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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.

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CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

招商局中國基金有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 133)

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

Financial adviser to the Company

ANGLO CHINESE 英
CORPORATE FINANCE, LIMITED 高

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**

ALTUS CAPITAL LIMITED

A letter from the Board is set out on pages 4 to 13 of this circular. A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders is set out on pages 14 to 15 of this circular. A letter from Altus Capital, 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 16 to 29 of this circular.

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 Wednesday, 25 November 2015 at 10:00 a.m. is set out on pages 39 to 40 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, 6 November 2015

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DEFINITIONS

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

“Altus Capital”	Altus Capital Limited, a licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the transaction contemplated under the New Management Agreement and the proposed annual caps
“Assets of the Company” or “Assets”	all the assets of any description of the Company and its subsidiaries, including but not limited to the interests held in jointly controlled entities and associated companies as shown in the accounts of the Company, wheresoever and howsoever located
“associates”	shall have the same meaning as provided in the Listing Rules
“Board”	the board of directors of the Company from time to time
“CMCIM”	China Merchants China Investment Management Limited, a fund management company incorporated in Hong Kong with limited liability and registered under the SFO
“CMG”	China Merchants Group Limited, a company incorporated in the PRC with limited liability which is the ultimate holding company of CMCIM and also a substantial shareholder of the Company
“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)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be held on 25 November 2015 to consider and, if thought fit, approve the transaction contemplated under the New Management Agreement and the proposed annual caps, the notice of which is set out on pages 39 to 40 of this circular
“Existing Management Agreement”	the investment management agreement entered into between the Company and CMCIM dated 18 October 2012, the term of which will expire on 31 December 2015
“Group”	the Company and its subsidiaries
“HK\$ or HKD”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors, namely Mr. LIU Baojie, Mr. ZHU Li, Mr. TSANG Wah Kwong and Dr. LI Fang, to make recommendation to the Independent Shareholders in respect of the New Management Agreement and the proposed annual caps
“Independent Shareholders”	the Shareholders other than the associates of CMG and Victor Chu China Investment Limited and/or its associates
“Latest Practicable Date”	2 November 2015, 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, as amended from time to time
“Management Period”	the term of appointment of CMCIM under the New Management Agreement, i.e. from 1 January 2016 to 31 December 2018
“NAV”	the net asset value of the Company calculated on the basis as set out in the Prospectus
“New Management Agreement”	the investment management agreement dated 15 October 2015 entered into between the Company and CMCIM in relation to the provision of investment management services with effect from 1 January 2016

DEFINITIONS

“PRC”	the People’s Republic of China, which for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC Business Day”	a day other than a Saturday, Sunday or a public holiday in the PRC
“Prospectus”	the prospectus dated 15 July 1993 issued by the Company in connection with the placing of Shares on the terms described therein
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	the ordinary share(s) in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“US\$ or US dollar”	United States Dollars, the lawful currency of the United States of America
“%”	per cent

LETTER FROM THE BOARD



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. HONG Xiaoyuan (*Chairman*)

Mr. LI Yinquan

Mr. CHU Lap Lik, Victor

Mr. WANG Xiaoding

Mr. TSE Yue Kit

Ms. KAN Ka Yee, Elizabeth

(Alternate to Mr. CHU Lap Lik, Victor)

Registered office:

1803, China Merchants Tower

Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

Non-executive Director:

Mr. KE Shifeng

Independent non-executive Directors:

Mr. LIU Baojie

Mr. ZHU Li

Mr. TSANG Wah Kwong

Dr. LI Fang

6 November 2015

To the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

On 15 October 2015, the Board announced that the Company entered into the New Management Agreement with CMCIM in relation to the proposed re-appointment of CMCIM as the Company's investment manager for the Management Period, immediately following the expiry date of the Existing Management Agreement on 31 December 2015. The terms of the New Management Agreement are in all material respects the same as the terms of the Existing Management Agreement which was approved by the Independent Shareholders in 2012.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with further details of the New Management Agreement, the recommendation of the Independent Board Committee, the advice of Altus Capital to the Independent Board Committee and the Independent Shareholders, and the notice convening the EGM for approving the New Management Agreement and the proposed annual caps, and other information required under the Listing Rules.

NEW 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 2015 and will be renewed under the New Management Agreement. The proposed principal terms of the New Management Agreement are as follows:–

Principal terms

The principal terms of the New Management Agreement include:

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

LETTER FROM THE BOARD

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

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

LETTER FROM THE BOARD

Performance fee: Conditional upon the NAV at the end of each financial year (as Adjusted) exceeding the higher (the “**High Watermark**”) of:

- (i) the NAV for the Reference Year, and
- (ii) the NAV of the most recent financial year after the Reference Year and in which a performance fee was paid,

the Company will pay to CMCIM an annual performance fee in US dollars (or the HKD or RMB Equivalent of the same) equal to 8% of the amount by which the NAV as at the end of the relevant financial year (as Adjusted) exceeds the High Watermark. Such fee shall be payable as soon as practicable after the publication of the audited financial results of the Company for the relevant financial year on the websites of the Company and the Stock Exchange, and in any event not later than 180 calendar days after the publication of the same.

