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)

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

RE-ELECTION OF RETIRING DIRECTOR

Financial adviser to the Company

ANGLO CHINESE 英高
CORPORATE FINANCE, LIMITED

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 15 of this circular. A letter from the Independent Board Committee containing its advice and recommendation to the Independent Shareholders is set out on pages 16 to 17 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 18 to 33 of this circular.

A notice convening the EGM to be held at Tianshan Room, Level 5, Island Shangri-La, Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong on Wednesday, 28 November 2018 at 10:00 a.m. is set out on pages 45 to 46 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 1609, Three Pacific Place, 1 Queen's Road East, 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, 8 November 2018

CONTENTS

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
"Articles of Association"	the articles of association of the Company as amended, supplemented or modified from time to time
"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

"EGM"	the extraordinary general meeting of the Company to be held on 28 November 2018 to consider and, if thought fit, approve the transaction contemplated under the New Management Agreement and the proposed annual caps, and the re-election of a retiring Director, the notice of which is set out on pages 45 to 46 of this circular
"Existing Management Agreement"	the investment management agreement entered into between the Company and CMCIM dated 15 October 2015, the term of which will expire on 31 December 2018
"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. 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 2018, 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 2019 to 31 December 2021
"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 18 October 2018 entered into between the Company and CMCIM in relation to the provision of investment management services with effect from 1 January 2019

"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(s)"	United States Dollars, the lawful currency of the United States of America
"%"	per cent

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)

Directors:
Mr. ZHANG Jian*
Mr. ZHANG Rizhong*
Mr. CHU Lap Lik, Victor#
Mr. WANG Xiaoding#
Mr. TSE Yue Kit#
Ms. KAN Ka Yee, Elizabeth#
(Alternate to Mr. CHU Lap Lik, Victor#)
Mr. KE Shifeng*
Mr. LIU Baojie**
Mr. TSANG Wah Kwong**
Dr. LI Fang**

Registered office:
1609, Three Pacific Place,
1 Queen's Road East,
Hong Kong

 # Executive Directors
** Non-executive Directors*
*** Independent non-executive Directors*

8 November 2018

To the Shareholders

Dear Sir or Madam,

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

RE-ELECTION OF RETIRING DIRECTOR

INTRODUCTION

On 18 October 2018, 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 2018. Save for the reduction in certain percentages used in the calculation of management fee under 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 2015.

The purpose of this circular, among others, 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, among others, 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 2018 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 of the Independent Shareholders at the EGM to be convened 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 2019 and ending on 31 December 2021. Thereafter, subject to the approval of 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.

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: 2.00% 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: 2.00% 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: 0.50% 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 (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 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 or fees had never been made or 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);

(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 2017;

(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**" refers to the fair value amount of those Assets which are unlisted and the mark to market value amount of those 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.

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.

Comparison of terms under the New Management Agreement and Existing Management Agreement

Set out below are the changes to the terms of the New Management Agreement compared to those under the Existing Management Agreement:

		The amount of annual management fee in US dollars (or the HKD or RMB Equivalent of the same) payable by the Company to CMCIM under	
		New Management Agreement	**Existing Management Agreement**
(a)	on the Invested Portion of the Assets of the Company represented by unlisted securities or interests	2.00% of the book value (net of taxes)	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 and during the lockup period following listing	2.00% of the book value (net of taxes)	2.25% of the book value (net of taxes)
(c)	on the Un-invested Portion of the Assets of the Company	0.50% of the book value	0.75% of the book value

Save for the above reduction in the percentages used in the calculation of management fee, the terms of the New Management Agreement are in all material respects the same as those of the Existing Management Agreement which was approved by the Independent Shareholders in 2015.

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:

	US$
For the year ending 31 December 2019	72,000,000
For the year ending 31 December 2020	74,000,000
For the year ending 31 December 2021	76,000,000

In computing the above proposed annual caps, the Directors have taken 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 has only been entitled to performance fees under the previous investment management agreements for the financial years 2006, 2007, 2009, 2014 and 2015, and under the Existing Management Agreement for the financial year 2017, during which years the value of the Company's investment portfolio increased substantially. The audited NAV increased from US$139,030,538 as at 31 December 2004 to US$705,626,114 as at 31 December 2017, representing a compound annual growth rate of 13.3%. 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.

