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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 IN RELATION TO THE FORMATION OF A JOINT VENTURE COMPANY

Financial Adviser to China Haidian Holdings Limited



The Directors are pleased to announce that on 10 September 2012, Shenzhen Permanence, an indirect wholly-owned subsidiary of the Company, entered into the Framework Agreement with the PRC Partners to establish the JV Company, an equity joint venture in the PRC. The JV Company will be principally engaged in the wholesale and retail of watches and accessories in the PRC. On the same date, Shenzhen Permanence and Henan Ruifeng entered into the JV Agreement in relation to the formation of the JV Company and adopted the articles of association of the JV Company.

Pursuant to the Framework Agreement, Shenzhen Permanence shall invest a sum of RMB10,200,000 for a 51% interest in the registered capital of the JV Company and Henan Ruifeng shall invest a sum of RMB9,800,000 for a 49% interest in the registered capital of the JV Company.

The capital contribution of Shenzhen Permanence will be settled in cash. The capital contribution of Henan Ruifeng will be settled through the transfer of retail counters and ancillary tangible assets which were set up after 1 July 2011 to the JV Company. If the retail counters and ancillary tangible assets are valued to be less than RMB9,800,000, the shortfall in the capital contribution will be settled in cash by Henan Ruifeng.

The total investment of the JV Company will be RMB100,000,000. The difference between the total investment and registered capital of the JV Company is RMB80,000,000. The respective amount of the future capital injection by Shenzhen Permanence and Henan Ruifeng in relation to such difference will be in the form of shareholders' loan in proportion to their respective shareholding in the JV Company. The JV Company will take up all the operating assets, the businesses, the operating contracts and staff of Henan Ruifeng and Zhengzhou Victoria.

Pursuant to the Framework Agreement, Shenzhen Permanence agreed to pay RMB30,600,000 to the PRC Partners as a compensation for the transfer of the businesses of Henan Ruifeng and Zhengzhou Victoria and the Intellectual Property Rights to the JV Company, and the non-competition undertakings from the PRC Partners. The Compensation will be settled by the issue and allotment of 37,335,286 Shares by the Company.

The transfer of the operating assets and businesses of Henan Ruifeng and Zhengzhou Victoria and the Intellectual Property Rights to the JV Company constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules which is subject to the announcement requirement.

INTRODUCTION

On 10 September 2012, Shenzhen Permanence, an indirect wholly-owned subsidiary of the Company, entered into the Framework Agreement with the PRC Partners, namely Mr. Cai Biaorong and Ms. Jin Xiuwei to establish the JV Company, an equity joint venture in the PRC. On the same date, Shenzhen Permanence and Henan Ruifeng entered into the JV Agreement in relation to the formation of the JV Company and adopted the articles of association of the JV Company.

Zhengzhou Victoria is owned as to 55% by Mr. Cai Biaorong and 45% by Ms. Jin Xiuwei respectively. Henan Ruifeng is owned as to 70% by Mr. Cai Biaorong and 30% by Ms. Jin Xiuwei respectively. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, the PRC Partners and Henan Ruifeng are third parties independent of and not connected with the Company and its connected persons.

MAJOR TERMS OF THE FRAMEWORK AGREEMENT AND THE JV AGREEMENT

Formation of the JV Company

The total investment and registered capital of the JV Company will be RMB100,000,000 and RMB20,000,000 respectively. The JV Company will be principally engaged in the wholesale and retail of watches and accessories in the PRC.

The difference between the total investment and registered capital of the JV Company is RMB80,000,000. The respective amount of the future capital injection by Shenzhen Permanence and Henan Ruifeng in relation to such difference will be in the form of shareholders' loan in proportion to their respective shareholding in the JV Company. The timing and amount of such injection will be subject to further agreement between the parties.

Upon formation of the JV Company, the JV Company will become a non-wholly owned subsidiary of the Company and its financial results will be consolidated to the accounts of the Group.

Capital injection

Shenzhen Permanence shall invest a sum of RMB10,200,000 for a 51% interest in the registered capital of the JV Company and Henan Ruifeng shall invest a sum of RMB9,800,000 for a 49% interest in the registered capital of the JV Company.

The capital contribution of Shenzhen Permanence will be settled in cash. The capital contribution of Henan Ruifeng will be settled through the transfer of retail counters and ancillary tangible assets which were set up after 1 July 2011 to the JV Company. If the retail counters and ancillary tangible assets are valued to be less than RMB9,800,000, the shortfall in the capital contribution will be settled in cash by Henan Ruifeng. The capital contribution shall be payable by both parties in full before submission of the application for the JV Company's business licence.

The capital contribution payable by Shenzhen Permanence will be funded by the Group's internal resources. The shareholders' loan of RMB40,800,000 to be lent by Shenzhen Permanence will be funded by the Group's internal resources and/or external financing.

