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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)

MAJOR AND CONNECTED TRANSACTIONS

Financial Adviser to China Haidian Holdings Limited



THE DISPOSALS

On 6 January 2011, the Company agreed to sell and the Purchaser agreed to acquire the 49% equity interest of Fuzhou Dartong, a jointly-controlled entity of the Company, at a consideration of HK\$93,342,000. On the same date, the Company also agreed to sell and the Purchaser agreed to acquire the 25.58% equity interest of Jiangsu Dartong, an associate company of the Company, at a consideration of HK\$40,768,000.

Upon completion of the Disposals, the Group will cease to have any interest in enamelled copper wires business. The Disposals will allow the Group to focus on its watches and timepieces business.

GENERAL

The Disposals, when aggregated pursuant to Rule 14.22 of the Listing Rules, constitute major transactions of the Company under Chapter 14 of the Listing Rules. The Purchaser is wholly-owned by Mr. Hon Kwok Lung, the Chairman and an executive director of the Company. As such, the Purchaser is a connected person of the Company. Each of the Jiangsu Disposal and the Fuzhou Disposal constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules and is subject to the approval by the Independent Shareholders at the EGM by poll.

The EGM will be convened at which resolutions will be proposed to seek the Independent Shareholders' approval of the transactions contemplated under the Agreements. The Purchaser, its ultimate beneficial owner and their respective associates are required to abstain from voting at the EGM.

The Independent Board Committee, comprising the independent non-executive Directors, has been formed to advise the Independent Shareholders on the terms of the Agreements. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) details of the Disposals; (ii) a letter from the Independent Board Committee; (iii) a letter of advice from an independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Disposals; and (iv) the notice of the EGM will be despatched to the Shareholders. As additional time is required for preparation of the information for inclusion in the circular, the Company expects that the circular will be despatched on or before 28 February 2011.

THE FUZHOU AGREEMENT

Date

6 January 2011

Parties

Vendor: the Company

Purchaser: Honour Aim Limited

The Purchaser is an investment holding company ultimately beneficially wholly-owned by Mr. Hon Kwok Lung, the Chairman and executive director of the Company.

Subject matter

Pursuant to the Fuzhou Agreement, the Company agreed to sell and the Purchaser agreed to acquire the 49% equity interest of Fuzhou Dartong at a consideration of HK\$93,342,000.

The Fuzhou Sale Shares represent the Company's entire shareholding interest in Fuzhou Dartong.

Consideration

The consideration payable to the Company under the Fuzhou Agreement for the Fuzhou Sale Shares is HK\$93,342,000. The payment terms of the consideration are as follows:

- (i) HK\$18,668,400 payable in cash by the Purchaser within seven business days after the fulfilment of conditions (i), (ii) and (iii) as stated in the sub-section headed "Conditions precedent" under the section headed "The Fuzhou Agreement"; and
- (ii) HK\$74,673,600 payable in cash by the Purchaser within seven business days after the completion of the Fuzhou Agreement.

The consideration for the Fuzhou Sale Shares was arrived at after arm's length negotiations between the Company and the Purchaser taking into consideration of the book value of Fuzhou Dartong as at 30 June 2010.

Conditions precedent

Completion of the Fuzhou Agreement is conditional upon:

- (i) the approval of the Fuzhou Disposal and the transactions contemplated under the Fuzhou Agreement by the Independent Shareholders and the Stock Exchange (if necessary) in accordance with the requirements of the Listing Rules and/or other applicable regulations in Hong Kong and that the Fuzhou Disposal does not affect the Company's listing status on the Stock Exchange;
- (ii) the Company, the Purchaser, Fuzhou Dartong and their respective board of directors approving the signing and execution of the Fuzhou Agreement;
- (iii) the other shareholder of Fuzhou Dartong waiving its first right of refusal for the Fuzhou Sale Shares in writing; and
- (iv) the Original Examining and Approving Authority and all other relevant authorities approving the transfer of the Fuzhou Sale Shares.