Historical figures of fees paid under the Existing Management Agreement

On 15 October 2015, the Company and CMCIM entered into the Existing Management Agreement for the appointment of CMCIM as the investment manager of the Company. The remuneration paid to CMCIM in the two financial years ended 31 December 2016 and 2017 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 2018 was published in the 2018 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 the 6 months ended 30 June**
	2016	**2017**	**2018**
	US$	*US$*	*US$*
	(audited)	*(audited)*	*(unaudited)*
Management fee	10,964,452	12,303,271	6,380,869
Performance fee	—	7,560,103	—
Total remuneration payable	10,964,452	19,863,374	6,380,869

Condition of the New Management Agreement

The New Management Agreement is conditional upon the approval of 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 as well as 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.

In considering the fees and terms under the New Management Agreement, the Board has engaged a financial adviser of the Company 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 RULE IMPLICATIONS

CMCIM, which has been 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 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 2021 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. 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 the New Management Agreement and the related proposed annual caps.

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 the alternate Director to Mr. CHU Lap Lik, Victor) is interested in the New Management Agreement by virtue of their beneficial interest in CMCIM and had abstained from voting on (and was not counted in the quorum for) the relevant resolutions of the Board approving the same.

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 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.

RE-ELECTION OF RETIRING DIRECTOR

As at the Latest Practicable Date, the executive Directors were Mr. CHU Lap Lik, Victor, Mr. WANG Xiaoding and Mr. TSE Yue Kit; the non-executive Directors were Mr. ZHANG Jian, Mr. ZHANG Rizhong and Mr. KE Shifeng; and the independent non-executive Directors were Mr. LIU Baojie, Mr. TSANG Wah Kwong and Dr. LI Fang. Besides, Ms. KAN Ka Yee, Elizabeth is the alternate Director to Mr. CHU Lap Lik, Victor.

Pursuant to Article 101 of the Articles of Association, Mr. ZHANG Jian as a Director appointed by the Board shall hold office until the EGM and shall be eligible for re-election. Details of Mr. ZHANG Jian, who is proposed to be re-elected as a non-executive Director at the EGM, are set out in Appendix II to this circular.

EXTRAORDINARY GENERAL MEETING

A notice of the EGM to be held at Tianshan Room, Level 5, Island Shangri-La, Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong on Wednesday, 28 November 2018 at 10:00 a.m. at which resolutions will be proposed to the Shareholders to consider and, if thought fit, to approve (a) the New Management Agreement and the proposed annual caps; and (b) the re-election of a retiring Director, is set out on pages 45 to 46 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% interests in the Company, whereas Victor Chu China Investment Limited and/or its associates collectively held 1.99% interests 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.

Further, no Shareholder will be required to abstain from voting at the EGM on the resolution to approve the re-election of a retiring Director.

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 1609, Three Pacific Place, 1 Queen's Road East, 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 16 to 17 and pages 18 to 33 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, 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 the 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.

Further, the Directors consider that the proposed re-election of Mr. ZHANG Jian being a retiring Director is 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 resolution as set out in the notice of the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices 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)

8 November 2018

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 8 November 2018 (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 15 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 18 to 33 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 interests of the Company and the 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 New Management Agreement and the proposed annual caps.

Yours faithfully,
LIU Baojie **TSANG Wah Kwong** **LI Fang**
Independent Board Committee

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 transaction contemplated under the New Management Agreement and the proposed annual caps, which has been prepared for the purpose of incorporation in this circular.

ALTUS.

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

8 November 2018

To the Independent Board Committee and
the Independent Shareholders

China Merchants China Direct Investments Limited
1609, Three Pacific Place
1 Queen's Road East
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 proposed re-appointment of CMCIM as the Company's investment manager (the "**Investment Manager**") for the Management Period, immediately following the expiry date of the Existing Management Agreement on 31 December 2018. Details of the transaction are set out in the "Letter from the Board" contained in the circular of the Company dated 8 November 2018 (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 2018 and will be renewed under the New Management Agreement. On 18 October 2018, the Company entered into the New Management Agreement with CMCIM in relation to the proposed re-appointment of CMCIM as the Investment Manager for a fixed term of three years, commencing on 1 January 2019 and ending on 31 December 2021.

CMCIM, as the Investment Manager 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 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 2021 exceed 5%, the transaction contemplated thereunder 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. 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 transaction 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.

THE INDEPENDENT FINANCIAL ADVISER

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 is 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.

We have not acted as an independent financial adviser or financial adviser for other transactions of the Group in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the New Management Agreement and the transaction contemplated thereunder is at market level and not conditional upon successful passing of the resolution, and that our engagement is on normal commercial terms, we are independent of the Company.

