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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Digital China Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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**神州数码**  
**Digital China**

**DIGITAL CHINA HOLDINGS LIMITED**

**(神州數碼控股有限公司\*)**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00861)**

## DISCLOSEABLE AND CONNECTED TRANSACTIONS

**Independent financial adviser to  
the Independent Board Committee and the Independent Shareholders**



**工銀國際**

**ICBC INTERNATIONAL**

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A letter from the Board is set out on pages 4 to 12 of this circular. A letter from the Independent Board Committee is set out on pages 13 to 14 of this circular. A letter from ICBC International Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 21 of this circular.

An ordinary resolution will be proposed at the SGM to be held at Suite 2008, 20th Floor, Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong on Tuesday, 3 November 2009 at 10:00 a.m. to approve the matters referred to in this circular. The notice convening the SGM is set out on pages 29 to 30 of this circular. A form of proxy for use at the SGM is enclosed with this circular.

If you are not able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to Tricor Abacus Limited, the Company's branch share registrar and transfer office in Hong Kong at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

\* *For identification purpose only*

6 October 2009

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## DEFINITIONS

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*In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:*

- “Announcement” means the announcement of the Company dated 15 September 2009 in relation to the Transactions
- “Beijing DCITACL” means 北京神州數碼信息技術研究院有限公司 (Beijing Digital China Information Technology Academe Co. Ltd.\*), a limited liability company established in the PRC and owned by 12 employees (5 of them (including Mr. GUO) are directors of other subsidiaries of the Group) of DCITS, for the purpose of holding the 19.51% equity interest of DCITS
- “Beijing DCITACL Equity Interest Transfer and Pre-emptive Right Agreement” means the Beijing DCITACL equity interest transfer and pre-emptive right agreement, details of which are set out in the section headed “Beijing DCITACL Equity Interest Transfer and Pre-emptive Right Agreement” of this circular
- “Beijing DCITACL Share Pledge Agreement” means the share pledge agreement in respect of the pledging of the entire equity interest in Beijing DCITACL by the shareholders of Beijing DCITACL, details of which are set out in the section headed “Beijing DCITACL Share Pledge Agreement” of this circular
- “Beijing DCITACL Shareholders’ Agreement” means the shareholders’ agreement entered into by the shareholders of Beijing DCITACL in respect of (inter alia) the management of Beijing DCITACL and their shareholding in Beijing DCITACL
- “Board” means the board of Directors
- “Bye-Laws” means the Bye-Laws of the Company and all supplementary, amended or substituted bye-laws for the time being in force
- “Company” means Digital China Holdings Limited (神州數碼控股有限公司\*), an exempted company incorporated under the laws of Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
- “connected person” has the meaning ascribed to it under the Listing Rules
- “DC Software” means 神州數碼軟件有限公司 (Digital China Software Ltd.\*), a limited liability company incorporated in the PRC which is an indirect wholly-owned subsidiary of the Company
- “DCITS” means 神州數碼信息技術服務有限公司 (Digital China Information Technology Service Co. Ltd.\*), a limited liability company incorporated in the PRC which is an indirect non-wholly owned subsidiary of the Company

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## DEFINITIONS

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“DCITS Group”	means DCITS and its subsidiaries
“DCITS Share Pledge Agreement”	means the share pledge agreement in respect of the pledging of the 19.51% equity interest in DCITS by Beijing DCITACL, details of which are set out in the section headed “DCITS Share Pledge Agreement” of this circular
“Directors”	means the directors of the Company
“Equity Interest Transfer Agreement”	means the equity interest transfer agreement in respect of the transfer of the 19.51% equity interest in DCITS by DC Software to Beijing DCITACL, details of which are set out in the section headed “Equity Interest Transfer Agreement” of this circular
“Group”	means the Company and its subsidiaries
“HK\$”	means Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“ICBC International Capital”	means ICBC International Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions, a licensed corporation under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Independent Board Committee”	means the independent board committee of the Company, comprising all the independent non-executive Directors, and each of them does not have any material interest in the Transactions
“Independent Shareholders”	means the Shareholders who are not required to abstain from voting in respect of the proposed resolution to approve the Transactions at the SGM
“Investors”	means collectively (i) 中新蘇州工業園區創業投資有限公司 (China Singapore Suzhou Industrial Park Ventures Co. Ltd.*), a limited liability company incorporated in the PRC and (ii) Infinity I-China Investments (Israel), L.P., a limited partnership incorporated under the laws of Israel, both being private equity investors in DCITS
“IPO”	means (i) the initial public offering of the stocks of DCITS (its holding company or any DCITS Group company) and the listing of its stocks on a recognised stock exchange; and/or (ii) the disposition of assets (including equity interests) by DCITS Group where the consideration includes listed securities of a company listed on a recognised stock exchange with the effect that DCITS Group will have a material stake of such listed company after allotment of such consideration equity securities

