided and represented to us by the Company. We have also been advised by the Company and believe that no material facts have been omitted from the Circular.

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion, we have considered the following principal factors and reasons:

(I) *Background and reasons for entering into of the Revised Management Agreement*

The Company is an investment company listed on the Stock Exchange under Chapter 21 of the Listing Rules and 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. CMCIM has provided investment management services to the Company since 15 July 1993 according to the investment management agreement dated 15 July 1993 for a period from 15 July 1993 (being the date of the Prospectus) to 14 July 2010 and the Existing Management Agreement dated 5 February 2010 for a period from 15 July 2010 to 31 December 2012. As the Existing Management Agreement will expire on 31 December 2012, the Company entered into the Revised Management Agreement with CMCIM on 18 October 2012 to re-appoint CMCIM as the investment manager of the Company for the Management Period from 1 January 2013 to 31 December 2015.

Pursuant to the Revised Management Agreement, 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.

Given the above, we are of the view that the entering into of the Revised Management Agreement by the Company with CMCIM and the continuing connected transaction contemplated thereunder fall within the ordinary and usual course of business of the Group.

(II) ***Background of CMCIM***

As stated in the letter from the Board of the Circular (the "**Letter from the Board**"), CMCIM, as a fund management company, has provided investment management services to the Company since 15 July 1993. CMCIM is responsible for identifying and researching prospective investments for the Company and the Board is responsible for formulating the Company's overall investment strategy and guidelines that CMCIM shall follow in making investments.

The Board is of the view that it would be in the interests of the Company and the Shareholders as a whole to continue 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, according to the management of the Company, 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 the Shareholders as a whole.

Given the above, together with our discussion with the Company in relation thereto, we concur with the view of the management of the Company that it is in the interests of the Company and the Shareholders as a whole to continue such business relationship with CMCIM by entering into of the Revised Management Agreement.

(III) ***Major terms of the Revised Management Agreement***

Major terms of the Revised Management Agreement and our analysis thereof are set out below:

(i) *Remuneration and payment*

As stipulated in the Revised Management Agreement, the Company will pay to CMCIM an annual management fee and an annual performance fee in US dollars (or the HKD or RMB equivalent of the same) which shall be determined on the following basis:

Remuneration	**Basis**	**Payment**
Management fee	Equal to the aggregate of: (a) on the invested portion of the Assets of the Company represented by unlisted securities or interests: 2.25% of the book value (net of taxes); (b) on the invested portion of the Assets of the Company represented by securities listed on a recognized stock exchange: (i) during the Lockup Period following listing: 2.25% of the book value (net of taxes); (ii) for the one year after the Lockup Period lapses: 1.75% of the book value (net of taxes); (iii) thereafter: 1.50% of the book value (net of taxes); and (iv) in respect of listed securities purchased from the secondary market: 1.50% of the book value (net of taxes); and (c) on the un-invested portion of the Assets of the Company: 0.75% of the book value, in each case as at the last day of the relevant Quarter.	Such fee shall be payable 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.

Remuneration	Basis	Payment
Performance fee	Equal to 8% of the amount by which the NAV of the Company as at the end of the relevant financial year (as Adjusted *Note*) exceeds the High Watermark (as defined below), conditional upon the NAV as at the end of each financial year (as Adjusted *Note*) exceeding the higher of: (a) the NAV for the Reference Year, being the year ended 31 December 2009; or (b) the NAV of the most recent financial year after the Reference Year and in which a performance fee was paid (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.

Note:

The Revised Management Agreement stipulates that, for the purpose of calculating the performance fee, 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).

To assess the fairness and reasonableness of the above remuneration package, we have, to the best of our knowledge, conducted a research of the remuneration packages adopted by (i) investment companies that are listed on the Stock Exchange under Chapter 21 of the Listing Rules (the "**Chapter 21 Companies**"); and (ii) companies that are listed on the Stock Exchange under Chapter 20 of the Listing Rules (the "**Chapter 20 Companies**") which are of similar nature to the Company and the remuneration packages of which include both management fee (excluding that of a fixed amount) and performance fee given that the remuneration package under the Revised Management Agreement includes both a management fee and a performance fee.

Based on such selection criteria, we note that there are 9 Chapter 21 Companies which, in our view, have remuneration packages that are comparable with that of the Company. We did not identify any Chapter 20 Companies based on our selection criteria. Details of the remuneration packages granted by the Comparable Companies are summarized as below.

Company	Stock code	Net asset value (approximately)	Management fee basis	Performance fee basis
China Assets (Holdings) Ltd. ("**China Assets**")	170	US$157.4 million (equivalent to HK$1,227.7 million [Note])	(i) 2.75% per annum on the aggregate cost to China Assets of the investment (less any provisions in respect thereof) held by it from time to time; and (ii) 1% per annum on the value of the un-invested net assets, representing net asset value of China Assets less the aggregate cost of investments made by China Assets	Aggregate of (a) return on net assets performance bonus (based on the followings: (i) Nil on the first 10% return on net assets of China Assets; (ii) 15% x (net profit after tax minus 10% of net assets of China Assets) on the next 10% return on net assets; and (iii) 20% x (net profit after tax minus 20% of net assets of China Assets) on the excess over 20% return on net assets), and (b) 20% of the net capital gains if the net asset value of China Assets as at the quarter day would be equal to or greater than 100% of the aggregate of the original subscription price of all outstanding shares in China Assets
China New Economy Fund Ltd. ("**CNEF**")	80	HK$243.7 million	2% per annum of the net asset value of CNEF on each valuation date as defined in the agreement and payable monthly in arrears	20% of the net increase in the net asset value per share on the immediately preceding valuation date, above the previous highest net asset value per share on any preceding valuation date in respect of which a performance fee was last paid (or where no performance fee has been paid, the aggregate placing price of the shares subscribed at the listing date) multiplied by the number of shares in issue at the time of calculating the performance fee

Company	Stock code	Net asset value (approximately)	Management fee basis	Performance fee basis
Opes Asia Development Ltd. ("**Opes**")	810	HK$106.2 million	2% per annum of the net asset value of Opes on each valuation date as defined in the agreement and payable monthly in arrears	15% of any net appreciation (after deduction of the management fee but prior to deduction of the performance fee) in the net asset value of Opes on the immediately preceding valuation date above the previous net asset value of Opes on any preceding valuation date in respect of which a performance fee was last paid (or where no performance fee has been paid, the net asset value on any valuation date on 30 June or 31 December (as the case may be) whichever is immediately before the commencement of the agreement). In any cases, no performance fee shall be payable if the net asset value per share is less than HK$0.0595
Harmony Asset Ltd. ("**Harmony**")	428	HK$253.6 million	1.5% per annum on the net asset value of Harmony of the preceding month and payable monthly	10% of the audited net profit of a financial year (before accrual of the incentive fee)
OP Financial Investments Ltd. ("**OP**")	1140	HK$1,538.2 million	1.5% per annum on the net asset value of OP as at the immediately preceding valuation date as defined in the agreement	10% of the increase in the net asset value per share as at the valuation date
China Financial International Investments Limited ("**CFII**")	721	HK$694.1 million	0.75% per annum of the market value of the portfolio on the last business day of each calendar month	5% of the appreciation in the market value of the portfolio above 10% hurdle rate per annum
Shanghai International Shanghai Growth Investment Limited ("**Shanghai International**")	770	US$20.1 million (equivalent to HK$156.8 million [Note])	0.5% of the net asset value of Shanghai International calculated on the last business day of the previous quarter (equivalent to 2% per annum)	20% of the excess amount by which the net asset value of Shanghai International as at December 31 2012 exceeding 108% of the net asset value of Shanghai International as at December 31 2011

Company	Stock code	Net asset value (approximately)	Management fee basis	Performance fee basis
UBA Investments Ltd ("**UBA**")	768	HK$103.1 million	1.5% per annum of the consolidated net asset value of UBA as at the immediately preceding valuation date and payable monthly	20% of net profit of UBA before taxation and before deduction of the management fee
SHK Hong Kong Industries Ltd. ("**SHK**")	666	HK$1,131.0 million	1.5% per annum of the consolidated net asset value attributable to the owners of SHK and payable quarterly	20% of the amount by which the audited consolidated net asset value attributable to the owners of SHK of each year ending 31 December exceeds the audited consolidated net asset value attributable to the owners of SHK as at the end of the latest financial year in which a performance fee has been paid
the Company	133	US$447.5 million (equivalent to HK$3,490.5 million [Note])	Equal to the aggregate of: (a) on the invested portion of the Assets of the Company represented by unlisted securities or interests: 2.25% of the book value (net of taxes); (b) on the invested portion of the Assets of the Company represented by securities listed on a recognized stock exchange: (i) 2.25% of the book value (net of taxes) during the lockup period following listing; (ii) 1.75% of the book value (net of taxes) for the one year after the lockup period lapses; (iii) 1.50% of the book value (net of taxes) thereafter; (iv) 1.50% of the book value (net of taxes) in respect of listed securities purchased from the secondary market; 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	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 (as defined above), subject to the conditions above

Note: based on the exchange rate of US$1: HK$7.8.

(a) *Management fee analysis*

In respect of the un-invested portion of the Assets of the Company, the calculation basis of the management fee payable by the Company to CMCIM remains the same as that under the Existing Management Agreement (i.e. 0.75% per annum of the book value of the Company's un-invested Assets).

In respect of the invested portion of the Assets of the Company, the calculation basis of the management fee payable by the Company to CMCIM is revised to the effect that CMCIM will charge (i) 2.25% per annum of the book value (net of taxes) on the invested Assets represented by unlisted securities/interests; (ii) a declining charging rate from 2.25% to 1.50% per annum of the book value (net of taxes) on the invested Assets represented by listed securities depending on the lockup period; and (iii) 1.50% per annum of the book value (net of taxes) on the invested Assets represented by listed securities purchased from the secondary market. For details of the management fee structure under the Revised Management Agreement, please refer to the table above.

We have discussed with the management of the Company about the introduction of the declining management fee structure for the invested Assets represented by listed securities and understand that according to the investment objectives of the Company as stated in the Prospectus, the Company is proposing to acquire investments in China which are expected to be principally in unlisted enterprises and the Company will realize its investments mainly by the sale of investments upon or after their listing or by the sale of investments to other joint venture partners or co-investors. After taking into account the less involvement by CMCIM in the management of the investee companies which subsequently become listed, it is agreed between the parties that the management fee for such invested Assets should be reduced gradually and eventually to the same level charged by CMCIM on the invested Assets represented by listed securities purchased from the secondary market.

We note that the management fee charged on the invested portion is based on the book value (net of taxes) of the Company's invested Assets. We have discussed with the management of the Company in respect of the basis for calculation of the management fee under the Revised Management Agreement and understand that under the assumption of no borrowings, the sum of invested and un-invested Assets of the Company is equivalent to the net asset value of the Company. The Company further advised that (i) the Company currently has no bank or other borrowings; and (ii) given the proceeds arising from the disposal of shares in China Merchants Bank Co., Ltd. and Industrial Bank Co., Ltd., it is unlikely for the Company to borrow additional money for investment over the Management Period.