Pursuant to the Fuzhou Agreement, the Company has undertaken to obtain the approval of the Fuzhou Disposal and the transactions contemplated under the Fuzhou Agreement by the Independent Shareholders and the Stock Exchange (if necessary) within two months from the date of the Fuzhou Agreement. The Purchaser has undertaken that it will procure Fuzhou Dartong to obtain the approval(s) of the Original Examining and Approving Authority and all other relevant authorities in respect of the transfer of the Fuzhou Sale Shares and complete the registration of change in the shareholding interest of Fuzhou Dartong within two months after being notified of the Company having obtained the Independent Shareholders' and the Stock Exchange's approval (as the case may be) as discussed above.

Completion of the Fuzhou Agreement shall take place on the date on which all conditions above have been fulfilled. If the above conditions are not fulfilled by 30 June 2011, the Fuzhou Agreement shall cease and determine, and neither party to the Fuzhou Agreement shall seek any claim against each other save for any antecedent breaches of the Fuzhou Agreement.

THE JIANGSU AGREEMENT

Date

6 January 2011

Parties

Vendor: the Company

Purchaser: Honour Aim Limited

Subject matter

Pursuant to the Jiangsu Agreement, the Company agreed to sell and the Purchaser agreed to acquire the 25.58% equity interest of Jiangsu Dartong at a consideration of HK\$40,768,000.

The Jiangsu Sale Shares represent the Company's entire shareholding interest in Jiangsu Dartong.

Consideration

The consideration payable to the Company under the Jiangsu Agreement for the Jiangsu Sale Shares is HK\$40,768,000. The payment terms of the consideration are as follows:

- (i) HK\$8,153,600 payable in cash by the Purchaser within seven business days after the fulfilment of conditions (i), (ii) and (iii) as stated in the sub-section headed "Conditions precedent" under the section headed "The Jiangsu Agreement"; and
- (ii) HK\$32,614,400 payable in cash by the Purchaser within seven business days after the completion of the Jiangsu Agreement.

The consideration for the Jiangsu Sale Shares was arrived at after arm's length negotiations between the Company and the Purchaser taking into consideration of the Company's interest in Jiangsu Dartong's as at 30 June 2010.

Conditions precedent

Completion of the Jiangsu Agreement is conditional upon:

- (i) the approval of the Jiangsu Disposal and the transactions contemplated under the Jiangsu Agreement by the Independent Shareholders and the Stock Exchange (if necessary) in accordance with the requirements of the Listing Rules and/or other applicable regulations in Hong Kong and that the Jiangsu Disposal does not affect the Company's listing status on the Stock Exchange;
- (ii) the Company, the Purchaser, Jiangsu Dartong and their respective board of directors approving the signing and execution of the Jiangsu Agreement;

- (iii) the other shareholders of Jiangsu Dartong waiving their first rights of refusal for the Jiangsu Sale Shares in writing; and
- (iv) the Original Examining and Approving Authority and all other relevant authorities approving the transfer of the Jiangsu Sale Shares.

Pursuant to the Jiangsu Agreement, the Company has undertaken to obtain the approval of the Jiangsu Disposal and the transactions contemplated under the Jiangsu Agreement by the Independent Shareholders and the Stock Exchange (if necessary) within two months from the date of the Jiangsu Agreement. The Purchaser has undertaken that it will procure Jiangsu Dartong to obtain the approval(s) of the Original Examining and Approving Authority and all other relevant authorities in respect of the transfer of the Jiangsu Sale Shares and complete the registration of change in the shareholding interest of Jiangsu Dartong within two months after being notified of the Company having obtained the Independent Shareholders' and the Stock Exchange's approval (as the case may be) as discussed above.

Completion of the Jiangsu Agreement shall take place on the date on which all conditions above have been fulfilled. If the above conditions are not fulfilled by 30 June 2011, the Jiangsu Agreement shall cease and determine, and neither party to the Jiangsu Agreement shall seek any claim against each other save for any antecedent breaches of the Jiangsu Agreement.

INFORMATION OF FUZHOU DARTONG

Overview

Fuzhou Dartong was established in the PRC and is owned as to 51% by Citychamp Dartong and 49% by the Company. Fuzhou Dartong 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. They are frequently used in conversion machinery and air-conditioning compressors. The production plant of Fuzhou Dartong is located in Fujian Province, the PRC.