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

- (1) the NAV and, where applicable, the High Watermark shall be adjusted (“**Adjusted**”) in a fair and reasonable manner as the Company and CMCIM shall agree (or in default of agreement by the auditors of the Company acting as experts and not as arbitrators who shall be required to certify that such adjustment is fair and reasonable) so as to:
 - (a) take account of any adjustments to the share capital of the Company during any relevant financial year;
 - (b) take account of any buy-back or redemption of Shares during any relevant financial year; and
 - (c) take no account of (that is, include in the calculation of the NAV as if such distributions had never been made or fees paid) any distributions or dividends made by the Company or any fees paid to CMCIM pursuant to the New Management Agreement during any relevant financial year(s);

LETTER FROM THE BOARD

- (2) the “**HKD or RMB Equivalent**” of a US dollar amount shall be determined by converting the US dollar amount into HKD or RMB (as the case may be) at the middle exchange rate between US\$ and HKD or RMB (as the case may be) published by the State Administration of Foreign Exchange of the PRC on the date of payment of the relevant sum, or if such date falls on a date other than a PRC Business Day, the immediately preceding PRC Business Day;
- (3) the “**Reference Year**” means the financial year ended 31 December 2014;
- (4) the “**Invested Portion of the Assets of the Company**” refers to the portion of the Assets of the Company invested in listed or unlisted securities or interests, whereas the “**Un-invested Portion of the Assets of the Company**” refers to the portion of those Assets other than the Invested Portion of the Assets such as cash and receivables;
- (5) the “**book value**” represents the fair value amount of the Assets which are unlisted and represents the mark to market value amount of the Assets which are listed; and
- (6) the aggregate amount of annual management fee and performance fee payable by the Company to CMCIM each year under the New Management Agreement will not exceed the relevant annual cap to be approved by the Independent Shareholders at the EGM to be convened in accordance with the requirements of the Listing Rules.

Note: The Company and CMCIM regard a recognized stock exchange as any stock exchange operated by a recognized exchange company within the laws of the jurisdiction in which the stock exchange is incorporated or otherwise established, including but not limited to the Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, National Equities Exchange and Quotations (NEEQ), the New York Stock Exchange, NASDAQ and the London Stock Exchange.

LETTER FROM THE BOARD

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

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

Proposed annual caps

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

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

In computing the above proposed annual caps, the Directors took into account and made reference to (i) the potential growth in the underlying value of the investment portfolio of the Company, in particular, the potential increase in value as a result of the potential listing of some of its unlisted investments in the PRC and the potential increase in value of its listed investments; (ii) the historical record of the management fee and performance fee received by CMCIM; and (iii) the fee rates under the New Management Agreement. Since the Company became listed on the Stock Exchange in 1993, CMCIM was only entitled to performance fees under the previous investment management agreements for the financial years 2006, 2007 and 2009, and under the Existing Management Agreement for the financial year 2014, during which years the value of the Company's investment portfolio increased substantially. The NAV increased from US\$139,030,538 as at 31 December 2004 to US\$640,128,183 as at 31 December 2014, representing a compound annual growth rate of 16.5%. Since the appointment of CMCIM as the investment manager of the Company in 1993, the highest annual remuneration received by CMCIM was approximately US\$121.1 million which was paid by the Company to CMCIM pursuant to the investment management agreement then effective in 2007. Since the amount of the performance fee payable is directly related to the valuation of the investment portfolio of the Company which is volatile in nature and may fluctuate from year to year, reference has been made to the highest performance fee paid in prior years under the previous investment management agreements and the Existing Management Agreement as the basis and adjusted for the fee rates under the New Management Agreement for determining the above proposed annual caps.

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

LETTER FROM THE BOARD

Historical figures of fees paid under the Existing Management Agreement

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

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

	For the financial year ended 31 December		For the 6 months ended 30 June
	2013	2014	2015
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Management fee	9,353,307	10,195,170	5,862,346
Performance fee	–	10,821,857	–
Total remuneration payable	<u>9,353,307</u>	<u>21,017,027</u>	<u>5,862,346</u>
The annual caps under the Existing Management Agreement	<u>76,000,000</u>	<u>78,500,000</u>	

Condition of the New Management Agreement

The New Management Agreement is conditional upon the approval by the Independent Shareholders at the EGM.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW MANAGEMENT AGREEMENT

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

LETTER FROM THE BOARD

In considering the fees and terms under the New Management Agreement, the Board 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 the New 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.

LISTING RULES IMPLICATIONS

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

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

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

VIEWS OF DIRECTORS

The Directors are of the view that the New Management Agreement is on normal commercial terms and in the ordinary and usual course of business of the Company; that the terms of the New Management Agreement are fair and reasonable and the New Management Agreement is 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 New Management Agreement are fair and reasonable.

Each of Mr. CHU Lap Lik, Victor and Ms. KAN Ka Yee, Elizabeth (being alternate Director to Mr. CHU Lap Lik, Victor) who is interested in the New Management Agreement by virtue of their beneficial interest in CMCIM, did not attend the Board meeting approving the New Management Agreement, and therefore did not vote on the relevant resolutions of the Board approving the same and was not counted in the quorum for the Board meeting.

INFORMATION IN RESPECT OF THE COMPANY AND CMCIM

The Company is an investment company, the Shares of which are listed on the Main Board of the Stock Exchange under Chapter 21 of the Listing Rules. The Group specializes in investing in the PRC. Its investment objective is to acquire quality investments, principally in unlisted enterprises, in the PRC. The Group may also invest in China-concept

LETTER FROM THE BOARD

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.

EXTRAORDINARY GENERAL MEETING

A notice of 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 Wednesday, 25 November 2015 at 10:00 a.m. at which resolution will be proposed to the Shareholders to consider and, if thought fit, to approve the New Management Agreement and the proposed annual caps, is set out on pages 39 to 40 of this circular.