Based on our review of the management fee structure of the Comparable Companies, we note that investment managers of the Comparable Companies usually charge a management fee rate (the "**Management Fee Rate Range**") ranging from 1.00% to 2.75% per annum based on net asset value.

Given that the management fee rates under the Revised Management Agreement fall within the Management Fee Rate Range, we consider the basis of the management fee under the Revised Management Agreement is fair and reasonable.

(b) *Performance fee analysis*

The Revised Management Agreement provides a performance fee rate of 8% and the adoption of the high watermark provision for determination of the performance fee.

We have compared the performance fee basis adopted by the Comparable Companies with that of the Company and note that the performance fee basis of the Comparable Companies varies with different structures. Out of the 9 Comparable Companies, three companies (namely CNEF, Opes and SHK) have adopted high watermark provision (i.e. performance fee will only be paid if the net asset value at end of the relevant year is higher than (i) the net asset value as at the end of the latest financial year in which a performance fee has been paid; and (ii) the net asset value as at a specific date), while the performance fee for the remaining 6 Comparable Companies are calculated with reference to either profit for the relevant year or increase in net asset value but without requiring the net asset value to exceed the amount at the end of the relevant year in which a performance fee is paid.

We also note that the performance fee of the Comparable Companies is calculated based on a charging rate ranging from 10% to 20%. The performance fee rate of 8% under the Revised Management Agreement is lower than that for the Comparable Companies.

We note that the Company uses the NAV as at 31 December 2009 as a reference point in its high watermark provision. As advised by the Company, 31 December 2009 is the most recent year end in which a performance fee was paid by the Company to CMCIM. In this regard, we consider that the Company's use of the NAV as at 31 December 2009 as a reference point in its high watermark provision is in line with the spirit of the Revised Management Agreement.

Having considered the above, in particular (i) the remuneration package in the market varies with different structures; and (ii) the management fee rates under the Revised Management Agreement fall within the Management Fee Rate Range and the performance fee rate under the Revised Management Agreement is lower than that for the Comparable Companies, we concur with the view of the management of the Company that the remuneration basis adopted by the Company is in line with the market practice and thus is fair and reasonable as far as the Company and the Shareholders are concerned.

(ii) *Investment committee approval*

Same as that under the Existing Management Agreement, the Revised Management Agreement stipulates that decision on any single transaction (investment or realization) of an investment amount of over US$20 million will be subject to the approval of the investment committee of the Company as authorized by the Board from time to time.

We have discussed with the Company on the basis of the approval threshold and understand that it was arrived at after taking into account (i) the net asset value of the Company for each of the five years ended 31 December 2011 and the nine months ended 30 September 2012; and (ii) a percentage threshold of 5% which represents the Company's threshold for "significance". Having considered that the investment committee approval threshold represents less than 5% of the unaudited net asset value of the Company as at 30 September 2012, we are of the view that the investment committee approval threshold is reasonable.

(iii) *Term of appointment*

The Revised Management Agreement provides that the appointment of CMCIM is for a fixed term commencing on 1 January 2013 and ending on 31 December 2015, conditional upon the approval by the Independent Shareholders at the EGM in accordance with the requirements of the Listing Rules.

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 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.

Given that (i) the initial fixed term does not exceed three years and the renewal of the Revised Management Agreement shall be conditional upon compliance with the Listing Rules; and (ii) the importance of the continuity of management services provided by investment managers to investment companies, we consider that the term of the Revised Management Agreement is fair and reasonable and is on normal commercial terms.

Our view

Having considered the above, we are of the view that the major terms of the Revised Management Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

(IV) ***Proposed Annual Caps***

Set out below are the details of (i) the historical transaction amount in respect of the continuing connected transaction contemplated under the Existing Management Agreement for each of the two years ended 31 December 2011 and the six months ended 30 June 2012; and (ii) the Proposed Annual Caps for each of the three years ending 31 December 2015:

Transaction	**Historical transaction amount**			**Proposed Annual Caps**		
	For the year ended 31 December		**For the six months ended 30 June**	**For the year ending 31 December**		
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
	US$	*US$*	*US$*	*US$*	*US$*	*US$*
	(audited)	*(audited)*	*(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**	**76,000,000**	**78,500,000**	**81,000,000**

In assessing the fairness and reasonableness of the Proposed Annual Caps, we have reviewed and discussed the calculation of the Proposed Annual Caps with the management of the Company and understand that 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 fee rates under the Revised Management Agreement. Since the Company became listed on the Stock Exchange in 1993, CMCIM was entitled to performance fees under the previous investment management agreement for the financial years 2006, 2007 and 2009 only, 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 significantly 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 fee rates under the Revised Management Agreement for determining the Proposed Annual Caps.

We note that while the Proposed Annual Caps for each of the three years ending 31 December 2015 represent a significant increase as compared with the transaction amount for each of the two years ended 31 December 2011 and the six months ended 30 June 2012 on a pro-rata basis, the Proposed Annual Caps for each of the three years ending 31 December 2015 represent only approximately 62.8%, 64.8% and 66.9% of the actual remuneration paid by the Company to CMCIM with an amount of approximately US$121.1 million for the year ended 31 December 2007.

We also note that the net asset appreciation/depreciation of the Company fluctuated significantly in recent years. The Company recorded the net asset value appreciation/(depreciation) of approximately 78.8%, (18.5)%, (2.2)% and (7.4)% for the years ended 31 December 2009, 31 December 2010, 31 December 2011 and the nine months ended 30 September 2012, respectively.

Given the above, in particular that the Company's net asset value is subject to the prevailing market sentiment and the market volatility in the Hong Kong and the PRC markets, we concur with the management's view that it is appropriate to take into account the potential increase in the total remuneration payable should the high side performance is achieved when determining the Proposed Annual Caps. In assessing the reasonableness of such cap amounts, we have performed some hypothetical calculations and note that in the event that the aggregate book value of the Company's assets grows at a compound annual growth rate of 50-60%, the remuneration payable by the Company under the Revised Management Agreement will be close to the Proposed Annual Cap in 2015. Accordingly, we are of the view that the basis adopted by the management of the Company in determining the Proposed Annual Caps is fair and reasonable so far as the Company and the Shareholders are concerned.

However, the Shareholders should note that (i) the Proposed Annual Caps relate to future events and represent an estimation only of the Company in respect of the transaction amounts to be incurred as a result of the continuing connected transaction contemplated under the Revised Management Agreement; (ii) the actual management fees and performance fees payable by the Company to CMCIM in the coming three years shall be determined based on the pre-determined formula as elaborated above pursuant to the Revised Management Agreement; and (iii) the actual transaction amounts of the continuing connected transaction in the coming three years may not correspond with the Proposed Annual Caps.

(V) ***Requirement by the Listing Rules regarding the continuing connected transaction contemplated under the Revised Management Agreement***

As required by the Listing Rules, for each financial year of the Company over the term of the Revised Management Agreement, the continuing connected transaction contemplated under the Revised Management Agreement shall be subject to the annual review by the independent non-executive Directors and the Company's auditors as required by Rules 14A.37 and 14A.38 of the Listing Rules, respectively. In particular, each year, the independent non-executive Directors must confirm that the relevant continuing connected transaction has been entered into:

- in the ordinary and usual course of business of the Company;

- either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether it is on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

- in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Furthermore, each year, the Company's auditors must provide a letter to the Board confirming that the relevant continuing connected transaction:

- has received the approval of the Board;

- is in accordance with the pricing policies of the Company if the transaction involves provision of goods or services by the Company;

- has been entered into in accordance with the relevant agreement governing the transaction; and

- has not exceeded the cap disclosed in the previous announcement(s).

Given the above, we consider that there exist appropriate procedures and arrangements to ensure that the relevant continuing connected transaction will be conducted on terms pursuant to the Revised Management Agreement.

RECOMMENDATION

Having considered the principal factors and reasons referred to in the above, in particular,

— the nature of the continuing connected transaction under the Revised Management Agreement;

— the remuneration basis stipulated in the Revised Management Agreement is fair and reasonable;

— the basis of the determination of the Proposed Annual Caps, which is mainly made by reference to the historical transaction amounts, is fair and reasonable; and

— there exist appropriate procedures and arrangements to ensure that the investment and management services to be provided by CMCIM will be conducted on terms pursuant to the Revised Management Agreement,

we are of the opinion that (i) the continuing connected transaction contemplated under the Revised Management Agreement is in the ordinary and usual course of business of the Group; (ii) the Revised Management Agreement is in the interests of the Company and the Shareholders as a whole; (iii) the terms of the Revised Management Agreement are on normal commercial terms and fair and reasonable so far as the Company and the Shareholders are concerned; and (iv) the Proposed Annual Caps are fair and reasonable so far as the Company and the Shareholders are concerned.

Therefore, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Revised Management Agreement and the continuing connected transaction contemplated thereunder and the Proposed Annual Caps.

Yours faithfully,
For and on behalf of
CIMB Securities Limited

Alex Lau	**Heidi Cheng**
Director	*Director*

1. UNAUDITED FINANCIAL INFORMATION ON THE CMB INTERESTS

The following unaudited financial information of the CMB Interests has been prepared by the Group based on information shown in the underlying books and records of the Group for the three years ended 31 December 2009, 2010, 2011 and the six months ended 30 June 2012.

	Year ended 31 December			Six months ended 30 June
	2009	**2010**	**2011**	**2012**
	US$	*US$*	*US$*	*US$*
Gains/(losses) recognized in the statements of comprehensive income in relation to the CMB Interests:				
Dividend income	590,565	3,174,210	2,417,195	3,912,482
Gains/(losses) arising from change in the fair value of the CMB Interests	62,250,128	(32,593,129)	(7,835,046)	(8,110,286)
Deferred taxation	(15,524,004)	8,206,807	1,958,762	2,027,970
Carrying amount recognized in the statements of financial position in relation to the CMB Interests	125,508,080	104,121,220	101,408,261	92,938,183

2. UNAUDITED FINANCIAL INFORMATION ON THE IBC INTERESTS

The following unaudited financial information of the IBC Interests has been prepared by the Group based on information shown in the underlying books and records of the Group for the three years ended 31 December 2009, 2010, 2011 and the six months ended 30 June 2012.

	Year ended 31 December			Six months ended 30 June
	2009	**2010**	**2011**	**2012**
	US$	*US$*	*US$*	*US$*
Gains/(losses) recognized in the statements of comprehensive income in relation to the IBC Interests:				
Dividend income	1,505,140	1,597,603	2,709,343	2,233,848
Gains/(losses) arising from change in the fair value of the IBC Interests	77,657,065	(45,861,328)	(5,842,506)	3,397,012
Deferred taxation	(21,361,026)	11,465,613	1,460,792	(849,253)
Carrying amount recognized in the statements of financial position in relation to the IBC Interests	121,870,325	89,990,232	88,597,857	91,648,209

For the accounting policies in relation to the CMB Interests and the IBC Interests, please refer to "Notes to the Financial Statements" in the annual reports of the Company for the financial years 2009, 2010 and 2011 and in the interim report of the Company for the six months ended 30 June 2012 as published on the websites of the Company (www.cmcdi.com.hk) and the Stock Exchange (www.hkexnews.hk).