Financial information

Fuzhou Dartong is recognised as a jointly-controlled entity in the accounts of the Company using the proportionate consolidation method. The following table sets out the financial information of Fuzhou Dartong that was included in the Group's consolidated financial statements for the two years ended 31 December 2009 and the six months ended 30 June 2010.

	For the year ended 31 December 2008 (Audited) HK\$'000	2009 (Audited) HK\$'000	For the six months ended 30 June 2010 (Unaudited) HK\$'000
Revenue	589,869	471,149	349,845
Net profit/(loss) before taxation	(7,620)	10,838	4,610
Net profit/(loss) after taxation	(7,773)	10,830	4,245

As at 30 June 2010, the Company's 49% share of the net asset value of Fuzhou Dartong was approximately HK\$87.74 million.

INFORMATION OF JIANGSU DARTONG

Overview

Jiangsu Dartong was established in the PRC and is currently owned as to 25.58% by the Company, 42.2% by Citychamp Dartong and 32.22% by Jiangsu Qingjiang. Jiangsu Dartong is principally engaged in the manufacture and sale of enamelled copper wires in the PRC. The enamelled copper wires produced by Jiangsu Dartong are mainly used in various electrical machinery and equipment, automobiles, electrical tools and transformers. Its production plant is located in Jiangsu Province, the PRC.

Financial information

Jiangsu Dartong is recognised as an associate in the accounts of the Company using the equity method.

The Company's 25.58% share of net profit after taxation of Jiangsu Dartong amounted to approximately HK\$247,000 and approximately HK\$1.88 million for the two years ended 31 December 2009 and approximately HK\$2.24 million for the six months ended 30 June 2010 respectively.

As at 30 June 2010, the Company's interest in Jiangsu Dartong was approximately HK\$38.37 million.

FINANCIAL EFFECT OF THE DISPOSALS

For illustration purpose only, based on the Company's 49% share of the net asset value of Fuzhou Dartong of approximately HK\$87.74 million as at 30 June 2010 and the consideration for the Fuzhou Sale Shares of HK\$93,342,000, the gain from the Fuzhou Disposal would be approximately HK\$5.60 million. For illustration purpose only, based on the Company's interest in Jiangsu Dartong of approximately HK\$38.37 million as at 30 June 2010 and the consideration for the Jiangsu Sale Shares of HK\$40,768,000, the gain from the Jiangsu Disposal would be approximately HK\$2.40 million. The actual gain on the Disposals will be calculated on the respective date of completion of the Disposals.

Upon completion of the Disposals, the Group will cease to have any interest in the enamelled copper wires business.

REASONS FOR AND BENEFITS OF THE DISPOSALS

The Company is engaged in the manufacture and distribution of watches and timepieces, property investment, and the manufacture and distribution of enamelled copper wires through its subsidiaries, jointly-controlled entity and associates.

As stated in the Company's annual report for the year ended 31 December 2009, the enamelled copper wires business went through a difficult period of global financial crisis and industry consolidation during 2009. The enamelled copper wire business continues to face intensive market competition and increased production costs. Despite the efforts of Jiangsu Dartong and Fuzhou Dartong to improve financial performance by developing new products, reorganising their customer portfolios and controlling costs, the profit margins of the two companies remain low. The Disposals represent an opportunity for the Group to realise its investments in Jiangsu Dartong and Fuzhou Dartong.

Furthermore, the Disposals will allow the Group to focus on its watches and timepieces business, which is its core business. The Group manufactures and distributes watches and timepieces principally in the PRC. The Group owns brand names of Rossini and EBOHR that were ranked first and sixth respectively in terms of sales volume of watches (local and foreign brands) in the PRC in the first half of 2010. The watches and timepieces business has achieved a significant growth in sales in recent years. The Group currently has over 2,000 points of sale in the PRC. The Group will continue to expand its distribution network in the PRC and also enhance its brand image through various marketing promotions. The Group also plans to grow through acquisitions or investments in watches and timepieces business should suitable opportunities arise. It is intended that the proceeds from the Disposals will be used for any strategic acquisitions or investments in watches and timepieces business and as general working capital for the Group. The Disposals will allow the Company to reallocate its financial resources to the watches and timepieces business which is more profitable than the enamelled copper wires business. Moreover, the Disposals will allow the management to concentrate on the Group's core business.

