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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult 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



Financial Services Group

Quam Capital Limited

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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
“Citychamp”	冠城大通股份有限公司(Citychamp Dartong Company Limited), the shares of which are listed on the Shanghai Stock Exchange in the PRC and the company is not a connected person of the Company
“Citychamp Guarantee”	the loan guarantee provided by Ebohr in favour of Citychamp in relation to a loan of RMB17 million (equivalent to approximately HK\$16.3 million) granted to Citychamp
“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 and the word “connected” shall be construed accordingly
“Dartong”	福州大通機電有限公司 (Fuzhou Dartong M&E Co., Ltd.), a sino-foreign equity joint venture established in the PRC on 3 June 2005 and is owned as to 51% by Citychamp and 49% by the Company
“Dartong Guarantee”	the loan guarantee provided by Jing Guan in favour of Dartong in relation to a loan facility of RMB18 million (equivalent to approximately HK\$17.3 million) granted to Dartong
“Director(s)”	the director(s) of the Company
“Ebohr”	依波精品(深圳)有限公司 (EBOHR Luxuries International Company Limited), a company established in the PRC and a wholly-owned subsidiary of the Company
“Fuzhou Yingrong”	福州盈榕投資有限公司 (Fuzhou Yingrong Investment Company Limited), a company established in the PRC and is owned as to approximately 68.5% and 31.5% by Ms. Sit and Ms. Lu respectively
“Group”	the Company and its subsidiaries

DEFINITIONS

“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“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 and a wholly-owned subsidiary of the Company
“Latest Practicable Date”	13 February 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
“Ms. Lu”	陸曉珺 (Lu Xiaojun), a shareholder of Fuzhou Yingrong
“Ms. Sit”	Ms. Sit Lai Hei, a shareholder of Fuzhou Yingrong and a non-executive Director
“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
“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
“%”	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

Registered Office:

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

Non-executive Director:

Ms. Sit Lai Hei

Principal Place of Business:

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

Independent non-executive Directors:

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

15 February 2006

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

INTRODUCTION

It was announced on 26 January 2006, Ebohr, a wholly-owned subsidiary of the Company, had provided a loan guarantee in favour of Citychamp in relation to a loan of RMB17 million (equivalent to approximately HK\$16.3 million) granted to Citychamp from 29 December 2005 to 15 November 2006. In addition, on 25 January 2006, Jing Guan, a wholly-owned subsidiary of the Company, provided a loan guarantee given in favour of Dartong, which is owned as to 51% by Citychamp and 49% by the Company, regarding a loan facility of RMB18 million (equivalent to approximately HK\$17.3 million) granted to Dartong for a period of one year commencing from 25 January 2006.

LETTER FROM THE BOARD

The aggregate value of the Citychamp Guarantee and the Dartong Guarantee of RMB35 million (equivalent to approximately HK\$33.7 million) exceeds 8% of one of the percentage ratios under Rule 14.07 of the Listing Rules. Therefore, the Company disclosed details of the Citychamp Guarantee and the Dartong Guarantee in the announcement dated 26 January 2006 pursuant to Rule 13.13 of the Listing Rules. The aggregation of the Citychamp Guarantee and the Dartong Guarantee also constitutes a discloseable transaction of the Company under the Listing Rules.

The purpose of this circular is to provide you with further information relating to the details of the Citychamp Guarantee and the Dartong Guarantee.

GUARANTEES

Details of the Citychamp Guarantee and the Dartong Guarantee are set out below:

Citychamp Guarantee

On 29 December 2005, Ebohr provided a loan guarantee in favour of Citychamp in relation to a loan of RMB17 million (equivalent to approximately HK\$16.3 million) granted to Citychamp by Industrial and Commercial Bank of China from 29 December 2005 to 15 November 2006. Up to the Latest Practicable Date, Citychamp has drawn down the entire loan.

Dartong Guarantee

On 25 January 2006, Jing Guan provided a loan guarantee in favour of Dartong in relation to a loan facility of RMB18 million (equivalent to approximately HK\$17.3 million) granted to Dartong by China Everbright Bank for a period of one year commencing from 25 January 2006. Up to the Latest Practicable Date, Dartong has drawn down RMB10 million (equivalent to approximately HK\$9.6 million) under the loan facility.

Each of the Citychamp Guarantee and the Dartong Guarantee indemnifies losses, if any, incurred by the respective bank if the loan is defaulted during the loan period. The loan guarantees shall be released upon full repayment of the loans drawn down pursuant to the respective loan agreement. Ebohr and Jing Guan will not receive any fee income or collateral as a result of providing the guarantees. The granting of the Citychamp Guarantee and the Dartong Guarantee will neither affect the earnings nor net asset value of the Group unless Citychamp and/or Dartong fail(s) to repay the bank loans. At worst the Group will have to settle the entire bank debts of Citychamp and Dartong. Then the earnings and net asset value of the Group will decrease by about RMB35 million (equivalent to approximately HK\$33.7 million), being the aggregate value of the Citychamp Guarantee and the Dartong Guarantee.

LETTER FROM THE BOARD

INFORMATION ON CITYCHAMP AND DARTONG

Citychamp

Citychamp is a company listed on the Shanghai Stock Exchange in the PRC. Citychamp and its subsidiaries are principally engaged in property investment, manufacturing and sale of enamelled copper wires.

Fuzhou Yingrong, the single largest shareholder of Citychamp, is interested in approximately 22.0% of the issued share capital of Citychamp. Fuzhou Yingrong is owned as to approximately 68.5% and 31.5% by Ms. Sit and Ms. Lu respectively. Ms. Sit is a non-executive Director and hence a connected person of the Company. In addition, both of Ms. Sit and Ms. Lu are daughters-in-law of Mr. Hon Kwok Lung. Mr. Hon Kwok Lung, an executive Director, and his wife collectively own 70% equity interests in Sincere View International Limited, the controlling shareholder of the Company. Hence, Ms. Lu is a connected person of the Company. Save as aforesaid, to the Directors' best knowledge, no connected person of the Company has any interest in Citychamp. Ms. Sit and Ms. Lu do not have any interest in the Company.