Transfer of businesses into the JV Company

Upon the establishment of the JV Company, the JV Company will take up the operating assets, the businesses, the operating contracts and staff of Henan Ruifeng and Zhengzhou Victoria within nine months from the formation of the JV Company. The operating assets of Henan Ruifeng and Zhengzhou Victoria include retail counters and equipment at the retail counters which were set up prior to 1 July 2011, office equipment, equipment and facilities at the warehouse and any other assets for the sales operations. Upon establishment of the JV Company, Henan Ruifeng shall procure the transfer of the Intellectual Property Rights to the JV Company.

Further, the JV Company shall enter into an asset purchase agreement with Henan Ruifeng and Zhengzhou Victoria to acquire their inventories (excluding consignment inventories) at their original purchase price within nine months from the formation of the JV Company.

Upon completion of the transfer of the operating assets and businesses of Henan Ruifeng and Zhengzhou Victoria to the JV Company, the PRC Partners shall procure the deregistration of the subsidiaries and branch companies of Henan Ruifeng, Zhengzhou Victoria and its branch companies.

Composition of the board of directors of the JV Company

The board of directors of the JV Company shall comprise three members. Shenzhen Permanence will nominate two members, including the chairman, while Henan Ruifeng will nominate one member.

Term

The JV Company will have a term of 30 years.

Scope of business of the JV Company

The scope of business of the JV Company will include the wholesale and retail of watches and related accessories, jewelry, glasses, art pieces, leather products, daily products and stationery; commission agency (except auctioning); and provision of technical consultancy and after sale services.

Undertakings by the PRC Partners

Pursuant to the Framework Agreement, Mr. Cai Biaorong will be appointed as the general manager of the JV Company. Mr. Cai Biaorong has guaranteed that sales (net of tax) of the JV Company for the three years ending 31 December 2014 shall be no less than RMB150,000,000, RMB195,000,000 and RMB253,000,000 respectively. Mr. Cai Biaorong has also guaranteed that profit after tax of the JV Company for the three years ending 31 December 2014 shall be no less than RMB12,000,000, RMB15,600,000 and RMB20,200,000 respectively. The profit guarantee for the year ending 31 December 2012 shall be adjusted on a pro rata basis subject to the date of establishment of the bank account of the JV Company.

In the event that the actual profit after tax of the JV Company for any of the three years ending 31 December 2014 is less than the guaranteed profit, Mr. Cai Biaorong shall compensate the JV Company the shortfall on a dollar-to-dollar basis. Further, if the JV Company records loss after tax for any of the three years ending 31 December 2014, the compensation shall be calculated as the amount of loss after tax plus the amount of profit guarantee for the respective financial year. The compensation is not subject to any cap amount.

Mr. Cai Biaorong has undertaken that within three years following his resignation from the JV Company, he shall not be employed in, establish or operate the business conducted or carried on by the JV Company or any other business which competes with the business of the JV Company.

The PRC Partners have undertaken that following the establishment of the JV Company, save for their interests in the JV Company, they shall not involve in, directly or indirectly, the business conducted or carried on by the JV Company or any other business which competes with the business of the JV Company.

The Compensation

Pursuant to the Framework Agreement, Shenzhen Permanence agreed to pay RMB30,600,000 to the PRC Partners as a compensation for the transfer of the operating assets and businesses of Henan Ruifeng and Zhengzhou Victoria and the Intellectual Property Rights to the JV Company, and the non-competition undertakings from the PRC Partners. The compensation will be settled by the issue and allotment of 37,335,286 Shares at the issue price of HK\$1 each by the Company within 30 days from the date of issue of the business license of the JV Company.

The Compensation Shares are subject to the following lock-up restrictions:

Lock-up period from the date of issue to	Number of Compensation Shares
30 November 2012	6,200,000
31 May 2013	6,200,000
30 November 2013	6,200,000
31 May 2014	6,200,000
30 November 2014	6,200,000
31 May 2015	6,335,286
	<hr/>
	37,335,286

The PRC Partners may not, during the respective lock-up periods, pledge, charge, exchange or transfer (whether with or without consideration) the Compensation Shares or take any other action following which the beneficial ownership of the Compensation Shares will be changed to any third party.

Shenzhen Permanence has undertaken to the PRC Partners that if the selling price of the Compensation Shares disposed of by the PRC Partners after the expiration of the respective lock-up periods is less than HK\$1 each, Shenzhen Permanence will compensate the PRC Partners the shortfall on a dollar-to-dollar basis.

The Compensation was determined after arm's length negotiation between Shenzhen Permanence and the PRC Partners taking into consideration, among others, the profit guarantee provided by Mr. Cai Biaorong and the strategic value of the JV Company on the future development of the Group, details of which are set out in the section headed "Reasons for and benefits of the formation of the JV Company" below.