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## DEFINITIONS

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“IT”	means information technology
“Latest Practicable Date”	means 29 September 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange in force for the time being
“Mr. GUO”	means Mr. GUO Wei, the Chairman and Chief Executive Officer of the Company, a connected person of the Company. Mr. GUO is the controlling shareholder of Beijing DCITACL
“percentage ratios”	means the percentage ratios under Rule 14.07 of the Listing Rules
“PRC”	means the People’s Republic of China
“Resolution”	means the ordinary resolution to approve the Transactions to be proposed at the SGM
“RMB”	means Renminbi, the lawful currency of the PRC
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	means the special general meeting of the Company to be convened to consider and, if thought fit, approve the Transaction Documents and the Transactions or any adjournment thereof (as the case may be)
“Shareholder(s)”	means the holder(s) of the Share(s)
“Share(s)”	means ordinary share(s) of HK\$0.10 each in the capital of the Company
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Transaction Documents”	means collectively, the Equity Interest Transfer Agreement, DCITS Share Pledge Agreement, Beijing DCITACL Share Pledge Agreement, Beijing DCITACL Equity Interest Transfer and Pre-emptive Right Agreement
“Transactions”	means the entering into the Transaction Documents and the transactions contemplated thereunder
“%”	means per cent.

\* For identification purpose only



神州数码  
Digital China

**DIGITAL CHINA HOLDINGS LIMITED**

(神州數碼控股有限公司\*)

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 00861)

***Executive Directors:***

Mr. GUO Wei (*Chairman and Chief Executive Officer*)

Mr. LIN Yang (*President*)

***Non-executive Directors:***

Mr. Andrew Y. YAN

Mr. TANG Xudong

Mr. CHEN Derek

Mr. QIU Zhongwei

***Independent non-executive Directors:***

Mr. HU Zhaoguang

Professor WU Jinglian

Mr. WONG Man Chung, Francis

Mr. KWAN Ming Heung, Peter

***Registered office:***

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

***Head office and principal place  
of business in Hong Kong:***

Suite 2008, 20th Floor  
Devon House  
Taikoo Place  
979 King's Road  
Quarry Bay  
Hong Kong

6 October 2009

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS**

**1 INTRODUCTION**

The Board announced on 15 September 2009 that Beijing DCITACL (as transferee) agreed to acquire from DC Software (as transferor) 19.51% equity interest in DCITS (i.e. registered capital of RMB65.109 million in DCITS) at a consideration of RMB400 million (if the consideration is paid by four instalments) or RMB328 million (if consideration is paid one-off within 90 business days after the signing of the Equity Interest Transfer Agreement).

The purpose of this circular is:

- a) to provide you with further details of the Transactions;

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## LETTER FROM THE BOARD

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- b) to set out the recommendation of the Independent Board Committee in respect of the Transactions; and
- c) to set out the letter of advice from ICBC International Capital to the Independent Board Committee and the Independent Shareholders in respect of the Transactions.

## 2 TRANSACTION DOCUMENTS

### A) Equity Interest Transfer Agreement

#### *Subject Matter*

On 15 September 2009, Beijing DCITACL (as transferee) agreed to acquire from DC Software (as transferor) 19.51% equity interest in DCITS (i.e. registered capital of RMB65.109 million in DCITS ) at a consideration of RMB400 million (if the consideration is paid by four instalments) or RMB328 million (if consideration is paid one-off within 90 business days after the signing of the Equity Interest Transfer Agreement). The consideration, if paid by instalments will be made in the following manner:

- (a) RMB6 million within 30 days after completion of the transfer of the equity interest
- (b) RMB12 million on or before 31 December 2011
- (c) RMB12 million on or before 31 December 2013
- (d) RMB370 million on or before 31 December 2015

The consideration was determined with reference to (a) the amount that the independent Investors paid under the capital increase agreement dated 3 July 2008 (b) the historical financial figures of DCITS Group for the 12-month period after the capital increase agreement (c) the Group's cost of fund between the Equity Interest Transfer Agreement and the final payment date of 31 December 2015 and (d) the contribution made or to be made by the shareholders of Beijing DCITACL (i.e. the selected employees of DCITS).

#### *Conditions*

Completion of the Equity Interest Transfer Agreement is conditional upon the satisfaction (or waiver by DC Software, if applicable) of the following conditions:

- (a) execution of the Equity Interest Transfer Agreement and all other legal documents in relation to the Transactions;
- (b) consents and waiver of the pre-emptive right from other shareholders of DCITS in respect of the Transactions being obtained;

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## LETTER FROM THE BOARD

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- (c) execution of the DCITS Share Pledge Agreement and the Beijing DCITACL Share Pledge Agreement (each in a form to the satisfaction of the DC Software);
- (d) execution of the Beijing DCITACL Equity Interest Transfer and Pre-emptive Right Agreement;
- (e) compliance of all applicable laws and regulations by DCITS, DC Software and its shareholders in respect of the Transactions including the reporting and announcement requirements under the Listing Rules and approval of the Transactions by the Independent Shareholders at the SGM having been obtained in accordance with the Listing Rules; and
- (f) approval of the Equity Interest Transfer Agreement from the relevant governmental authorities being obtained.

