
IMPORTANT

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

If you have sold all your shares in China Merchants China Direct Investments Limited, you should at once hand this document and the enclosed form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.



CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

(Incorporated with limited liability in Hong Kong)

Proposals relating to Amendment of

Borrowing Policy

A notice convening an extraordinary general meeting of shareholders of the Company to be held at Room 1101, Shun Tak Centre, West Tower, 200 Connaught Road, Central, Hong Kong on Monday, 12th May, 1997 at 10:00 a.m. is set out on page 4 of this circular.

Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion of the form of proxy will not preclude shareholders from attending and voting at the meeting or any adjourned meeting should they so desire.

25th April, 1997

LETTER FROM THE BOARD OF DIRECTORS



CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

(Incorporated with limited liability in Hong Kong)

Executive Directors:

SUN Yin (*Chairman*)
CHU Lap Lik, Victor
ZHANG Yun Kun
ZHANG Zheng Ming
KWOK Fai

Registered Office:

Room 1101
Shun Tak Centre
West Tower
200 Connaught Road
Central
Hong Kong

Non-executive Directors:

HUEGLE Peter P.
JIA Yuan
KUT Ying Hay
The Hon. LI Kwok Po, David
POON Kwok Lim, Steven
SATO Haruo
CHIA Teck Swee
JIA Jianping

25th April, 1997

To the shareholders

Dear Sir or Madam,

PROPOSALS RELATING TO AMENDMENT OF BORROWING POLICY

1. INTRODUCTION

On 27th September, 1996 the directors of the Company (the "Directors") resolved to redefine the borrowing policy of the Company, subject to the approval of shareholders of the Company. At a board meeting held on 24th December, 1996 the proposals set out in paragraph 2 below (the "Proposals") were approved for presentation to shareholders.

The purpose of this circular is to give you details of and the reasons for the Proposals. The circular also contains a notice of the requisite extraordinary general meeting of shareholders of the Company.

LETTER FROM THE BOARD OF DIRECTORS

2. THE PROPOSALS

Under the existing borrowing policy stated in the Company's prospectus dated 15th July, 1993 (the "Prospectus") issued in connection with the placing (the "Placing") and listing of its shares on The Stock Exchange of Hong Kong Limited, the Company and its subsidiaries (the "Group") may not borrow, or give guarantees in respect of borrowings or other obligations if, at the time of any such transaction, the Group's aggregate liability in respect thereof would exceed 25 per cent of the net asset value of the Company calculated in accordance with the provisions set out in Section 3 of Appendix IV of the Prospectus ("NAV"). The Proposals provide that the aggregate liability in respect of borrowings (excluding the giving of guarantees in respect of borrowings or other obligations) (the "Permitted Borrowings") may not exceed 50 per cent of NAV at the time of the relevant transaction.

In addition, it is proposed that the restriction on the use of Permitted Borrowings for short-term funding requirements as stated in the Prospectus will be lifted.

3. REASONS FOR THE PROPOSALS

If approved by the shareholders of the Company, the Proposals will effectively increase the existing limit imposed on Permitted Borrowings. The Company has not to date incurred any Permitted Borrowings and the Company's investments are currently funded out of the proceeds of the Placing. However, based on the unaudited management accounts as at 31st March, 1997 the Group had invested approximately US\$75.1 million in 12 unlisted projects in the People's Republic of China and approximately US\$5.7 million in listed securities, representing in aggregate approximately 76 per cent of the Group's net assets. The Company is in the process of evaluating a number of additional investments and the Directors anticipate that the Company will be fully invested before the end of 1997. It is therefore the Company's intention to seek external funding to finance further investments as and when required, when the proceeds of the Placing are fully invested.

In addition, as the Company's investments are held as long term investments, it is appropriate that the restriction on the use of Permitted Borrowings for short-term funding be lifted.

4. EXTRAORDINARY GENERAL MEETING

An extraordinary general meeting of the Company, notice of which is set out on page 4, will be convened at Room 1101, Shun Tak Centre, West Tower, 200 Connaught Road, Central, Hong Kong on Monday, 12th May, 1997 at 10:00 a.m. for the purpose of considering and, if thought fit, passing ordinary resolutions to approve the Proposals.

A form of proxy for use at the extraordinary general meeting is enclosed.

Whether or not you are able to attend the meeting in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the registered office of the Company at Room 1101, Shun Tak Centre, West Tower, 200 Connaught Road, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Lodging a form of proxy will not preclude you from attending and voting at the meeting in person should you wish to do so.

LETTER FORM THE BOARD OF DIRECTORS

5. RECOMMENDATION

Your Directors consider that the Proposals are in the best interests of the Company and its shareholders and unanimously recommend the shareholders of the Company to vote in favour of the Proposals at the meeting.

Yours faithfully,
China Merchants China Direct Investments Limited
Sun Yin
Chairman

NOTICE OF EXTRAORDINARY GENERAL MEETING

CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED

(Incorporated with limited liability in Hong Kong)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting (the "Meeting") of China Merchants China Direct Investments Limited (the "Company") will be held at Room 1101, Shun Tak Centre, West Tower, 200 Connaught Road, Central, Hong Kong on Monday, 12th May, 1997 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, which will be proposed as Ordinary Resolutions:

ORDINARY RESOLUTIONS

1. "THAT the existing borrowing policy of the Company stated in the Company's prospectus dated 15th July, 1993 (the "Prospectus") be and is amended and that with effect from the date of this resolution the Company and its subsidiaries (the "Group") will not incur borrowings, if at the time of any such transaction, the Group's aggregate liability in respect thereof would exceed 50 per cent of the net asset value of the Company calculated in accordance with the provisions set out in Section 3 of Appendix IV of the Prospectus at the time of the relevant transaction."
2. "THAT the restriction on the use of borrowings for short-term funding requirements as stated in the Prospectus be and is hereby lifted."
3. "THAT for the purposes of Resolutions 1 and 2 above, guarantees in respect of borrowings or other obligations will not be treated as borrowings."

By order of the Board
SUN YIN
Chairman

Hong Kong, 25th April, 1997

Registered Office:
Room 1101
Shun Tak Centre
West Tower
200 Connaught Road
Central
Hong Kong

Notes:

1. Every member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with any power of attorney (if any) or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited at the registered office of the Company at Room 1101, Shun Tak Centre, West Tower, 200 Connaught Road, Central, Hong Kong not less than 48 hours before the time appointed for holding the Meeting.
3. A form of proxy for use at the Meeting is enclosed.