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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 15 December 2011, Sure Best, a wholly-owned subsidiary of the Company, and the Vendor entered into the Acquisition Agreement, pursuant to which the Vendor agreed to sell 25% of the issued shares of Fair Future to Sure Best at a total consideration of HK\$56,000,000. The Consideration will be settled by the allotment and issue of the Consideration Shares.

Upon Completion, the Company will indirectly own 25% interest in Fair Future. The Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

### **THE ACQUISITION AGREEMENT**

#### **Date**

15 December 2011

#### **Parties**

Purchaser: Sure Best

Seller: Mr. Chan Heung Wai, Debby

Guarantor: Ms. Yeung Yuk Kwan

The Vendor and the Guarantor hold 90% and 10% of the share capital of Fair Future respectively. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, the Vendor and the Guarantor are third parties independent of and not connected with the Company and its connected persons.

### **Subject matter**

Pursuant to the Acquisition Agreement, the Vendor has conditionally agreed to sell and Sure Best has conditionally agreed to purchase the Sale Shares at a total consideration of HK\$56,000,000. The Sale Shares represent 25% of the issued shares of Fair Future.

After the Completion, the interest in Fair Future will be accounted for as an associate of the Company.

### **Consideration**

The Consideration for the Sale Shares is HK\$56,000,000. The Consideration shall be settled by the allotment and issue of a total of 56,000,000 Consideration Shares at the issue price of HK\$1 each by the Company in the following manner:

- (a) HK\$2,000,000 to be settled by issue and allotment of 2,000,000 Consideration Shares to the Vendor (or its nominee) within seven Business Days from the Completion Date. Such 2,000,000 Consideration Shares will be subject to lock-up from the date of issue to 31 May 2012;
- (b) In the event that the Shenzhen Subsidiary has not become a wholly-owned subsidiary of Fair Future by the Completion Date, the Vendor undertakes to complete the restructuring within thirty days from the Completion Date, but in any event no later than 31 January 2012. HK\$13,000,000 to be settled by the issue and allotment of 13,000,000 Consideration Shares to the Vendor (or its nominee) within seven Business Days after the Shenzhen Subsidiary becomes a wholly-owned subsidiary of Fair Future. Such 13,000,000 Consideration Shares will be subject to lock-up from the date of issue to 31 May 2012;
- (c) HK\$8,000,000 to be settled by the issue and allotment of 8,000,000 Consideration Shares to the Vendor (or its nominee) on 30 June 2012. Such 8,000,000 Consideration Shares will be subject to lock-up from the date of issue to 30 November 2012;
- (d) HK\$15,000,000 to be settled by the issue and allotment of 15,000,000 Consideration Shares to the Vendor (or its nominee) on 31 January 2013, of which 8,000,000 Consideration Shares will be subject to lock-up from the date of issue to 31 May 2013 and the remaining 7,000,000 Consideration Shares will be subject to lock-up from the date of issue to 30 November 2013; and

- (e) HK\$18,000,000 to be settled by the issue and allotment of 18,000,000 Consideration Shares to the Vendor (or its nominee) on 31 January 2014, of which 10,000,000 Consideration Shares will be subject to lock-up from the date of issue to 31 May 2014 and the remaining 8,000,000 Consideration Shares will be subject to lock-up from the date of issue to 30 November 2014.

In the event that the restructuring of the Shenzhen Subsidiary has not been completed by 31 January 2012, Sure Best may in its discretion terminate the Acquisition Agreement. Upon termination, the Vendor shall refund the amount of HK\$2,000,000 to the Company by transferring the 2,000,000 Consideration Shares allotted to the Vendor (or its nominee) pursuant to point (a) above to a party as designated by the Company for sale. The sales proceeds shall be paid to the Company as settlement of the refund. Should the sales proceeds is less than HK\$2,000,000, the Vendor shall compensate the Company the shortfall.

The Vendor (or its nominee) may not dispose of the Consideration Shares during the respective lock-up periods. The Vendor undertakes to strictly follow the lock-up period requirement, and in case of breach of the lock-up restriction, the proceeds received from the disposal of the Consideration Shares by the Vendor (or its nominee) within the lock-up period will belong to Sure Best.

Sure Best has undertaken to the Vendor that if the average selling price of the Consideration Shares disposed of by the Vendor within the 12-month period from the expiration of the respective lock-up periods is less than HK\$1, Sure Best will compensate the Vendor the shortfall.