### *Other terms*

Shareholders of Beijing DCITACL agreed that if Beijing DCITACL fails to pay the consideration under the Equity Interest Transfer Agreement when due, all their salaries and remunerations received from DCITS shall be applied (proportional to their equity interest in Beijing DCITACL) to settle the consideration payable by Beijing DCITACL under the Equity Interest Transfer Agreement.

Beijing DCITACL undertakes not to distribute any dividend or bonus to its shareholders unless the consideration under the Equity Interest Transfer Agreement has been fully paid to DC Software. Any such dividend or bonus (if any) shall be applied to settle the consideration payable by Beijing DCITACL under the Equity Interest Transfer Agreement.

Upon the completion of the transfer and assuming Beijing DCITACL selects settlement by instalments, subject to the final confirmation of the Company's auditors during the year end audit of the Company, the Company expects to recognise a gain of approximately RMB216,000,000 in the consolidated income statement of the Company, based on the difference between the amount of consideration and the net asset value attributable to the 19.51% equity interest in DCITS Group. Assuming Beijing DCITACL selects one-off payment, subject to the final confirmation of the Company's auditors during the year end audit of the Company, the Company expects to recognise a gain of approximately RMB144,000,000 in the consolidated income statement of the Company, based on the difference between the amount of consideration and the net asset value attributable to the 19.51% equity interest in DCITS Group upon the completion of the transfer. The proceeds from the Equity Interest Transfer Agreement will be used as general working capital of the Group.

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## LETTER FROM THE BOARD

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### **B) DCITS Share Pledge Agreement**

On 15 September 2009, as security and guarantee of Beijing DCITACL's due performance of its obligations under the Equity Interest Transfer Agreement, Beijing DCITACL (as pledgor) agreed to pledge the 19.51% equity interest (including the right to dividend, bonus and any other yield that it as a shareholder is entitled to) in DCITS to DC Software (as pledgee) until the obligations (including payment of consideration) under the Equity Interest Transfer Agreement are fully discharged.

### **C) Beijing DCITACL Share Pledge Agreement**

On 15 September 2009, as security and guarantee of Beijing DCITACL's due performance of its obligations under the Equity Interest Transfer Agreement, shareholders of Beijing DCITACL (as pledgor) agreed to pledge their 100% equity interest (including the right to dividend, bonus and any other yield that they as shareholders are entitled to) in Beijing DCITACL to DC Software (as pledgee) until the obligations (including payment of consideration) under the Equity Interest Transfer Agreement are fully discharged.

### **D) Beijing DCITACL Equity Interest Transfer and Pre-emptive Right Agreement**

#### *Date*

15 September 2009

#### *Parties*

- (1) DC Software
- (2) Shareholders of Beijing DCITACL

#### *Major terms*

#### **(a) Rights and Restrictions regarding transfer of equity interest in Beijing DCITACL**

##### Selling Rights

If IPO does not occur within 3 years after the execution of Beijing DCITACL Shareholders' Agreement, shareholders of Beijing DCITACL have the rights, with the approval of the board of DC Software (with interested directors abstained from voting), to sell their equity interest in Beijing DCITACL (in full or in part) to DC Software (or its nominee) at a consideration that is equal to (i) in the case of the initial shareholders, the amount of capital contribution that they had made to Beijing DCITACL or (ii) in the case of the shareholders who acquire equity interest from the other shareholders, the purchase price that they had paid for the purchase of the equity interest of Beijing DCITACL.

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## LETTER FROM THE BOARD

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### Right of Pre-emption

After the IPO upon expiry of the lock-up period, the shareholders' rights to transfer their equity interest in Beijing DCITACL (the "**Subject Equity**") (other than a transfer to the transferee approved by the board of DC Software) are subject to the following right of pre-emption:

- (i) DC Software (or its nominee) is entitled to the first right of pre-emption; the purchase price shall be the market price of the portion of DCITS shares corresponding to the Subject Equity being offered (net of (a) tax and (b) operating cost of Beijing DCITACL corresponding to the Subject Equity during the time when the relevant shareholder was the shareholder of Beijing DCITACL).
- (ii) If DC Software does not exercise the right of pre-emption in full, other shareholders are entitled to such right with regard to the Subject Equity being offered at a purchase price to be mutually agreed between the parties.
- (iii) If DC Software and other shareholders do not exercise the right of pre-emption in full with regard to the Subject Equity being offered, subject to all applicable laws and regulations, Beijing DCITACL shall repurchase the Subject Entity. The repurchase price shall be the proceeds that Beijing DCITACL received from the sale of the DCITS shares corresponding to the Subject Equity (net of (a) all brokerage, commissions and other charges arising from the repurchase, (b) tax and (c) operating cost of Beijing DCITACL corresponding to the Subject Equity during the time when the relevant shareholder was the shareholder of Beijing DCITACL).