BASIS OF OUR OPINION

In formulating our opinion, we have reviewed, amongst others, (i) the New Management Agreement and the Existing Management Agreement; (ii) the Company's annual reports; (iii) the Company's interim report for the six months ended 30 June 2018 (the "**2018 Interim Report**"); and (iv) other information as set out in the Circular.

We have also 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 EGM. The Independent Shareholders will be informed as soon as practicable when we are aware of any material change in all 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.

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 at the time they were made or will be untrue, inaccurate or misleading as at the date of the EGM, 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 and the Management have been reasonably made after due and careful enquiry. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. 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 incomes of such companies are derived from the PRC including Hong Kong.

As at the Latest Practicable Date, the Company has a market capitalisation of approximately HK$1.45 billion on the basis of HK$9.52 per Share and 152,333,013 Shares in issue. As at 30 September 2018, the latest practicable date for ascertaining the unaudited consolidated net asset value per share of the Company prior to the date of the Circular, the unaudited consolidated net asset value per Share was approximately US$4.161 (equivalent to approximately HK$32.61).

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 of the Company dated 15 July 1993 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

Save for the reduction in the percentages used in the calculation of the management fees as described below, 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 2015. For more details of the changes to the terms of the New Management Agreement compared to those under the Existing Management Agreement, please refer to the section headed "Comparison of terms under the New Management Agreement and Existing Management Agreement" in the "Letter from the Board" of the Circular.

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: 2.00% 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:

   (i) during the lockup period following listing: 2.00% 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: 0.50% 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 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**[Note]") of:

(a) the NAV for the Reference Year (being the financial year ended 31 December 2017), 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 into account of any adjustments to the share capital of the Company during any relevant financial year;

(b) take into 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 or fees had never been made or 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. Based on our best endeavour and as far as we are aware, we have identified an exhaustive and complete list of 23 companies (excluding the Company). Shareholders should note that such companies may not be able to represent a direct comparison to the Company due to the difference in assets size, financial performance, investment objectives and portfolio, operation and prospects of the investment companies. Out of the abovementioned 23 companies, there are:

(i) two companies that appear to (1) have not publicly disclosed the amount of or basis of the investment management fee; or (2) have internalised their investment management function;

(ii) 13 companies that only have a fixed management fee with no performance/incentive fee;

Such companies principally invested mainly in listed and unlisted securities with an objective to achieve earnings in the form of medium to long term capital appreciation. In addition, seven of the 13 investment companies are managed by the same investment manager. All of the investment managers of the above companies tend to agree to charge a fixed management fee without any performance fee in their investment management agreement. We believe this may be due to the role of the investment manager being limited to identifying, reviewing and evaluating investment and divestment opportunities, providing investment recommendations to the investment committee of the investment company, executing investment and divestment decisions in accordance with the instructions of the investment committee of the investment company.

(iii) two companies that have a fixed management fee and a performance fee subject to high watermark, including one of which pays its investment manager a monthly fixed management fee of HK$185,000 (equivalent to HK$2.2 million per annum) despite its comparatively small net asset base rendering such fee to constitute approximately 380.0% of its net asset value as at 31 December 2017 as further elaborated below;

(iv) two companies that only have a management fee charged at a certain percentage of net asset value with no performance/incentive fee;

(v) three companies that have a management fee charged at a certain percentage of the net asset value and a performance fee subject to high watermark mechanism; and

(vi) one company that has a management fee charged at a certain percentage of the net asset value and a performance fee based on annual net profit.

In view of the above, it appears that there are different structures and criteria to the compensation package in terms of management fee and performance/incentive fee charged by the investment managers of the abovementioned 23 companies; and each investment company may have its unique structure of the compensation package to serve its own purpose.

Considering the above, we have excluded the 15 companies described in (i) and (ii) above which have no public information or only have fixed management fee arrangement from our analysis. In addition, we noted the net asset value of a company covered in (iii) had experienced substantial decrease in 2016 and 2017, while during the same period, it had also changed its management fee from 2% per annum on the net asset value to a fixed amount of HK$2.2 million per annum since 2017. Such fee gave rise to an unusual percentage of fee over its net asset value as at 31 December 2017 of approximately 380.0%, which we consider abnormal and as such have excluded this company from our comparable analysis. Hence, we have identified an exhaustive and complete list of seven comparables which have a remuneration arrangement (i.e. management fee cum performance fee) similar to that of the Group ("**Comparables**"). 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.

