

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 a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Haidian Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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CHINA HAIDIAN HOLDINGS LIMITED

中國海澱集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 256)

DISCLOSEABLE TRANSACTION

Financial adviser to China Haidian Holdings Limited



Quam Capital Limited

19 January 2006

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

| | |
|----------------------------------|---|
| “Board” | the board of the Directors |
| “Company” | China Haidian Holdings Limited 中國海澱集團有限公司, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange |
| “connected person” | has the meaning ascribed thereto in the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “Group” | the Company and its subsidiaries |
| “HK\$” | Hong Kong dollar(s), the lawful currency of Hong Kong |
| “Hong Kong” | The Hong Kong Special Administrative Region of the PRC |
| “Increase in Registered Capital” | the proposed increase in Xinyang’s registered capital from RMB26 million (HK\$25 million) to RMB88.5 million (approximately HK\$85.1 million) |
| “Jing Guan” | 北京京冠房地產開發有限公司 (Beijing Jing Guan Property Development Company Limited), a company established in the PRC on 26 November 2003 and a wholly-owned subsidiary of the Company |
| “Latest Practicable Date” | 17 January 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Mr. Li” | 李世強 (Li Shiqiang), one of the shareholders of Xinyang |
| “Mr. Lin” | 林希 (Lin Xi), one of the shareholders of Xinyang |
| “PRC” | The People’s Republic of China |
| “RMB” | Renminbi, the lawful currency of the PRC, and the exchange rate for RMB into HK\$ for the purpose of this circular is RMB1.04 = HK\$1.00 |

DEFINITIONS

| | |
|------------------|--|
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Share(s)” | the ordinary share(s) of HK\$0.10 each in the issued share capital of the Company |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Xinyang” | 北京鑫陽房地產開發有限公司 (Beijing Xinyang Real Estate Development Limited), a company established in the PRC and is owned as to 80%, 12% and 8% by Jing Guan, Mr. Li and Mr. Lin respectively |
| “%” | per cent |

LETTER FROM THE BOARD



CHINA HAIDIAN HOLDINGS LIMITED

中國海澱集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 256)

Executive Directors:

Mr. Hon Kwok Lung (*Chairman*)
Mr. Wang Shaolan (*Vice Chairman*)
Mr. Shang Jian Guang
(*Chief Executive Officer*)
Mr. Shi Tao
Mr. Lam Toi Man

Non-executive Director:

Ms. Sit Lai Hei

Independent non-executive Directors:

Mr. Fung Tze Wa
Dr. Kwong Chun Wai, Michael
Mr. Li Qiang

Registered Office:

P.O. Box 309
Ugland House
South Church Street
Grand Cayman
The Cayman Islands

Principal Place of Business:

Suites 2701-2705 & 2715-2716
27th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

19 January 2006

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

INTRODUCTION

It was announced on 9 January 2006 that the shareholders of Xinyang unanimously approved the increase of its registered capital from RMB26 million (HK\$25 million) to RMB88.5 million (approximately HK\$85.1 million) which will be paid up by the shareholders pro rata to their existing holdings before 27 January 2006. Jin Guan, a wholly-owned subsidiary of the Company, which has an 80% equity interest in Xinyang is, therefore, required to inject RMB50 million (approximately HK\$48.1 million) into Xinyang.

The Increase in Registered Capital constitutes a discloseable transaction for the Company under the Listing Rules.

The purpose of this circular is to provide you with further information relating to the Increase in Registered Capital.

LETTER FROM THE BOARD

THE PROPOSED INCREASE IN REGISTERED CAPITAL

Xinyang, a subsidiary of the Company, is owned as to 80%, 12% and 8% by Jing Guan, Mr. Li and Mr. Lin respectively. Jing Guan is a company incorporated in the PRC and is a wholly-owned subsidiary of the Company. Mr. Li is a substantial shareholder and director of Xinyang and Mr. Lin is a director of Xinyang, therefore they are connected persons of the Company.

Pursuant to the articles of association of Xinyang, a domestic company in the PRC with limited liability, any alterations to its registered capital must be conditional on approval by shareholders in a general meeting. On 9 January 2006, the shareholders of Xinyang unanimously approved the increase of its registered capital from RMB26 million (HK\$25 million) to RMB88.5 million (approximately HK\$85.1 million), which will be paid up by the shareholders pro rata to their existing holdings before 27 January 2006. Therefore, Jing Guan, Mr. Li and Mr. Lin are required to inject RMB50 million (approximately HK\$48.1 million), RMB7.5 million (approximately HK\$7.2 million) and RMB5 million (approximately HK\$4.8 million) into Xinyang respectively. The amount of the Increase in Registered Capital was determined based on arm's length negotiations among the shareholders of Xinyang taking into consideration of the estimated amount of future borrowings to finance the property development project as detailed in the section headed "Information on Xinyang" below. Save for the obligation to contribute the additional registered capital, Jing Guan is not obliged to provide any further capital contribution under the articles of association of Xinyang.

Jing Guan will finance the aforesaid capital injection with internal resources. Therefore, the Increase in Registered Capital will not affect the net asset value of the Group. The Increase in Registered Capital by itself will not affect the earnings of the Group.