### **(b) Transfer of equity interest in DCITS on termination of employment**

Each shareholder of Beijing DCITACL has entered into a service agreement with DCITS. In case the service contract is terminated for whatever reasons prior to the sixth anniversary of the relevant service contract, the relevant employee (the "**Outgoing Employee**") shall, upon the request of DC Software, transfer to DC Software or other shareholders of Beijing DCITACL, all his equity interest in the Beijing DCITACL (the "**Termination Equity Interest**") by executing the requisite transfer documents on terms and conditions in accordance with the Beijing DCITACL Equity Interest Transfer and Pre-emptive Right Agreement within 30 days after such termination.

- (i) Resignation: if a shareholder of Beijing DCITACL resigns, for any personal reason whatsoever, he shall transfer the Termination Equity Interest to DC Software at the lower of (net of the operating cost of Beijing DCITACL during the period that the Outgoing Employee was a shareholder thereof) (1) the market value of the equity interest in DCITS

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## LETTER FROM THE BOARD

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corresponding to the Termination Equity Interest, and (2) the value of the Termination Equity Interest when Outgoing Employee initially acquired the same;

- (ii) Dismissal (non-fault related): if a shareholder of Beijing DCITACL is dismissed by DCITS, he shall transfer the Termination Equity Interest to DC Software at the higher of (net of the operating cost of Beijing DCITACL during the period that the Outgoing Employee was a shareholder thereof) (1) the market value of the equity interest in DCITS corresponding to the Termination Equity Interest, and (2) the value of the Termination Equity Interest when the Outgoing Employee initially acquired the same;
- (iii) Dismissal (fault related): if a shareholder of Beijing DCITACL is dismissed by DCITS with grounds including breach of labour contract or other defaults, he shall transfer the Termination Equity Interest to DC Software at the lower of (net of any indemnity and damages resulting from his dismissal and the operating cost of Beijing DCITACL during the period that the Outgoing Employee was a shareholder thereof) (1) the market value of the equity interest in DCITS corresponding to the Termination Equity Interest, and (2) the value of the Termination Equity Interest when the Outgoing Employee initially acquired the same;
- (iv) Death or retirement: in the case of death or retirement of a shareholder of Beijing DCITACL, such shareholder (the administrator or successor of his estate, as the case may be), may (1) continue to hold the Termination Equity Interest, or (2) transfer the same to other shareholders of Beijing DCITACL (at a price to be mutually agreed between the parties concerned). In the case of disagreement on the transfer price between the transferor and other shareholders of Beijing DCITACL, the Termination Equity Interest may be transferred to DC Software at the higher of: (a) the market value of the equity interest in DCITS corresponding to the Termination Equity Interest, (b) the value of the Termination Equity Interest when the Outgoing Employee initially acquired the same;
- (v) Redeployment: if a shareholder of Beijing DCITACL is redeployed to other business division or other group member of DC Software, he may continue to hold the Termination Equity Interest; and
- (vi) The board of DC Software has the over-riding discretion to determine the treatment of the Termination Equity Interest notwithstanding the above.

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## LETTER FROM THE BOARD

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### **E) Beijing DCITACL Shareholders' Agreement**

On 15 September 2009, shareholders of Beijing DCITACL entered into Beijing DCITACL Shareholders' Agreement in respect of the management of Beijing DCITACL and their shareholding in Beijing DCITACL.

### **3 REASONS FOR AND BENEFITS OF THE TRANSACTIONS**

The selected employees, being shareholders of Beijing DCITACL, are the key senior management of DCITS Group who have extensive experience in business strategic development and management in the industry and are responsible for overseeing the business, strategic development and management of DCITS Group.

The purpose of the Transactions is to enable DC Software to grant interest in DCITS to the selected employees as rewards of their contribution to DCITS. Through the proposed arrangement, it could help DCITS to reward and retain quality staff, morale and loyalty, link individual and business performance, and focus employee in achieving the targets. The proposed arrangement gives the employees an opportunity to personally invest in DCITS which will continue to help motivate the employees to optimise their performance and efficiency.

### **4 IMPLICATIONS UNDER THE LISTING RULES**

Since relevant percentage ratios under the Transactions are more than 5% but less than 25%, the Transactions constitute discloseable transactions of the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Mr. GUO, a connected person of the Company, is a controlling shareholder of Beijing DCITAL, Beijing DCITAL is an associate of Mr. GUO and therefore a connected person of the Company. As the relevant percentage ratios is more than 2.5%, the Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will disclose the relevant details in the next published annual report and accounts of the Company in accordance with the relevant requirements as set out in Rule 14A.45 of the Listing Rules.