In accordance with Rule 13.39(4) of the Listing Rules, the votes to be taken at the EGM will 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 CMG (through its associates) and as to 45% by Victor Chu China Investment Limited. As at the Latest Practicable Date, the associates of CMG collectively held 27.59% interest in the Company, whereas Victor Chu China Investment Limited and/or its associates collectively held 1.99% interest in the Company. Therefore, the respective associates of CMG and Victor Chu China Investment Limited and/or its respective associates, as the case may be, are deemed to have material interests in the transaction contemplated under the New Management Agreement and shall abstain from voting at the EGM.

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 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.

RECOMMENDATION

Your attention is drawn to the letters from the Independent Board Committee and Altus Capital set out on pages 14 to 15 and pages 16 to 29 of this circular, respectively. The Independent Board Committee, having taken into account the advice of Altus Capital, considers that the terms of the New Management Agreement and the proposed annual caps are fair and reasonable so far as the interests of the Independent Shareholders are concerned,

LETTER FROM THE BOARD

and that the New 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 Shareholders as a whole. Accordingly, the Directors, excluding Mr. CHU Lap Lik, Victor and Ms. KAN Ka Yee, Elizabeth (being alternate Director 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.

ADDITIONAL INFORMATION

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

By Order of the Board
WANG Xiaoding
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)

6 November 2015

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 6 November 2015 (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 New Management Agreement and the proposed annual caps for the remuneration payable to CMCIM are fair and reasonable so far as the Independent Shareholders are concerned.

Altus Capital 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 New Management Agreement and the proposed annual caps.

Your attention is drawn to the “Letter from the Board” set out on pages 4 to 13 of the Circular which contains, inter alia, information about the terms of the New Management Agreement and the proposed annual caps, and the “Letter from Altus Capital” set out on pages 16 to 29 of the Circular which contains its advice in respect of the transaction contemplated under the New 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 New Management Agreement and having taken into account the factors and reasons considered by and the advice of Altus Capital, we consider that the New 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 New 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 New Management Agreement is in the interests of the Company and the Shareholders as a

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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 New Management Agreement and the proposed annual caps.

Yours faithfully,

LIU Baojie ZHU Li TSANG Wah Kwong LI Fang
Independent Board Committee

LETTER FROM ALTUS CAPITAL

The following is the text of a letter of advice from Altus Capital to the Independent Board Committee and the Independent Shareholders in respect of the proposed re-appointment of China Merchants China Investment Management Limited as the investment manager of the Company, which has been prepared for the purpose of incorporation in this circular.

ALTUS CAPITAL LIMITED

21 Wing Wo Street
Central, Hong Kong

6 November 2015

*To the Independent Board Committee and
the Independent Shareholders*

China Merchants China Direct Investments Limited

1803 China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Dear Sir or Madam,

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

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the re-appointment of China Merchants China Investment Management Limited as Investment Manager. Details of the transaction are set out in the “Letter from the Board” contained in the circular of the Company dated 6 November 2015 (the “**Circular**”), of which this letter forms part. Terms used herein shall have the same meanings as those defined in the Circular unless the context requires otherwise.

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 2015. On 15 October 2015, the Company entered into the New Management Agreement with CMCIM in relation to the proposed re-appointment of CMCIM as the investment manager of the Company for a fixed term of three years, commencing on 1 January 2016 and ending on 31 December 2018. The terms of the New Management Agreement are in all material respects the same as the terms of the Existing Management Agreement which was approved by the Independent Shareholders in 2012.

LETTER FROM ALTUS CAPITAL

CMCIM, as the investment manager of the Company, is a connected person of the Company pursuant to Rule 14A.08 of the Listing Rules. Accordingly, the transaction contemplated under the New Management Agreement constitutes 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 for the fees payable under the New Management Agreement for each of the three years ending 31 December 2018 exceed 5%, such transaction constitutes non-exempt continuing connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely, Mr. LIU Baojie, Mr. ZHU Li, Mr. TSANG Wah Kwong and Dr. LI Fang, has been established to consider the New Management Agreement and the transaction contemplated thereunder, including the proposed annual caps, and to give advice and recommendation to the Independent Shareholders as to whether (i) the terms of the New Management Agreement and the transactions contemplated thereunder; and (ii) the proposed annual caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole and on how to vote on the resolution to be proposed at the EGM.

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the New Management Agreement is entered into in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the New Management Agreement, including the proposed annual caps, are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the resolution to be proposed at the EGM.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions, and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the "**Management**"). We have assumed that all statements, information, opinions, and representations contained or referred to in the Circular and/or provided to us were true, accurate, and complete at the time they were made and continued to be so as at the date of the Circular.

We have no reason to believe that any statements, information, opinions, or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us to be untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management have been reasonably

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made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

1. Information of the Group and CMCIM

The Group is an investment company listed on the Stock Exchange under Chapter 21 of the Listing Rules. The Group specialises in investing in the PRC. Its investment objective is to acquire quality investments, principally in unlisted enterprises, in the PRC. The Group also invests in China-concept shares, “H-shares” and “B-shares” and any other shares listed on the Stock Exchange provided that the main businesses or income of such companies are derived in 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 Group. CMCIM has provided investment management services to the Group since 15 July 1993. Pursuant to the terms of the Existing Investment Agreement, CMCIM undertakes all investment and management duties arising pursuant to the operation of the Group and its responsibilities shall include identifying and evaluating investment opportunities, executing investment decisions, monitoring and enhancing investments of the Group, making decisions on investments and realisations for the Group in accordance with the investment objectives and policy of the Group 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.

2. The New Management Agreement

The terms of the New Management Agreement are in all material respects the same as the terms of the Existing Management Agreement which was approved by the Independent Shareholders in 2012. Set out below are the key terms of the New Management Agreement.