The Consideration was determined after arm's length negotiation between Sure Best and the Vendor taking into consideration, among others, the profit making track record of the Target Group, the profit guarantee provided by the Vendor and the Guarantor 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 Shares**

The issue price of the Consideration Shares of HK\$1 each was arrived at after arm's length negotiations between Sure Best and the Vendor after taking into account the historical Share prices. The issue price represents:

- (a) a premium of approximately 28.2% over the closing price of HK\$0.78 per Share as quoted on the Stock Exchange on 15 December 2011, being the last trading day prior to the signing of the Acquisition Agreement;
- (b) a premium of approximately 26.6% over the average closing price of approximately HK\$0.79 per Share for the five trading days up to and including 15 December 2011;
- (c) a premium of approximately 25.0% over the average closing price of approximately HK\$0.80 per Share for the ten trading days up to and including 15 December 2011; and

- (d) a premium of approximately 20.5% to the unaudited consolidated net asset value per Share attributable to the owners of the Company of approximately HK\$0.83 as at 30 June 2011.

The 56,000,000 Consideration Shares represent approximately 1.4% of the existing issued share capital of the Company and approximately 1.3% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

### **Conditions precedent**

The Completion is conditional upon the following conditions precedent being satisfied or waived by Sure Best:

- (a) Sure Best having satisfied with the due diligence results in respect of the financial and legal aspects of the Target Group undertaken by Sure Best;
- (b) the board of directors of each of the Company and Sure Best having approved the Acquisition according to the terms and conditions of the Acquisition Agreement, including the issuance of the Consideration Shares by the Company to the Vendor (or its nominee);
- (c) all necessary approvals and consents (if required) in relation to the transactions contemplated under the Acquisition Agreement have been granted by relevant government authorities and any other stakeholder (e.g. lending banks, etc) and have not been withdrawn prior to the Completion;
- (d) all the approvals in relation to the Shenzhen Subsidiary becoming a wholly-owned subsidiary of Fair Future have been granted by the relevant PRC government authorities and the relevant registration and filing procedures have been completed, and the renewed business license of the Shenzhen Subsidiary indicating that Fair Future is its sole shareholder have been obtained by the Shenzhen Subsidiary;
- (e) the representation and warranties provided by the Vendor and the Guarantor in the Acquisition Agreement remained true, accurate and not misleading at all times in all respects; and
- (f) the Stock Exchange having granted its permission for the listing of and permission to deal in the Consideration Shares to be issued to the Vendor (or its nominee) under the Acquisition Agreement.

Sure Best may in its discretion waive either in whole or in part the above conditions (a) and (d). In the event that the above conditions precedent (except condition (e)) are not fulfilled or waived (as the case may be) by 31 January 2012 (or such other date as may be agreed by the parties), or condition (e) is not fulfilled at the same time when the last condition precedent is fulfilled or waived (as the case may be), Sure Best may in its discretion extend the long stop

date of the Acquisition Agreement or terminate the Acquisition Agreement, in which case the Acquisition Agreement shall cease to be of any effect save in respect of claims arising out of any antecedent breach thereof. It is the current intention of Sure Best to waive condition (d) and proceed to the Completion if all conditions, save for condition (d), are fulfilled or waived (as the case may be).

### **Undertakings by the Vendor and the Guarantor**

Pursuant to the Acquisition Agreement, the Vendor and the Guarantor have guaranteed that the consolidated net profit after tax of the Target Group for the four years ending 31 December 2014 shall be no less than HK\$30,600,000, HK\$35,000,000, HK\$38,000,000 and HK\$43,000,000 respectively.

The accounts of the Target Group shall be audited by an auditor to be appointed by Sure Best in accordance with Hong Kong generally accepted accounting principles. In the event that the actual audited consolidated net profit after tax of the Target Group for any of the years ending 31 December 2014 is less than the guaranteed profit, the Vendor and the Guarantor shall compensate Fair Future the shortfall in cash within 30 days from the date of issue of the audited accounts for the respective financial year.

The Vendor and the Guarantor have jointly and severally undertaken that the audited consolidated net assets of the Target Group as at 31 December 2011 (excluding the profit for the year ending 31 December 2011, the carrying value of the Properties and the carrying value of the Securities as at 31 December 2011) will not be less than HK\$30,000,000. In the event that the audited consolidated net assets of the Target Group as at 31 December 2011 as stated in the 2011 Audited Accounts is less than HK\$30,000,000, the Vendor shall compensate the shortfall in cash within 30 days from the date of issue of the 2011 Audited Accounts.

In the event that there is any outstanding debt between the Vendor or the Guarantor and the Target Group stated in the 2011 Audited Accounts, the Vendor and the Guarantor shall settle the outstanding debt within 30 days from the date of issue of the 2011 Audited Accounts. For the avoidance of doubt, the amount due from the Vendor to Fair Future of HK\$12,435,458 and the amount due from the Guarantor to Fair Future of HK\$1,273,673 as at 31 October 2011 shall be waived.