### **5 INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising all independent non-executive Directors has been established by the Board to consider the terms of the Transactions and to advise the Independent Shareholders. Your attention is drawn to the letter from the Independent Board Committee as set out on pages 13 to 14 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Transactions.

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## LETTER FROM THE BOARD

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### 6 INDEPENDENT FINANCIAL ADVISER

ICBC International Capital has been appointed as the independent financial adviser to make recommendations to the Independent Board Committee and the Independent Shareholders in relation to the Transactions. Your attention is also drawn to the letter of advice received from ICBC International Capital as set out on pages 15 to 21 of this circular which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Transactions, the casting of votes for or against the Resolution as well as the principal factors and reasons considered by it in concluding its advice.

### 7 GENERAL INFORMATION

The Group is principally engaged in the sale and distribution of general IT products and systems products, the provision of related value-added services, the provision of one-stop supply chain consultancy and execution services to IT and other high-value density products manufacturers and major accounts as well as providing modular or tailor-made services, and the provision of systems integration, applications software development, consultancy and training, etc.

DC Software is principally engaged in provision of software development and maintenance services.

DCITS is principally engaged in provision of systems integration services, application software development, maintenance and outsourcing, consultancy and training services to government, telecom and finance sectors. DCITS was incorporated by the Group. Based on the unaudited management accounts of DCITS Group, the net asset value as at 31 March 2009 was HK\$773,428,000. The net profit before taxation and extraordinary items for the financial year ended 31 March 2008 and 31 March 2009 were HK\$41,291,000 and HK\$85,986,000 respectively, whilst the net profit after taxation and extraordinary items for the financial year ended 31 March 2008 and 31 March 2009 were HK\$40,297,000 and HK\$103,082,000 respectively. DCITS will continue to be a non-wholly owned subsidiary of the Company after completion of the Transactions.

Beijing DCITACL, is an investment company owned by 12 employees (5 of them (including Mr. GUO) are directors of other subsidiaries of the Group) of DCITS for the purpose of holding their interests in DCITS. Mr. GUO is the controlling shareholder of Beijing DCITACL.

### 8 THE SGM

The notice convening the SGM is set out on pages 29 to 30 of this circular.

A form of proxy for use at the SGM is enclosed with this circular and such form is also available at the websites of the Company at [www.digitalchina.com.hk](http://www.digitalchina.com.hk) and The Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk). If you are not able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to Tricor Abacus Limited, the Company's branch

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## LETTER FROM THE BOARD

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share registrar and transfer office in Hong Kong at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

Any Shareholder that has a material interest in the Transaction Documents and the Transactions will be required to abstain from voting in respect of the Resolution. As at the Latest Practicable Date, Mr. GUO is a controlling shareholder of Beijing DCITACL, Beijing DCITACL is an associate of Mr. GUO and therefore a connected person of the Company.

Other than Mr. GUO and his associates, none of the Shareholders will be required to abstain from voting in respect of the Resolution.

Any vote in respect of the Resolution will be taken by poll.

### 9 RECOMMENDATIONS

The Directors (excluding Mr. GUO who is the controlling shareholder of Beijing DCITACL has abstained from voting) considered that the Transactions (including the consideration under the Equity Interest Transfer Agreement), though not conducted in the ordinary course of the Group's business, were on normal commercial terms and were fair and reasonable and in the interests of the Group and Shareholders as a whole. The Board recommends the Independent Shareholders to vote in favour of the Resolution.

Having regarded to the opinion of ICBC International Capital, the Independent Board Committee considers that the entering into of the Transaction Documents is not in the ordinary and usual course of business of the Group, the terms of the Transaction Documents are on normal commercial terms. The Independent Board Committee also considers that the terms of the Transaction Documents are fair and reasonable so far as the Independent Shareholders are concerned and the Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the Resolution.

Your attention is drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
By Order of the Board  
**Digital China Holdings Limited**  
(神州數碼控股有限公司\*)  
**LIN Yang**  
*President*

\* For identification purpose only



神州数码  
Digital China

**DIGITAL CHINA HOLDINGS LIMITED**

(神州數碼控股有限公司\*)

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 00861)

6 October 2009

*To the Independent Shareholders*

Dear Sir or Madam,

## **DISCLOSEABLE AND CONNECTED TRANSACTIONS**

We refer to the circular issued by the Company to the Shareholders dated 6 October 2009 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

Under the Listing Rules, the transactions contemplated under the Transaction Documents and the entering into of the Transaction Documents constitute discloseable and connected transactions of the Company, and is subject to the approval of the Independent Shareholders at the SGM.

We have been appointed as the Independent Board Committee to consider the terms of the Transaction Documents and to advise the Independent Shareholders in connection with the Transactions as to whether, in our opinion, their terms are fair and reasonable and whether the Transaction Documents are in the interests of the Company and the Shareholders as a whole. ICBC International Capital has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from ICBC International Capital as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, ICBC International Capital as set out in its letter of advice, we consider that the Transaction Documents are on normal commercial terms, and that the Transactions are in the best interests of the Company and the Shareholders as a whole.