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
Prosperity Investment Holdings Limited (310)	24 November 2015	HK$324.0 million as at 31 December 2017	HK$7,200,000 per annum (for the year ended 31 December 2017, such management fee representing approximately 2.22% of the net asset value as at 31 December 2017)	If any and at such amount as the board of directors may at its discretion determine, provided that no such bonus shall be payable unless the adjusted net asset value as at the end of each financial year exceeds the higher of: (i) the net asset value of the year ended 31 December 2015; and (ii) the adjusted net asset value of the then most recent financial year after year 2015, representing the high watermark, for which the investment manager is paid a discretionary bonus. The amount of such bonus shall not in any event exceed 5% of such excess.
Cocoon Holdings Limited (428)	28 February 2018	HK$174.7 million as at 31 December 2017	1.00% per annum on the net asset value as per the management account of the company of the preceding month with an annual cap of HK$2,980,000 (or such other higher limits to be mutually agreed in good faith between the company and its investment manager)	N/A

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 Financial International Investments Limited (721)	26 April 2017	HK$1,460.1 million as at 30 June 2018	0.75% per annum of the aggregate market value of the portfolio(s) managed by it on the last business day of each calendar month	N/A
DT Capital Limited (356)	26 May 2017	HK$216.1 million as at 31 December 2017	1.5% of the gross net asset value per annum, calculated as the arithmetical average of the published unaudited consolidated net asset value on the last day of each calendar month during each relevant year	15% on the amount of audited consolidated net asset value 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 net asset value
SHK Hong Kong Industries Limited (666)	26 July 2018	HK$1,343.5 million as at 31 December 2017	0.375% of the gross net asset value for each quarter (i.e. equivalent to 1.50% per annum), calculated as the arithmetical average of the published gross net asset value on the last day of each calendar month during each relevant quarter	20% of the amount by which the audited net asset value of each year ended 31 December exceeds the high watermark as at the relevant financial year
UBA Investments Limited (768)	26 January 2016	HK$146.4 million as at 31 March 2018	1.50% per annum of the net asset value of the company and its subsidiaries (the "**UBA Group**") as at the immediately preceding valuation date on the basis of the actual number of days in the relevant calendar month over a year of 365 days	20% of net profit of UBA Group before taxation and before deduction of the management fee payable under the investment management agreements

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
Shanghai International Shanghai Growth Investment Limited (770)	23 March 2017	US$6.9 million as at 31 December 2017	0.50% of the net asset value (calculated before deductions of the fees payable to the investment manager, and the custodian for that quarter) (equivalent to 2.00% per annum) of the company calculated on the last business day of the previous quarter, payable quarterly in advance	20% of the amount by which the net asset value as at 31 December in the year for which the incentive fee is being calculated exceeds the high watermark
The Company (133)	18 October 2018	US$705.6 million as at 31 December 2017	The aggregate of: (a) on the Invested Portion of the Assets of the Group represented by unlisted securities or interests: 2.00% 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: (i) during the lockup period following listing: 2.00%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	8.00% of the amount by which the NAV as at the end of the relevant financial year (as Adjusted) exceeds the High Watermark

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
			(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: 0.50% of the book value. 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 mark to market value.	

Management fee analysis

We note that the management fee is based on the book value (net of taxes) of the Group's invested Assets. Based on the Management's explanation, we understand that the tax is referring to the deferred taxation of unrealised capital gains for investments. According to the 2018 Interim Report, the Group had no outstanding bank loans as at 30 June 2018. Hence, 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 the 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 charge a management fee rate ranging from 0.75% to 2.22% per annum based on their respective net asset value. Based on the Company's management fee structure, we note that the maximum management fee rate (assuming all the Assets of the Group are either (i) unlisted securities or interests; or (ii) securities listed on a recognised stock exchange during the lockup period following listing) would be 2.00%, which is within the management fee rate range, similar to two of the Comparables and at the high end of those Comparables. In view of (i) the satisfactory and long-term services provided by CMCIM given that CMCIM has been providing investment management services to the Group for over 25 years; (ii) the Group's net asset value has increased significantly from US$139,030,538 as at 31 December 2004 to US$705,626,114 as at 31 December 2017, representing a compound annual growth rate of 13.3%; (iii) 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; and (iv) the management fee will be charged on the Invested Portion of the Assets of the Group and the Un-invested Portion of the Assets of the Group when the Comparables have no such differentiation, 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 calculated with reference to net profit for the relevant year.