In light of the foregoing, the Directors (other than the independent non-executive Directors whom will be advised by an independent financial adviser) consider that the Disposals are in the interests of the Company and the Shareholders as a whole. The Directors (other than the independent non-executive Directors) also consider that the terms of the Agreements are fair and reasonable.

GENERAL

The Disposals, when aggregated pursuant to Rule 14.22 of the Listing Rules, constitute major transactions of the Company under Chapter 14 of the Listing Rules. The Purchaser is wholly-owned by Mr. Hon Kwok Lung, the Chairman and an executive director of the Company. As such, the Purchaser is a connected person of the Company. Each of the Jiangsu Disposal and the Fuzhou Disposal constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules and is subject to the approval by the Independent Shareholders at the EGM by poll.

The EGM will be convened at which resolutions will be proposed to seek the Independent Shareholders' approval of the transactions contemplated under the Agreements. The Purchaser, its ultimate beneficial owner and their respective associates are required to abstain from voting at the EGM.

The Independent Board Committee, comprising the independent non-executive Directors, has been formed to advise the Independent Shareholders on the terms of the Agreements. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) details of the Disposals; (ii) a letter from the Independent Board Committee; (iii) a letter of advice from an independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Disposals; and (iv) the notice of the EGM will be despatched to the Shareholders. As additional time is required for preparation of the information for inclusion in the circular, the Company expects that the circular will be despatched on or before 28 February 2011.

DEFINITIONS

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

“Agreements”	the Jiangsu Agreement and the Fuzhou Agreement
“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Citychamp”	冠城大通股份有限公司 (Citychamp Dartong Company Limited), a company established in the PRC and the shares of which are listed on the Shanghai Stock Exchange in the PRC
“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”	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
“Disposals”	the Jiangsu Disposal and the Fuzhou Disposal
“EGM”	an extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve the transactions contemplated under the Agreements

“Fuzhou Agreement”	the agreement dated 6 January 2011 entered into between the Company and the Purchaser in respect of the Fuzhou Disposal
“Fuzhou Dartong”	Fuzhou Dartong Machinery and Electronic Company Limited 福州大通機電有限公司, a company established in the PRC with limited liability and is owned as to 51% by Citychamp and 49% by the Company
“Fuzhou Disposal”	the sale of the Fuzhou Sale Shares by the Company pursuant to the Fuzhou Agreement
“Fuzhou Sale Shares”	49% interest in Fuzhou Dartong beneficially owned by the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of the Board comprising the independent non-executive Directors which has been formed to advise the Independent Shareholders on the terms of the Agreements
“Independent Shareholders”	Shareholders other than the Purchaser, its ultimate beneficial owner and their respective associates
“Jiangsu Agreement”	the agreement dated 6 January 2011 entered into between the Company and the Purchaser in respect of the Jiangsu Disposal
“Jiangsu Dartong”	Jiangsu Dartong M&E Co., Limited 江蘇大通機電有限公司, a company established in the PRC with limited liability and is owned as to 25.58% by the Company, 42.2% by Citychamp and 32.22% by Jiangsu Qingjiang
“Jiangsu Disposal”	the sale of the Jiangsu Sale Shares by the Company pursuant to the Jiangsu Agreement
“Jiangsu 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 with limited liability
“Jiangsu Sale Shares”	25.58% interest in Jiangsu Dartong beneficially owned by the Company

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Original Examining and Approving Authority”	the relevant examining and approving authority in the PRC that approved the establishment of Jiangsu Dartong or Fuzhou Dartong, as the case may be
“PRC”	the People’s Republic of China
“Purchaser”	Honour Aim Limited, a company incorporated in Hong Kong with limited liability and is beneficially wholly-owned by Mr. Hon Kwok Lung
“Shareholder(s)”	holder(s) of the share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

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

Hong Kong, 6 January 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.