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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We also consider that the terms of the Transaction Documents and the transactions contemplated thereunder are fair and reasonable. Accordingly, we recommend the Independent Shareholders to vote in favour of the Resolution.

Yours faithfully,  
**Independent Board Committee**

**HU Zhaoguang**  
*Independent non-executive Director*

**WU Jinglian**  
*Independent non-executive Director*

**WONG Man Chung, Francis**  
*Independent non-executive Director*

**KWAN Ming Heung, Peter**  
*Independent non-executive Director*

\* *For identification purpose only*

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## LETTER FROM ICBC INTERNATIONAL CAPITAL

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*The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from ICBC International Capital Limited dated 6 October 2009 in relation to the Transactions for the purpose of inclusion in this circular.*



6 October 2009

*To the Independent Board Committee  
and the Independent Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to the circular dated 6 October 2009 (the “**Circular**”) of Digital China Holdings Limited (the “**Company**”) of which this letter forms part. Details of the Transactions are set out in the section headed “Letter from the Board” in the Circular. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Since relevant percentage ratios under the Transactions are more than 5% but less than 25%, the Transactions constitute discloseable transactions of the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As Mr. GUO, the Chairman and Chief Executive Officer of the Company, a connected person of the Company, is a controlling shareholder of Beijing DCITACL, Beijing DCITACL is an associate of Mr. GUO and therefore a connected person of the Company. As the relevant percentage ratios exceed 2.5%, the Transactions constitute connected transactions of the Company under the Listing Rules, and are subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Other than Mr. GUO and his associates, none of the Shareholders will be required to abstain from voting in respect of the proposed resolution to approve the Transactions at the SGM.

An Independent Board Committee, consisting of all of the independent non-executive Directors of the Company, has been established to advise the Independent Shareholders on the connected transactions. We, ICBC International Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Transactions are fair and reasonable, and whether the Transactions are in the interests of the Company and the Shareholders as a whole.

**BASIS OF OUR OPINION**

In formulating our recommendation, we have relied, without conducting independent verification, on the information, materials and facts supplied and representations made to us by the Company, the Directors, who have assumed full responsibility for the accuracy of the information contained in the Circular, and the management of the Company. We have also assumed that all the information, statements and representations made or referred to in other sections of the Circular are true and accurate in all material respects as at the date hereof and that they may be relied upon. We have no reason to doubt the truthfulness and accuracy of the information and representation provided to us by the Company, the Directors and the management of the Company, or to believe that any material information has been omitted or withheld. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information.

We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our recommendation. We have not, however, conducted any form of independent in-depth investigation into the business affairs or assets and liabilities of the Company, Beijing DCITACL or any of their respective subsidiaries or associated companies. We have not made any independent valuation or appraisal of the assets or liabilities of the Company, Beijing DCITACL or any of their respective subsidiaries or associated companies, nor have we been furnished with any such appraisals. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, we have not been involved in the negotiations in respect of the terms and conditions of the Transactions. Our opinion has been made on the assumption that all obligations to be performed by each of the parties to the Transactions will be fully performed in accordance with the terms thereof.

Our opinion is based upon the financial, economic, market, regulatory, and other conditions as they exist on, and the facts, information, and opinions made available to us up to the Latest Practicable Date. We have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date. This letter is for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Transactions.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In assessing the terms of the Transactions and arriving at our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

### **1. Background and reasons for the Transactions**

On 15 September 2009, Beijing DCITACL (as transferee) agreed to acquire from DC Software (as transferor) 19.51% equity interest in DCITS (i.e. registered capital of RMB65.109 million in DCITS) at a consideration of RMB400 million (if the consideration is paid by four installments) or RMB328 million (if consideration is paid one-off within 90 business days after the signing of the Equity Interest Transfer Agreement).

We have discussed with the Directors that the Transactions are considered as a part of the whole arrangement to set up DCITS followed by additional capital investments by DC Software, and thereafter by the independent Investors, where the next key step was intended to transfer part of the equity interests of DCITS held by DC Software to Beijing DCITACL held by the a selected group of employees of DCITS. We concur with the Directors that the Transactions should be considered as part of a series of transfer of equity interests of DCITS, as it had been previously disclosed in the cooperative joint venture contract dated 3 July 2008, which had been duly approved by the Shareholders at the special general meeting held on 19 August 2008.

As stated in the “Letter from the Board”, the purpose of the Transactions is to enable DC Software to grant interest in DCITS to the selected employees as rewards of their contribution to DCITS. Through the proposed arrangement, it could help DCITS to reward and retain quality staff, morale and loyalty, link individual and business performance, and focus employee in achieving the targets. The proposed arrangement gives the employees an opportunity to personally invest in DCITS which will continue to help motivate the employees to optimise their performance and efficiency.