In accordance with paragraph 14.68(2)(b)(i) of the Listing Rules, the Directors have engaged Deloitte Touche Tohmatsu, the auditor of the Company, to perform certain factual finding procedures in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The auditor has agreed the unaudited financial information of the CMB Interests and the IBC Interests to the records provided by the management of the Group and reported the factual findings to the Directors. The work performed by Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and, consequently, no assurance has been expressed by Deloitte Touche Tohmatsu on the unaudited financial information.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP (EXCLUDING ITS INVESTMENTS IN THE CMB INTERESTS)

The unaudited pro forma financial information of the Remaining Group (excluding its investments in the CMB Interests) comprises an unaudited pro forma consolidated net assets statement as at 30 June 2012 and an unaudited pro forma consolidated statement of comprehensive income for the six months ended 30 June 2012 and the accompanying notes (collectively referred to as the "**Unaudited CMB Pro Forma Financial Information**").

For illustrative purposes only, the Unaudited CMB Pro Forma Financial Information prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules is set out below to illustrate the effect of the Proposed CMB Disposal on (i) the consolidated net assets of the Group as at 30 June 2012 as if the Proposed CMB Disposal had taken place on 30 June 2012; and (ii) the consolidated statement of comprehensive income of the Group for the six months ended 30 June 2012 as if the Proposed CMB Disposal had taken place on 1 January 2012.

The Unaudited CMB Pro Forma Financial Information has been prepared based on the unaudited consolidated financial statements of the Group for the six months ended 30 June 2012, after making pro forma adjustments relating to the Proposed CMB Disposal that are directly attributable to the Proposed CMB Disposal and are factually supportable.

The Unaudited CMB Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only and, because of its hypothetical nature, it does not give a true picture of the actual financial position or results of the Group that would have been attained had the Proposed CMB Disposal actually occurred. In addition, the Unaudited CMB Pro Forma Financial Information is not intended to predict the Group's future financial position or results following the completion of the Proposed CMB Disposal.

Unaudited Pro Forma Financial Information of the Remaining Group (excluding its investments in the CMB Interests)

1A. ***Unaudited Pro Forma Consolidated Net Assets Statement***

	The Group as at 30 June 2012	Pro forma adjustments	The Pro forma Remaining Group (excluding its investments in the CMB Interests)
	Note (i)	*Note (ii)*	
	US$	*US$*	*US$*
	(unaudited)		*(unaudited)*
Non-current assets			
Interest in associates	22,421,835		22,421,835
Financial assets at fair value through profit or loss	234,471,491		234,471,491
Available-for-sale financial assets	721,823		721,823
	257,615,149		257,615,149
Current assets			
Financial assets at fair value through profit or loss	199,352,274	(92,938,183)	106,414,091
Other receivables	5,845,702		5,845,702
Bank balances and cash	88,377,936	92,938,183	181,316,119
	293,575,912		293,575,912
Current liabilities			
Other payables	21,538,613	3,935,305	25,473,918
Dividend payable	18,179,884		18,179,884
Taxation payable	6,563,015	19,676,526	26,239,541
	46,281,512		69,893,343
Net current assets	247,294,400		223,682,569
Total assets less current liabilities	504,909,549		481,297,718

	The Group as at 30 June 2012	Pro forma adjustments	The Pro forma Remaining Group (excluding its investments in the CMB Interests)
	Note (i)	*Note (ii)*	
	US$	*US$*	*US$*
	(unaudited)		*(unaudited)*
Non-current liabilities			
Financial liabilities at fair value through profit or loss	1,289,546		1,289,546
Deferred taxation	56,131,741	(19,676,526)	36,455,215
	57,421,287		37,744,761
NET ASSETS	447,488,262		443,552,957

1B. ***Unaudited Pro Forma Consolidated Statement of Comprehensive Income***

	The Group for the six months ended 30 June 2012	**Pro forma adjustments**	**The Pro forma Remaining Group (excluding its investments in the CMB Interests)**
	Note (iii)	*Note (iv)*	
	US$	*US$*	*US$*
	(unaudited)		*(unaudited)*
Change in fair value of financial assets at fair value through profit or loss	(10,326,989)	8,110,286	(2,216,703)
Investment income	12,899,645	(3,912,482)	8,987,163
Other gains and losses	186,987		186,987
Administrative expenses	(5,671,605)	(4,356,178)	(10,027,783)
Share of results of associates	(91,072)		(91,072)
Loss before taxation	(3,003,034)		(3,161,408)
Taxation	(6,431,998)	(2,027,970)	(8,459,968)
Loss for the period attributable to owners of the Company	(9,435,032)		(11,621,376)
Basic loss per share for the Proposed CMB Disposal	(0.062)		(0.0767)
Diluted loss per share for the Proposed CMB Disposal	(0.062)		(0.0761)

Notes to the Unaudited Pro Forma Financial Information of the Remaining Group (excluding its investments in the CMB Interests):

(i) The amounts are based on the unaudited consolidated statement of financial position of the Group as at 30 June 2012, which are extracted from the interim report of the Company for the six months ended 30 June 2012.

(ii) The adjustments represent the disposal of the CMB Interests in cash. The CMB Interests were assumed to be sold for a total consideration of US$92,938,183 (representing the fair value (the quoted market closing bid price) of the CMB Interests as of 30 June 2012 (i.e. 53,830,102 shares multiplied by US$1.73 per share)). The previously recognized non-current deferred tax liability of US$19,676,526, which was calculated based on the fair value of the CMB Interests at the Enterprise Income Tax rate of 25%, was reversed to the profit or loss and a current tax liability of US$19,676,526 was provided and recognized in the profit or loss based on the estimated realized taxable gain on the disposal of the CMB Interests at the Enterprise Income Tax rate of 25%. A business tax liability of US$3,935,305 was provided and recognized in the profit or loss based on the estimated realized taxable gain on the disposal of the CMB Interests at the Business Tax rate of 5% and classified as other payables in the unaudited CMB pro forma consolidated net assets statement.

On 16 March 2007, 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. 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 is 25% in 2012.

(iii) The amounts are based on the unaudited consolidated statement of comprehensive income of the Group for the six months ended 30 June 2012, which is extracted from the interim report of the Company for the six months ended 30 June 2012.

(iv) The adjustments represent:

(a) the exclusion of fair value loss on investment in the CMB Interests of US$8,110,286 during the six months ended 30 June 2012 assuming the CMB Interests were disposed of on 1 January 2012 for a total consideration of US$101,408,261 (representing the fair value (the quoted market closing bid price) of the CMB Interests as of 31 December 2011 (i.e. 53,830,102 shares multiplied by US$1.88 per share));

(b) the reversal of dividend income and deferred tax at the amount of US$3,912,482 and US$2,027,970 respectively, for the six months ended 30 June 2012 in relation to the CMB Interests, as if the Proposed CMB Disposal were completed on 1 January 2012; and

(c) the provision of business tax liability of US$4,356,178 at the Business Tax rate of 5% on the estimated realized taxable gain on the disposal of the CMB Interests.

(v) Since the actual amounts of consideration to be received from the Proposed CMB Disposal may be substantially different from the amounts used in the preparation of the Unaudited CMB Pro Forma Financial Information, the actual gain/loss and cash to be received from the Proposed CMB Disposal may be different from those amounts shown in the Unaudited CMB Pro Forma Financial Information.

(vi) No pro forma adjustment on management fee is included as the Board considered the effect of management fee of the Proposed CMB Disposal would have no material impact on the Unaudited CMB Pro Forma Financial Information of the Remaining Group (excluding its investments in the CMB Interests).

(vii) The pro forma adjustments mentioned above, except for the cease of dividend income, will not have any continuing effect on the Remaining Group (excluding its investments in the CMB Interests).

1C. ***Accountants' Report on Unaudited CMB Pro Forma Financial Information***

TO THE DIRECTORS OF CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

We report on the unaudited pro forma financial information of China Merchants China Direct Investments Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the possible very substantial disposal of shares in China Merchants Bank Co., Ltd. might have affected the financial information presented, for inclusion in Section 1 of Appendix II to the circular dated 9 November 2012 (the "**Circular**"). The basis of preparation of the unaudited pro forma financial information is set out in Section 1 of Appendix II to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at 30 June 2012 or any future date; or
- the results of the Group for the six months ended 30 June 2012 or any future period.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
9 November 2012

2. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP (EXCLUDING ITS INVESTMENTS IN THE IBC INTERESTS)

The unaudited pro forma financial information of the Remaining Group (excluding its investments in the IBC Interests) comprises an unaudited pro forma consolidated net assets statement as at 30 June 2012 and an unaudited pro forma consolidated statement of comprehensive income for the six months ended 30 June 2012 and the accompanying notes (collectively referred to as the "**Unaudited IBC Pro Forma Financial Information**").

For illustrative purposes only, the Unaudited IBC Pro Forma Financial Information prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules is set out below to illustrate the effect of the Proposed IBC Disposal on (i) the consolidated net assets of the Group as at 30 June 2012 as if the Proposed IBC Disposal had taken place on 30 June 2012; and (ii) the consolidated statement of comprehensive income of the Group for the six months ended 30 June 2012 as if the Proposed IBC Disposal had taken place on 1 January 2012.

The Unaudited IBC Pro Forma Financial Information has been prepared based on the unaudited consolidated financial statements of the Group for the six months ended 30 June 2012, after making pro forma adjustments relating to the Proposed IBC Disposal that are directly attributable to the Proposed IBC Disposal and are factually supportable.

The Unaudited IBC Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only and, because of its hypothetical nature, it does not give a true picture of the actual financial position or results of the Group that would have been attained had the Proposed IBC Disposal actually occurred. In addition, the Unaudited IBC Pro Forma Financial Information is not intended to predict the Group's future financial position or results following the completion of the Proposed IBC Disposal.

Unaudited Pro Forma Financial Information of the Remaining Group (excluding its investments in the IBC Interests)

2A. ***Unaudited Pro Forma Consolidated Net Assets Statement***

	The Group as at 30 June 2012	**Pro forma adjustments**	**The Pro forma Remaining Group (excluding its investments in the IBC Interests)**
	Note (i)	*Note (ii)*	
	US$	*US$*	*US$*
	(unaudited)		*(unaudited)*
Non-current assets			
Interest in associates	22,421,835		22,421,835
Financial assets at fair value through profit or loss	234,471,491		234,471,491
Available-for-sale financial assets	721,823		721,823
	257,615,149		257,615,149
Current assets			
Financial assets at fair value through profit or loss	199,352,274	(91,648,209)	107,704,065
Other receivables	5,845,702		5,845,702
Bank balances and cash	88,377,936	91,648,209	180,026,145
	293,575,912		293,575,912
Current liabilities			
Other payables	21,538,613	3,711,393	25,250,006
Dividend payable	18,179,884		18,179,884
Taxation payable	6,563,015	18,556,964	25,119,979
	46,281,512		68,549,869
Net current assets	247,294,400		225,026,043
Total assets less current liabilities	504,909,549		482,641,192

	The Group as at 30 June 2012	**Pro forma adjustments**	**The Pro forma Remaining Group (excluding its investments in the IBC Interests)**
	Note (i)	*Note (ii)*	
	US$	*US$*	*US$*
	(unaudited)		*(unaudited)*
Non-current liabilities			
Financial liabilities at fair value through profit or loss	1,289,546		1,289,546
Deferred taxation	56,131,741	(18,556,964)	37,574,777
	57,421,287		38,864,323
NET ASSETS	447,488,262		443,776,869

2B. ***Unaudited Pro Forma Consolidated Statement of Comprehensive Income***

	The Group for the six months ended 30 June 2012	**Pro forma adjustments**	**The Pro forma Remaining Group (excluding its investments in the IBC Interests)**
	Note (iii)	*Note (iv)*	
	US$	*US$*	*US$*
	(unaudited)		*(unaudited)*
Change in fair value of financial assets at fair value through profit or loss	(10,326,989)	(3,397,012)	(13,724,001)
Investment income	12,899,645	(2,233,848)	10,665,797
Other gains and losses	186,987		186,987
Administrative expenses	(5,671,605)	(3,555,557)	(9,227,162)
Share of results of associates	(91,072)		(91,072)
Loss before taxation	(3,003,034)		(12,189,451)
Taxation	(6,431,998)	849,253	(5,582,745)
Loss for the period attributable to owners of the Company	(9,435,032)		(17,772,196)
Basic loss per share for the Proposed IBC Disposal	(0.062)		(0.117)
Diluted loss per share for the Proposed IBC Disposal	(0.062)		(0.116)

Notes to the Pro Forma Financial Information of the Remaining Group (excluding its investments in the IBC Interests):

(i) The amounts are based on the unaudited consolidated statement of financial position of the Group as at 30 June 2012, which are extracted from the interim report of the Company for the six months ended 30 June 2012.

