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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



Quam Capital Limited

2 May 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
“Capital Contribution”	the Company’s proposed investment of RMB25 million (equivalent to approximately HK\$24.0 million) for a 25% interest in the registered capital of Dartong Qingjiang pursuant to the JV Agreement and the Revised Articles
“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
“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 Qingjiang”	江蘇大通清江機電有限公司(Jiangsu Dartong Qingjiang M&E Co. Ltd.), a company established in the PRC and is owned as to 55% by Citychamp and 45% by Qingjiang. The company will be renamed as Jiangsu Dartong upon completion of the Capital Contribution
“Director(s)”	the director(s) of the Company
“Fuzhou 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 and is owned as to 51% by Citychamp and 49% by the Company
“Fuzhou Fengrong”	福州豐榕投資有限公司(Fuzhou Fengrong Investment Company Limited) (previously known as 福州盈榕投資有限公司(Fuzhou Yingrong Investment Company Limited)) is a company established in the PRC and 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
“Jiangsu Dartong”	江蘇大通機電有限公司 (Jiangsu Dartong M&E Co., Ltd.), a sino-foreign equity joint venture to be established in the PRC and will be owned as to 41.25%, 33.75% and 25% by Citychamp, Qingjiang and the Company respectively
“JV Agreement”	the joint venture agreement dated 6 April 2006 among Citychamp, Qingjiang and the Company relating to, among other things, the Capital Contribution
“Latest Practicable Date”	28 April 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 Fengrong
“Ms. Sit”	Ms. Sit Lai Hei, a shareholder of Fuzhou Fengrong and a non-executive Director
“PRC”	The People’s Republic of China
“Qingjiang”	江蘇清江電機股份有限公司 (Jiangsu Qingjiang Electrical Holdings Company Limited), a company established in the PRC
“Revised Articles”	the revised articles of association of Dartong Qingjiang dated 6 April 2006 among Citychamp, Qingjiang and the Company
“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

2 May 2006

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

INTRODUCTION

It was announced on 10 April 2006 that the Company entered into a joint venture agreement and a revised articles of association with Citychamp and Qingjiang on 6 April 2006 in relation to, among other things, the Company agreed to invest a sum of RMB25 million (equivalent to approximately HK\$24.0 million) in cash for a 25% interest in the registered capital of Dartong Qingjiang. Dartong Qingjiang, a domestic company established in the PRC, is principally engaged in the manufacture and sale of enamelled copper wires in the PRC. Upon completion of the Capital Contribution, Dartong Qingjiang will become an equity joint venture and its name will be changed to Jiangsu Dartong.

The Capital Contribution contemplated under the JV Agreement and the Revised Articles constitutes a “discloseable transaction” for the Company under the Listing Rules.

LETTER FROM THE BOARD

THE JV AGREEMENT AND THE REVISED ARTICLES

Date

6 April 2006

Parties

- (a) The Company;
- (b) Citychamp; and
- (c) Qingjiang.

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

Fuzhou Fengrong, the single largest shareholder of Citychamp, is interested in approximately 27.0% of the issued share capital of Citychamp. Fuzhou Fengrong 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 also 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 Fengrong 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 27.0% 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 controlling shareholder of Fuzhou Dartong, a jointly-controlled entity of the Company.

Save as disclosed above, to the best knowledge of the Directors, information and belief, having made all reasonable enquiries, Citychamp, Qingjiang and their respective ultimate beneficial owners are independent of and not connected with the Company or its connected persons.

Qingjiang is principally engaged in the manufacture and sale of electrical equipment and enamelled copper wires.

LETTER FROM THE BOARD

Capital Contribution

Dartong Qingjiang is a domestic company established in the PRC and is owned as to 55% by Citychamp and 45% by Qingjiang. Pursuant to the JV Agreement and the Revised Articles, the Company agreed to invest a sum of RMB25 million (equivalent to approximately HK\$24.0 million) for a 25% interest in the registered capital of Dartong Qingjiang. Therefore, the registered capital of Dartong Qingjiang will increase from RMB75 million (equivalent to approximately HK\$72.1 million) to RMB100 million (equivalent to approximately HK\$96.1 million). Dartong Qingjiang will then become a joint venture and be renamed as Jiangsu Dartong.

The investment cost of RMB25 million (equivalent to approximately HK\$24.0 million) will be paid in cash. The Company will pay RMB10 million (equivalent to approximately HK\$9.6 million) within the first month upon signing of the JV Agreement and the remaining RMB15 million (equivalent to approximately HK\$14.4 million) will be paid within two months upon signing of the JV Agreement. The Company will finance the investment with the Group's internal resources.

Pursuant to the JV Agreement, the total investment of Jiangsu Dartong will be RMB230 million (equivalent to approximately HK\$221.2 million). The difference between the total investment and the registered capital of Jiangsu Dartong is RMB130 million (equivalent to HK\$125 million). The respective amount of the future capital or cash injection by the venturers in relation to such difference is not stipulated in the JV Agreement. Therefore, the Company has no capital commitment to provide extra investment to Jiangsu Dartong other than the Capital Contribution. If the Company increases its investment in Jiangsu Dartong, the Company will comply with the relevant requirements of the Listing Rules.

The Directors expect that Dartong Qingjiang would contribute profit to the Company for the year ending 31 December 2006. The assets of the Company will be increased by RMB25 million (equivalent to HK\$24 million) while the cash balance will be decreased by the same amount after full payment of the investment cost. Hence, the investment cost will not have any impact on the net asset value of the Company.