We are also given to understand that the Transactions could essentially enable the Group and/or DCITS Group to save any material expenses for remuneration or bonuses to retain key management staff in the near term and hence effectively reduce the Group’s and/or DCITS Group’s cash outflow.

Independent Shareholders should however note that such investment will have exposure to risks associated directly with the operations and financial performance of DCITS Group and the value of investment may rise as well as fall and that the selected employees may get losses.

As advised by the Directors, the shareholders of Beijing DCITACL were identified by the board of DC Software based on their experiences in the industry and they are mainly responsible for overseeing the business, strategic development and management of DCITS Group. As disclosed in the “Letter from the Board”, if any shareholder of Beijing DCITACL who has service rendered to DCITS of less than six years, resigns or is dismissed, his/her equity interest in Beijing DCITACL shall, upon the request of DC Software, will be required to transfer to DC Software or other shareholders of Beijing DCITACL, at an agreed consideration contemplated under the Beijing DCITACL Equity Interest Transfer and Pre-emptive Right Agreement.

We concur with Directors’ view that the Transactions could enable DCITS to retain the quality staff and motivate them for the future development of DCITS. The selected employees would become shareholders of DCITS upon the completion of the Transactions, and consequently the performance of DCITS Group would be directly linked up with their own rewards and their interests would be in line with DCITS Group without requiring the Group and/or DCITS Group to incur any material cash expenses to reward them. Furthermore, it would also enhance staff morale and loyalty, and it will also enable the Group to attract talented, skilled and experienced personnel as required by the DCITS Group from time to time.

## **2. Basis of consideration and payment terms of the Transactions**

As disclosed in the “Letter from the Board”, the consideration of the equity transfer will be either settled by a one-off payment of RMB328 million, or four installments totaling RMB400 million. As disclosed in the “Letter from the Board”, the consideration was determined with reference to (a) the amount that the independent Investors paid under the capital increase agreement dated 3 July 2008 (“**Capital Increase Agreement**”) (b) the historical financial figures of DCITS Group for the 12-month period after the Capital Increase Agreement (c) the Group’s cost of fund between the Equity Interest Transfer Agreement and the final payment date of 31 December 2015 and (d) the contribution made or to be made by the shareholders of Beijing DCITACL (i.e. the selected employees of DCITS). Based on such, as advised by the Directors, the consideration of the equity transfer is fair and reasonable.

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## LETTER FROM ICBC INTERNATIONAL CAPITAL

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In addition, we have selected five companies (including the Company) listed on the Stock Exchange which are carrying similar type of businesses as DCITS Group for comparison. The following table sets out the price/earning ratios of these comparable companies, based on their respective latest reported earnings per share:

<b>Stock Code</b>	<b>Company Name</b>	<b>Closing Price at the Latest Practicable Date HK\$</b>	<b>Price/ Earning Ratio times</b>
00861	The Company	7.00	10.51
00268	Kingdee International Software Group Co. Ltd.	1.30	11.94
00354	Chinasoft International Ltd.	0.80	11.12
00418	Founder Holdings Ltd.	0.31	14.90
00771	Automated Systems Holdings Ltd.	1.55	10.79
	<b>Mean</b>		<b>11.85</b>
	<b>Median</b>		<b>11.12</b>

*Source:* the Stock Exchange

As disclosed in the “Letter from the Board”, the unaudited net profit after taxation and extraordinary items of DCITS Group was HK\$103,082,000 for the year ended 31 March 2009. Based on the consideration of RMB328 million and the 19.51% equity interest of DCITS acquired, the price/earning ratio is approximately 18.53 times (approximately 22.60 times if the consideration is RMB400 million), which is higher than the mean of such of the comparable companies as stated above.

Taking into account (i) the acquisition price in terms of price/earning ratio based on the consideration is determined by the parties after arm’s length negotiations and is higher than that of the comparable companies; (ii) the subscription price previously paid by the independent Investors under the Capital Increase Agreement; (iii) that the Directors have confirmed that there was no material change in the business and financial position of DCITS Group since the date of entering into the Capital Increase Agreement; and (iv) the notable contributions made by the selected employees to DCITS Group in the past years, we concur with the Directors’ view that the consideration of RMB400 million for the equity transfer of 19.51% in DCITS is fair and reasonable so far as the Group and its Shareholders are concerned.

Considering that the one-off payment of RMB328 million will contribute immediately a significant cash inflow to the Group for its business operation and the cost of fund of the Group may incur if such consideration would be settled in four installments, we concur with the Directors’ view that offering a discount of RMB72 million to Beijing DCITACL for the one-off payment is considered fair and reasonable.