(ii) The adjustments represent the disposal of the IBC Interests in cash. The IBC Interests were assumed to be sold for a total consideration of US$91,648,209 (representing the fair value (the quoted market closing bid price) of the IBC Interests as of 30 June 2012 (i.e. 44,624,000 shares multiplied by US$2.05 per share)). The previously recognized non-current deferred tax liability of US$18,556,964, which was calculated based on the fair value of the IBC Interests at the Enterprise Income Tax rate of 25%, was reversed to the profit or loss and a current tax liability of US$18,556,964 was provided and recognized in the profit or loss based on the estimated realized taxable gain on the disposal of the IBC Interests at the Enterprise Income Tax rate of 25%. A business tax liability of US$3,711,393 was provided and recognized in the profit or loss based on the estimated realized taxable gain on the disposal of the IBC Interests at the Business Tax rate of 5% and classified as other payables in the unaudited IBC pro forma consolidated net assets statement.

On 16 March 2007, 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. 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 is 25% in 2012.

(iii) The amounts are based on the unaudited consolidated statement of comprehensive income of the Group for the six months ended 30 June 2012, which are extracted from the interim report of the Company for the six months ended 30 June 2012.

(iv) The adjustments represent:

(a) the exclusion of fair value gain on investment in the IBC Interests of US$3,397,012 during the six months ended 30 June 2012 assuming the IBC Interests were disposed of on 1 January 2012 for a total consideration of US$88,597,857 (representing the fair value (the quoted market closing bid price) of the IBC Interests as of 31 December 2011 (i.e. 44,624,000 shares multiplied by US$1.99 per share));

(b) the reversal of dividend income and deferred tax at the amount of US$2,233,848 and US$849,253 respectively, for the six months ended 30 June 2012 in relation to the IBC Interests, as if the Proposed IBC Disposal were completed on 1 January 2012; and

(c) the provision of business tax liability of US$3,555,557 at the Business Tax rate of 5% on the estimated realized taxable gain on the disposal of the IBC Interests.

(v) Since the actual amounts of consideration to be received from the Proposed IBC Disposal may be substantially different from the amounts used in the preparation of the Unaudited IBC Pro Forma Financial Information, the actual gain/loss and cash to be received from the Proposed IBC Disposal may be different from those amounts shown in the Unaudited IBC Pro Forma Financial Information.

(vi) No pro forma adjustment on management fee is included as the Board considered the effect of management fee of the Proposed IBC Disposal would have no material impact on the Unaudited IBC Pro Forma Financial Information of the Remaining Group (excluding its investments in the IBC Interests).

(vii) The pro forma adjustments mentioned above, except for the cease of dividend income, will not have any continuing effect on the Remaining Group (excluding its investments in the IBC Interests).

2C. ***Accountants' Report on Unaudited IBC Pro Forma Financial Information***

TO THE DIRECTORS OF CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

We report on the unaudited pro forma financial information of China Merchants China Direct Investments Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the possible very substantial disposal of shares in Industrial Bank Co., Ltd. might have affected the financial information presented, for inclusion in Section 2 of Appendix II to the circular dated 9 November 2012 (the "**Circular**"). The basis of preparation of the unaudited pro forma financial information is set out in Section 2 of Appendix II to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at 30 June 2012 or any future date; or
- the results of the Group for the six months ended 30 June 2012 or any future period.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
9 November 2012

The information in this appendix in respect of the additional information on the Remaining Group was based on the financial statements set out in the interim report of the Company for the six months ended 30 June 2012.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL COMMITMENTS

The Remaining Group's cash on hand decreased by 8%, from US$95.82 million at the end of last year to US$88.38 million as of 30 June 2012, primarily due to capital contributions to Guangxi Hwagain Group Co., Ltd. and China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership) ("**China Media Investment**") during the period.

As of 30 June 2012, the Remaining Group had no outstanding bank loans (31 December 2011: Nil).

As of 30 June 2012, the Remaining Group had capital commitments of US$46.48 million (31 December 2011: US$50.58 million) for investments that were approved, but not yet provided for in the financial statements — specifically, for future payments related to the investment in China Media Investment, the investment in Esurfing Media Co., Ltd., and the subscription for the convertible bonds of NTong Technology Co., Ltd., contingent on request.

CAPITAL STRUCTURE OF THE REMAINING GROUP

The capital structure of the Remaining Group is equity attributable to the shareholders of the Company, comprising issued capital, reserves and retained profits as disclosed in the statement of changes in equity in the 2011 annual report of the Company. The capital structure of the Remaining Group remained unchanged throughout the six months ended 30 June 2012.

The treasury policy of the Remaining Group is to fund its operations by internal resources. As at 30 June 2012, (i) the Remaining Group had not incurred any borrowings to fund its operations; (ii) the Remaining Group held cash in HK$, RMB and US$; (iii) the Remaining Group had not used any financial instruments for hedging purposes; and (iv) none of the net investments in foreign currency (in RMB and US$) are hedged by currency borrowings or other hedging instruments.

PROSPECTS

In the first half of 2012, according to preliminary figures published by the National Bureau of Statistics of China on the condition of the national economy, gross domestic product (GDP) reached RMB22.7098 trillion, representing growth of 7.8% based on comparable prices. Growth was 8.1% in the first quarter and 7.6% in the second quarter — the slowest growth of the past 13 quarters, and a reflection of the most challenging macroeconomic conditions China has seen since the recent financial crisis. In response, the Central Government has focused its efforts on stabilising growth for the year. In particular, stabilizing growth has recently been given higher priority than stabilising prices, which has led to an increasing pace of policy interventions. These changes in monetary policy have been signaled especially through a series of actions that included changes in deposit reserve ratios and an interest rate reduction.

Slowing growth in China was primarily due to slowing growth in demand. In the first half of 2012, China's exports shrank. The main cause was the influence of the global environment: global economic growth remained weak, the potential threat to the global economy posed by the European debt crisis increased, and uncertainty and instability in the global economy seemed to prevail. In addition, some deep-rooted issues in the US economy are far from being solved. Investment growth in China also slowed during the first half of 2012, due to a rapid reduction in investment from the Central Government, combined with a deceleration in real estate investment. The expectations of many enterprises have also changed as market prices have come down, and as excessive inventory levels have led to a contraction in procurement demand. Consumption growth has also declined slightly, as the automobile and housing markets cooled. Demand growth retreated broadly, and based on the strong correlation between demand and three primary drivers (i.e. consumption, investment and foreign trade) of economic growth, it is expected that economic growth in China will continue to slow over the coming quarters. These macroeconomic conditions pose a challenge to the Remaining Group's return on investment, but they also prompt us to seek investment opportunities with unique advantages in new and innovative fields, or in industry segments.

The Remaining Group will continue to make every effort to identify new investment projects, while maintaining an emphasis on investment opportunities in consumer goods (with particular focus on consumer-oriented projects in second and third tier cities), culture and media, advanced manufacturing, non-traditional financial services, energy and agriculture. The Remaining Group will also continually seek to optimize its mix of investments in order to create greater shareholder value.

SIGNIFICANT INVESTMENTS OF THE REMAINING GROUP

The Remaining Group searches for and screens many investment opportunities and has made capital investments in the culture and media and agriculture sectors.

Bazhou Chengtian Cotton Co., Ltd.

On 26 July 2012, the Remaining Group completed its investment in Bazhou Chengtian Cotton Co., Ltd ("**Chengtian**") with an amount of US$4.73 million and holds a 6.25% equity interest in the enlarged capital of Chengtian.

Chengtian's current principal business include acquisition of unginned cotton and cotton-seed; processing of unginned cotton; wholesale and retail of ginned cotton, cotton by-product, cotton linter, cotton-seed; processing and sale of cotton-seed oil, cotton-seed husk, cotton-seed meal, cotton-seed protein; cultivation and sale of cotton, jujube, fruits, animal forage and other crops. Chengtian also intends to extend its business to the husbandry, slaughter and processing of cattle and sheep.

Chengtain has restructured and converted it into a joint-stock limited company in August 2012 and its name has changed to "Xinjiang Chengtian Agriculture & Animal Husbandry Development Co., Ltd.". It also plans to make an application to list its shares by the second half of 2013.

Esurfing Media Co., Ltd.

On 20 August 2012, the Remaining Group completed its investment in Esurfing Media Co., Ltd. ("**Esurfing**") with an amount of US$16.07 million and holds a 5.37% equity interest in the enlarged capital of Esurfing.

Esurfing's principal business is to provide platform services for mobile videos and online videos.

Esurfing has continually benefited from the rapid development of the 3G mobile phone and internet market in China, and expects to meet its 2012 target in both the growth in number of users and the operating performance.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Remaining Group had not undertaken any material acquisition or disposal of subsidiaries or associated companies in the course of the current financial year from 1 January 2012 up to the Latest Practicable Date.

