# 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 華富嘉洛企業融資

On 29 June 2011, International Volant, a wholly-owned subsidiary of the Company, and the Vendor entered into the Acquisition Agreement, pursuant to which the Vendor agreed to sell the Sale Shares and assign the outstanding Sale Loans as at the date of the Acquisition Agreement to International Volant at a total consideration of CHF22,911,001 (equivalent to approximately HK$213.1 million). Completion of the Acquisition Agreement took place on the same date.

The Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

## THE ACQUISITION AGREEMENT

**Date**

29 June 2011

**Parties**

Purchaser: International Volant

Seller: F.A. Porsche Beteiligungen GmbH, a limited liability company incorporated and existing under the laws of Austria. It is beneficially owned by Prof. Ferdinand Alexander Porsche.

The Vendor is an investment holding company. To the best of knowledge, information and belief of the Directors and having made all reasonable enquiries, the Vendor and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

**Subject matter**

Pursuant to the Acquisition Agreement, the Vendor agreed to sell the Sale Shares and assign the outstanding Sale Loans as at the date of the Acquisition Agreement to International Volant at a total consideration of CHF22,911,001 (equivalent to approximately HK$213.1 million).

**Consideration**

The aggregate consideration for the Sale Shares and the Sale Loans was CHF22,911,001 (equivalent to approximately HK$213.1 million). The consideration was fully settled by International Volant in cash on 29 June 2011 financed by the Group's internal resources.

The terms of the Acquisition Agreement including the consideration were negotiated on arm's length basis. In negotiating the consideration, the Vendor and International Volant have taken into account the following factors, amongst others: (i) the audited net liabilities of the Target Company of approximately CHF62.3 million (equivalent to approximately HK$579.4 million) as at 31 December 2010; (ii) the amount of the outstanding Sale Loans as at the date of the Acquisition Agreement of approximately CHF70.6 million (equivalent to approximately HK$657 million); (iii) the repayment of outstanding bank borrowings (including all accrued interests) of approximately CHF19.4 million (equivalent to approximately HK$180.9 million) of the Target Company as at the date of the Acquisition Agreement by the Vendor; (iv) the Target Group's technical capability of manufacturing its own mechanical movement; and (v) the future prospect of the Target Group.

**Completion**

The Acquisition was completed on 29 June 2011.

## INFORMATION OF THE TARGET GROUP

**Overview**

The Target Group is principally engaged in the manufacturing and trading of watches, components of watches, clockwork, jewellery, electronic precision time measuring devices/ instruments and constructions and its components, electronic devices and instruments and its components as well as related commodities, and sale and distribution of Eterna and Porsche Design licensed watches.

The Target Company was founded in 1852 in Switzerland. It manufactures timepieces under two brands, namely the self-owned brand Eterna and the licensed brand Porsche Design.

Porsche Lizenz u Handelsgesellschaft mbH & Co. KG ("PLH") and the Target Company entered into a licensing agreement on 31 July 2007 which authorises the Target Company to use the Porsche Design trademark for the licensed watches and to develop and manufacture the licensed watches. The Target Company is also entitled to distribute the Porsche Design licensed watches through selected distributors. The agreement constitutes shall expire on 31 December 2017.

The factory of the Target Group is located in Grenchen, Switzerland. The Target Group is able to manufacture its own mechanical movements with 7 calibres and 28 different faces, comprising manual, automatic, with and without date, and chronograph functionalities. The Target Group has obtained certain technology patents such as double ball bearing (spherodrive), free flying ball bearing, torque controlled watch movement, analogue chronograph with digital display, timezone display, power reserve indication, mechanical blinking and sealing system. The Eterna and Porsche Design timepieces are distributed worldwide. The Eterna timepieces are distributed through 422 independent points of sales and selected agencies. The Porsche Design timepieces are distributed through 236 point of sales and own/franchised shops.

Set out below is the audited financial information of the Target Company prepared in accordance with accounting principles generally accepted in the Switzerland:

| | **For the year ended 31 December** | |
|---|---|---|
| | **2010** | **2009** |
| Revenue | CHF12,762,603 (equivalent to approximately HK$118,692,208) | CHF17,173,946 (equivalent to approximately HK$159,717,698) |
| Net loss before taxation | CHF(20,545,203) (equivalent to approximately HK$(191,070,388)) | CHF(9,734,210) (equivalent to approximately HK$(90,528,153)) |
| Net loss after taxation | CHF(20,561,755) (equivalent to approximately HK$(191,224,322)) | CHF(9,745,586) (equivalent to approximately HK$(90,633,950)) |

As at 31 December 2010, Target Company had net liabilities of approximately CHF62.3 million[(Note)] (equivalent to approximately HK$579.4 million). The Sale Loans amounted to approximately CHF70.6 million (equivalent to approximately HK$657 million) as at 31 December 2010 and the date of the Acquisition Agreement. The Target Company had bank borrowings of approximately CHF14.3 million (equivalent to approximately HK$133 million) and approximately CHF19.4 million (equivalent to approximately HK$180.9 million) as at 31 December 2010 and the date of the Acquisition Agreement respectively which were secured by charged assets of the Vendor or its affiliates. The Vendor has fully repaid the bank borrowings on behalf of the Target Company and all asset charges in respect of the bank borrowings were released prior to completion of the Acquisition Agreement pursuant to the terms thereof.

