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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 29 December 2011, Actor, 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, Actor and Kuntai Hengshi 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, Actor shall invest a sum of RMB15,300,000 (equivalent to approximately HK\$18,819,000) in cash for a 51% interest in the registered capital of the JV Company and Kuntai Hengshi shall invest a sum of RMB14,700,000 (equivalent to approximately HK\$18,081,000) in cash for a 49% interest in the registered capital of the JV Company. The total investment of the JV Company will be RMB60,000,000 (equivalent to approximately HK\$73,800,000). The difference between the total investment and registered capital of the JV Company is RMB30,000,000 (equivalent to approximately HK\$36,900,000). The respective amount of the future capital injection by Actor and Kuntai Hengshi 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 each of Kuntai Hengshi, Rirui Fengcai and Rirui Tianshi.

Pursuant to the Framework Agreement, Actor agreed to pay RMB51,000,000 (equivalent to approximately HK\$62,730,000) to the PRC Partners as a compensation for the transfers of the businesses of Kuntai Hengshi, Rirui Fengcai and Rirui Tianshi and the Intellectual Property Rights to the JV Company, and the non-competition undertakings from the PRC Partners. The Compensation will be settled as to RMB6,500,000 (equivalent to approximately HK\$7,995,000) in cash and as to RMB44,500,000 (equivalent to approximately HK\$54,527,631) by the issue and allotment of 54,527,631 Shares.

The transfers of the operating assets and businesses of Kuntai Hengshi, Rirui Fengcai and Rirui Tianshi 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 29 December 2011, Actor, an indirect wholly-owned subsidiary of the Company, entered into the Framework Agreement with the PRC Partners, namely Ms. Wang Renfeng, Mr. Wang Zhijun and Mr. Yang Feng to establish the JV Company, an equity joint venture in the PRC. On the same date, Actor and Kuntai Hengshi entered into the JV Agreement in relation to the formation of the JV Company and adopted the articles of association of the JV Company.

Ms. Wang Renfeng and Mr. Yang Feng hold 95% and 5% of the share capital of Kuntai Hengshi respectively. Ms. Wang Renfeng and Mr. Wang Zhijun hold 95% and 5% of the share capital of Rirui Fengcai respectively. Rirui Tianshi is a wholly-owned subsidiary of Rirui Fengcai. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, the PRC Partners 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 RMB60,000,000 (equivalent to approximately HK\$73,800,000) and RMB30,000,000 (equivalent to approximately HK\$36,900,000) 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 RMB30,000,000 (equivalent to approximately HK\$36,900,000). The respective amount of the future capital injection by Actor and Kuntai Hengshi 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

Actor shall invest a sum of RMB15,300,000 (equivalent to approximately HK\$18,819,000) in cash for a 51% interest in the registered capital of the JV Company and Kuntai Hengshi shall invest a sum of RMB14,700,000 (equivalent to approximately HK\$18,081,000) in cash for a 49% interest in the registered capital of the JV Company. 30% of the capital injection (being RMB4,410,000 payable by Kuntai Hengshi and RMB4,590,000 payable by Actor) shall be payable within three months from the date of issue of the business license of the JV Company. The remaining capital injection (being RMB10,290,000 payable by Kuntai Hengshi and RMB10,710,000 payable by Actor) shall be payable within one year following the formation of the JV Company.

The capital injection payable by Actor will be funded by the Group's internal resources. The shareholders' loan of RMB10,710,000 (equivalent to approximately HK\$13,173,300) to be lent by Actor will be funded by the Group's internal resources.

Transfer of businesses into the JV Company

Upon the establishment of the JV Company, the JV Company will take up all the operating assets, the businesses, the operating contracts and staff of each of Kuntai Hengshi, Rirui Fengcai and Rirui Tianshi within one year from the formation of the JV Company. The operating assets of Kuntai Hengshi, Rirui Fengcai and Rirui Tianshi include the retail counters, equipment at the retail counters and stores and any other assets for the sales operations. Upon establishment of the JV Company, the PRC Partners shall procure the transfer of the Intellectual Property Rights (if any) to the JV Company. The PRC Partners have advised the Company that there is currently no Intellectual Property Rights.

Further, the JV Company shall enter into an asset purchase agreement with each of Kuntai Hengshi, Rirui Fengcai and Rirui Tianshi to acquire their inventories (excluding consignment inventories) at their original purchase price within one year from the formation of the JV Company.

Upon completion of the transfers of the operating assets and businesses of Rirui Fengcai and Rirui Tianshi to the JV Company, the PRC Partners shall procure Rirui Fengcai to transfer its 100% equity interest in Rirui Tianshi to the JV Company at nil consideration. The PRC Partners shall procure the deregistration of Rirui Fengcai and its branch companies thereafter.

Composition of the board of directors of the JV Company

The board of directors of the JV Company shall comprise three members. Actor will nominate two members, including the chairman, while Kuntai Hengshi will nominate one member.

Term

The JV Company will have an initial term of 30 years commencing from the date of issue of its business license and is extendable by the approvals of the board of directors of the JV Company and the relevant regulatory authority in the PRC.