SEGMENT INFORMATION

The following table shows the direct investment projects held by the Remaining Group as at 30 June 2012:

Name of projects	Location of headquarters	Business nature	Listed (Stock Exchange) / unlisted	Carrying value	Percentage of total assets
				(US$ million)	*%*
Financial Services:					
1. China Merchants Bank Co., Ltd.	Shenzhen, Guangdong	Banking	Shanghai Stock Exchange	104	18.90
2. Industrial Bank Co., Ltd.	Fuzhou, Fujian	Banking	Shanghai Stock Exchange	92	16.63
3. China Credit Trust Co., Ltd.	Beijing	Trust management	Unlisted	105	19.06
4. China Media (Tianjin) Investment Management Co., Ltd.	Tianjin	Fund management	Unlisted	1	0.13
			Sub-total:	302	54.72
Culture and Media:					
5. China Media Creative Industry Private Equity (Shanghai) Centre (Limited Partnership)	Shanghai	Media investment	Unlisted	8	1.38
6. NBA China, L.P.	Beijing	Sports marketing	Unlisted	25	4.61
7. Unibank Media Group Inc.	Beijing	Indoor media	Unlisted	4	0.64
8. Guangzhou Digital Media Group Ltd.	Guangzhou, Guangdong	Cable television & broadband access	Unlisted	28	5.14
9. China Business Network	Shanghai	Provision of financial information service	Unlisted	25	4.60
10. Renren Inc.	Beijing	Social networking services	New York Stock Exchange	4	0.64
			Sub-total:	94	17.01

Name of projects	Location of headquarters	Business nature	Listed (Stock Exchange) / unlisted	Carrying value	Percentage of total assets %
				(US$ million)	%
Manufacturing:					
11. Shandong Jinbao Electronics Co., Ltd.	Zhaoyuan, Shandong	Copper foil & laminates	Unlisted	23	4.07
12. Shenzhen Geesun Automation Technology Co., Ltd.	Shenzhen, Guangdong	Production equipment for lithium ion batteries	Unlisted	0	0.06
13. Jiangsu Huaer Optoelectronic Material Co., Ltd.	Yangzhou, Jiangsu	High purity silica crucibles	Unlisted	6	1.03
14. Liaoning Zhenlong Native Produce Holding Company Ltd.	Fuxin, Liaoning	Food processing	Unlisted	3	0.63
15. Guangxi Hwagain Group Co., Ltd.	Nanning, Guangxi	Printing paper & tissue paper	Unlisted	5	0.98
			Sub-total:	37	6.77
Others:					
(i) Energy & Resources:					
16. Wuhan Rixin Technology Co., Ltd.	Wuhan, Hubei	Solar energy	Unlisted	1	0.26
(ii) Information Technology:					
17. Xi'an Jinpower Electrical Co., Ltd.	Xi'an, Shaanxi	Electrical system related	Unlisted	4	0.76
18. NTong Technology Co., Ltd.	Beijing	Software development	Unlisted	17	3.05
19. Teralane Semiconductor (Shenzhen) Co., Ltd.	Shenzhen, Guangdong	IC design	Unlisted	1	0.20
(iii) Real Estate:					
20. China Merchants Plaza (Shanghai) Property Co., Ltd.	Shanghai	Office & commercial	Unlisted	—	—
			Sub-total:	23	4.27
			Total:	456	82.77

China Merchants Bank Co., Ltd. ("CMB") is China's first joint-stock commercial bank, with shares listed on the SSE since 2002 and on the Stock Exchange since 2006. In addition to its network of over 910 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, as well as representative offices in both London, the United Kingdom, and Taipei. As of 30 June 2012, the Remaining Group held 60.33 million A shares of CMB, representing an equity interest of 0.28%, with a corresponding investment cost of RMB100.89 million (equivalent to US$11.08 million). In June 2012, the Remaining Group received a cash dividend of RMB27.65 million from CMB for 2011.

In preparing to participate in the share rights issue of CMB and to fulfill the condition of the waiver granted by the Stock Exchange (i.e. to dispose of a minimum of 10.50 million A shares of CMB by the ex-rights date of the share rights issue of CMB), the Remaining Group disposed of 5.50 million shares during the period, plus an additional 6.50 million shares in early July, for a total disposal of 12 million A shares of CMB. Net proceeds from the disposals amounted to RMB129.64 million (equivalent to US$20.49 million).

On 23 July 2012, CMB announced that it will hold a shareholders' meeting on 7 September 2012 to consider a resolution to extend the validity period of the share rights issue for another 12 months, to September 2013. On 7 September 2012, the resolution was passed by the shareholders of CMB.

Industrial Bank Co., Ltd. ("IBC") is a joint-stock commercial bank incorporated in the PRC, with shares listed on the SSE since 2007. IBC has a network of over 670 branches and offices across China. As of 30 June 2012, the Remaining Group held 44.62 million A shares of IBC, representing an equity interest of 0.41%, with a corresponding investment cost of RMB110.18 million (equivalent to US$11.55 million). In May 2012, the Remaining Group received a cash dividend of RMB14.09 million from IBC for 2011.

In June 2012, the CBRC approved the issuance of not more than 1,915 million new shares by IBC to three designated strategic investors, including PICC Asset Management Co., Ltd. at RMB12.73 per share, and raising not more than RMB24.38 billion in order to supplement its core capital. The new share issuance proposal is subject to approval by other relevant regulatory authorities.

During the first half of 2012, the Remaining Group did not dispose of any A shares of IBC.

China Credit Trust Co., Ltd. ("CCT") was established in 1995. The principal activities of CCT are trust management, fund management, investments and loan financing. As of 30 June 2012, the Remaining Group held a 6.94% equity interest in CCT, with a total investment cost of US$50.49 million. In June and August 2012, the Remaining Group received a total cash dividend of US$4.01 million from CCT for 2011.

For the first half of 2012, CCT recorded an unaudited net profit of RMB558 million, representing an increase of 18% over the same period last year, while growth in income from net interest, commissions and handling fees has slowed. Since July 2011, the CBRC has strengthened regulation of real estate trusts, resulting in a significant decrease in the number of new real estate trusts secured by CCT. CCT expects that income from the trust business in 2012 will come primarily from existing trusts. Moreover, CCT expects that many real estate trusts will come due for repayment during this and next years and, in order to manage the risk of repayment, CCT will strengthen the tracking and oversight of these trusts.

CCT made an announcement on 26 June 2012, stating that a collective trust scheme, namely, "2010年 中誠•誠至金開1號集合信託計劃", was legally established on 1 February 2011 (Note: The expiry of the trust scheme is 13 January 2014, raising trust funds of RMB3.03 billion). All funds of the trust scheme will be used in the capital increase of Zhenfu Energy Group Co., Ltd. (山西振富能源集團有限公司). This company and its affiliates faced three new litigations in the second quarter of 2012, all related to private off-balance-sheet financing. CCT attaches great importance to such extraordinary situations, and has assigned personnel to investigate the matter and to take appropriate steps to manage risk. In addition, CCT immediately reported the situation to the appropriate regulatory authorities. The local government also takes the matter seriously and has organized a dedicated risk management team with members from all relevant departments. Under the central leadership of the team, CCT is participating actively, and it is hoping that the issue can be resolved within a proper legal framework.

A proposal by Southwest Securities Co., Ltd. ("**Southwest Securities**") to acquire Guodu Securities Co. Ltd., in which CCT holds a 15.35% stake, was approved by the shareholders of both parties in early January 2012, but other approval procedures have yet to be completed. On 7 August 2012, Southwest Securities announced that it has terminated the above acquisition for both parties could not come to a compromise on the valuation of securities firms under the prevailing market conditions.

China Media (Tianjin) Investment Management Co., Ltd. ("China Media Management") was established in Tianjin, with registered capital of RMB60 million. The Remaining Group invested RMB4.62 million (equivalent to US$0.68 million) in April 2010 for a 7.70% equity interest in China Media Management. As the general partner and investment manager of China Media Investment (see the section on China Media Investment below), China Media Management is responsible for defining and executing the investment strategy for China Media Investment, as well as for managing their operations.

China Media Management intends to complete three to four investments for China Media Investment in 2012, which include the investment in and establishment of Shanghai Oriental DreamWorks Co., Ltd. (上海東方夢工廠有限公司), as lead investors with DreamWorks Animation of the United States.

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. Total capital of RMB5 billion is expected to be raised, with an initial capitalization of 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. China Media Management, in which the Remaining Group has an interest, is the general partner and investment manager of China Media Investment.

In April 2010, the Remaining Group agreed to make a capital investment of RMB200 million by installment in China Media Investment. The first installment of RMB40 million (equivalent to US$5.86 million) was made by the Remaining Group in June 2010. Additional capital investments of RMB6.26 million (equivalent to US$0.95 million), RMB6.77 million (equivalent to US$1.08 million), RMB28.82 million (equivalent to US$4.57 million), RMB3.08 million (equivalent to US$0.48 million) and RMB35.24 million (equivalent to US$5.56 million) were made in March 2011, February 2012, July 2012, August 2012 and September 2012, respectively. Cumulatively, the Remaining Group has invested RMB120.17 million (equivalent to US$18.50 million) in China Media Investment, representing 60.09% of the total investment committed by the Remaining Group.

The incorporation of Shanghai Oriental DreamWorks Co., Ltd. ("**Oriental DreamWorks**"), which will be funded and established by China Media Investment and DreamWorks Animation of the United States as lead investors, is expected to be completed in the third quarter of 2012. Oriental DreamWorks will commence business in areas such as research and development of animation techniques, production of animated movies and television, copyright issues, derivative products, performing arts and entertainment, digital games and theme parks. China Media Investment expects to make two or three additional investments in 2012, and that over 50% of the initial capital of RMB2 billion raised will be invested by the end of the year.

NBA China, L.P. ("NBA China") is a limited liability partnership incorporated in the Cayman Islands in 2007. The Remaining Group invested US$23 million in 2008 for a 1% preferred equity stake in NBA China. NBA China 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. The Remaining Group received a cash distribution from NBA China of US$144,000 in February 2012.

Due to the delay in reaching a collective bargaining agreement between the NBA League and the National Basketball Players Association until December 2011, the length of the current season was shortened, which affected the income of NBA China and in turn decreased its profit. However, ratings are rising and net income is still on track to meet expectations for the financial year.

NBA China launched the "NBA Nation" initiative in June 2012, which is a travelling basketball event for fans that will visit 20 cities in 15 Chinese provinces and municipalities over a five-month period. NBA Nation will offer a basketball and entertainment playground exceeding 2,000 square metres, featuring a combination of basketball and music activities.

Unibank Media Group Inc. ("Unibank Media") was established in Beijing in 2011 as an operating entity following a merger and reorganisation, and is principally engaged in commercial advertising through its video display network in banking service outlets across China. The Remaining Group made a total investment of RMB75 million (equivalent to US$10.98 million) in one of its predecessors, Inbank Media (China) Co., Ltd. ("**Inbank Media**") in June 2009 and February 2010, and held a 14.51% equity interest in Inbank Media. After the completion of the merger and reorganisation as well as a capital increase of Inbank Media in the fourth quarter of 2011, the Remaining Group holds a 7.62% equity interest in Unibank Media. (Note: The Remaining Group has made a contingent commitment to transfer a 1.14% stake in Unibank Media to the management of Unibank Media, as an incentive earned upon completion of an IPO or sale of the business. The total incentive to the management of Unibank Media is a 15% stake in Unibank Media, to be transferred by all shareholders, and 1.14% is the Remaining Group's pro rata portion of the incentive. Net of this incentive, the Remaining Group's stake in Unibank Media will be 6.48%.)

As at 30 June 2012, Unibank Media has installed about 19,700 advertising display devices in banking service outlets in major cities across China. Following the installation of the advertising display devices, Unibank Media will gradually shift its focus from developing banking network resources to advertising sales, and therefore plans to recruit experienced individuals to strengthen its advertising sales team.

