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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)

ISSUE OF NEW SHARES AND GRANT OF AN OPTION TO SUBSCRIBE FOR NEW SHARES

Financial Adviser to China Haidian Holdings Limited



THE SUBSCRIPTION AGREEMENT

On 8 August 2011, the Company and the Subscriber entered into the Subscription Agreement pursuant to which the Company agreed to issue, and the Subscriber agreed to subscribe for, 10,000,000 Initial Subscription Shares at the Issue Price of HK\$0.99 each. Pursuant to the Subscription Agreement, the Company also agreed to grant to the Subscriber the Option to subscribe for (at the sole election of the Subscriber or its permitted assigns) up to 210,000,000 Option Shares at the Option Price of HK\$1.21 each, at any time during the Option Period, in an amount of not less than the integral multiples of 5,000,000 Option Shares.

10,000,000 Initial Subscription Shares represent approximately 0.24% of the existing issued share capital of the Company as at the date of this announcement and approximately 0.24% of the issued share capital of the Company as enlarged by the allotment and issue of the Initial Subscription Shares.

210,000,000 Option Shares represent approximately 5.08% of the existing share capital of the Company as at the date of this announcement and approximately 4.83% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

The net proceeds from the issue of the 10,000,000 Initial Subscription Shares are estimated to be approximately HK\$9.7 million. The maximum net proceeds from the issue of the 210,000,000 Option Shares (assuming the Subscriber (or its permitted assigns) exercises the Option in full) are estimated to be approximately HK\$253.9 million. The net proceeds from the Share Subscription are estimated to be utilised by the Group for any future possible acquisitions and investments, and general working capital of the Group.

The Subscription Shares will be issued under the General Mandate. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

As the Subscription Agreement is subject to the fulfillment of certain conditions and may or may not proceed to completion, Shareholders and prospective investors are advised to exercise caution when dealing in the Shares.

THE SUBSCRIPTION AGREEMENT

Date: 8 August 2011

Issuer: The Company

Subscriber: Potent Growth Limited

The Subscriber, Potent Growth Limited, is an investment holding company incorporated in the British Virgin Islands. Potent Growth Limited is wholly-owned by Mr. Zhang Qing. Mr. Zhang Qing currently owns 70,000,000 Shares, representing approximately 1.69% of the issued share capital of the Company. Save as aforesaid, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Subscriber and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

The Subscription Shares

Pursuant to the Subscription Agreement, the Company agreed to issue, and the Subscriber agreed to subscribe for, 10,000,000 Initial Subscription Shares at the Issue Price of HK\$0.99 each on the Closing Date.

The Company also agreed to grant the Subscriber the Option to subscribe for (at the sole election of the Subscriber or its permitted assigns) up to 210,000,000 Option Shares at the Option Price of HK\$1.21 each, at any time during the Option Period, in an amount of not less than the integral multiples of 5,000,000 Option Shares.

Number of Subscription Shares

10,000,000 Initial Subscription Shares (with an aggregate nominal value of HK\$1,000,000) represent approximately 0.24% of the existing issued share capital of the Company as at the date of this announcement and approximately 0.24% of the issued share capital of the Company as enlarged by the allotment and issue of the Initial Subscription Shares.

210,000,000 Option Shares (with an aggregate nominal value of HK\$21,000,000) represent approximately 5.08% of the existing share capital of the Company as at the date of this announcement and approximately 4.83% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

The Issue Price and the Option Price

The Issue Price of HK\$0.99 per Initial Subscription Share and the Option Price of HK\$1.21 per Option Share were arrived at after arm's length negotiations between the Company and the Subscriber with reference to market conditions and the recent price performance of the Shares. The net Issue Price is approximately HK\$0.97 per Initial Subscription Share. The net Option Price is approximately HK\$1.21 per Option Share.

The Issue Price represents:

- (i) the closing price of HK\$0.99 per Share as quoted on the Stock Exchange on 8 August 2011, being the Last Trading Day;
- (ii) a discount of approximately 3.88% to the average closing price of approximately HK\$1.03 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day; and
- (iii) a discount of approximately 4.81% to the average closing price of approximately HK\$1.04 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day.

The Option Price represents:

- (i) a premium of approximately 22.22% to the closing price of HK\$0.99 per Share as quoted on the Stock Exchange on 8 August 2011, being the Last Trading Day;
- (ii) a premium of approximately 17.48% to the average closing price of approximately HK\$1.03 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day; and
- (iii) a premium of approximately 16.35% to the average closing price of approximately HK\$1.04 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day.

If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification, corresponding adjustments will be made to the Option Price in accordance with the terms of the Subscription Agreement.

The Directors (including the independent non-executive Directors) consider the Issue Price and the Option Price are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Option Period

The Option may be exercised by written notice given by the Subscriber (or its permitted assigns) to the Company within a period commencing on the Closing Date and ending on the second anniversary of the Closing Date (both days inclusive).

