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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



On 11 April 2014 (United Kingdom time), the Acquisition Agreement was entered into among the Company, the Purchaser, being a wholly-owned subsidiary of the Company, and the Sellers. Pursuant to the Acquisition Agreement, the Purchaser has agreed to purchase and the Sellers have agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company at a total consideration of GBP27.0 million (equivalent to approximately HK\$351.0 million) (subject to downward adjustments). Completion took place on the same date.

The Target Group is principally engaged in watch design and selling, both to the United Kingdom and overseas markets, and of watch manufacturing and repair. The brand portfolio of the Target Group includes Swiss mid-market Rotary brand, Swiss premium Dreyfuss & Co. brand and English premium J & T Windmills brand.

Upon Completion, the Target Company became a wholly-owned subsidiary of the Company. The Acquisition constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

THE ACQUISITION AGREEMENT

Date

11 April 2014 (United Kingdom time)

Parties

Purchaser: International Volant Limited, a wholly-owned subsidiary of the Company

Vendors: The Sellers

Guarantor: The Company

The Sellers collectively hold the Sale Shares. To the best of knowledge, information and belief of the Directors having made all reasonable enquiries, the Sellers are third parties independent of and not connected with the Company and its connected persons.

Subject matter

Pursuant to the Acquisition Agreement, the Sellers have agreed to sell and the Purchaser has agreed to purchase the Sale Shares at a total consideration of GBP27.0 million (equivalent to approximately HK\$351.0 million) (subject to downward adjustments). The Sale Shares represent the entire issued share capital of the Target Company. The Company irrevocably and unconditionally as primary obligor guaranteed to the Sellers on demand the performance by the Purchaser of all its obligations under the Acquisition Agreement.

Consideration

The Consideration for the Sale Shares was GBP27.0 million (equivalent to approximately HK\$351.0 million) (subject to downward adjustments). The Consideration shall be settled in cash in the following manner:

- (a) GBP16.0 million (equivalent to approximately HK\$208.0 million) was paid to the Sellers on Completion;
- (b) GBP6.0 million (equivalent to approximately HK\$78.0 million) (the “**Tranche 1 Deferred Consideration**”) as may be adjusted pursuant to the terms as disclosed in the sub-section headed “Adjustments to the Consideration” below shall be paid on 28 August 2014 in the following manner:
 - (i) the first GBP1.0 million (equivalent to approximately HK\$13.0 million) shall be placed in escrow in an interest bearing bank account (the “**Tranche 1 Retention Account**”); and
 - (ii) the remainder shall be paid to the Sellers; and

- (c) GBP5.0 million (equivalent to approximately HK\$65.0 million) (the “**Tranche 2 Deferred Consideration**”) as may be adjusted pursuant to the terms as disclosed in the sub-section headed “Adjustments to the Consideration” below shall be paid on 30 June 2015 in the following manner:
- (i) the first GBP1.0 million (equivalent to approximately HK\$13.0 million) shall be placed in escrow in an interest bearing bank account (the “**Tranche 2 Retention Account**”); and
 - (ii) the remainder shall be paid to the Sellers.

The Consideration was determined after arm’s length negotiation among the Purchaser and the Sellers taking into consideration, among others, the profit making track record of the Target Group, the target adjusted net asset value and profit after taxation of the Target Group for the year ended 31 December 2013 and the year ending 31 December 2014 as set out in the sub-section headed “Adjustments to the Consideration” below and the strategic value of the Target Group on the future development of the Group, details of which are set out in the section headed “Reasons for and benefits of the Acquisition” below. The Consideration will be financed by the Group’s internal resources.

Adjustments to the Consideration

2013 adjustments

If:

- (a) the adjusted consolidated profit after taxation of the Target Group for the year ended 31 December 2013 (the “**2013 PAT**”) is less than GBP2.15 million (equivalent to approximately HK\$28.0 million) (the “**2013 PAT Target**”); or
- (b) the adjusted consolidated net assets of the Target Group as at 31 December 2013 (the “**2013 NAV**”) is less than GBP10.2 million (equivalent to approximately HK\$132.6 million) (the “**2013 NAV Target**”); or
- (c) the debt less cash of the Target Group as at 28 February 2014 is greater than GBP0.9 million (equivalent to approximately HK\$11.7 million),

the Tranche 1 Deferred Consideration shall be reduced by a sum equal to the aggregate of (i) the amount by which the 2013 PAT is less than the 2013 PAT Target; (ii) the amount by which the 2013 NAV is less than the 2013 NAV Target; and (iii) the amount by which net debt of the Target Group as at 28 February 2014 is greater than GBP0.9 million (equivalent to approximately HK\$11.7 million), provided that the Tranche 1 Deferred Consideration shall not be reduced (in aggregate) pursuant to the above adjustment by more than GBP6.0 million (equivalent to approximately HK\$78.0 million).