Guangzhou Digital Media Group Ltd. ("Guangzhou Digital") was established in Guangzhou, Guangdong in 1993 to engage in the operation of cable television transmission and internet broadband access. The Remaining Group invested RMB210 million (equivalent to US$30.74 million) in August 2009 for a 21% equity interest in Guangzhou Digital. In July 2012, the Remaining Group received a total cash dividend of RMB8.62 million from Guangzhou Digital for 2011.

During the year, Guangzhou Digital increased its promotion efforts for high definition TV (HDTV) and offered various programme packages. At the end of June, Guangzhou Digital had approximately 57,000 HDTV users — adding 32,000 new users in the second quarter alone, and exceeding the 2012 target for a net increase of 40,000 HDTV users for the year.

Guangzhou Digital's conversion into a joint-stock limited company, which was originally scheduled for the fourth quarter of 2011, has yet to be completed, due to delays in the administrative groundwork (e.g. audit, valuation, etc.) for the integration of Guangzhou Digital and Guangdong Broadcasting and Television Network Co., Ltd. ("**Guangdong Network**"). The Remaining Group has expressed, in writing to Guangzhou Digital and orally to Guangdong Network, that if the integration of the Guangdong's network results in a loss of control in Guangzhou Digital by Guangzhou TV Station, the Remaining Group shall initiate the share repurchase procedures as outlined in the Capital Increase Agreement.

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. The Remaining Group invested RMB120 million (equivalent to US$18.10 million) in December 2010 for a 5.29% equity interest in CBN.

CBN is constantly improving its media business and is accelerating a transition from being a financial media player to a financial information supplier. In the first half of 2012, with the approval of the State Administration of Radio, Film and Television, CBN Channel officially launched in Singapore, expanding its reach to over 500,000 new users in Singapore and becoming the first Chinese channel with a public network overseas. In addition, CBN launched the Lujiazui (《陸家嘴》) magazine, which is the first domestic high-end financial magazine catering to financial professionals and high net worth individuals. Lujiazui intends to become a leading voice in China's financial industry, and to establish itself as a top financial publication with influence commensurate with China's say in financial affairs and Shanghai's future status as an international financial hub.

Renren Inc. ("Renren") is a company incorporated in the Cayman Islands, and its American depositary shares ("**ADS**", each representing three Class A ordinary shares) have been listed on the New York Stock Exchange since 4 May 2011. Renren is a leading real name Internet-based social networking platform in China. In April 2011, the Remaining Group made an investment of US$11 million in Renren, for a holding of 785,714 Renren ADS.

To enhance the user experience, renren.com (which is part of Renren) entered into a strategic partnership with Viki, a global TV site, to launch the "VikiZone", which is expected to launch in early August 2012. Furthermore, renren.com has partnered with Feitian, a leading innovator of security technologies and applications, to introduce an account protection solution based on Intel Identity Protection Technology (IPT) that will provide a secure online experience for the users of renren.com.

Shandong Jinbao Electronics Co., Ltd. ("Jinbao") was established in Zhaoyuan, Shandong in 1993 to engage in the production and sale of copper foil and laminate. The Remaining Group's cumulative investment in Jinbao is US$7.85 million, representing an equity interest of 25.91% as of 30 June 2012.

For the first half of 2012, Jinbao's unaudited revenues decreased significantly, compared to the same period last year, resulting in a net loss (as compared to a net profit for the same period last year). Currently, the electronics raw material industry is extending a run of weakness that began last year — with sluggish demand, weak order growth, and intense competition. Capacity utilization for copper laminate, a low-end product within the sector, is at very low levels, which in turn has driven down prices by 20-50% and led to difficult market conditions. The market price for copper laminate is still trending downward, and related industries remain in the doldrums.

On balance, Jinbao's results for the first half of 2012 were just slightly worse than for its industry overall. As a manufacturer of basic materials for electronics components, which can be highly cyclical, Jinbao is subject to the prevailing business conditions in its industry. And the finance costs have a relatively large impact on its financial results.

Shenzhen Geesun Automation Technology Co., Ltd. ("Geesun Technology") was established in Shenzhen, Guangdong in 2006 and is a leading manufacturer of equipment and automated production lines for lithium ion batteries and supercapacitors. The Remaining Group invested RMB20 million (equivalent to US$2.93 million) in May 2010, and held a 12.62% stake in Geesun Technology as of 30 June 2012.

Due to a decrease in orders, which resulted from a weak macro environment, and internal management issues, revenues of Geesun Technology dropped significantly and the company recorded a loss for the first half of 2012. Geesun Technology's results have continued to decline for some time, and in the first quarter of 2012 the shareholders demanded a change in management and designated shareholders' representatives to oversee the necessary organisational changes — which include a focus on increasing efficiency, reducing purchasing costs and improving product stability.

Jiangsu Huaer Optoelectronic Material Co., Ltd. ("Huaer Optoelectronic") was established in Yangzhou, Jiangsu and is principally engaged in the research, development and production of high purity silica crucibles. Huaer Optoelectronic is a manufacturer producing silica crucibles with comprehensive specifications, and has the capability to produce 28-inch silica crucibles on a large scale. The silica crucible products manufactured by Huaer Optoelectronic are expendable raw materials required to produce single crystalline silicon ingots, which are used in turn to produce single crystalline silicon solar cells and semiconductor chips. The production of each single crystalline silicon ingot requires one silica crucible. The Remaining Group invested RMB15 million (equivalent to US$2.23 million) in September 2010 for a 7.50% equity interest in Huaer Optoelectronic.

In response to weak downstream demand from the solar photovoltaic industry, Huaer Optoelectronic reduced the selling price of its major products by about 10% in the first quarter of 2012 which, together with relatively high raw material costs, led to a decline of over 50% in its gross margin to approximately 25%. Meanwhile, its sales volume increased from the fourth quarter of 2011, but remained depressed in relation to historical levels. As a result, the unaudited revenues and net profit of Huaer Optoelectronic for the first half of 2012 decreased significantly compared to the same period last year.

The management of Huaer Optoelectronic believes that demand in the solar photovoltaic market is still growing and that the currently difficult market conditions are due primarily to over-production at downstream operators, who will need more time to consume their existing inventory of finished goods on hand. However, as downstream operators gradually cease production and consolidate, and as their inventory of finished goods on hand returns to more normal levels, market conditions are expected to improve, possibly in the second half of the year. In addition, market demand for high quality silica crucibles is expected increase in the future. Therefore, Huaer Optoelectronic plans to further enhance the quality of its products from solar grade to electronics grade, and expand its maximum production capabilities from 28-inch products to 32-inch products in order to pursue overseas orders.

Liaoning Zhenlong Native Produce Holding Company Ltd. ("Liaoning Zhenlong") was established in Fuxin, Liaoning in 2000 and is principally engaged in the acquisition, processing, and export and import of agricultural by products and domestic produce. The company currently offers more than twenty products, including pumpkin seeds, pine nuts, pistachios, almonds and sunflower seeds. The Remaining Group invested a total of RMB19.20 million (equivalent to US$2.97 million) in August 2011 for a 2% equity interest in Liaoning Zhenlong.

In the first half of 2012, the unaudited revenues and net profit of Liaoning Zhenlong both increased, due primarily to the company's active development of the domestic market in China and to increased demand through its expanded sales channels.

As of the end of June 2012, Liaoning Zhenlong is proceeding as scheduled with its listing, which is presently under preliminary review by the China Securities Regulatory Commission.

Guangxi Hwagain Group Co., Ltd. ("Hwagain") was formed by merging two paper manufacturers located in Nanning, Guangxi Zhuang Autonomous Region in 1998. It is principally engaged in the research, development and production of high quality printing paper and tissue paper. The Remaining Group invested RMB119.99 million (equivalent to US$19 million) in January 2012 for a 7.10% equity interest in Hwagain.

The first quarter of 2012 is a seasonally weak quarter for the paper industry due to the Spring Festival and to scheduled maintenance of production facilities. In addition, weak global demand led to excess capacity in the industry and to low prices for imported pulp. Weak market conditions in the printing paper industry first appeared in the fourth quarter of 2011, and extended through the middle of March, negatively impacting financial results during these two quarters, and even causing losses for many printing paper operators, including Hwagain. Business conditions improved in the second quarter of 2012, driven by a rebound in global prices for pulp and by seasonally stronger market demand, primarily due to the printing of educational materials for autumn. Days of inventory decreased to a level near that of previous years' average, and profitability grew sequentially from the first quarter.

For Hwagain, which operates with a "Forest-Pulp-Paper Integration" business strategy, the increase in domestic bamboo and wood prices during the first half of 2012 put temporary pressure on its profit. (Note: Hwagain's forest resources will soon enter a felling cycle, but given that logging and sales of forest products have yet to achieve high volume, and that additional plantings are still underway, the benefit of the increase in bamboo and wood prices has not yet been realized.) In addition, Hwagain is carrying higher debt compared with the same period last year due to the construction of its 150,000 tonnes high-end tissue paper project in Ganzhou, Jiangxi. At the same time, Hwagain has been investing in the development of sales channels, in preparation for new products from the first phase of the Ganzhou high-end tissue paper project, which will commence operations by the end of the year. These factors contributed to a significant increase in the company's financing costs and selling expenses during the first half of 2012.

The first phase of the Ganzhou high-end tissue paper project will be completed and will commence operations in the fourth quarter. Following this increase in capacity, Hwagain's business mix will shift somewhat from printing paper to high-end tissue paper. In addition, its forest resources will enter a felling cycle in the second half of the year. For these reasons, Hwagain is expected to see profit growth over the next few quarters.

Wuhan Rixin Technology Co., Ltd. ("Wuhan Rixin") was incorporated in Wuhan, Hubei in 2001 and is a state-accredited high technology enterprise engaged in the design, production and installation of solar modules and Building Integrated Photovoltaic (BIPV) products, as well as in the operation, maintenance and management of solar powered electric systems. The Remaining Group invested RMB15 million (equivalent to US$2.20 million) in July 2009 for a 5% equity interest in Wuhan Rixin.

Because Wuhan Rixin engages primarily in the construction and operation of BIPV power stations, the downturn in the solar photovoltaic industry since 2011 has in fact benefited the company by reducing the construction and operating costs of power stations, and thereby increasing profitability.

The key projects to be completed by Wuhan Rixin in 2012 include photovoltaic power stations in Wuhan and Huangshi in Hubei, and Dezhou in Shandong. Wuhan Rixin is also endeavouring to secure new Golden Sun projects.

In June 2012, the Wuhan International Convention and Exhibition Centre project, constructed and controlled by Wuhan Rixin, entered into a grid agreement with Hubei Electric Power Company and commenced trial operations. Currently, the daily electricity supplied to the grid is ranging from 50,000 to 60,000 kwh. Although electricity charges are not yet being collected at this stage of trial operations, this is a second public grid project, following the successful grid project at Wuhan Rixin's own industrial park.

Xi'an Jinpower Electrical Co., Ltd. ("Jinpower Electrical") was established in Xi'an, Shaanxi in 2001 and is a high technology enterprise, principally engaged in the research, development and production of intelligent on-line monitoring systems for transmission lines and substation equipment for the power grid. The Remaining Group invested RMB20 million (equivalent to US$3.03 million) in January 2011 for a 5.26% equity interest. Jinpower Electrical completed a capital increase of RMB45.84 million in the first quarter of 2012 and, as a result, the Remaining Group's equity interest in Jinpower Electrical was diluted somewhat from 5.26% to 4.83%.