We note that the performance fee rate of 8.00% pursuant to the New Management Agreement is lower than that of all the Comparables (save for Cocoon Holdings Limited and China Financial International Investments Limited, where their investment management agreement did not cater for any performance fee — it appears that such was a commercial arrangement between the subject listed investment company and the investment manager), 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; (iv) the satisfactory and long-term services provided by CMCIM given that CMCIM has been providing investment management services to the Group for over 25 years; and (v) during the past 15 years the Group's net asset value has increased significantly, 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 2019 and ending on 31 December 2021, 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 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. 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 has secured some valuable investments for the Group. In addition, according to the Company's annual reports and the 2018 Interim Report, we note that the Group's net asset value experienced fluctuations since the year ended 31 December 2015 (refer to the table set out below in the section headed "4. The proposed annual caps") when the Group's net asset value decreased from approximately US$640.1 million as at 31 December 2014 to approximately US$635.3 million as at 31 December 2015, and further decreased to approximately US$561.3 million as at 31 December 2016, then increased to approximately US$705.6 million as at 31 December 2017 before falling back to approximately US$641.3 million as at 30 June 2018. We note that the trend of the Group's net asset value over the past four years is in line with the performance of the Hang Seng Index during the same period. Despite such fluctuations, the Management is of the view, and we concur, that the implementation of investment strategies by CMCIM were satisfactory under a relative subdued market condition given that (i) overall global economy is on a path of recovery; and (ii) the uncertainties brought about by the trade war between the United States and the PRC may lead to a downward pressure on the Chinese economy.

Based on the above, we are of the view that it would not be commercially necessary to suggest that another fund management company takes over the management of the Group as CMCIM has provided investment management services to the Group over 25 years 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 identify new investment projects 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.

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 2021.

	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**		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	US$	*US$*	*US$*	*US$*	*US$*	*US$*
	(audited)	*(audited)*	*(unaudited)*			
Management fee	10,964,452	12,303,271	6,380,869			
Performance fee	—	7,560,103	—			
Total remuneration payable	10,964,452	19,863,374	6,380,869			
Annual cap	**80,000,000**	**82,500,000**	**85,000,000**	**72,000,000**	**74,000,000**	**76,000,000**

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, 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 paid to CMCIM under the Existing Management Agreement; and (iii) the revised management fee and performance fee rates under the New Management Agreement.

According to the 2018 Interim Report, the uncertainties arising from the trade war and global demand may lead to a downward pressure on the Chinese economy overall, but it is expected that the overall pressure may not be large, and it is possible that the annual economic growth rate in the PRC will be no less than 6.7%. As a result of the supply-side structural reforms, the fine-tuning of economic structures has increased the resilience of the Chinese economy.

Also mentioned in the 2018 Interim Report and based on our discussion with the Management, new economic sectors in the PRC such as high-tech and strategic emerging industries, especially in the areas of artificial intelligence ("**AI**") and culture and media, are likely to thrive and develop rapidly due to (i) greater support from the PRC government policies such as the "13th Five-Year Plan" which states that the cultural industry should become the pillar of the national economy in 2020 as well as the "New Generation Artificial Intelligence Development Plan" issued by the State Council of the PRC; and (ii) the increasing attention from the capital market. As such, the Group has invested and intends to continue to seek for investment opportunities in such new economic sectors in the PRC. On the other hand, after considering (i) China Merchants Bank Co., Ltd. represents a substantial portion of the investment portfolio held by the Group in the financial services sector; and (ii) China Merchants Bank Co., Ltd. experienced steady improvement in its net profit with a compound annual growth rate of approximately 10.3% from 2015 to 2017, we are of the view that the value of the Group's investment portfolio in the financial services sector may grow steadily in the future.

Taking into account the above and as shown in the 2018 Interim Report, the Group's investment currently focused on the financial industry with an emphasis on the banking sector, on emerging technology industries featuring AI, and on great cultural industry with an emphasis on culture and tourism, we therefore are of the view that it is reasonable to expect the Group's investment portfolio value to grow steadily going forward. In addition, it is noted in the 2018 Interim Report that the Group will place its investment focus on the healthcare industry with an emphasis on medicine and healthcare in future. In view of the vast population in the PRC, we believe that there exists growing demand for quality medicine and healthcare; hence, as the Group will also focus to invest in the healthcare industry with an emphasis on medicine and healthcare, this may further enhance its investment portfolio value.