Management fee

The Group will pay to CMCIM an annual management fee in US dollars (or the HKD or RMB Equivalent of the same) equal to the aggregate of:

- (a) on the Invested Portion of the Assets of the Group 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 Group represented by securities listed on a recognised stock exchange:

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- (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 Group: 0.75% of the book value,

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

Performance fee

Conditional upon the NAV at the end of each financial year (as Adjusted) exceeding the higher (the “**High Watermark**”) of:

- (a) the NAV for the Reference Year (being the financial year ended 31 December 2014), and
- (b) the NAV of the most recent financial year after the Reference Year and in which a performance fee was paid,

the Group will pay to CMCIM an annual performance fee in US dollars (or the HKD or RMB Equivalent of the same) equal to 8% of the amount by which the NAV as at the end of the relevant financial year (as Adjusted) exceeds the High Watermark. Such fee shall be payable as soon as practicable after the publication of the audited financial results of the Group 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:

For the purposes of calculating the management fee and/or 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;

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- (b) take account of any buy-back or redemption of Shares during any relevant financial year; and
- (c) take no account of (that is, include in the calculation of the NAV as if such distributions had never been made or fees paid) any distributions or dividends made by the Company or any fees paid to CMCIM pursuant to the New Management Agreement during any relevant financial year(s).

Comparable investment management agreements

In order to assess the fairness and reasonableness of the abovementioned management fee and performance fee, we have conducted a research of the remuneration packages adopted by investment companies that are listed on the Stock Exchange under Chapter 21 of the Listing Rules (the “**Comparables**”). Based on our best endeavour and as far as we are aware, we have identified an exhaustive and complete list of nine Comparables which have a remuneration arrangement similar to that of the Group, being one that includes a variable management fee portion and/or a performance fee portion. For the purposes of conducting a direct comparison, we had not included the remaining investment companies listed under Chapter 21 of the Listing Rules as they have different fee structure, and we have also not included any companies that are listed on the Stock Exchange under Chapter 20 of the Listing Rules (i.e. Collective Investment Schemes). Details of the remuneration packages granted by the Comparables to their respective investment managers are summarised below. In general, a high watermark provision refers to a mechanism where the payment of performance/incentive fee is subject to improvement in the performance or financial position relative to a particular reference period and/or the last time when such performance/incentive fee was paid.

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Company	Stock code	Date of agreement/ supplemental agreement	Net asset value (approximately) based on the latest published audited financial statements	Management fee basis	Performance fee/ Incentive fee basis
China Assets (Holdings) Ltd.	170	26 September 2012	US\$196.6 million as at 31 December 2014	<p>The aggregate of:</p> <p>(i) 2.75% per annum on the aggregate cost to the company of the investments (less any provisions in respect thereof) held by it from time to time; and</p> <p>(ii) 1% per annum on the value of the un-invested net asset value (“NAV”) of the company.</p>	<p>Return on net assets:</p> <ul style="list-style-type: none"> – On the first 10%: Nil – On the next 10%: 15% x (net profit after tax minus 10% of net assets) – On the excess over 20%: 20% x (net profit after tax minus 20% of net assets); and <p>20% of the net capital gains of the company if the NAV as at a quarter day would be equal to or greater than 100% of the aggregate of the original subscription price of all shares in the company which then remain outstanding</p>
DT Capital Ltd.	356	28 May 2014	HK\$149.8 million as at 31 December 2014	1.5% per annum of the gross NAV, calculated as the arithmetical average of the published gross NAV on the last day of each calendar month during each relevant year	15% on the amount of audited consolidated NAV of the company (calculated as at the end of each respective financial year) exceeding the high watermark as at the relevant financial year, subject to adjustments by disregarding the effects of any new issue of securities or distribution on the gross NAV
Huge China Holdings Ltd.	428	24 April 2013	HK\$172.8 million as at 31 December 2014	1.5% per annum on the NAV as per the management account of the company in the preceding month and payable by the company monthly in advance	10% of the audited net profit of the company in the financial year and for the purpose of calculating the audited net profit of the financial year (i) any audited net loss of the company in any financial year commencing 1 January 2013 shall be carried forward and set off against the audited net profit of the company in subsequent financial years, and (ii) the audited net profit of the financial year shall be calculated before accrual of any incentive fee that will be payable

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Company	Stock code	Date of agreement/ supplemental agreement	Net asset value (approximately) based on the latest published audited financial statements	Management fee basis	Performance fee/ Incentive fee basis
SHK Hong Kong Industries Ltd.	666	19 November 2012	HK\$1,376.6 million as at 31 December 2014	0.375% per quarter (equivalent to 1.5% per annum) of the gross NAV, calculated as the arithmetical average of the published gross NAV on the last day of each calendar month during each relevant quarter, and payable quarterly in arrears	20% of the amount by which the audited NAV of each year ended 31 December exceeds the high watermark as at the relevant financial year
China Financial International Investments Ltd.	721	25 April 2014	HK\$821.7 million as at 30 June 2014	0.75% per annum of the aggregate market value of the portfolio on the last business day of each calendar month	N/A
UBA Investments Ltd.	768	28 January 2013	HK\$172.1 million as at 31 March 2015	1.5% per annum of the NAV of the company as at the immediately preceding valuation date	20% of the net profit of the company before taxation and before deduction of the management fee payable
Shanghai International Shanghai Growth Investment Ltd.	770	19 March 2014	US\$12.7 million as at 31 December 2014	0.5% per quarter (equivalent to 2.0% per annum) of the NAV calculated before deduction of the fees payable to the investment manager and the company's investment adviser and custodian for that quarter	20% of the amount by which the NAV as at 31 December in the calculation year exceeds the high watermark
Eagle Ride Investment Holdings Ltd.	901	27 March 2014	HK\$108.6 million as at 31 December 2014	2% per annum of the NAV as at each valuation date No management fee is payable on the un-invested portion of the company's assets and such portion shall be excluded from the NAV when calculating the management fee	15% per annum of any net appreciation in the NAV at the relevant performance fee valuation date above the high watermark
OP Financial Investments Ltd.	1140	24 February 2014	HK\$1,266.9 million as at 31 March 2015	1.5% per annum of the NAV as at the immediately preceding valuation date	10% of the appreciation in the NAV per share calculated as at the relevant performance fee valuation date over the base net asset value per share, subject to a high watermark provision