Registered capital

Set out below is a table showing the existing structure of Dartong Qingjiang and the structure upon completion of the Capital Contribution.

	Existing structure		Upon completion of the Capital Contribution	
	Registered capital		Registered capital	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
Citychamp	41,250,000	55.00	41,250,000	41.25
Qingjiang	33,750,000	45.00	33,750,000	33.75
The Company	—	—	25,000,000	25.00
	<u>75,000,000</u>	<u>100.00</u>	<u>100,000,000</u>	<u>100.00</u>

LETTER FROM THE BOARD

Upon completion of the Capital Contribution, Citychamp, Qingjiang and the Company will share any subsequent profit or loss arising from the operations of Jiangsu Dartong in proportion of their respective interests in Jiangsu Dartong. Profit retained prior to completion of the Capital Contribution will only be shared between the existing owners, Citychamp and Qingjiang.

Composition of board of directors

The board of directors of Jiangsu Dartong shall comprise seven members. Citychamp, Qingjiang and the Company will nominate four, two and one member(s) respectively. Major corporate matters including changes in articles of association, termination and dismissal of Jiangsu Dartong, and changes in its registered capital are subject to the directors' unanimous approval. Other matters are required to be approved by half of the directors. The Company's interest in Jiangsu Dartong will be accounted for as an investment in an associate in its financial statements.

Term

Jiangsu Dartong will have an initial term of 20 years commencing from the issue date of its business license and is extendable by the approval of the board of directors of Jiangsu Dartong and the relevant regulatory authority in the PRC.

Conditions precedent

The JV Agreement and the Revised Articles are effective upon the obtaining of all necessary regulatory approvals in the PRC.

INFORMATION ON DARTONG QINGJIANG

Dartong Qingjiang is a domestic company established in the PRC in April 2003. At that time, Dartong Qingjiang was owned as to 50%, 45% and 5% by Citychamp, Qingjiang and three persons respectively. Citychamp acquired a 5% interest in Dartong Qingjiang from the three persons in March 2006. As a result, Citychamp and Qingjiang have 55% and 45% interest in the registered capital of Dartong Qingjiang respectively.

Dartong Qingjiang is principally engaged in the manufacture and sale of special types of enamelled copper wires in the PRC. The enamelled copper wires produced by Dartong Qingjiang are predominantly used in various electrical machinery and equipment, automobiles, electrical tools and transformers. Its production plant is located at 中國江蘇省淮安市經濟技術開發區大通路1號 (1 Datong Road, Economic and Technology Development Zone of Huaian City, Jiangsu Province, the PRC). Dartong Qingjiang has obtained the ISO 9000 certificate for quality control.

LETTER FROM THE BOARD

The audited net profits before and after taxation of Dartong Qingjiang were approximately RMB12.4 million (equivalent to approximately HK\$11.9 million) and approximately RMB8.1 million (equivalent to approximately HK\$7.8 million) for the year ended 31 December 2004 respectively. For the year ended 31 December 2005, its audited net profits before and after taxation were approximately RMB10.4 million (equivalent to approximately HK\$10.0 million) and approximately RMB9.7 million (equivalent to approximately HK\$9.3 million) respectively. In addition, the audited net asset value of Dartong Qingjiang was approximately RMB86.2 million (equivalent to approximately HK\$82.9 million) as at 31 December 2005.

REASONS FOR THE CAPITAL CONTRIBUTION

The enamelled copper wires produced by Dartong Qingjiang are predominantly used in various electrical machinery and equipment, automobiles, electrical tools and transformers. The PRC has become the worldwide manufacturing and processing centre after entering into the World Trade Organisation. Numerous international manufacturing enterprises have relocated their factories to the PRC in recent years and as a result, there is an enormous demand for enamelled copper wires in the PRC. Therefore, the Directors believe that the investment in Dartong Qingjiang represents a good opportunity for the Group to further invest in the enamelled copper wires business.

Dartong Qingjiang has been profitable since its first year of operation. Its management expects that the demand for enamelled copper wires in the PRC will continue to increase. Thus, Dartong Qingjiang intends to raise its production capacity to cope with the increase in demand. The amount of the Capital Contribution will be applied for the business expansion. The investment in Dartong Qingjiang enables the Group to capture the fast growing enamelled copper wires business in the PRC. Thus, the Directors believe that the investment in Dartong Qingjiang is in the interests of the Shareholders as a whole.

The terms of the JV Agreement and the Revised Articles including the amount of the Capital Contribution were negotiated on arm's length basis. The equity interests are in proportion of the respective contributions of the venturers in the registered capital of Jiangsu Dartong. Citychamp, Qingjiang and the Company will share any subsequent profit or loss arising from the operations of Jiangsu Dartong in proportion of their respective interests in Jiangsu Dartong. The Directors, therefore, consider that the terms of the JV Agreement and the Revised Articles are fair and reasonable.

GENERAL

The Group is principally engaged in the manufacture and sale of watches and clocks, property investment and development, and manufacturing and distribution of timber products. The Company also has a 49% interest in Fuzhou Dartong which is principally engaged in the manufacture and sale of enamelled copper wires in the PRC. The enamelled copper wires produced by Fuzhou Dartong are used in colour display and colour picture tube in televisions, frequency conversion machinery and air-conditioning compressors.

LETTER FROM THE BOARD

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.