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, stationery and daily products; commission agency (except auctioning); and provision of technical consultancy and repair and maintenance services.

Undertakings by the PRC Partners

Pursuant to the Framework Agreement, Ms. Wang Renfeng will be appointed as the general manager of the JV Company. Ms. Wang Renfeng has guaranteed that the profit after tax of the JV Company for the three years ending 31 December 2014 shall be no less than RMB20,000,000 (equivalent to approximately HK\$24,600,000), RMB26,000,000 (equivalent to approximately HK\$31,980,000) and RMB33,800,000 (equivalent to approximately HK\$41,574,000) 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 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, Ms. Wang Renfeng 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.

Ms. Wang Renfeng 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, Actor agreed to pay RMB51,000,000 (equivalent to approximately HK\$62,730,000) to the PRC Partners as a compensation for the transfers of the operating assets and businesses of Kuntai Hengshi, Rirui Fengcai and Rirui Tianshi and the Intellectual Property Rights to the JV Company, and the non-competition undertakings from the PRC Partners. The compensation will be settled as to RMB6,500,000 (equivalent to approximately HK\$7,995,000) in cash within 10 days following the approval of the JV Agreement by the relevant government authority and as to RMB44,500,000 (equivalent to approximately HK\$54,527,631) by the issue and allotment of 54,527,631 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 June 2012	10,427,631
31 December 2012	7,300,000
30 June 2013	9,200,000
31 December 2013	9,200,000
30 June 2014	9,200,000
31 December 2014	9,200,000

The PRC Partners may not, during the respective lock-up periods, pledge, 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.

Actor 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, Actor will compensate the PRC Partners the shortfall on a dollar-to-dollar basis.

The Compensation was determined after arm's length negotiation between Actor and the PRC Partners taking into consideration, among others, the profit guarantee provided by Ms. Wang Renfeng 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 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 Actor and the PRC Partners after taking into account the historical Share prices. The issue price represents:

- (a) a premium of approximately 0.33% over the closing price of HK\$0.75 per Share as quoted on the Stock Exchange on 29 December 2011, being the last trading day prior to the signing of the Framework Agreement;
- (b) a premium of approximately 29.9% over the average closing price of approximately HK\$0.77 per Share for the five trading days up to and including 29 December 2011;
- (c) a premium of approximately 28.2% over the average closing price of approximately HK\$0.78 per Share for the ten trading days up to and including 29 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 54,527,631 Compensation Shares represent approximately 1.3% 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 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. Up to the date of this announcement, the Company has issued or agreed to issue 276,000,000 Shares under the General Mandate. Upon issue of the 54,527,631 Compensation Shares, the Company will have 498,298,227 Shares available for allotment and issue under the General Mandate.

INFORMATION OF KUNTAI HENGSHI, RIRUI FENGCAI AND RIRUI TIANSHI

Kuntai Hengshi

Kuntai Hengshi is a company established in the PRC, and is currently owned as to 95% by Ms. Wang Renfeng and 5% by Mr. Yang Feng. Mr. Yang Feng is the husband of Ms. Wang Renfeng.

Kuntai Hengshi is principally engaged in the wholesale and retail of watches. Kuntai Hengshi has set up branch companies and retail stores in various locations including Tianjin, Beijing, Shijiazhuang and Inner Mongolia for the sale of certain well-known international watch brands.

Kuntai Hengshi was established on 11 October 2010 and commenced business since January 2011. Therefore, no financial information of Kuntai Hengshi for the period from 11 October 2010 to 31 December 2010 is available. The unaudited profit before and after tax of Kuntai Hengshi for the eleven months ended 30 November 2011 was approximately RMB56,126 (equivalent to approximately HK\$69,035). The unaudited net asset value of Kuntai Hengshi was approximately RMB1,056,126 (equivalent to approximately HK\$1,299,035) as at 30 November 2011.

Rirui Fengcai

Rirui Fengcai is a company established in the PRC, and is currently owned as to 95% by Ms. Wang Renfeng and Mr. Wang Zhijun. Mr. Wang Zhijun is the brother of Ms. Wang Renfeng.

Rirui Fengcai is principally engaged in the wholesale and retail of watches. Rirui Fengcai has set up certain branch companies and retail stores in Beijing and Kunming, the PRC for the sale of certain well-known international watch brands.

The unaudited profit before tax of Rirui Fengcai for the two years ended 31 December 2010 were approximately RMB66,438 (equivalent to approximately HK\$81,719) and approximately RMB40,032 (equivalent to approximately HK\$49,239) respectively. The unaudited profit after tax of Rirui Fengcai for the two years ended 31 December 2010 were approximately RMB50,373 (equivalent to approximately HK\$61,959) and approximately RMB30,024 (equivalent to approximately HK\$36,930) respectively. The unaudited loss before and after tax of Rirui Fengcai for the eleven months ended 30 November 2011 was RMB331,403 (equivalent to approximately HK\$407,626). The unaudited net asset value of Rirui Fengcai was approximately RMB930,641 (equivalent to approximately HK\$1,144,688) as at 30 November 2011.