The Vendor and the Guarantor have undertaken to complete the restructuring and settlement of debts within 12 months from the Completion Date as follow:

- (a) the titles of the Properties will be transferred to the Vendor. The mortgage in respect of the Properties will be assigned to the Vendor upon completion of the transfer of the titles of the Properties;
- (b) the interests in the Securities will be transferred to the Vendor;
- (c) the Vendor and the Guarantor will repay Fair Future the down payment of HK\$5,196,913 of the mortgages for the purchase of the Properties and the mortgage installments in respect of the Properties payable by Fair Future after the Completion Date;

- (d) the Vendor and the Guarantor will settle the amount due from Hope Timepieces to Fair Future of HK\$50,111 and the amount due from Fair Future to the Shenzhen Subsidiary of HK\$15,101,585 as at 31 October 2011; and
- (e) the Vendor and the Guarantor will pay the profit tax of Fair Future for the year ended 31 March 2011 of HK\$3,908,744.

## **INFORMATION OF THE TARGET GROUP**

### **Overview**

Fair Future is principally engaged in the manufacture of watches and accessories of watches in Hong Kong. Fair Future manufactures watches for a well-known Japanese brand on an OEM basis. Fair Future subcontracts the manufacture of watches to the Shenzhen Subsidiary.

Fair Future recorded audited revenue of approximately HK\$357.9 million, HK\$628.8 million and HK\$314.7 million for the two years ended 31 March 2010 and 31 March 2011 and the five months ended 31 August 2011 respectively, based on Hong Kong generally accepted accounting principles. The audited profit before tax of Fair Future for the two years ended 31 March 2010 and 31 March 2011 and the five months ended 31 August 2011 amounted to approximately HK\$12.8 million, HK\$37.1 million and HK\$17.6 million respectively. The audited profit after tax of Fair Future for the two years ended 31 March 2010 and 31 March 2011 and the five months ended 31 August 2011 amounted to approximately HK\$10.7 million, HK\$31.0 million and HK\$14.8 million respectively.

As at 31 August 2011, Fair Future had audited net assets of approximately HK\$66.2 million. The net book value of the Properties amounted to approximately HK\$21.5 million as at 31 August 2011. The book value of certain listed equity securities and equity linked investment listed on the Stock Exchange held by Fair Future amounted to approximately HK\$16.5 million as at 31 August 2011. The titles of the Properties and the interests in the Securities will be transferred to the Vendor within 12 months from the Completion Date.

The Shenzhen Subsidiary is currently wholly-owned by the Vendor. The Shenzhen Subsidiary is principally engaged in the manufacture of watches, accessories of watches and metal parts in the PRC. The Shenzhen Subsidiary manufactures watches subcontracted by Fair Future. The production facilities of the Shenzhen Subsidiary is located in the Baoan District of Shenzhen, the PRC.

The Shenzhen Subsidiary recorded audited revenue of approximately RMB73.4 million (equivalent to approximately HK\$90.1 million) and RMB121.4 million (equivalent to approximately HK\$148.9 million) for the two years ended 31 December 2010 respectively, based on PRC accounting standards. The audited profit before tax of the Shenzhen Subsidiary for the two years ended 31 December 2010 amounted to approximately RMB0.6 million (equivalent to approximately HK\$0.8 million) and RMB0.5 million (equivalent to approximately HK\$0.6 million) respectively. The audited profit after tax of the Shenzhen Subsidiary for the two years ended 31 December 2010 amounted to approximately RMB0.6 million (equivalent to approximately HK\$0.8 million) and RMB0.5 million (equivalent to approximately HK\$0.6 million) respectively.

The Shenzhen Subsidiary had unaudited net assets value of approximately RMB7.4 million (equivalent to approximately HK\$9.1 million) as at 31 October 2011. Of the revenue of the Shenzhen Subsidiary, approximately HK\$38.2 million and HK\$81.6 million represented the invoiced amount for income from Fair Future for the years ended 31 December 2009 and 31 December 2010 respectively.

## **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.

In view of the profit-making track record of the Target Group and the profit guarantee of the Target Group for the four years ending 31 December 2014 provided by the Vendor and the Guarantor, the Acquisition is expected to broaden the Group's source of income. Further, the manufacturing facilities of the Shenzhen Subsidiary will enhance the production capacity of the Group, which in turn will help strengthen the Group's position in the watch manufacturing industry in the PRC, and subsequently enhance the Group's bargaining power in the supply chain.

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.

## SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company as at the date of this announcement and immediately after the issue of 56,000,000 Consideration Shares:

	As at the date of this announcement		Immediately after the issue of 56,000,000 Consideration Shares	
	Number of Shares	%	Number of Shares	%
Full Day Limited (Note 1)	1,750,000,000	42.27%	1,750,000,000	41.71%
Sincere View International Limited (Note 1)	849,951,515	20.53%	849,951,515	20.26%
Hon Kwok Lung (Note 1)	2,275,000	0.05%	2,275,000	0.05%
Shang Jianguang (Note 2)	5,200,000	0.13%	5,200,000	0.12%
Shi Tao (Note 2)	3,250,000	0.08%	3,250,000	0.08%
Lam Toi Man (Note 2)	2,275,000	0.05%	2,275,000	0.05%
Fung Tze Wa (Note 3)	2,100,000	0.05%	2,100,000	0.05%
Kwong Chun Wai, Michael (Note 3)	1,039,000	0.03%	1,039,000	0.02%
Keywise Capital Management (HK) Limited	417,940,000	10.10%	–	–
<i>Public Shareholders:</i>				
The Vendor	–	–	56,000,000	1.33%
Keywise Capital Management (HK) Limited	–	–	417,940,000	9.96%
Other public Shareholders	1,105,716,774	26.71%	1,105,716,774	26.37%
<b>Total</b>	<b>4,139,747,289</b>	<b>100.0%</b>	<b>4,195,747,289</b>	<b>100.0%</b>

Notes:

1. Full Day Limited is wholly-owned by Mr. Hon Kwok Lung. Sincere View International Limited is owned as to 80% by Mr. Hon Kwok Lung and 20% by Ms. Lam Suk Ying, the spouse of Mr. Hon Kwok Lung. Mr. Hon Kwok Lung is the Chairman of the Company.
2. Mr. Shang Jianguang, Mr. Shi Tao and Mr. Lam Toi Man are executive Directors.
3. Mr. Fung Tze Wa and Dr. Kwong Chun Wai, Michael are independent non-executive Directors.

## GENERAL

The Acquisition constitutes 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:

“2011 Audited Accounts”	the audited consolidated accounts of the Target Group for the year ending 31 December 2011 prepared in accordance with Hong Kong generally accepted accounting principles by an auditor to be appointed by Sure Best
“Acquisition”	the acquisition of the Sale Shares by Sure Best pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional sale and purchase agreement dated 15 December 2011 entered into among Sure Best, the Vendor and the Guarantor in relation to the Acquisition
“Business Day”	a day (other than a Saturday or Sunday) on which banks are open for business in Hong Kong
“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 Agreement in accordance with the Acquisition Agreement
“Completion Date”	date of Completion
“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 Sure Best for the Acquisition
“Consideration Share(s)”	new Share(s) to be allotted and issued by the Company in settlement of the Consideration pursuant to the Acquisition Agreement
“Director(s)”	the director(s) of the Company
“Fair Future”	Fair Future Industrial Limited, a company incorporated in Hong Kong with limited liability and is owned as to 90% by the Vendor and 10% by the Guarantor
“Group”	the Company and its subsidiaries
“Guarantor”	Ms. Yeung Yuk Kwan, a shareholder of Fair Future

“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hope Timepieces”	學科鐘錶(深圳)有限公司 (Hope Timepieces (Shenzhen) Ltd*), a company established in the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Properties”	two properties located at (i) Flat C, 12/F, Tower 6, Deerhill Tower, Deerhill Bay, 4699 Tai Po Road, Tai Po, New Territories, Hong Kong; and (ii) Flat A, 8/F, Tower 6, Deerhill Tower, Deerhill Bay, 4699 Tai Po Road, Tai Po, New Territories, Hong Kong
“Sale Shares”	150,000 shares of Fair Future, representing 25% of its issued share capital
“Securities”	certain listed equity securities and equity linked investment listed on the Stock Exchange or any other equity interests held by Fair Future (other than the interest in the Shenzhen Subsidiary)
“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)
“Shenzhen Subsidiary”	寶科精密製品(深圳)有限公司 (Baoke Precision Manufacture (Shenzhen) Limited*), a company established in the PRC and is currently wholly-owned by the Vendor and will become a wholly-owned subsidiary of Fair Future
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sure Best”	Sure Best Management Limited, a company incorporated in Hong Kong and is wholly-owned by the Company
“Target Group”	Fair Future and the Shenzhen Subsidiary
“Vendor”	Mr. Chan Heung Wai, Debby, a shareholder of Fair Future
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong

“RMB”

Renminbi, the lawful currency of PRC, and the exchange rate for RMB into HK\$ for the purpose of this announcement is RMB1.00 = HK\$1.227

%

per cent.

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

Hong Kong, 15 December 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, 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.*

\* *For identification purposes only*