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, 2014 and 2015, and under the Existing Management Agreement for the financial year 2017, during which years the value of the Company'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, US$1.8 million and US$7.6 million was paid to CMCIM for the year ended 31 December 2014, 2015 and 2017 respectively. 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 refer to the highest historical amount of performance fee paid in prior years and also considering 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.

	As at 31 December				As at 30 June
	2014	**2015**	**2016**	**2017**	**2018**
	US$ million	*US$ million*	*US$ million*	*US$ million*	*US$ million*
	(audited)	*(audited)*	*(audited)*	*(audited)*	*(unaudited)*
Net asset value	640.1	635.3	561.3	705.6	641.3

Given the above, and taking into account that (i) the net asset value as at 30 June 2018 is currently lower than that as at 31 December 2017; (ii) the potential downward pressure from a trade war and global demand; and (iii) the Group's intention to seek for investment opportunities in the new economic sector, we are of the view that it is justifiable to set the proposed annual caps at a slightly lower level as compared to the previous annual caps for the three years ending 31 December 2021.

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 2021 shall be determined based on the terms of the New Management Agreement. Accordingly, the actual remuneration payable for the three years ending 31 December 2021 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.

Based on the above, we noticed that (i) the potential listing of some of its unlisted investments in the PRC, which is dependent on the market conditions, may have material positive impacts on the growth of the Group's net asset value given that the value of the Group's investment in the unlisted companies accounted for approximately 52.0% of its total assets according to the 2018 Interim Report; (ii) the historical high performance fee recorded in the past as well as the fact that the performance fee payable to the Investment Manager is directly related to the valuation of the investment portfolio of the Group which may fluctuate year to year subject to the market conditions; and (iii) that the performance fee is a contractual arrangement, and should the market conditions improve, the Group is obligated to pay the Investment Manager a performance fee irrespective of the size of the proposed annual caps. As such, even though the utilisation rate of the historical annual caps was relatively low, being approximately 13.7% and 24.1% respectively in 2016 and 2017 which may be attributable to the relatively subdued market conditions during the past few years, we have catered for the aforementioned considerations and are of the view that setting the proposed annual caps at such level is fair and reasonable.

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
Jeanny Leung
Executive Director

*Ms. Jeanny Leung ("**Ms. Leung**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activities under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has about 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions.*

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

Name of Director	Capacity	Number of Shares interested	Approximate percentage of shareholding
Mr. CHU Lap Lik, Victor	Interest of controlled corporation	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 were 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:

(a) Mr. ZHANG Jian is the general manager of financial equity management department of CMG, standing vice chairman of the executive committee of China Merchants financial services business unit as well as director and deputy general manager 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, interests 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 2)*	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%
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 2)*	Long position	Interest of controlled corporation	42,022,041	27.59%
Good Image Limited	Long position	Beneficial owner	42,022,041	27.59%
Lazard Asset Management LLC	Long position	Investment manager	25,078,145	16.46%

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. 99.34%) in the company whose name is set out immediately under it.

Note 2: China Merchants Group Limited, China Merchants Finance Holdings 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.

Note 3: China Merchants Steam Navigation Company Limited is deemed to have corporate interests in the Shares by virtue of its controlling shareholding (i.e. 89.45%) 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. ZHANG Rizhong is the director 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 the business of the Group. Mr. CHU Lap Lik, Victor and Ms. KAN Ka Yee, Elizabeth (being the 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 the 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. ZHANG Rizhong, 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, 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 disclosed in the 2018 interim report of the Company, the Group recorded a consolidated loss of US$47.52 million for the six months ended 30 June 2018. The loss was mainly attributable to a decline in the overall value of financial assets 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 2017, 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 18 October 2018, 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 2018. Mr. ZHANG Rizhong, 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 interests in CMCIM.

Under the New Management Agreement, which is subject to the approval of the Independent Shareholders, the appointment of CMCIM is for a fixed term commencing on 1 January 2019 and ending on 31 December 2021. Thereafter, subject to the approval of 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 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 actually provided by the Participants and their relative proportion to the investment amounts actually paid by the Company were as follows:

Name of projects	**Original investment amount of the Company** *US$**	**Original amounts actually paid by the Participants** *US$**	**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 Intelligent	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%
Hwagain	19,004,900	161,100	0.847%
China Media Investment (3rd installment capital contribution)	1,075,300	6,200	0.575%