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Company	Stock code	Date of agreement/ supplemental agreement	Net asset value (approximately) based on the latest published audited financial statements	Management fee basis	Performance fee/ Incentive fee basis
The Company	133	15 October 2015	US\$640.1 million as at 31 December 2014	<p>The aggregate of:</p> <p>(a) on the Invested Portion of the Assets of the Group represented by unlisted securities or interests: 2.25% of the book value (net of taxes);</p> <p>(b) on the Invested Portion of the Assets of the Group represented by securities listed on a recognised stock exchange:</p> <p>(i) during the lockup period following listing: 2.25% of the book value (net of taxes);</p> <p>(ii) for the one year after the lockup period lapses: 1.75% of the book value (net of taxes);</p> <p>(iii) thereafter: 1.50% of the book value (net of taxes); and</p> <p>(iv) in respect of listed securities purchased from the secondary market: 1.50% of the book value (net of taxes); and</p> <p>(c) on the Un-invested Portion of the Assets of the Group: 0.75% of the book value.</p> <p>Note: the book value (net of taxes) of unlisted securities or interests mentioned above is based on fair value; whilst the book value (net of taxes) of listed securities mentioned above is based on market to market value.</p>	8% of the amount by which the NAV as at the end of the relevant financial year (as Adjusted) exceeds the High Watermark

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Management fee analysis

The terms of the management fee and performance fee pursuant to the New Management Agreement are in all material respects the same as the terms of the Existing Management Agreement which was approved by the Independent Shareholders in 2012. We note that the management fee charged on the Invested Portion of the Assets of the Company is based on the book value (net of taxes) of the Group's invested Assets. In this respect, based on our discussion with the Management, we understand that under the assumption of no borrowings, the sum of the book value (net of taxes) of the invested and un-invested Assets of the Group is equivalent to the net asset value of the Group. Furthermore, based on the Company's interim report for the six months ended 30 June 2015, the Group had no outstanding bank loans as at 30 June 2015. Accordingly, the management fee structure of the Group (based on book value net of taxes) is comparable to the management fee structure of the Comparables, which are mostly based on net asset value. Based on the above analysis, we are of the view that it is fair and reasonable to set the management fee structure of the Group with reference to book value (net of taxes), which is in essence equivalent to net asset value, being the same basis as that adopted by the Comparables.

Based on our review of the management fee structure of the Comparables, we note that the investment managers of the Comparables usually charge a management fee rate ranging from 0.75% to 2.75% based on net asset value. Based on the Company's management fee structure, we also note that the maximum management fee rate (assuming all the Company's Assets are either (i) unlisted securities or interests; or (ii) securities listed on a recognised stock exchange during the lockup period following listing) would be 2.25%, which is within the management fee rate range of the Comparables. Given that each of the management fee rates for the different classes of Assets of the Group under the New Management Agreement falls within the management fee range of the Comparables, we are of the view that the basis of the management fee under the New Management Agreement is fair and reasonable.

Performance fee analysis

Based on the performance fees adopted by the Comparables as shown above, we note that there are varying structures in the performance fee basis of different Comparables. In particular, some Comparables have adopted high watermark provisions, such that a performance fee will only be paid if the net asset value of the Comparable as at the end of the relevant financial year is higher than (i) the net asset value as at the end of the latest financial year in which a performance fee was paid; and (ii) the net asset value as at a specific date. Meanwhile, other Comparables who have not adopted high watermark provisions generally provide for a performance fee to be calculated with reference to either net profit for the relevant year or increase in net asset value without requiring the net asset value to exceed the amount at the end of the relevant year in which a performance fee was last paid.

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We note that the performance fee rate of 8% pursuant to the New Management Agreement is lower than that of all the Comparables (save for China Financial International Investments Limited, which does not pay a performance fee), regardless of whether a high watermark provision was adopted. Accordingly, we are of the view that the terms of the performance fee pursuant to the New Management Agreement to be commercially justifiable and beneficial to the Group and the Shareholders as a whole.

Based on the analysis above, and in particular (i) the remuneration arrangements adopted by the Comparables varies with different structures; (ii) the management fee rates under the New Management Agreement fall within the range of management fees charged by the Comparables; (iii) the performance fee rate under the New Management Agreement is lower than that of those Comparables which adopt a high watermark provision, we are of the view that the remuneration basis adopted by the Group is commercially justifiable and is fair and reasonable as far as the Company and the Independent Shareholders are concerned.

Term of appointment

Pursuant to the New Management Agreement, the appointment of CMCIM is for a fixed term commencing on 1 January 2016 and ending on 31 December 2018, 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 New 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 New Management Agreement will terminate at the end of the then current fixed period.

Given the above, and also the importance of the continuity of management services provided by investment managers to investment companies, we consider that the term of the New Management Agreement is fair and reasonable and is on normal commercial terms.