*Note:* The auditor of the Target Company has issued a qualified audit opinion for the two years ended 31 December 2010 in relation to long term loans. A major part of the Target Company's long term loans due to related parties in the amount of approximately CHF70.5 million (equivalent to approximately HK$655.7 million) is denominated in Euro. As at 31 December 2009, these loans were converted into CHF using the year-end closing rate. As at 31 December 2010, the same rate as at 31 December 2009 was used for the conversion of the loans. According to the relevant accounting principles, the imparity principle requires that unrealised foreign exchange gains on long term loans must not be recognised. Therefore, the exchange rate used for the conversion of the loans would have been the higher historical rate of conversion. Thus, the balance for long term loans due to related parties as at 31 December 2009 and 2010 were misstated by CHF3 million (equivalent to approximately HK$27.9 million).

Set out below is the financial information of the wholly-owned subsidiary of the Target Company extracted from its management accounts prepared in accordance with accounting principles generally accepted in Germany:

| | For the year ended 31 December | |
|---|---|---|
| | **2010** | **2009** |
| Revenue | Euro1,309,586 (equivalent to approximately HK$14,510,213) | Euro1,473,322 (equivalent to approximately HK$16,324,408) |
| Net profit before taxation | Euro729,164 (equivalent to approximately HK$8,079,137) | Euro986,255 (equivalent to approximately HK$10,927,705) |
| Net profit after taxation | Euro728,383 (equivalent to approximately HK$8,070,484) | Euro985,522 (equivalent to approximately HK$10,919,584) |

As at 31 December 2010, the subsidiary of the Target Company had net assets value of Euro923,871 (equivalent to approximately HK$10.2 million).

## REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is engaged in the manufacture and distribution of watches and timepieces, property investment, and the distribution of yachts.

The Target Company has a history of 158 years' operation in the Switzerland watch industry which manufactures high quality movements and timepieces. The Acquisition allows the Company to acquire an established Swiss watch brand, Eterna and to use the licence to manufacture watches under the watch brand, Porsche Design which the Group intends to promote in the PRC market. The Group will benefit from the enormous potential of Mainland China's imported watch market. Further, the advanced technology capability of the Target Company will help the Group enhance its technology know-how in manufacturing and designing timepieces which in turn enables the Group to diversify its product range. The ability of the Target Company to manufacture its own mechanical movement enables the Group to secure the supply of mechanical movements which is considered to be a significant limiting factor for the development of the Swiss mechanical movement watch market. Such expertise is one of the core competences in the watch manufacturing industry that will contribute the Group's sustainable development in Mainland China and overseas. The Acquisition will provide an opportunity for the Group to strengthen the comprehensive portfolio of companies specialising in manufacturing watches and mechanical movement.

After taking into account 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 constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

## DEFINITIONS

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

| | |
|---|---|
| "Acquisition" | the acquisition of the Sale Shares by and the assignment of the Sale Loans to International Volant pursuant to the Acquisition Agreement |
| "Acquisition Agreement" | the sale and purchase agreement dated 29 June 2011 entered into between International Volant and the Vendor in relation to the Acquisition |
| "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 |
| "connected person(s)" | has the meaning ascribed thereto in the Listing Rules and the word "connected" shall be construed accordingly |
| "Director(s)" | the director(s) of the Company |
| "Group" | the Company and its subsidiaries |
| "International Volant" | International Volant Limited, a company established in Hong Kong and is wholly-owned by the Company |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Sale Loans" | the entire loans owing by the Target Company to its related parties outstanding as at the date of the Acquisition Agreement |
| "Sale Shares" | 6,000 registered shares of the Target Company, representing its entire issued share capital |
| "Share(s)" | ordinary share(s) of HK$0.10 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" | Eterna AG Uhrenfabrik, a company incorporated in Switzerland |
| "Target Group" | the Target Company and its wholly-owned subsidiary |
| "Vendor" | F.A. Porsche Beteiligungen GmbH, a limited liability company incorporated in Austria |
| "CHF" | Swiss Francs, the lawful currency of Switzerland, and the exchange rate for CHF into HK$ for the purpose of this announcement is CHF1=HK$9.30 |
| "Euro" | Euro, the lawful currency of Germany, and the exchange rate for Euro into HK$ for the purpose of this announcement is Euro1=HK$11.08 |
| "HK$" | 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, 29 June 2011

*As at the date of this announcement, the Board of the Company comprises Mr. Hon Kwok Lung, Mr. Shang Jianguang, Mr. Shi Tao, Mr. Lam Toi Man and Mr. Bi Bo, who are the Executive Directors, Ms. Sit Lai Hei, who is the Non-Executive Director, and Mr. Fung Tze Wa, Dr. Kwong Chun Wai Michael and Mr. Li Qiang, who are the Independent Non-Executive Directors.*