Name of projects	Original investment amount of the Company *US$**	Original amounts actually paid by the Participants *US$**	Relative proportion
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%
Besttone	15,101,000	117,530	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%
China Media Investment (8th installment capital contribution)	2,055,100	11,500	0.559%
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%
China Re	19,308,300	41,290	0.214%
Jinlanmei Travel (1st installment capital contribution)	1,489,000	14,180	0.952%
Iflytek	18,827,500	33,500	0.178%
Iflytek Venture Capital (1st installment capital contribution)	5,193,900	9,270	0.178%
Rong Bao Zhai Culture (1st installment capital contribution)	28,855,000	86,790	0.301%
Rong Bao Zhai Culture (2nd installment capital contribution)	14,505,400	43,240	0.298%
Iflytek Venture Capital (2nd installment capital contribution)	2,008,800	3,480	0.178%
Qinghai Lake Tourism (1st installment capital contribution)	7,502,800	9,590	0.128%
Qinghai Lake Tourism (2nd installment capital contribution)	22,927,700	28,800	0.126%
Iflytek Venture Capital (3rd installment capital contribution)	2,146,800	3,480	0.178%
The Jiangmen Ventures Fund	4,741,800	20,470	0.432%
Cambricon	5,940,100	90,480	1.523%
Pony AI	8,000,000	35,677	0.445%

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

Note: The details of the projects are disclosed in the 2018 interim report of the Company.

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

Name of projects	Mr. HONG Xiaoyuan *(Note 1)* *US$*	Mr. ZHANG Rizhong *(Note 2)* *US$*	Mr. WANG Xiaoding *(Note 3)* *US$*	Mr. TSE Yue Kit *(Note 4)* *US$*	Mr. LAW Hung Kuen, Janson *(Note 5)* *US$*
Unibank Media (1st round capital injection)	12,900	N/A	20,640	1,290	N/A
Wuhan Rixin	3,510	N/A	3,510	1,290	N/A
Unibank Media (2nd round capital injection)	6,950	N/A	6,950	1,290	N/A
China Media Management	300	N/A	1,160	30	N/A
Geesun Intelligent	4,640	N/A	5,780	1,290	N/A
China Media Investment (1st installment capital contribution)	2,500	N/A	10,040	250	N/A
Jiangsu Huaer	3,500	N/A	4,380	1,290	N/A
Jinpower Electrical	4,830	N/A	6,030	1,280	N/A
China Media Investment (2nd installment capital contribution)	390	N/A	1,570	40	N/A
Liaoning Zhenlong	4,720	N/A	4,620	1,280	N/A
NTong	16,420	N/A	12,830	1,280	N/A
Hwagain	12,880	N/A	12,880	1,290	N/A
China Media Investment (3rd installment capital contribution)	430	N/A	1,710	40	N/A
China Media Investment (4th installment capital contribution)	1,820	N/A	7,260	180	N/A
Chengtian	12,890	N/A	6,440	1,290	N/A
China Media Investment (5th installment capital contribution)	190	N/A	780	20	N/A
Besttone	12,120	N/A	12,120	1,210	N/A
China Media Investment (6th installment capital contribution)	2,220	N/A	8,880	220	N/A
China Media Investment (7th installment capital contribution)	1,300	N/A	5,200	130	N/A
China Media Investment (8th installment capital contribution)	790	N/A	3,170	80	N/A
China Media Investment (9th installment capital contribution)	330	N/A	1,330	30	N/A
Xinhua Preschool Education (1st installment capital contribution)	2,150	N/A	4,310	440	N/A

Name of projects	Mr. HONG Xiaoyuan *(Note 1)* *US$*	Mr. ZHANG Rizhong *(Note 2)* *US$*	Mr. WANG Xiaoding *(Note 3)* *US$*	Mr. TSE Yue Kit *(Note 4)* *US$*	Mr. LAW Hung Kuen, Janson *(Note 5)* *US$*
Oriental Pearl	13,930	N/A	38,870	1,390	N/A
JIC Leasing	N/A	N/A	12,900	1,290	N/A
China Re	N/A	N/A	12,900	1,290	1,290
Jinlanmei Travel (1st installment capital contribution)	N/A	N/A	3,220	640	640
Iflytek	N/A	N/A	12,890	1,290	1,290
Iflytek Venture Capital (1st installment capital contribution)	N/A	N/A	6,440	1,290	1,290
Rong Bao Zhai Culture (1st installment capital contribution)	N/A	N/A	8,590	860	860
Rong Bao Zhai Culture (2nd installment capital contribution)	N/A	N/A	4,290	420	420
Iflytek Venture Capital (2nd installment capital contribution)	N/A	N/A	970	190	190
Qinghai Lake Tourism (1st installment capital contribution)	N/A	640	3,200	320	320
Qinghai Lake Tourism (2nd installment capital contribution)	N/A	1,920	9,600	960	960
Iflytek Venture Capital (3rd installment capital contribution)	N/A	N/A	970	190	190
The Jiangmen Ventures Fund	N/A	1,280	3,840	1,280	1,280
Cambricon	N/A	6,370	22,940	1,270	1,270
Pony AI	N/A	1,274	6,371	1,274	2,548