3. Reasons and benefits of the New Management Agreement

As disclosed in the "Letter from the Board" of the Circular, and as discussed in paragraph headed "1. Information of the Group and CMCIM" above, CMCIM is a fund management company which manages the investment portfolio and deals with the day-to-day administration of the Company. Pursuant to the New Management Agreement, the responsibilities of CMCIM include, among others, undertaking all investment and management duties arising pursuant to the operation of the Group and shall include identifying and evaluating investment opportunities, executing investment decisions, monitoring and enhancing investments of the Group, making decisions on investments and realisations for the Group in accordance with the investment objectives

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and policy of the Group. Given the above, and also taking into consideration of the background of the Group as an investment company, we are of the view that the entering into of the New Management Agreement by the Company with CMCIM is in the ordinary and usual course of business of the Group.

Also disclosed in the “Letter from the Board” of the Circular, we note that CMCIM has been providing investment management services to the Group since 15 July 1993. The Management is of the view, and we concur, that it would be in the interests of the Group and the Shareholders as a whole to continue the existing relationship with CMCIM. Among the investment companies listed on the Stock Exchange, the Group is the largest in terms of net asset value. Given that CMCIM has been the investment manager of the Company since its listing in 1993, the growth of the Group’s investment portfolio, which directly affects its total net asset value, could only be attributable to CMCIM, particularly where the Group has not in the recent past utilised debt or conducted major equity fund-raising to provide funds for its investing operations. Based on our discussion with the Management, we also understand that the abovementioned success of the Group can be attributed to the contributions made by CMCIM, in particular, its extensive connections in the PRC. Furthermore, the Group’s relationship with CMG and Victor Chu China Investment Limited (being the shareholders of CMCIM, who control CMCIM as to 55% and 45% respectively) has secured some valuable investments for the Group. In addition, according to the Company’s annual reports, we note that the Group’s net asset value has been on a continuously increasing trend since the year ended 31 December 2011 (refer to the table set out below in the section headed “4. The proposed annual caps”). Based on the role of CMCIM as the Company’s investment manager, we reasonably believe that the abovementioned growth in the Group’s net asset value was attributable to the successful implementation of investment strategies by CMCIM, whether by (i) acquiring new investments; (ii) realising gains by disposing of investments; or (iii) appropriately holding on to investments. Based on the above, we are of the view that it would be unrealistic and not commercially practical to suggest that another fund management company could take over the management of the Group as CMCIM has provided investment management services to the Group since 1993 and has a strong track record which has demonstrated its capabilities to secure valuable investments for the Group. In particular, taking into consideration that the Group’s investment objective is to acquire quality investments principally in unlisted enterprises in the PRC, CMCIM’s knowledge of and relationships with the existing investee companies are valuable, and therefore maintaining the continuing relationship would be beneficial to the Company and the Shareholders as a whole.

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4. The proposed annual caps

Set out below is a summary of (i) the historical transaction amount in respect of the remuneration paid to CMCIM under the Existing Management Agreement; and (ii) the proposed annual caps for the three years ending 31 December 2018.

	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		
	2013	2014	2015	2016	2017	2018
	<i>US\$</i> <i>(audited)</i>	<i>US\$</i> <i>(audited)</i>	<i>US\$</i> <i>(unaudited)</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Management fee	9,353,307	10,195,170	5,862,346			
Performance fee	–	10,821,857	–			
Total remuneration payable	9,353,307	21,017,027	5,862,346			
Annual cap	76,000,000	78,500,000	81,000,000	80,000,000	82,500,000	85,000,000

We have discussed with the Management regarding the calculation of the proposed annual caps and understand that they have taken into account of (i) the potential growth in the underlying value of the investment portfolio of the Group; (ii) the historical record of the management fee and performance fee paid to CMCIM under the Existing Management Agreement; and (iii) the management fee and performance fee rates under the New Management Agreement. We also note that the basis for determining the proposed annual caps is materially the same as that adopted for the Existing Management Agreement which was approved by the Independent Shareholders in 2012.

Since the engagement of CMCIM as the investment manager of the Company, CMCIM was only entitled to performance fees under the previous investment management agreements for the financial years 2006, 2007, 2009 and 2014, during which years the value of the Group's investment portfolio increased substantially. In particular, the highest amount of annual remuneration paid to CMCIM occurred in 2007 where total management and performance fees paid amounted to approximately US\$121.1 million. Most recently, performance fee in the amount of approximately US\$10.8 million was paid to CMCIM for the year ended 31 December 2014. Given that the performance fee is directly related to the valuation of the investment portfolio of the Group, which due to its volatile nature, may fluctuate from year to year, we are of the view that it is appropriate to make reference to the highest historical amount of performance fee paid in prior years and also taking into account of the performance fee rate under the New Management Agreement for determining the proposed annual caps.

We also note that the remuneration paid to CMCIM, and hence the proposed annual caps, is affected by the change in net asset value of the Group. Set out below is the net asset value of the Group as extracted from the Company's annual and interim reports.

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	As at 31 December				As at 30
	2011	2012	2013	2014	June
	US\$	US\$	US\$	US\$	US\$
	million	million	million	million	million
	(audited)	(audited)	(audited)	(audited)	(unaudited)
Net asset value	476.9	478.4	501.5	640.1	694.7

Given the above, and in particular that net asset value as at 30 June 2015 is currently higher than that as at 31 December 2014, being the year in which a performance fee was last paid, we are of the view that the basis of determining the proposed annual caps, which, among other things, makes reference to the historical highest amount of remuneration paid to CMCIM, is justifiable. Accordingly, we are of the view that it is also justifiable to set the proposed annual caps at a relatively high level as compared to the previous annual caps for the three years ending 31 December 2015.