Rirui Tianshi

Rirui Tianshi is a company established in the PRC, and is currently a wholly-owned subsidiary of Rirui Fengcai. Rirui Tianshi is principally engaged in the operation of retail stores of a well-known international watch brand.

The unaudited loss before and after tax of Rirui Tianshi for the two years ended 31 December 2010 and the eleven months ended 30 November 2011 were approximately RMB162,984 (equivalent to approximately HK\$200,470), approximately RMB197,102 (equivalent to approximately HK\$242,435) and approximately RMB93,924 (equivalent to approximately HK\$115,527) respectively. The unaudited net liabilities of Rirui Tianshi was approximately RMB1,024 (equivalent to approximately HK\$1,260) as at 30 November 2011.

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 Kuntai Hengshi, Rirui Fengcai and Rirui Tianshi into the JV Company, the Group can acquire an established distribution channel in the PRC, which would broaden the Group's retail network and expand its business of distribution of international watch brands. In particular, it allows the Group to enter into the Beijing and Tianjin retail watch market. 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		Immediately after the issue of the Compensation Shares, the Consideration Shares and the outstanding share options of the Company (Notes 4 and 5)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Full Day Limited (Note 1)	1,750,000,000	42.27%	1,750,000,000	41.72%	1,750,000,000	38.62%
Sincere View International Limited (Note 1)	849,951,515	20.53%	849,951,515	20.26%	849,951,515	18.76%
Hon Kwok Lung (Note 1)	2,275,000	0.05%	2,275,000	0.05%	3,500,000	0.08%
Shang Jianguang (Note 2)	5,200,000	0.13%	5,200,000	0.12%	8,000,000	0.18%
Shi Tao (Note 2)	3,250,000	0.08%	3,250,000	0.08%	5,000,000	0.11%
Lam Toi Man (Note 2)	2,275,000	0.05%	2,275,000	0.05%	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)	1,039,000	0.03%	1,039,000	0.02%	2,264,000	0.05%
Li Qiang (Note 3)	–	–	–	–	3,500,000	0.08%
Keywise Capital Management (HK) Limited	417,940,000	10.10%	–	–	–	–
<i>Public Shareholders:</i>						
PRC Partners	–	–	54,527,631	1.30%	54,527,631	1.20%
Mr. Chan Heung Wai, Debby (or his nominee)	–	–	–	–	56,000,000	1.24%
Keywise Capital Management (HK) Limited	–	–	417,940,000	9.96%	417,940,000	9.22%
Other public Shareholders	1,105,716,774	26.71%	1,105,716,774	26.39%	1,373,466,774	30.30%
Total	4,139,747,289	100.00%	4,194,274,920	100.00%	4,531,149,920	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, Mr. Kwong Chun Wai, Michael and Mr. Li Qiang are independent non-executive Directors.
- The Company has conditional agreed to allot 56,000,000 Shares for acquisition of 25% interest in Fair Future Industrial Limited. Please refer to the announcement of the Company dated 15 December 2011 for details.
- As at the date of this announcement, the Company has 70,875,000 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.

GENERAL

The transfers of the operating assets and businesses of Kuntai Hengshi, Rirui Fengcai and Rirui Tianshi and the Intellectual Property Rights to the JV 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:

“Actor”	Actor Investments Limited, a company incorporated in Hong Kong and is indirectly wholly-owned by the Company
“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 Actor 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 part 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 a 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 29 December 2011 entered into among Actor 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 27 May 2011 which may be utilised up to 828,825,858 Shares

“Group”	the Company and its subsidiaries
“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 the PRC Partners, Kuntai Hengshi, Rirui Fengcai, Rirui Tianshi or any entity owned by the PRC Partners
“JV Agreement”	the joint venture agreement dated 29 December 2011 entered into between Actor and Kuntai Hengshi in relation to the formation of the JV Company
“JV Company”	北京海納天時鐘錶有限公司 (Beijing Haina Tianshi Watch Company Limited*), a sino-foreign equity joint venture to be established in the PRC pursuant to the JV Agreement
“Kuntai Hengshi”	北京坤泰恒時商貿有限公司 (Beijing Kuntai Hengshi Trading Company Limited*), a company established in the PRC and is currently owned as to 95% by Ms. Wang Renfeng and 5% by Mr. Yang Feng
“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”	Ms. Wang Renfeng, Mr. Yang Feng and Mr. Wang Zhijun, shareholders of Kuntai Hengshi and Rirui Fengcai
“Rirui Fengcai”	北京日瑞風采商貿有限公司 (Beijing Rirui Fengcai Trading Company Limited*), a company established in the PRC and is currently owned as to 95% by Ms. Wang Renfeng and 5% by Mr. Wang Zhijun
“Rirui Tianshi”	北京日瑞天時鐘錶有限公司 (Beijing Rirui Tianshi Watch Company Limited*), a company established in the PRC and is currently wholly-owned by Rirui Fengcai

“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\$1.23, unless otherwise stated herein
“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)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
%	per cent.

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

Hong Kong, 29 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 purpose only*