In 2012, the number of business opportunities increased notably, compared to the same period last year, in the area of intelligent on-line monitoring for the state grid. For the first half of 2012, Jinpower Electrical saw significant increases in both unaudited revenues and net profit, while maintaining its leading market share in the area of on-line monitoring for transmission lines.

NTong Technology Co., Ltd. ("NTong") was established in Beijing in 2002 and is principally engaged in software development, operation and maintenance of information technology systems and systems integration. The Remaining Group invested RMB66.50 million (equivalent to US$10.41 million) in August 2011 for a 12.34% equity interest in NTong.

Although the first half of the year is a seasonally weak period for the software, systems integration and information services industries, NTong achieved remarkable results. NTong recorded double digit growth in its unaudited revenues and net profit for the first half of 2012. Taking into account that the revenues and profit from the e-government network and intelligent city construction orders secured by NTong will be recognized primarily in the third and fourth quarters of 2012, it is expected that the company's full year revenues and net profit will meet their targets for the year.

Teralane Semiconductor (Shenzhen) Co., Ltd. ("Teralane Semiconductor") was established in Shenzhen, Guangdong in 2004 and is principally engaged in the design of integrated circuits (IC), the research and development, manufacturing and sale of related products, and the provision of related systems integration and technical services. Its current principal products and services comprise: liquid crystal display (LCD) driver ICs, light emitting diode (LED) displays and illumination driver ICs, touch screen display driver ICs, battery pack control ICs, audio and sound control ICs and power management applications. Furthermore, its business covers the entire process of IC design. Teralane Semiconductor is a state-accredited high technology enterprise and software enterprise. The development of IC design and applications, on the basis of its proprietary patents and technological research and development, is at an advanced level by national standards. In December 2011, the Remaining Group subscribed to an issuance of convertible bonds by Teralane Semiconductor in the amount of RMB5 million (equivalent to US$0.79 million). The convertible bonds can be converted into an approximately 1.80% equity interest in the enlarged capital of Teralane Semiconductor (per the registered capital at the time of subscription).

In the first half of 2012, the unaudited revenues and net profit of Teralane Semiconductor were essentially in line with its plan. The industry of Teralane Semiconductor experiences some seasonality, typically with a peak season from September to December. The first half has met 30% of the targeted revenues for 2012, as planned.

In order to enhance its financial results and realize its goal of listing, Teralane Semiconductor has adopted more aggressive market strategies. It has increased its capital investment in production with a goal to support a growing market share and, in the near term, this has resulted in a significant increase in inventory and receivables, compared to relatively slow growth in revenues and net profit. Gross margins have also decreased, primarily due to expansion of the business into lower-margin LCM modules. The company expects high growth and has based its investment strategy on an optimistic view of growth in the domestic IC market, at a time when the boom in the electronics industry is in the course of stabilising. And the company's growth trend will need to be confirmed by actual results in the second half.

China Merchants Plaza (Shanghai) Property Co., Ltd. ("China Merchants Plaza") was incorporated in Shanghai in 1994 to engage in the development of a commercial and business complex. The Remaining Group invested US$5.685 million in 1994 and holds an effective equity interest of 19.8% in China Merchants Plaza. The commercial complex is a 28-storey office/retail building located at North Chengdu Road, Jing'an District, Shanghai, with a remaining 49,438 square metres available for lease. The Remaining Group made a full provision for this investment in 2000 due to the substantial leverage, high financing costs and significant accumulated losses of China Merchants Plaza.

For the first half of 2012, China Merchants Plaza recorded an unaudited net profit of RMB4.58 million, representing an increase of 8% over the same period last year. The improvement in profit was primarily due to an increase of revenues and a reduction in management expenses.

EMPLOYEES

Other than a qualified accountant whose remuneration package is determined and borne by CMCIM, the Remaining Group has no employees. CMCIM handles the portfolio and day-to-day administration of the Remaining Group.

CHARGES ON GROUP ASSETS

As at 30 June 2012, there were no charges on any assets of the Remaining Group.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed under the heading "Significant Investments of the Remaining Group", as at 30 June 2012, the Remaining Group did not draw up any definitive future plans relating to material investments or capital assets.

GEARING RATIO

As at 30 June 2012, the Remaining Group had not incurred any debt or borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Most of the Remaining Group's investments are located in China where the official currency is RMB. The conversion rate of RMB against US dollar recorded a decrease of 0.38% in the first half of 2012, which had a minimal impact on the Remaining Group, although the Remaining Group does hold a considerable amount of assets denominated in RMB.

CONTINGENT LIABILITIES

As at 30 June 2012, the Remaining Group did not have any material contingent liabilities.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. STATEMENT OF INDEBTEDNESS

At the close of business on 30 September 2012, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, apart from the intra-group liabilities, the Group did not have any loan capital issued and outstanding, or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages charges, hire purchase commitments, guarantees or other material contingent liabilities.

3. SUFFICIENCY OF WORKING CAPITAL

The Directors are of the opinion that taking into account the Group's internal resources and the estimated net proceeds from the Proposed Disposals, the Group has sufficient working capital, without relying on any external facilities, for its present requirements for at least the next twelve months from the date of this circular.

4. DIRECTORS' AND CHIEF EXECUTIVES' DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interest and short positions of the Directors and chief executives in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") were as follows:

Long position in the ordinary shares in the Company

Name of Director	Capacity	Number of Shares Held	Percentage of total issued share capital as at the Latest Practicable Date
Mr. CHU Lap Lik, Victor	Interest of controlled corporation	3,224,000	2.04%

Save as disclosed, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the Model Code of the Listing Rules to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, the following Directors are a director or employee of a substantial shareholder of the Company:

(a) Mr. LI Yinquan is a vice president of China Merchants Group Limited;

(b) Mr. HONG Xiaoyuan is an assistant president of China Merchants Group Limited and the managing director of China Merchants Finance Holdings Company Limited; and

(c) Mr. TSE Yue Kit is the general manager in direct investment division of China Merchants Finance Holdings Company Limited.

Save as disclosed, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS

As at the Latest Practicable Date, so far as is known to the Directors and chief executives of the Company, the persons (other than Directors or chief executives of the Company) who have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group are as follows:

Long and short positions in the shares, underlying shares and debentures of the Company

Shareholder	Long/ short position	Capacity	Number of ordinary shares interested	Approximate percentage in the Company's share capital
China Merchants Group Limited *(Note 3)*	Long position	Interest of controlled corporation	42,604,015	26.91%
China Merchants Steam Navigation Company Limited *(Note 3)*	Long position	Interest of controlled corporation	42,604,015	26.91%
China Merchants Holdings (Hong Kong) Company Limited *(Note 1)*	Long position	Interest of controlled corporation	42,604,015	26.91%
China Merchants Finance Holdings Company Limited *(Note 2)*	Long position	Interest of controlled corporation	42,604,015	26.91%
China Merchants Financial Services Limited *(Note 3)*	Long position	Interest of controlled corporation	39,393,627	24.88%
Good Image Limited	Long position	Beneficial owner	39,393,627	24.88%
Lazard Asset Management LLC	Long position	Investment manager	32,972,945	20.82%
華夏全球精選股票型證券投資基金 (China AMC Global Equity Select Fund*)	Long position	Beneficial owner	9,682,000	6.11%

* *For identification purpose only*

Note 1 : China Merchants Holdings (Hong Kong) Company Limited is deemed to have corporate interests in the shares by virtue of its controlling shareholding (i.e. 99.32%) in the company whose name is set out immediately under it.

Note 2 : China Merchants Finance Holdings Company Limited is deemed to have corporate interests in the shares by virtue of its entire shareholding in Everlink Limited and the company whose name is set out immediately under it.

Note 3 : China Merchants Group Limited, China Merchants Steam Navigation Company Limited and China Merchants Financial Services Limited are deemed to have corporate interests in the shares by virtue of its entire shareholding in the company whose name is set out immediately under it.

Save as disclosed, as at the Latest Practicable Date, the Directors and the chief executives of the Company were not aware of any person (other than Directors or chief executives of the Company) who had any interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

6. COMPETING INTERESTS

Mr. CHU Lap Lik, Victor, executive Director and Ms. KAN Ka Yee, Elizabeth (being alternate to Mr. CHU Lap Lik, Victor), are also the directors of various companies within First Eastern Investment Group which is actively involved in direct investments in the PRC and which may compete, either directly or indirectly with businesses of the Group. However, the Company is capable of carrying on its business independently of, and at arm's length from, the businesses of First Eastern Investment Group. If conflict of interest arises on the part of Mr. CHU or Ms. KAN, as the case may be, Mr. CHU or Ms. KAN shall, pursuant to the articles of association of the Company, not vote or be counted in the quorum on the relevant resolution of the Board.

As at the Latest Practicable Date, save as disclosed, in so far as the Directors are aware, none of the Directors or any of their respective associates had an interest in a business that competes or may compete with the business of the Group.

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into any service contract with the Company or its subsidiaries which is not expiring or may not be terminated by the Company within a year without payment of any compensation (other than statutory compensation).

8. INTERESTS OF DIRECTORS IN ASSETS AND/OR CONTRACTS OF THE GROUP

The Existing Management Agreement and the Revised Management Agreement

On 18 October 2012, the Company entered into the Revised Management Agreement with CMCIM in relation to the re-appointment of CMCIM as the investment manager of the Company for both listed and unlisted investments, immediately following the expiry of the Existing Management Agreement. Mr. HONG Xiaoyuan, Mr. CHU Lap Lik, Victor, Ms. ZHOU Linda Lei and Mr. TSE Yue Kit are directors of both the Company and CMCIM. Mr. CHU Lap Lik, Victor and Ms. KAN Ka Yee, Elizabeth have indirect beneficial interests in CMCIM.

Under the Revised Management Agreement, 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.

Sub-participation Scheme (the "Scheme")

In order to strengthen the investment management process, and to align the interests of management and staff with the interests of the Company in entering new investment projects, CMCIM, with the consent of the Company, has administered the Scheme since 2009.

Under the Scheme, the Company has entered into sub-participation agreements (the "**Agreements**") with certain executive Directors, certain directors and employees of CMCIM, and persons nominated by shareholders of CMCIM (collectively the "**Participants**"), with respect to new investments made by the Company beginning in 2009. Pursuant to the Agreements, the Participants will receive a portion of the return (in the form of dividends, interest, or other distributions or proceeds from realization) from the Company's investment in the project company that is proportional to the amount provided by the Participants to the Company as a percentage of the total Company's investment in the project company. If the Company suffers a loss from its investment in the project company, the Participants will correspondingly share a loss in the amount they provided to the Company on a pro rata basis. The Agreements will terminate upon either the realization of the investment in the project company by the Company, or upon CMCIM, who provides a guarantee to the Participants for the performance of the Company's obligations under the Agreements, ceasing to be investment manager of the Company. In the former case, the Participants shall receive a pro rata portion of the proceeds from disposal of the Company's interest in the project company. In the latter case, the Participants will receive a pro rata portion of the value of the equity interest in the project company held by the Company as of 90 days prior to the termination date of the Agreements. The value of the equity interest in the project company will be assessed by an independent valuer appointed jointly by the Company and CMCIM. In addition, the costs and expenses incurred for the preparation and execution of the Agreements, the costs incidental to the implementation of the Scheme, and the relevant portion of the identifiable costs related to the Company's investment in the project company that corresponds to the amount provided by the Participants to the Company under the Agreements will be borne by CMCIM.