2014 adjustments

If:

- (a) the adjusted consolidated profit after taxation of the Target Group for the year ending 31 December 2014 (the “**2014 PAT**”) is less than GBP3.0 million (equivalent to approximately HK\$39.0 million) (the “**2014 PAT Target**”); or
- (b) the adjusted consolidated net assets of the Target Group as at 31 December 2014 (the “**2014 NAV**”), is less than GBP13.2 million (equivalent to approximately HK\$171.6 million) (the “**2014 NAV Target**”),

the Tranche 2 Deferred Consideration shall be reduced by a sum equal to the higher of (and not the aggregate of): (i) the amount by which the 2014 PAT is less than the 2014 PAT Target; and (ii) the amount by which the 2014 NAV is less than the 2014 NAV Target, provided always that the Tranche 2 Deferred Consideration shall not be reduced pursuant to the above adjustment by more than GBP5.0 million (equivalent to approximately HK\$65.0 million).

Other major adjustments

- (a) Any payment or repayment in respect of a claim under the warranties or under an indemnity under the Acquisition Agreement or under the tax deed shall be treated as a reduction to the Consideration on a GBP-for-GBP basis.
- (b) If there are any trade receivables of the Target Group outstanding at Completion that have not been collected by the Management Sellers within the six month period following Completion, the Consideration shall be reduced by an amount equal to the face value of the uncollected receivables solely by means of set off against the Tranche 2 Deferred Consideration on a GBP-to-GBP basis.

Subject to the terms of the Acquisition Agreement, any monies standing to the credit of the Tranche 1 Retention Account on 30 June 2015 shall, on that date, be released to the Sellers. Any monies last standing to the credit of the Tranche 2 Retention Account on 28 February 2020 shall, on that date, be released to the Sellers.

Completion

Completion took place on the date of Acquisition Agreement. Upon Completion, the Target Company became a wholly-owned subsidiary of the Company.

Post-Completion matters

If the 2014 PAT (excluding for these purposes the cost of the management cash bonus and the sellers' cash bonus (together with any associated tax)) exceeds the 2014 PAT Target (the "**2014 PAT Surplus**"), the Purchaser shall pay or procure that the Target Company pays a cash bonus equal to 20% of the 2014 PAT Surplus and cash bonus equal to 40% of the 2014 PAT Surplus to the Management Sellers and the Sellers respectively in each case within 10 Business Days of the audited accounts for the Target Company for the year ending 31 December 2014 being signed by the Target Company's auditors.

INFORMATION OF THE TARGET GROUP

Overview

The Target Group is principally engaged in watch design and selling, both to the United Kingdom and overseas markets, and of watch manufacturing and repair. The Target Group was founded in 1895. Its brand portfolio includes Swiss mid-market Rotary brand, Swiss premium Dreyfuss & Co. brand and English premium J & T Windmills brand. Rotary is the number 1 Swiss watch brand by sales value in the mid-market sector in the United Kingdom, with a presence in over 45 countries worldwide. The Target Group's international business encompasses the far east, including Hong Kong and China, as well as the Middle East, through a mix of regional retailers and third party distributors.

The Target Group's sales are currently predominantly generated in the United Kingdom. The Target Group's watches are sold through United Kingdom high street watch and jewellery chains, independent stores and other specialty channels such as catalogue, mail order, television channels, cruise ships, airport shops and airlines.

Asia is a strategic region for growth for the Target Group, given the extensive market potential in the region for brands positioned in the mid market "sweet spot". There is huge untapped demand among Asian mid-market consumers for the Target Group's affordable Swiss made range of timepieces backed up by over 118 years of Swiss watch making heritage and credentials. This strategy lies behind Rotary's recent signing of a four year sponsorship deal with Chelsea Football Club ("**Chelsea**"), which has a huge, highly engaged and fast-growing aspirational Asian fan base which will, by association, fuel high levels of brand awareness for Rotary in this all important region. With Chelsea's continued success on the pitch, it is likely to fuel further growth globally supported by Rotary's Brand Ambassador Frank Lampard who seeks to complete his 13th season at the club with silverware.