Fuzhou Yingrong is interested in less than 30% of the issued share capital of Citychamp. In addition, under the PRC law, Ms. Sit and Ms. Lu do not, by virtue of their approximately 22.0% interests in Citychamp, have control over the board of directors of Citychamp and its subsidiaries and thus Ms. Sit and Ms. Lu are not able to appoint the directors of Citychamp without the support of other shareholders of Citychamp. Therefore, Citychamp is not a connected person of the Company under the Listing Rules. Ms. Sit and Ms. Lu are not directors of Citychamp. Citychamp is a shareholder of Dartong, a jointly-controlled entity of the Company. Save as aforesaid, to the Directors' best knowledge, information and belief, having made all reasonable enquiries, Citychamp is independent of and not connected with the Company and its connected persons.

Based on the annual report of Citychamp, net profit after taxation of Citychamp was approximately RMB68.8 million (equivalent to approximately HK\$66.2 million) and approximately RMB64.1 million (equivalent to approximately HK\$61.6 million) for each of the two years ended 31 December 2004. As at 30 September 2005, Citychamp had net asset of approximately RMB491.4 million (equivalent to approximately HK\$472.5 million).

Dartong

Dartong was established in the PRC on 3 June 2005 and is owned as to 51% by Citychamp and 49% by the Company. Each of the Company and Citychamp does not have unilateral control over Dartong. As the Company has joint control with Citychamp over Dartong, its interest in Dartong is recorded in the Company's financial statements as a jointly-controlled entity. As Citychamp is not a connected person of the Company, Dartong is also not a connected person of the Company pursuant to the Listing Rules.

Dartong is principally engaged in the manufacturing and sale of enamelled copper wires in the PRC. Dartong commenced its operation in late 2005.

LETTER FROM THE BOARD

As at 31 December 2005, the unaudited net asset of Dartong was approximately RMB98.7 million (equivalent to approximately HK\$94.9 million). Dartong incurred loss of approximately RMB1.3 million (equivalent to approximately HK\$1.2 million) from the date of its establishment to 31 December 2005.

REASONS FOR AND BENEFITS OF THE CITYCHAMP GUARANTEE AND THE DARTONG GUARANTEE

Citychamp approached the Company in late 2005 in respect of the granting of the Citychamp Guarantee. After arm's length negotiations, Citychamp has agreed in writing to provide a guarantee in favour of Ebohr in the same amount as stated in the Citychamp Guarantee in return for the Citychamp Guarantee. Ebohr is contemplating to apply for a bank loan in the first quarter of 2006 and will require a guarantor on such application. The guarantor should be an entity that has substantial assets in the PRC and a PRC entity is preferred by banks. Having considered the future financing requirements of Ebohr, the guarantee to be provided by Citychamp, the listing status of Citychamp in the PRC and the financial position of Citychamp and its subsidiaries, Ebohr has agreed to grant the Citychamp Guarantee. Ebohr is principally engaged in the manufacturing and sale of watches and timepieces in the PRC. The Directors believe that the cross guarantee between Citychamp and Ebohr will provide Ebohr the flexibility in its future financing need in the PRC.

Dartong, which is owned as to 51% by Citychamp and 49% by the Company, required bank borrowings to meet its working capital requirements in the early stage of operation. The bank requested Dartong to obtain guarantees from other companies as one of the conditions of granting the loan facility. Citychamp has transferred certain land and machinery to Dartong in excess of the capital contribution requirement under the joint venture agreement. Based on the estimation of the Directors, the excess value is approximately RMB92 million (equivalent to approximately HK\$88.5 million). In addition, Citychamp has agreed to indemnify Jing Guan for 51% of any losses incurred by Jing Guan as a result of the Dartong Guarantee. In light of the foregoing, Jing Guan, a wholly-owned subsidiary of the Company, agreed to provide the Dartong Guarantee.

The Directors believe that there is an enormous demand for enamelled copper wires, the products manufactured by Dartong, in the PRC. Moreover, the business of Dartong will help to diversify the Group's revenue sources. As such, the granting of the Dartong Guarantee in order to obtain the necessary bank loan is in the interests of the Company and the Shareholders.

Based on the aforesaid, the Directors including all independent non-executive Directors believe that the terms of the Citychamp Guarantee and the Dartong Guarantee are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

As Dartong is owned as to 51% by Citychamp, the Dartong Guarantee is required to aggregate with the Citychamp Guarantee pursuant to the Listing Rules. Save as disclosed herein, the Group does not have any amounts due from and guarantees given on behalf of Citychamp, its subsidiaries or its affiliated companies. The aggregate value of the Citychamp Guarantee and the Dartong Guarantee of RMB35 million (equivalent to approximately HK\$33.7 million) exceeds 8% of one of the percentage ratios under Rule 14.07 of the Listing Rules. Therefore, the Company disclosed details of the Citychamp Guarantee and the Dartong Guarantee in the announcement dated 26 January 2006 pursuant to Rule 13.13 of the Listing Rules.

In addition, the aggregation of the Citychamp Guarantee and the Dartong Guarantee constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules as the aggregate value of the guarantees exceeds 5% but less than 25% of one of the percentage ratios under Rule 14.07 of the Listing Rules.

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 executive 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 person 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
北京鑫陽房地產開發有限公司 (Beijing Xinyang Real Estate Development Limited)	Mr. Li Shiqiang	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. Wang 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, Uglan 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.