Under the Scheme, it was originally determined that the aggregate amount provided by the Participants in each of the Company's new investment projects should not exceed 2% of the Company's investment in each project (the "**Ceiling of Relative Proportion**"). In order to further strengthen the investment management process, with the consent of the Company and starting from 26 August 2011, the Ceiling of Relative Proportion for each of the Company's new investment projects is revised as follows: 1) for projects with an investment amount of RMB30 million or less, the Ceiling of Relative Proportion will be 5%; 2) for projects with an investment amount of more than RMB30 million and up to RMB100 million, the Ceiling of Relative Proportion will be RMB1.5 million or 2%, whichever is higher; and 3) for projects with an investment amount of more than RMB100 million, the Ceiling of Relative Proportion will be 2%.

As of the Latest Practicable Date, details of aggregate amounts provided by the Participants and their relative proportion to the investment amounts paid by the Company were as follows:

Name of projects	**Original investment amount of the Company** *US$**	**Original amounts paid by the Participants** *US$**	**Relative proportion**
Unibank Media (1st round capital injection)	6,585,600	129,000	1.959%
Wuhan Rixin	2,195,500	43,900	2.000%
Guangzhou Digital	30,737,700	175,500	0.571%
Unibank Media (2nd round capital injection)	4,394,100	87,500	1.991%
China Media Management	676,100	4,500	0.666%
Geesun Technology	2,929,500	58,000	1.980%
China Media Investment (1st installment capital contribution)	5,858,300	38,800	0.662%
Huaer Optoelectronic	2,226,200	43,800	1.966%
CBN	18,098,200	235,700	1.302%
Jinpower Electrical	3,033,500	60,300	1.988%
China Media Investment (2nd installment capital contribution)	953,500	6,100	0.638%
Renren	11,000,000	218,500	1.986%
Liaoning Zhenlong	2,974,500	59,000	1.986%
NTong	10,409,700	130,300	1.252%
Teralane Semiconductor	789,500	34,200	4.335%
Hwagain	19,004,900	161,100	0.847%
China Media Investment (3rd installment capital contribution)	1,075,300	6,200	0.575%
China Media Investment (4th installment capital contribution)	4,566,600	26,300	0.577%
Chengtian	4,733,300	74,100	1.566%
China Media Investment (5th installment capital contribution)	484,900	2,800	0.580%
Esurfing	16,068,600	125,100	0.778%
China Media Investment (6th installment capital contribution)	5,555,100	32,200	0.579%

* *Calculated with prevalent exchange rates at the time of the amounts paid*

In addition, as of the Latest Practicable Date, details of the amounts paid by Directors as well as a director of CMCIM for the Scheme were as follows:

Name of projects	**Mr. HONG Xiaoyuan** *(Note 1)* *US$*	**Ms. ZHOU Linda Lei** *(Note 2)* *US$*	**Mr. TSE Yue Kit** *(Note 3)* *US$*	**Mr. WU Huifeng** *(Note 4)* *US$*
Unibank Media (1st round capital injection)	12,900	12,900	1,290	12,900
Wuhan Rixin	3,510	4,390	1,290	3,510
Guangzhou Digital	12,900	25,810	1,290	12,900
Unibank Media (2nd round capital injection)	6,950	8,750	1,290	6,950
China Media Management	300	580	30	300
Geesun Technology	4,640	5,800	1,290	4,640
China Media Investment (1st installment capital contribution)	2,500	5,010	250	2,500
Huaer Optoelectronic	3,500	4,380	1,290	3,500
CBN	12,850	25,700	1,290	25,700
Jinpower Electrical	4,830	6,030	1,280	4,830
China Media Investment (2nd installment capital contribution)	390	780	40	390
Renren	12,870	21,870	1,290	17,500
Liaoning Zhenlong	4,720	5,900	1,280	4,720
NTong	16,420	12,830	1,280	16,420
Teralane Semiconductor	3,090	3,860	1,290	3,090
Hwagain	12,880	25,770	1,290	19,330
China Media Investment (3rd installment capital contribution)	430	850	40	430
China Media Investment (4th installment capital contribution)	1,820	3,630	180	1,820
Chengtian	12,890	12,890	1,290	12,890
China Media Investment (5th installment capital contribution)	190	390	20	190
Esurfing	12,890	12,890	1,290	12,890
China Media Investment (6th installment capital contribution)	2,220	4,440	220	2,220

Note 1: Director and chairman of CMCIM.

Note 2: Director and managing director of CMCIM.

Note 3: Director and director of CMCIM.

Note 4: Director of CMCIM.

As at the Latest Practicable Date, save as disclosed, (i) none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) there was no contract or arrangement subsisting at the Latest Practicable Date in which any of the Directors was materially interested and which was significant to the business of the Group.

9. MATERIAL CONTRACTS

No material contract, not being contracts in the ordinary course of business, has been entered into by any member of the Group within the two years preceding the date of this circular.

10. MATERIAL ADVERSE CHANGE

As disclosed in the 2012 interim report of the Company, the Group recorded a consolidated loss of US$9.44 million for the six months ended 30 June 2012. The loss was mainly attributable to a decrease in the fair value of financial assets designated at fair value through profit or loss.

Save as disclosed, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011, the date to which the latest published audited financial statements of the Group were made up.

11. LITIGATION

So far as the Directors are aware, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and no litigation or claims of material importance was pending or threatened against the Company or any of its subsidiaries as at the Latest Practicable Date.

12. EXPERT

The following are the qualifications of the experts who have given opinion or advice which is contained in this circular:

Name	Qualifications
CIMB	A corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants

CIMB and Deloitte Touche Tohmatsu have given and have not withdrawn their written consent to the issue of this circular with the inclusion herein of their letter and references to their name in the form and context in which they respectively appear.

As at the Latest Practicable Date, CIMB and Deloitte Touche Tohmatsu did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, CIMB and Deloitte Touche Tohmatsu did not have any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

13. GENERAL

(a) The registered office of the Company is at 1803, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

(b) The share registrar of the Company is Computershare Hong Kong Investor Services Ltd. at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

(c) The Company Secretary of the Company is Mr. LEUNG Chong Shun who is a practicing solicitor and a partner of Messrs. Woo, Kwan, Lee & Lo, Solicitors & Notaries.

(d) In case of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company at 1803 China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong during normal business hours up to and including the date of the EGM (and any adjournment thereof):

(a) the Revised Management Agreement;

(b) the Existing Management Agreement;

(c) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 28 to 29 of this circular;

(d) the letter issued by CIMB, the text of which is set out on pages 30 to 43 of this circular;

(e) Accountant's Reports issued by Deloitte Touche Tohmatsu reporting on the Unaudited Pro Forma Financial Information of the Remaining Group as set out in Appendix II to this circular;

(f) the written consent of CIMB and Deloitte Touche Tohmatsu referred to under the section headed "Expert" in this Appendix;

(g) the report on factual findings from Deloitte Touche Tohmatsu in respect of the unaudited financial information of the CMB Interests (excluding the 11,842,622 CMB A Rights Shares estimated to be allotted and issued to the Company pursuant to the CMB A Rights Issue) and the IBC Interests as set out in Appendix I to this circular;

(h) the memorandum and articles of association of the Company; and

(i) the annual reports of the Company for each of the two years ended 31 December 2010 and 2011 and the interim report for the six months ended 30 June 2012.

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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Merchants China Direct Investments Limited (the "**Company**") will be held on Thursday, 29 November 2012, at Taishan Room, Level 5, Island Shangri-La, Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong, at 3:00 p.m., to consider, and, if thought fit, pass the following resolutions (with or without modifications) as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. **"THAT:**

(a) the disposal (the "**CMB Disposal Mandate**") of any or all A shares in 招商銀行股份有限公司 (China Merchants Bank Co., Ltd.), a joint-stock commercial bank approved by the China Banking Regulatory Commission in the People's Republic of China with limited liability, whose A shares (the "**CMB A Shares**") are listed on the Shanghai Stock Exchange, held by the Company, its subsidiaries, jointly controlled entities and associated companies (collectively, the "**Group**"), for a period of 12 months from the date of passing of this resolution on the following conditions:

(i) the Group will dispose of the CMB A Shares in the open market through the trading system of the Shanghai Stock Exchange; and

(ii) the selling price of the CMB A Shares will be the market price of the CMB A Shares at the relevant times. Market price refers to the price allowed under the trading system of the Shanghai Stock Exchange, but will not be less than RMB7.65 per CMB A Share

be and is hereby approved.

(b) the directors of the Company be and are hereby authorized to do all things, including but not limited to the execution of all documents, which the directors deem to be necessary or desirable to effect the foregoing or in connection with the CMB Disposal Mandate."

2. **"THAT:**

(a) the disposal (the "**IBC Disposal Mandate**") of any or all A shares in 興業銀行股份有限公司 (Industrial Bank Co., Ltd.), a joint-stock commercial bank approved by the China

Banking Regulatory Commission in the People's Republic of China with limited liability, whose A shares (the "**IBC A Shares**") are listed on the Shanghai Stock Exchange, held by the Company, its subsidiaries, jointly controlled entities and associated companies (collectively, the "**Group**"), for a period of 12 months from the date of passing of this resolution on the following conditions:

(i) the Group will dispose of the IBC A Shares in the open market through the trading system of the Shanghai Stock Exchange; and

(ii) the selling price of the IBC A Shares will be the market price of the IBC A Shares at the relevant times. Market price refers to the price allowed under the trading system of the Shanghai Stock Exchange, but will not be less than RMB10.68 per IBC A Share

be and is hereby approved.

(b) the directors of the Company be and are hereby authorized to do all things, including but not limited to the execution of all documents, which the directors deem to be necessary or desirable to effect the foregoing or in connection with the IBC Disposal Mandate."

3. **"THAT:**

(a) the Revised Management Agreement as defined and described in the circular of the Company dated 9 November 2012 of which this resolution forms part (the "**Circular**") (a copy of each of the Revised Management Agreement and the Circular having been produced at the meeting and marked "A" and "B" respectively and each initialed by the chairman of the meeting for the purpose of identification) and the transaction contemplated thereunder be and is hereby approved, ratified and confirmed;

(b) the proposed annual caps, as described in the Circular, for the fees payable under the Revised Management Agreement be and are hereby approved; and

(c) that the directors of the Company be and are hereby authorized for and on behalf of the Company to execute all such documents and agreements and do such acts or things as they may in their discretion consider to be necessary, desirable or expedient to implement and/or give effect to the terms of the Revised Management Agreement."

By Order of the Board
ZHOU Linda Lei
Director

Hong Kong, 9 November 2012

Notes:

(1) A member entitled to attend and vote at the meeting is entitled to appoint more than one proxy to attend and vote instead of him. A proxy needs not be a member of the Company.

(2) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such authority, must be deposited at the Company's registered office at 1803, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting.

(3) 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.