Notwithstanding the above, it should be noted that the proposed annual caps do not represent the amounts that will actually be paid to CMCIM. The actual management fee and performance fee payable to CMCIM for the three years ending 31 December 2018 shall be determined based on the terms of the New Management Agreement. Accordingly, the actual remuneration payable for the three years ending 31 December 2018 may not correspond to the proposed annual caps. Further, in the event that fees payable to CMCIM during the Management Period, calculated pursuant to the terms of the New Management Agreement, exceed the proposed annual caps, the Group will have to comply with the relevant provisions under Chapter 14A of the Listing Rules, including without limitation making further announcement and obtaining further approval from the Independent Shareholders at that point in time before making the payments.

5. Continuing connected transactions requirements under the Listing Rules

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors are required to review the Group's continuing connected transactions annually and confirm in the Company's annual report that they have been (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In compliance with the Listing Rules, the Company will engage auditors to report on the Group's continuing connected transactions for each of the three years ending 31 December 2018. Given the above, we consider that there exists appropriate procedures and arrangements to ensure that the continuing connected transaction contemplated under the New Management Agreement will be conducted on terms in compliance with the provisions of the Listing Rules.

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RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that (i) the New Management Agreement is entered into in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the New Management Agreement, including the proposed annual caps, and the transaction contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the New Management Agreement (including the proposed annual caps) and the transaction contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited
Chang Sean Pey
Executive Director

Mr. Chang Sean Pey (“Mr. Chang”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 15 years of experience in banking, corporate finance and advisory and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.

Altus Capital Limited has not acted as an independent financial adviser of the Company’s other transactions in the last two years from the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on this is at a market level and is not conditional upon successful passing of the resolution and that our engagement is on normal commercial terms, Altus Capital Limited is independent of the Company.

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. DIRECTORS' AND CHIEF EXECUTIVES' DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives 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) (i) 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 (ii) which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein; or (iii) 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 Issuers (the "Model Code") were as follows:

Long position in the Shares

<u>Name of Director</u>	<u>Capacity</u>	<u>Number of Shares interested</u>	<u>Approximate percentage of shareholding</u>
Mr. CHU Lap Lik, Victor	Interest of controlled corporations	3,030,024	1.99%

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), to be notified to the Company and the Stock Exchange 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 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:

- (a) Mr. HONG Xiaoyuan is an assistant general manager of China Merchants Group Limited and the chairman of China Merchants Finance Holdings Company Limited; and
- (b) Mr. TSE Yue Kit is the general manager in the funds division of China Merchants Finance Holdings Company Limited.

Save as disclosed, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had 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.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (not being Directors or chief executives of the Company) had, or were deemed to have, interest or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange 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 member of the Group:—

Long and short positions in the Shares and underlying shares of the Company

Shareholder	Long/short position	Capacity	Number of Shares interested	Approximate percentage of shareholding
China Merchants Group Limited (Note 3)	Long position	Interest of controlled corporation	42,022,041	27.59%
China Merchants Steam Navigation Company Limited (Note 3)	Long position	Interest of controlled corporation	42,022,041	27.59%
China Merchants Holdings (Hong Kong) Company Limited (Note 1)	Long position	Interest of controlled corporation	42,022,041	27.59%

Shareholder	Long/short position	Capacity	Number of Shares interested	Approximate percentage of shareholding
China Merchants Finance Holdings Company Limited (Note 2)	Long position	Interest of controlled corporation	42,022,041	27.59%
China Merchants Financial Services Limited (Note 3)	Long position	Interest of controlled corporation	38,855,507	25.51%
Good Image Limited	Long position	Beneficial owner	38,855,507	25.51%
Lazard Asset Management LLC	Long position	Investment manager	28,947,290	19.00%

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 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 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.

4. COMPETING INTERESTS

Mr. HONG Xiaoyuan is a director of and Mr. LI Yinquan is the vice chairman and chief executive officer of China Merchants Capital Investment Co., Ltd. which is actively involved in direct investments and which may compete, either directly or indirectly, with business of the Group. Mr. CHU Lap Lik, Victor and Ms. KAN Ka Yee, Elizabeth (being alternate Director to Mr. CHU Lap Lik, Victor) are 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 business of the Group. However, the Company is capable of carrying on its business independently of, and at arm's length from, the businesses of China Merchants Capital Investment Co., Ltd. and First Eastern

Investment Group. If conflict of interest arises on the part of Mr. HONG Xiaoyuan, Mr. LI Yinquan, Mr. CHU Lap Lik, Victor, or Ms. KAN Ka Yee, Elizabeth, as the case may be, he or she shall, pursuant to the articles of association of the Company, not vote nor 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 was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses to which the Directors and his or her associates were appointed to represent the interests of the Company and/or the Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered, or is 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).

6. MATERIAL ADVERSE CHANGE

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 2014, being the date to which the latest published audited financial statements of the Group were made up.

7. INTERESTS OF DIRECTORS IN ASSETS AND/OR CONTRACTS AND OTHER INTEREST

The Existing Management Agreement and the New Management Agreement

CMCIM is engaged as the investment manager of the Company under the Existing Management Agreement. On 15 October 2015, the Company entered into the New Management Agreement with CMCIM in relation to the proposed re-appointment of CMCIM as the Company's investment manager for the Management Period, immediately following the expiry date of the Existing Management Agreement on 31 December 2015. Mr. LI Yinquan, Mr. CHU Lap Lik, Victor, Mr. WANG Xiaoding 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 interest in CMCIM.