Financial information

Set out below is a summary of the audited consolidated financial information of the Target Group for the year ended 31 December 2012 and unaudited consolidated financial information of the Target Group for the year ended 31 December 2013 prepared in accordance with United Kingdom accounting standards:

	For the year ended 31 December			
	2012		2013	
	(Audited)		(Unaudited)	
	<i>Approximate</i>	<i>Equivalent to</i>	<i>Approximate</i>	<i>Equivalent to</i>
	<i>GBP'million</i>	<i>approximate</i>	<i>GBP'million</i>	<i>approximate</i>
		<i>HK\$million</i>		<i>HK\$million</i>
Profit before taxation	2.1	27.3	1.7	22.1
Profit after taxation	1.5	19.5	2.3	29.9

As at 31 December 2013, the unaudited consolidated net asset value of the Target Group was approximately GBP10.8 million (equivalent to approximately HK\$140.4 million).

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the manufacture and distribution of watches and timepieces.

The Acquisition provides an opportunity for the Group to expand its portfolio of brands by adding watch brands with a strong heritage and appeal for consumers. The Group intends to promote the Target Group's watch brands internationally and to leverage on the Group's distribution network in the PRC to benefit from the enormous potential of China's imported watch market in particular in the mid-price segment.

In light of the foregoing, the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

GENERAL

The Acquisition constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules which is subject to the announcement requirement.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“2013 NAV”	as defined in the sub-section headed “Adjustments to the Consideration” in this announcement
“2013 NAV Target”	as defined in the sub-section headed “Adjustments to the Consideration” in this announcement
“2013 PAT”	as defined in the sub-section headed “Adjustments to the Consideration” in this announcement
“2013 PAT Target”	as defined in the sub-section headed “Adjustments to the Consideration” in this announcement
“2014 NAV”	as defined in the sub-section headed “Adjustments to the Consideration” in this announcement
“2014 NAV Target”	as defined in the sub-section headed “Adjustments to the Consideration” in this announcement
“2014 PAT”	as defined in the sub-section headed “Adjustments to the Consideration” in this announcement
“2014 PAT Surplus”	as defined in the sub-section headed “Post-Completion matters” in this announcement
“2014 PAT Target”	as defined in the sub-section headed “Adjustments to the Consideration” in this announcement
“Acquisition”	the acquisition of the Sale Shares by the Purchaser pursuant to the Acquisition Agreement
“Acquisition Agreement”	the sale and purchase agreement dated 11 April 2014 (United Kingdom time) entered into among the Purchaser, the Sellers and the Company in relation to the Acquisition
“Business Day”	a day (other than a Saturday or Sunday or a public holiday) on which the clearing banks in the City of London, United Kingdom and Hong Kong are open for business
“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 main board of the Stock Exchange

“Completion”	completion of the Acquisition in accordance with the Acquisition Agreement
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules and the word “connected” shall be construed accordingly
“Consideration”	the consideration payable by the Purchaser for the Acquisition
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management Sellers”	collectively Robert Dreyfuss, Victoria Campbell, Gary Williams, Tom Tope and Tony Quinn
“Minority Seller”	David Dreyfuss
“PRC” or “China”	The People’s Republic of China
“Purchaser”	International Volant Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“Sale Shares”	221,541 shares of the Target Company, being the entire issued share capital of the Target Company
“Sellers”	the Trustee Sellers, the Management Sellers and the Minority Seller and “Seller” means any one of them
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	The Dreyfuss Group Limited, a company incorporated in the United Kingdom
“Target Group”	Target Company and its subsidiaries

“Tranche 1 Deferred Consideration”	as defined in the sub-section headed “Consideration” in this announcement
“Tranche 1 Retention Account”	as defined in the sub-section headed “Consideration” in this announcement
“Tranche 2 Deferred Consideration”	as defined in the sub-section headed “Consideration” in this announcement
“Tranche 2 Retention Account”	as defined in the sub-section headed “Consideration” in this announcement
“Trustee Sellers”	Paicolex Trust Company (BVI) Limited (as trustee of the E. A. Dreyfuss Shares Trust); and Robert Dreyfuss, Colin Lehmann, Martin Paisner and David Dreyfuss (each as trustees of the Dreyfuss Family Settlement)
“GBP”	Great British Pounds, the lawful currency in the United Kingdom and the exchange rate between GBP and HK\$ for the purpose of this announcement is GDP1 = HK\$13
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
%	per cent.

By the order of the Board
China Haidian Holdings Limited
Hon Kwok Lung
Chairman

Hong Kong, 11 April 2014

As at the date of this announcement, the Board comprises Mr. Hon Kwok Lung, Mr. Shang Jianguang, Mr. Shi Tao, Mr. Lam Toi Man, Mr. Bi Bo and Ms. Sit Lai Hei as the executive Directors; and Mr. Fung Tze Wa, Dr. Kwong Chun Wai, Michael and Mr. Li Qiang as the independent non-executive Directors.