THE COMPENSATION SHARES

The issue price of the Compensation Shares of HK\$1 each was arrived at after arm's length negotiations between Shenzhen Permanence and the PRC Partners after taking into account the historical Share prices and prospects of the Group. 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 10 September 2012, being the last trading day prior to the signing of the Framework Agreement;
- (b) a premium of approximately 31.6% over the average closing price of approximately HK\$0.76 per Share for the five trading days up to and including 10 September 2012;

- (c) a premium of approximately 35.1% over the average closing price of approximately HK\$0.74 per Share for the ten trading days up to and including 10 September 2012; and
- (d) a premium of approximately 19.0% to the unaudited consolidated net asset value per Share attributable to the owners of the Company of approximately HK\$0.84 as at 30 June 2012.

The 37,335,286 Compensation Shares represent approximately 0.88% of the existing issued share capital of the Company and approximately 0.87% of the issued share capital of the Company as enlarged by the issue of the Compensation Shares.

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Compensation Shares. The Compensation Shares will be issued under the General Mandate. Prior to the date of the Framework Agreement, the Company has not issued or agreed to issue any Shares under the General Mandate. Upon issue of the 37,335,286 Compensation Shares, the Company will have 811,161,698 Shares available for allotment and issue under the General Mandate.

INFORMATION OF HENAN RUIFENG AND ZHENGZHOU VICTORIA

Henan Ruifeng

Henan Ruifeng is a company established in the PRC, and is owned as to 70% by Mr. Cai Biaorong and 30% by Ms. Jin Xiuwei. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, Mr. Cai Biaorong and Ms. Jin Xiuwei are third parties independent of and not connected with the Company and its connected persons.

Henan Ruifeng is principally engaged in the wholesale and retail of watches and provision of after sale services. Henan Ruifeng has set up branch companies and retail counters in various locations including Hebei and Henan provinces, the PRC, for the sale and distribution of certain well-known international watch brands and certain PRC watch brands.

Henan Ruifeng recorded audited loss before tax of approximately RMB80,000 for the year ended 31 December 2010 and profit before tax of approximately RMB134,000 for the year ended 31 December 2011. Henan Ruifeng recorded audited loss after tax of approximately RMB80,000 for the year ended 31 December 2010 and profit after tax of approximately RMB67,000 for the year ended 31 December 2011. The unaudited net asset value of Henan Ruifeng was approximately RMB1.3 million as at 31 July 2012.

Zhengzhou Victoria

Zhengzhou Victoria is a company established in the PRC, and is owned as to 55% by Mr. Cai Biaorong and 45% by Ms. Jin Xiuwei.

Zhengzhou Victoria is principally engaged in the wholesale and retail of watches and provision of after sale services. Zhengzhou Victoria has set up branch companies and retail counters in various locations including Hebei and Henan provinces for the sale and distribution of certain well-known international watch brands.

The audited profit before tax of Zhengzhou Victoria for the two years ended 31 December 2011 were approximately RMB238,000 and approximately RMB8,000 respectively. Zhengzhou Victoria recorded audited profit after tax of approximately RMB178,000 for the year ended 31 December 2010 and loss after tax of approximately RMB36,000 for the year ended 31 December 2011. The unaudited net asset value of Zhengzhou Victoria was approximately RMB1.0 million as at 31 July 2012.

REASONS FOR AND BENEFITS OF THE FORMATION OF THE JV COMPANY

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

Through the transfer of the operating assets, businesses and operating contracts of Henan Ruifeng and Zhengzhou Victoria into the JV Company, the Group can acquire an established distribution channel in the PRC, which would broaden the Group's retail network especially in Hebei and Henan provinces and expand its business of distribution of self-owned, local and international watch brands. This is expected to help strengthen the Group's position in the watch industry in the PRC and also enhance the Group's source of income.

After taking into account the foregoing, the Directors (including the independent non-executive Directors) consider that the terms of the Framework Agreement and the JV 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 the Compensation Shares:

	As at the date of this announcement		Immediately after the issue of the Compensation Shares (Note 6)		Immediately after the issue of the Compensation Shares, the Consideration Shares and the outstanding share options of the Company (Notes 4, 5 and 6)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Full Day Limited (Note 1)	1,750,000,000	41.00	1,750,000,000	40.65	1,750,000,000	38.31
Sincere View International Limited (Note 1)	911,147,515	21.35	911,147,515	21.16	911,147,515	19.94
Hon Kwok Lung (Note 1)	3,500,000	0.08	3,500,000	0.08	3,500,000	0.08
Lam Suk Ying (Note 1)	1,374,000	0.03	1,374,000	0.03	1,374,000	0.03
Shang Jianguang (Note 2)	8,000,000	0.19	8,000,000	0.19	8,000,000	0.18
Shi Tao (Note 2)	5,000,000	0.12	5,000,000	0.12	5,000,000	0.11
Lam Toi Man (Note 2)	3,500,000	0.08	3,500,000	0.08	3,500,000	0.08
Fung Tze Wa (Note 3)	2,100,000	0.05	2,100,000	0.05	3,500,000	0.08
Kwong Chun Wai, Michael (Note 3)	2,264,000	0.05	2,264,000	0.05	2,264,000	0.05
Li Qiang (Note 3)	–	–	–	–	3,500,000	0.08
Keywise Capital Management (HK) Limited	462,178,000	10.83	462,178,000	10.73	462,178,000	10.12
Public Shareholders:						
PRC Partners	–	–	37,335,286	0.87	37,335,286	0.82
Other public Shareholders	1,119,001,405	26.22	1,119,001,405	25.99	1,377,186,405	30.12
Total	4,268,064,920	100.00	4,305,400,206	100.00	4,568,485,206	100.00

Notes:

- 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.
- Mr. Shang Jianguang, Mr. Shi Tao and Mr. Lam Toi Man are executive Directors.
- Mr. Fung Tze Wa, Dr. Kwong Chun Wai, Michael and Mr. Li Qiang are independent non-executive Directors.
- The Company has conditional agreed to allot 56,000,000 Consideration Shares for acquisition of 25% interest in Fair Future Industrial Limited, of which 23,000,000 Consideration Shares have been issued and allotted. The remaining 15,000,000 Consideration Shares and 18,000,000 Consideration Shares will be issued on 31 January 2013 and 31 January 2014 respectively. Please refer to the announcement of the Company dated 15 December 2011 for details.

5. As at the date of this announcement, the Company has 20,085,000 share options outstanding granted pursuant to its share option scheme adopted on 30 May 2008 and 210,000,000 share options outstanding granted pursuant to the subscription agreement dated 8 August 2011 entered into between the Company and Potent Growth Limited.
6. Assuming that the shareholding structure of the Company has not changed after the date of this announcement and immediately before the issue of the Compensation Shares.

GENERAL

The transfer of the operating assets and businesses of Henan Ruifeng and Zhengzhou Victoria and the Intellectual Property Rights to the JV Company 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:

“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
“Compensation”	the compensation payable by Shenzhen Permanence to the PRC Partners pursuant to the Framework Agreement
“Compensation Share(s)”	new Share(s) to be allotted and issued by the Company in settlement of the Compensation pursuant to the Framework Agreement
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules and the word “connected” shall be construed accordingly
“Consideration Shares”	the new Shares to be allotted and issued by the Company in settlement of the consideration pursuant to the sale and purchase agreement dated 15 December 2011 entered into among Sure Best Management Limited, Mr. Chan Heung Wai, Debby and Ms. Yeung Yuk Kwan
“Director(s)”	the director(s) of the Company
“Framework Agreement”	the framework agreement dated 10 September 2012 entered into among Shenzhen Permanence and the PRC Partners in relation to the formation of the JV Company and other related matters

“General Mandate”	the general mandate granted to the Directors by the Shareholders at the general meeting of the Company held on 28 May 2012 which may be utilised up to 848,496,984 Shares
“Group”	the Company and its subsidiaries
“Henan Ruifeng”	河南瑞豐錶行有限公司 (Henan Ruifeng Watch Company Limited*), a company established in the PRC and is owned as to 70% by Mr. Cai Biaorong and 30% by Ms. Jin Xiuwei
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Intellectual Property Rights”	the trademarks and any other intellectual property rights held by Henan Ruifeng
“JV Agreement”	the joint venture agreement dated 10 September 2012 entered into between Shenzhen Permanence and Henan Ruifeng in relation to the formation of the JV Company
“JV Company”	a sino-foreign equity joint venture to be established in the PRC pursuant to the JV Agreement and tentatively named as 河南金爵實業有限公司 (Henan Jinjue Enterprise Company Limited*)
“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
“PRC Partners”	Mr. Cai Biaorong and Ms. Jin Xiuwei, shareholders of Henan Ruifeng and Zhengzhou Victoria
“RMB”	Renminbi, the lawful currency of the PRC
“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 Permanence”	Shenzhen Permanence Commerce Co., Limited 深圳市恆譽嘉時貿易有限公司, a company established in the PRC and is indirectly wholly-owned by the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Zhengzhou Victoria”

鄭州維多利亞鐘錶貿易有限公司(Zhengzhou Victoria Watch Trading Company Limited*), a company established in the PRC and is currently owned as to 55% by Mr. Cai Biaorong and 45% by Ms. Jin Xiuwei

“%”

per cent.

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

Hong Kong, 10 September 2012

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.

* For identification purpose only