Under the New Management Agreement which is subject to the approval by the Independent Shareholders, the appointment of CMCIM is for a fixed term commencing on 1 January 2016 and ending on 31 December 2018. Thereafter, subject to the approval by the Independent Shareholders in accordance with the Listing Rules and compliance with all other applicable requirements under the Listing Rules, the appointment of CMCIM under the New 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 New 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 Company’s total 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 RMB1.50 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%
Unibank Media (2nd round capital injection)	4,394,100	87,500	1.991%
China Media Management	676,100	4,500	0.666%
Geesun Zhiyun	2,929,500	58,000	1.980%
China Media Investment (1st installment capital contribution)	5,858,300	38,800	0.662%
Jiangsu Huaer	2,226,200	43,800	1.966%
Jinpower Electrical	3,033,500	60,300	1.988%
China Media Investment (2nd installment capital contribution)	953,500	6,100	0.638%
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%
China Media Investment (7th installment capital contribution)	3,352,500	18,900	0.562%
Sanhome Pharmaceutical	17,171,500	94,100	0.548%
China Media Investment (8th installment capital contribution)	2,055,100	11,500	0.559%
China Media Investment – IMAX China	2,021,800	40,000	1.977%
China Media Investment (9th installment capital contribution)	859,600	4,830	0.562%
Xinhua Preschool Education (1st installment capital contribution)	4,898,200	28,400	0.580%
Oriental Pearl	19,619,100	255,510	1.302%
JIC Leasing	38,781,800	65,810	0.170%

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

Note: The details of the projects are disclosed in the 2015 interim report of the Company.

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

Name of projects	Mr. HONG Xiaoyuan (Note 1) US\$	Mr. LI Yinquan (Note 2) US\$	Mr. WANG Xiaoding (Note 3) US\$	Mr. TSE Yue Kit (Note 4) US\$
Unibank Media (1st round capital injection)	12,900	N/A	20,640	1,290
Wuhan Rixin	3,510	N/A	3,510	1,290
Unibank Media (2nd round capital injection)	6,950	N/A	6,950	1,290
China Media Management	300	N/A	1,160	30
Geesun Zhiyun	4,640	N/A	5,780	1,290
China Media Investment (1st installment capital contribution)	2,500	N/A	10,040	250
Jiangsu Huaer	3,500	N/A	4,380	1,290
Jinpower Electrical	4,830	N/A	6,030	1,280
China Media Investment (2nd installment capital contribution)	390	N/A	1,570	40
Liaoning Zhenlong	4,720	N/A	4,620	1,280
NTong	16,420	N/A	12,830	1,280
Teralane Semiconductor	3,090	N/A	2,570	1,290
Hwagain	12,880	N/A	12,880	1,290
China Media Investment (3rd installment capital contribution)	430	N/A	1,710	40
China Media Investment (4th installment capital contribution)	1,820	N/A	7,260	180
Chengtian	12,890	N/A	6,440	1,290
China Media Investment (5th installment capital contribution)	190	N/A	780	20
Esurfing	12,890	N/A	12,890	1,290
China Media Investment (6th installment capital contribution)	2,220	N/A	8,880	220
China Media Investment (7th installment capital contribution)	1,300	N/A	5,200	130
Sanhome Pharmaceutical	12,900	N/A	6,450	1,290
China Media Investment (8th installment capital contribution)	790	N/A	3,170	80
China Media Investment – IMAX China	6,450	N/A	6,450	1,290
China Media Investment (9th installment capital contribution)	330	N/A	1,330	30
Xinhua Preschool Education (1st installment capital contribution)	2,150	N/A	4,310	440
Oriental Pearl	13,930	N/A	38,870	1,390
JIC Leasing	N/A	3,870	12,900	1,290

Note 1: Chairman of the Company (appointed as present post on 18 November 2014)

Note 2: Director and chairman of CMCIM

Note 3: Director and managing director of CMCIM

Note 4: Director and director of CMCIM

As at the Latest Practicable Date, save as disclosed, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2014, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, save as disclosed, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

8. EXPERT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

<u>Name</u>	<u>Qualifications</u>
Altus Capital	a licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the transaction contemplated under the New Management Agreement and the proposed annual caps

Altus Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Altus Capital 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, Altus Capital did not have any direct or indirect interest in any assets which had been, since 31 December 2014, being the date to which the latest published audited financial statements 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.

9. GENERAL

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

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are 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 New 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 14 to 15 of this circular;
- (d) the letter issued by Altus Capital, the text of which is set out on pages 16 to 29 of this circular; and
- (e) the written consent of Altus Capital referred to under the section headed “Expert” in this Appendix.

NOTICE OF THE EXTRAORDINARY GENERAL MEETING



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 Wednesday, 25 November 2015, at Taishan Room, Level 5, Island Shangri-La, Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong, at 10:00 a.m., to consider, and, if thought fit, pass the following resolution (with or without modifications) as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the New Management Agreement as defined and described in the circular of the Company dated 6 November 2015 of which this resolution forms part (the “**Circular**”) (a copy of each of the New 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 New 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 New Management Agreement.”

By Order of the Board
WANG Xiaoding
Director

Hong Kong, 6 November 2015

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Notes:

- (1) A member entitled to attend, speak and vote at the meeting is entitled to appoint more than one proxy to attend, speak 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. HONG Xiaoyuan, Mr. LI Yinquan, Mr. CHU Lap Lik, Victor, Mr. WANG Xiaoding and Mr. TSE Yue Kit; the non-executive Director is Mr. KE Shifeng; and the independent non-executive Directors are Mr. LIU Baojie, Mr. ZHU Li, Mr. TSANG Wah Kwong and Dr. LI Fang. In addition, Ms. KAN Ka Yee, Elizabeth is the alternate Director to Mr. CHU Lap Lik, Victor.