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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 UNDER GENERAL MANDATE

Financial Adviser to China Haidian Holdings Limited



THE SHARE SUBSCRIPTION AGREEMENT

On 3 May 2010, the Company and the Subscriber entered into the Share Subscription Agreement pursuant to which the Company agreed to issue, and the Subscriber agreed to subscribe for, 106,815,620 Initial Subscription Shares at the Issue Price of HK\$0.77. Pursuant to the Share Subscription Agreement, the Company also agreed to grant to the Subscriber the Option to subscribe for up to 242,115,405 Optional Subscription Shares at the Option Price of HK\$0.88, provided that the Option may be exercised not more than five times within the Option Period.

106,815,620 Initial Subscription Shares represent approximately 3.0% of the existing issued share capital of the Company as at the date of this announcement and approximately 2.9% of the issued share capital of the Company as enlarged by the allotment and issue of the Initial Subscription Shares.

242,115,405 Optional Subscription Shares represent approximately 6.8% of the existing issued share capital of the Company as at the date of this announcement and approximately 6.2% 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 106,815,620 Initial Subscription Shares are estimated to be approximately HK\$81.5 million. The maximum net proceeds from the issue of the 242,115,405 Optional Subscription Shares (assuming the Subscriber exercises the Option in full) are estimated to be approximately HK\$211.1 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.

As the Share Subscription is subject to the fulfilment of a number of 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: 3 May 2010

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. 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 (as defined under the Listing Rules).

The Subscription Shares

Pursuant to the Subscription Agreement, the Company agreed to issue, and the Subscriber agreed to subscribe for, 106,815,620 Initial Subscription Shares at the Issue Price of HK\$0.77.

The Company also agreed to grant the Subscriber the Option to subscribe for up to 242,115,405 Optional Subscription Shares at the Option Price of HK\$0.88, provided that the Option may be exercised not more than five times within the Option Period.

Number of Subscription Shares

106,815,620 Initial Subscription Shares (with an aggregate nominal value of HK\$10,681,562) represent approximately 3.0% of the existing issued share capital of the Company as at the date of this announcement and approximately 2.9% of the issued share capital of the Company as enlarged by the allotment and issue of the Initial Subscription Shares.

242,115,405 Optional Subscription Shares (with an aggregate nominal value of HK\$24,211,540.5) represent approximately 6.8% of the existing share capital of the Company as at the date of this announcement and approximately 6.2% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

The Subscription Shares will be allotted and issued pursuant to the General Mandate. The Subscription Agreement is not subject to Shareholders' approval.

The Issue Price and the Option Price

The Issue Price of HK\$0.77 and the Option Price of HK\$0.88 were arrived at after arm's length negotiations between the Company and the Subscriber with reference to the current market conditions and recent price performance of the Shares. The net Issue Price is estimated to be approximately HK\$0.76. The net Option Price is estimated to be approximately HK\$0.87.

The Issue Price represents:

- (i) a discount of approximately 6.10% to the closing price of HK\$0.82 per Share as quoted on the Stock Exchange on 3 May 2010, being the Last Trading Day;
- (ii) a discount of approximately 7.0% to the average closing price of HK\$0.828 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 7.12% to the average closing price of HK\$0.829 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 7.32% over the closing price of HK\$0.82 per Share as quoted on the Stock Exchange on 3 May 2010, being the Last Trading Day;
- (ii) a premium of approximately 6.28% over the average closing price of HK\$0.828 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 6.15% over the average closing price of HK\$0.829 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day.

In the event of, among other things, capitalisation issue, rights issue, issues at less than market price, and consolidation, subdivision or reclassification of the share capital of the Company, corresponding adjustments (if any) 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 not more than five times in accordance with the terms of the Subscription Agreement, by written notice given by the Subscriber to the Company within a period of 365 days after the Closing Date.

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 relevant Optional Closing Date (in relation to the Optional Subscription Shares) (as the case may be) and shall be entitled to all rights the record date for which falls on or after such Closing Date or relevant Optional Closing Date (as the case may be) to the same extent as all other fully-paid Shares in issue.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Initial Subscription Shares and the Optional Subscription Shares which may fall to be allotted and issued upon exercise of the Option.

Conditions Precedent

The obligations of the Subscriber to subscribe for the Initial Subscription Shares on the Closing Date and for the relevant Optional Subscription Shares on the relevant Optional Closing Date (as the case may be) are subject to the following conditions precedent:

- (i) all the required government and/or regulatory approvals (including the Stock Exchange) having been obtained as necessary for the Company to issue and offer the Subscription Shares and perform its obligations under the Subscription Agreement;
- (ii) the Company having obtained the approval of the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares;
- (iii) in the case of the Initial Subscription Shares, at the Closing Date (a) the representations and warranties of the Company in the Subscription Agreement shall be accurate and correct in all material respects at, and as if made on, such date; (b) the Company shall have performed all of its obligations under the Subscription Agreement expressed to be performed on or before such date in all material respects; and (c) there shall have been delivered to the Subscriber a certificate confirming no material adverse change, dated as of the applicable date, of a duly authorised officer of the Company to such effect;
- (iv) in the case of the relevant Optional Subscription Shares, at each relevant Optional Closing Date (a) the representations and warranties of the Company in the Subscription Agreement shall be accurate and correct in all material respects at, and as if made on, such date; (b) the Company shall have performed all of its obligations under the Subscription Agreement expressed to be performed on or before such date in all material respects; and (c) there shall have been delivered to the Subscriber a certificate confirming no material adverse change, dated as of the applicable date, of a duly authorised officer of the Company to such effect; and
- (v) on or prior to the Closing Date, there shall have been delivered to the Subscriber certain documents referred to in the Subscription Agreement each of which, where applicable, duly executed and in form and substance reasonably satisfactory to the Subscriber.