Note 1: Chairman of the Company (resigned on 14 September 2018)

Note 2: Director and chairman of CMCIM

Note 3: Director and director & general manager of CMCIM

Note 4: Director and director of CMCIM

Note 5: 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 2017, 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.

8. EXPERT

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

Name	Qualifications
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 have been, since 31 December 2017, 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 will be available for inspection at the registered office of the Company at 1609, Three Pacific Place, 1 Queen's Road East, 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 16 to 17 of this circular;

(d) the letter issued by Altus Capital, the text of which is set out on pages 18 to 33 of this circular; and

(e) the written consent of Altus Capital referred to under the section headed "Expert" in this Appendix.

Mr. ZHANG Jian *(Non-executive Director)*

Mr. ZHANG Jian, aged 53, was appointed as non-executive Director, chairman of the Board, chairman of the investment committee and nomination committee of the Company on 14 September 2018. He is currently the general manager of financial equity management department of CMG, standing vice chairman of the executive committee of China Merchants financial services business unit as well as director and deputy general manager of China Merchants Finance Holdings Company Limited, both of these companies are substantial Shareholders. He is also a director of China Merchants Bank Co., Ltd. (its shares are listed on both the Shanghai Stock Exchange and the Stock Exchange), Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd., Shijinshi Credit Service Co., Ltd., China Merchants Life Insurance Co., Ltd. and Four Rivers Investment Management Co., Ltd., and the chairman of China Merchants Fintech Co., Ltd. Prior to joining China Merchants Finance Holdings Company Limited in September 2015, Mr. ZHANG worked with China Merchants Bank Co. Ltd. as the general manager of Suzhou branch, deputy general manager (department in-charge) of corporate banking department of head office, business director and general manager of corporate banking department of head office, business director and general manager of credit risk management department of head office, business director and general manager of comprehensive risk management office of head office. Mr. ZHANG obtained his bachelor's degree in Economics & Management from the Department of Economics of Nanjing University and master's degree in Econometrics from the Nanjing University Business School. He is also a qualified senior economist in China. Save as disclosed above, Mr. ZHANG did not hold any directorship in other listed public companies in the last three years, and he does not hold any other position with the Company and other members of the Group.

The service contract between the Company and Mr. ZHANG has a fixed term of three years. However, Mr. ZHANG is subject to retirement and re-election at the EGM pursuant to Article 101 of the Articles of Association. Thereafter, he will be subject to rotational retirement and re-election requirements at annual general meetings pursuant to Article 105 of the Articles of Association. Mr. ZHANG is not involved in day-to-day operations, and does not manage the investment portfolio of or give investment advice to the Company. Mr. ZHANG will not receive Directors' fee or other remuneration from the Company. Save as disclosed above, Mr. ZHANG is and was not connected with any Directors, senior management of the Company or substantial or controlling Shareholders. As at the Latest Practicable Date, Mr. ZHANG did not have any interests in the Shares within the meaning of Part XV of the SFO.

Mr. ZHANG has confirmed that there are no other matters relating to his re-election that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Listing Rules.

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, 28 November 2018, at Tianshan Room, Level 5, Island Shangri-La, Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong, at 10:00 a.m. for the following purposes:

1. To re-elect Mr. ZHANG Jian as a non-executive Director.

2. To consider, and, if thought fit, pass the following resolution (with or without modifications) as an ordinary resolution of the Company:

   "**THAT**:

   (a) the New Management Agreement as defined and described in the circular of the Company dated 8 November 2018 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, 8 November 2018

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 1609, Three Pacific Place, 1 Queen's Road East, 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 are Mr. CHU Lap Lik, Victor, Mr. WANG Xiaoding and Mr. TSE Yue Kit; the non-executive Directors are Mr. ZHANG Jian, Mr. ZHANG Rizhong and Mr. KE Shifeng; and the independent non-executive Directors are Mr. LIU Baojie, 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.