Rights of the Subscription Shares

The Subscription Shares, when fully paid and allotted, will rank pari passu in all respects with all other Shares in issue on the Closing Date (in relation to the Initial Subscription Shares) and the each relevant Option Closing Date (in relation to the Option Shares) (as the case may be) and will be entitled to all dividends, bonuses and distributions the record date for which falls on or after such Closing Date or each relevant Option Closing Date (as the case may be) to the same extent as all other fully-paid Shares then in issue.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

General Mandate

The Subscription Shares will be issued pursuant to the General Mandate granted to the Directors at the annual general meeting of the Company held on 27 May 2011. Pursuant to the General Mandate, the Directors were authorised to allot and issue up to 828,825,858 Shares. Up to the date of this announcement, no Shares have been issued pursuant to the General Mandate. Accordingly, the issue of the Subscription Shares is not subject to any approval of the Shareholders.

Condition precedent

The obligations of the Company to allot and issue the Subscription Shares and the Subscriber (or its permitted assigns) to subscribe and pay for the Initial Subscription Shares on the Closing Date and for the relevant Option Shares on the relevant Option Closing Date (as the case may be) are subject to the Company having obtained the approval from the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

If the condition precedent is not satisfied on or prior to the Closing Date, the Company and the Subscriber will be released and discharged from their respective obligations under the Subscription Agreement (except for any liability of the Company and the Subscriber in respect of any antecedent breaches of the terms of the Subscription Agreement).

The Closing Date will be on the Business Day next following the date on which the condition precedent has been satisfied. On the Closing Date, the Subscriber will subscribe for the Initial Subscription Shares and will make payment to the Company for the Initial Subscription Shares. The Company will issue and allot the Initial Subscription Shares to the Subscriber (or its permitted assigns) as soon as practicable upon receipt of the subscription money. The relevant Option Closing Date will be the date on which the relevant Option Shares are to be delivered to the Subscriber (or its permitted assigns) which will be no earlier than seven Business Days but no later than ten Business Days after the date of the receipt by the Company of a written notice from the Subscriber (or its permitted assigns) indicating the exercise of the Option and the number of Option Shares to be subscribed pursuant to such exercise and the subscription moneys for the relevant Option Shares.

REASONS FOR THE SHARE SUBSCRIPTION AND USE OF PROCEEDS

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

The net proceeds from the issue of 10,000,000 Initial Subscription Shares are estimated to be approximately HK\$9.7 million. The maximum net proceeds from the issue of the 210,000,000 Option Shares (assuming the Subscriber (or its permitted assigns) exercises the Option in full) are estimated to be approximately HK\$253.9 million. The net proceeds from the Share Subscription will be utilised by the Group for any future possible acquisitions and investments, and general working capital of the Group.

The Directors are of the view that the Share Subscription represents an opportunity to raise capital for the Company for potential investment opportunities if and when they arise while broadening the capital base of the Company. The Directors also consider the Subscription Agreement is on normal commercial terms. Therefore, the Directors (including the independent non-executive Directors) consider that the terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FUND RAISING ACTIVITY DURING THE PAST 12 MONTHS

Save as disclosed below, the Company has not conducted any other fund raising activities involving the issue of its securities in the past twelve months immediately preceding the date of this announcement:

Date of announcement	Nature of transaction	Net proceeds	Intended use of proceeds as announced	Actual use of proceeds
15 December 2010	Placing of 390,138,000 new Shares	Approximately HK\$464.7 million	To be used by the Group for any future possible acquisitions and investments, and general working capital of the Group	Used in full for the acquisition of Eterna AG Uhrenfabrik and general working capital of the Group

CHANGES IN SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company before and after the issue of the Subscription Shares:

Shareholders	As at the date of this announcement		Immediately after the issue and allotment of the Initial Subscription Shares but before the issue and allotment of the Option Shares		Immediately after the issue and allotment of the Subscription Shares (assuming that the Option is exercised in full) but before the exercise of the outstanding Share Options		Immediately after the issue and allotment of the Subscription Shares (assuming that the Option is exercised in full) and the exercise of the outstanding Share Options in full	
	Number of Shares	Approximate % of issued share capital of the Company	Number of Shares	Approximate % of issued share capital of the Company	Number of Shares	Approximate % of issued share capital of the Company	Number of Shares	Approximate % of issued share capital of the Company
Full Day Limited (“Full Day”) ^{Note 1}	1,750,000,000	42.37%	1,750,000,000	42.27%	1,750,000,000	40.23%	1,750,000,000	39.57%
Sincere View International Limited (“Sincere View”) ^{Note 1}	795,177,515	19.25%	795,177,515	19.21%	795,177,515	18.28%	795,177,515	17.98%
Mr. Hon Kwok Lung ^{Note 1}	2,275,000	0.06%	2,275,000	0.05%	2,275,000	0.05%	3,500,000	0.08%
Keywise Capital Management (HK) Limited	417,940,000	10.12%	417,940,000	10.09%	417,940,000	9.61% ^{Note 2}	417,940,000	9.45% ^{Note 2}
Mr. Fung Tze Wa ^{Note 3}	2,100,000	0.05%	2,100,000	0.05%	2,100,000	0.05%	3,500,000	0.08%
Dr. Kwong Chun Wai, Michael ^{Note 3}	2,275,000	0.06%	2,275,000	0.05%	2,275,000	0.05%	3,500,000	0.08%
Mr. Shi Tao ^{Note 4}	3,250,000	0.08%	3,250,000	0.08%	3,250,000	0.07%	5,000,000	0.11%
Mr. Lam Toi Man ^{Note 4}	2,275,000	0.06%	2,275,000	0.05%	2,275,000	0.05%	3,500,000	0.08%
Mr. Shang Jianguang ^{Note 4}	5,200,000	0.13%	5,200,000	0.13%	5,200,000	0.12%	8,000,000	0.18%
Mr. Li Qiang ^{Note 3}	–	–	–	–	–	–	3,500,000	0.08%
Subtotal	2,980,492,515	72.16%	2,980,492,515	71.99%	2,980,492,515	68.51%	2,993,617,515	67.69%
Mr. Zhang Qing ^{Note 5}	70,000,000	1.69%	70,000,000	1.69%	70,000,000	1.61%	70,000,000	1.58%
Subscriber (or its permitted assigns) ^{Note 5}	–	–	10,000,000	0.24%	220,000,000	5.06%	220,000,000	4.97%
Other public Shareholders	1,079,861,774	26.14%	1,079,861,774	26.08%	1,079,861,774	24.82%	1,138,736,774	25.75%
Total	4,130,354,289	100.00%	4,140,354,289	100.00%	4,350,354,289	100.00%	4,422,354,289	100.00%

Notes:

- Full Day is wholly-owned by Mr. Hon Kwok Lung, the Chairman of the Company. Sincere View is owned as to 80% by Mr. Hon Kwok Lung and 20% by his wife, Ms. Lam Suk Ying. Mr. Hon Kwok Lung and Ms. Lam Suk Ying are deemed to have an interest in the aggregate 2,545,177,515 Shares held by Full Day and Sincere View.
- Keywise Capital Management (HK) Limited will become a public Shareholder in such scenarios.
- Mr. Fung Tze Wa, Dr. Kwong Chun Wai, Michael and Mr. Li Qiang are independent non-executive Directors.
- Mr. Shi Tao, Mr. Lam Toi Man and Mr. Shang Jianguang are executive Directors.
- The Subscriber is wholly-owned by Mr. Zhang Qing. Mr. Zhang Qing is deemed to have an interest in the Shares held by the Subscriber.
- The numbers may not add up due to rounding.

DEFINITIONS

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

“Board”	board of the Directors
“Business Day”	a day on which the Stock Exchange is open for the business of dealing in securities
“Closing Date”	the Business Day next following the date on which the condition precedent set out in the section headed “Condition precedent” in this announcement has been satisfied
“Company”	China Haidian Holdings Limited, 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”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“General Mandate”	the general mandate granted to the Directors pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 27 May 2011 to allot and issue up to 828,825,858 Shares, representing 20% of the aggregate nominal amount of the issued share capital of the Company on such date
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Initial Subscription Share(s)”	Share(s) to be issued and allotted by the Company to the Subscriber (or its permitted assigns) at the Issue Price pursuant to the Subscription Agreement
“Issue Price”	HK\$0.99 per Initial Subscription Share
“Last Trading Day”	8 August 2011, being the last trading day of the Shares on the Stock Exchange before the date of this announcement

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Option”	the right granted by the Company to the Subscriber to purchase the Option Shares at the Option Price to be exercised at the election of the Subscriber (or its permitted assigns) pursuant to the Subscription Agreement
“Option Closing Date”	the date on which the relevant Option Shares are delivered to the Subscriber (or its permitted assigns) in accordance with the terms of the Subscription Agreement
“Option Period”	the period commencing on the Closing Date and ending on the second anniversary of the Closing Date (both dates inclusive)
“Option Price”	HK\$1.21 per Option Share (subject to adjustment from time to time in accordance with the terms of the Subscription Agreement)
“Option Share(s)”	up to 210,000,000 Share(s) to be issued and allotted by the Company to the Subscriber (or its permitted assigns) upon the exercise of the Option at the election of the Subscriber (or its permitted assigns) under the Subscription Agreement
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Share Options”	share options of the Company granted pursuant to its share option scheme adopted on 30 May 2008
“Share Subscription”	the issue of the Initial Subscription Shares and the relevant Option Shares pursuant to the Subscription Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Potent Growth Limited, a company incorporated in the British Virgin Islands with limited liability
“Subscription Agreement”	the agreement dated 8 August 2011 entered into between the Company and the Subscriber in respect of the Share Subscription

“Subscription Shares” the Initial Subscription Shares and the Option Shares

“%” per cent

By order of the Board
Hon Kwok Lung
Chairman

Hong Kong, 8 August 2011

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