If any of the above conditions precedent (other than condition (iv)) is not satisfied on or prior to the Closing Date, the Company and the Subscriber shall 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).

If any of the above conditions (other than conditions (iii) and (v)) is not satisfied on or prior to each relevant Optional Closing Date (if any) in respect of the relevant Optional Subscription Shares, the Company and the Subscriber shall be released and discharged from their respective obligations relating to the relevant Optional Subscription Shares (except for any liability of the Company and the Subscriber in respect of any antecedent breaches of the terms of the Subscription Agreement).

The Subscriber may, at its discretion, waive compliance with the whole or any part of the conditions (iii), (iv) and (v) set out above.

The Closing Date shall be on the Business Day next following the date on which all the above conditions precedent (other than condition (iv)) have been satisfied or waived. On the Closing Date, the Subscriber shall make an application for the Initial Subscription Shares and shall make payment to the Company for subscription of the Initial Subscription Shares. The Company will issue and allot the Initial Subscription Shares to the Subscriber as soon as practicable upon receipt of the subscription money. The relevant Optional Closing Date shall be the date on which the relevant Optional Subscription Shares are to be delivered to the Subscriber which shall be no earlier than 7 Business Days but no later than 10 Business Days after the date of the receipt by the Company of a written notice from the Subscriber indicating the exercise of the Option and the number of Optional Subscription Shares to be issued pursuant to such exercise.

REASONS FOR THE SHARE SUBSCRIPTION AND USE OF PROCEEDS

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

The net proceeds from the issue of the 106,815,620 Initial Subscription Shares are estimated to be approximately HK\$81.5 million. The maximum net proceeds from the issue of the 242,115,405 Optional Subscription Shares (assuming the Subscriber exercises the Option in full) are estimated to be approximately HK\$211.1 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 will help to strengthen the Company's capital base and broaden the Shareholder's base. 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

The Company has not conducted any fund raising activities involving the issue of its securities in the past twelve months immediately preceding the date of this announcement.

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 issue and allotment of the Optional Subscription Shares		Immediately after the issue and allotment of the Subscription Shares (assuming that the Option is exercised in full)	
	<i>Number of Shares</i>	<i>Approximate % of issued share capital of the Company</i>	<i>Number of Shares</i>	<i>Approximate % of issued share capital of the Company</i>	<i>Number of Shares</i>	<i>Approximate % of issued share capital of the Company</i>
Full Day Limited (“Full Day”) ^{Note}	1,750,000,000	49.15%	1,750,000,000	47.72%	1,750,000,000	44.76%
Sincere View International Limited (“Sincere View”) ^{Note}	878,303,515	24.67%	878,303,515	23.95%	878,303,515	22.47%
Subtotal	2,628,303,515	73.82%	2,628,303,515	71.67%	2,628,303,515	67.23%
Subscriber	–	–	106,815,620	2.91%	348,931,025	8.93%
Other public Shareholders	932,217,154	26.18%	932,217,154	25.42%	932,217,154	23.84%
Total	<u>3,560,520,669</u>	<u>100.00%</u>	<u>3,667,336,289</u>	<u>100.00%</u>	<u>3,909,451,694</u>	<u>100.00%</u>

Note: 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 2,628,303,515 Shares held by Full Day and Sincere View.

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 other than a Saturday or Sunday on which commercial banks are open for business in Hong Kong

“Closing Date”	the Business Day next following the date on which all the conditions precedent (other than condition (iv)) set out in the section headed “Conditions precedent” in this announcement have been satisfied or waived
“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 10 June 2009 to allot and issue up to 708,406,133 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 dollar, 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 at the Issue Price pursuant to the Subscription Agreement
“Issue Price”	HK\$0.77 per Initial Subscription Share
“Last Trading Day”	3 May 2010, 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 Optional Subscription Shares at the Option Price to be exercised at the election of the Subscriber pursuant to the Subscription Agreement
“Option Closing Date”	the date on which the relevant Optional Subscription Shares are issued to the Subscriber in accordance with the terms of the Subscription Agreement

“Option Period”	the period of 365 days after the Closing Date
“Option Price”	HK\$0.88 per Optional Subscription Share (subject to adjustment from time to time in accordance with the terms of the Subscription Agreement)
“Optional Subscription Share(s)”	up to 242,115,405 Share(s) to be issued and allotted by the Company to the Subscriber upon the exercise of the Option at the election of the Subscriber 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 Subscription”	the issue of the Initial Subscription Shares and the relevant Optional Subscription 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 3 May 2010 entered into between the Company and the Subscriber in respect of the Share Subscription
“Subscription Shares”	the Initial Subscription Shares and the Optional Subscription Shares
“%”	per cent

By Order of the Board
Hon Kowk Lung
Chairman

Hong Kong, 3 May 2010

As at the date of this announcement, the Board comprises Mr. Hon Kwok Lung, Mr. Shang Jianguang, Mr. Shi Tao and Mr. Lam Toi Man 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.