INFORMATION ON XINYANG

Xinyang is principally engaged in property development. At present, it is the sole developer in the redevelopment of old buildings on Guangqumen South Street, Chongwen District, Beijing, the PRC with a total planned site area of 106,100 square meters. The site will be developed into an area with serviced apartments, commercial and residential properties together with community facilities. The demolition work was commenced in December 2005 and is expected to be completed by the end of August this year. Construction works will commence thereafter. The management expects the project will be completed in phases in 2008. Save as aforementioned, Xinyang has not been involved in any other business activities since its establishment on 20 August 2003.

Xinyang had incurred loss of approximately RMB0.6 million (approximately HK\$0.6 million) and RMB2.7 million (approximately HK\$2.6 million) for each of the two years ended 31 December 2004 respectively. According to the latest management accounts of Xinyang, its net asset value was approximately RMB19.9 million (approximately HK\$19.1 million) as at 30 November 2005.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE INCREASE IN REGISTERED CAPITAL

The proposed Increase in Registered Capital will increase Xinyang's capital base and, therefore, strengthen its ability to raise bank borrowings in future. In addition, capital contributions by Xinyang's shareholders will be pro rata to their existing holdings. Hence, the terms of the Increase in Registered Capital are fair and reasonable.

With the fast economic growth in the PRC and China's accession to the World Trade Organisation, the outlook of the property market in Beijing is considered to be promising. Xinyang's redevelopment project is located at a prime site for property development in Beijing. It is located in the city district along Erhuan Road region of Beijing, where land supply is limited, and moreover it is adjacent to the Chaoyang's Central Business District. Given that Xinyang's property redevelopment project is an attractive investment opportunity for the Group to expand its property development business in the PRC, the Directors consider that the Increase in Registered Capital is in the interests of the Group and the Shareholders as a whole.

GENERAL

The Group is principally engaged in the manufacturing and sale of watches and clocks, property investment and development, manufacturing and distribution of timber products.

ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
Hon Kwok Lung
Chairman

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of the directors and chief executives of the Company

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

| Name of Director | Nature of interest | Number of Shares held | |
|-------------------|---------------------------|-----------------------|----------------------------|
| | | Long position | Percentage of shareholding |
| Mr. Hon Kwok Lung | Corporate (<i>Note</i>) | 625,393,515 | 40.48% |

Note: These Shares were owned by Sincere View International Limited, which is owned as to 50% by Mr. Hon Kwok Lung and 20% by Ms. Lam Suk Ying, the wife of Mr. Hon Kwok Lung.

Save as disclosed above, as at the Latest Practicable Date, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

(b) Interests of substantial shareholders*The Company*

As at the Latest Practicable Date, so far as was known to the directors and chief executive of the Company, the following entity or persons had, or was taken or deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

| Name of interested party | Number of Shares held | |
|------------------------------------|-----------------------|----------------------------|
| | Long position | Percentage of shareholding |
| Sincere View International Limited | 625,393,515 | 40.48% |
| Mr. Hon Kwok Lung (<i>Note</i>) | 625,393,515 | 40.48% |
| Ms. Lam Suk Ying (<i>Note</i>) | 625,393,515 | 40.48% |

Note: As Sincere View International Limited is 50% owned by Mr. Hon Kwok Lung, Mr. Hon Kwok Lung is deemed to be interested in the 625,393,515 Shares held by Sincere View International Limited under Part XV of the SFO. Ms. Lam Suk Ying, being Mr. Hon Kwok Lung's spouse, is also deemed to be interested in the 625,393,515 Shares held by Sincere View International Limited under Part XV of the SFO.

Other members of the Group

As at the Latest Practicable Date, so far as was known to the directors and chief executive of the Company, the following person who was, 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:

| Name of subsidiary | Name of shareholder | Percentage of shareholding |
|--------------------|---------------------|----------------------------|
| Xinyang | Mr. Li | 12% |

Save as disclosed above, the directors and chief executive of the Company were not aware of any entities or persons who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was, 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 as at the Latest Practicable Date.

3. COMPETING BUSINESS

None of the Directors and their respective associates has any interests in a business, which competes or is likely to compete with the business of the Group.

4. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

5. DIRECTORS' SERVICE CONTRACTS

Mr. Wong Shaolan, an executive Director, has entered into a service contract with the Company for a term of three years commencing from 5 July 2004. In the event that the Company terminates the service contract prior to the expiry of the contract, Mr. Wang Shaolan will be entitled to a compensation equivalent to his twelve months' salaries, being HK\$1,348,200.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

6. GENERAL

- (a) The secretary of the Company is Mr. Lam Che Wah, Danny, who is an associate member of each of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.
- (b) The qualified accountant of the Company is Mr. Fong Chi Wah, who is a Certified Practising Accountant (Australia).
- (c) The registered office of the Company is at P.O. Box 309, Ugland House, South Church Street, Grand Cayman, the Cayman Islands and the principal place of business of the Company in Hong Kong is at Suites 2701-2705 & 2715-2716, 27th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.
- (d) The share registrar and transfer office of the Company in the Cayman Islands is The RHB Trust Co. Ltd., P.O. Box 1787, One Capital Place, George Town, Grand Cayman, the Cayman Islands. The branch share registrar and transfer office of the Company in Hong Kong is Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text.