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## LETTER FROM ICBC INTERNATIONAL CAPITAL

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Alternatively under the Equity Interest Transfer Agreement, a payment of a significant portion of the consideration of RMB370 million can be deferred until the end of 31 December 2015 should Beijing DCITACL decides not to elect the one-off early payment. We are given to know that such payment term was determined by both parties after arm's length negotiation. Also, having considered the following protective clauses:

- (i) the relationship between the shareholders of Beijing DCITACL and the Company;
- (ii) as disclosed in the "Letter from the Board", all selected employees' salaries and remunerations received from DCITS shall be applied (proportional to their equity interest in Beijing DCITACL) to settle the consideration payable by Beijing DCITACL under the Equity Interest Transfer Agreement;
- (iii) Beijing DCITACL undertakes not to distribute any dividend or bonus to its shareholders unless the consideration under the Equity Interest Transfer Agreement has been fully paid to DC Software;
- (iv) shareholders of Beijing DCITACL (as pledgor) agreed to pledge their 100% equity interest (including the right to dividend, bonus and any other yield that they as shareholders are entitled to) in Beijing DCITACL to DC Software (as pledgee) until the obligations (including payment of consideration) under the Equity Interest Transfer Agreement are fully discharged; and
- (v) Beijing DCITACL (as pledgor) agreed to pledge the 19.51% equity interest (including the right to dividend, bonus and any other yield that it as a shareholder is entitled to) in DCITS to DC Software (as pledgee) until the obligations (including payment of consideration) under the Equity Interest Transfer Agreement are fully discharged,

we concur with the Directors' view and we are of the opinion that the default risk is relatively low and it is acceptable that significant amount of consideration will be paid by Beijing DCITACL a few years following the completion of the Transactions.

The Independent Shareholders should however note that, such defer payment of the consideration could result in lower cash inflow to the Company in the near term when compared to that of one-off settlement, which may affect the cash position of the Company, and also forgo the possible investment opportunity available to the Company.



## RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## DISCLOSURE OF INTERESTS

### Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company and their associates in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were taken or deemed to have taken under such provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of Part XV of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers adopted by the Company (the “**Model Code**”) were as follows:

Name of directors	Capacity	Interests in Shares (Note 1)	Interests in underlying Shares (Note 2)	Percentage of aggregate holding (%) (Note 3)
GUO Wei	Beneficial owner/ Interest of controlled corporation (Note 4)/ Interests of parties to concert group agreement (Note 5)	1,504,000/ 89,414,286/ 389,522,997	960,000	38.19
Andrew Y. YAN	Interest of controlled corporation (Note 6)/ Interests of parties to concert group agreement (Note 5)	187,111,744/ 389,522,997	—	38.19
LIN Yang	Beneficial owner	56,000	1,000,000	0.10

Notes:

- All of the interests disclosed herein represent long position in the Shares.
- The share options held by Mr. GUO and Mr. LIN Yang were granted on 21 May 2008 and are exercisable from 21 May 2009 to 20 May 2016 at an exercise price of HK\$5.89 per Share for subscription of ordinary shares of the Company.

3. The percentage of aggregate holding in shares was calculated on the basis of 1,020,037,581 Shares in issue as at the Latest Practicable Date.
4. 89,414,286 Shares were beneficially held by Kosalaki Investments Limited (“KIL”), incorporated in the British Virgin Islands (the “BVI”) with limited liability, which is wholly-owned by Mr. GUO, therefore, Mr. GUO was deemed to be interested in such shares in which KIL was interested.
5. A concert parties agreement dated 1 August 2007 entered into among the concert group, namely SIBL, Charmway Trading Limited (“CTL”), Fine Elite Management Limited (“FEML”), KIL and Mr. GUO.
6. 187,111,744 Shares were beneficially held by Sparkling Investment (BVI) Limited (“SIBL”), which is wholly-owned by SAIF Partners III L.P.. SAIF Partners III L.P. is controlled by SAIF III GP, L.P. which is controlled by Mr. Andrew Y. YAN through SAIF III GP Capital Ltd., therefore, Mr. Andrew Y. YAN was deemed to be interested in such shares in which SIBL was interested.

Save as disclosed above, as at the Latest Practicable Date, none of the directors and chief executive of the Company or their associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the directors and chief executive were taken or deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company pursuant to Section 352 of Part XV of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

#### Substantial Shareholders’ Interests and Short Positions in Shares and Underlying Shares

As at the Latest Practicable Date, the following persons, not being a director or chief executive of the Company, had the following interests and short positions in the Shares and underlying Shares which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or, who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote at general meetings of any other member of the Group:

Name	Capacity	Number of Shares (Note 1)	Percentage of aggregate holding in Shares (%) (Note 11)
Sparkling Investment (BVI) Limited (Note 2)	Beneficial owner/ Interests of parties to concert group agreement (Note 10)	187,111,744/ 389,522,997	38.19
SAIF III GP Capital Ltd. (Note 2)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	187,111,744/ 389,522,997	38.19

Name	Capacity	Number of Shares (Note 1)	Percentage of aggregate holding in Shares (%) (Note 11)
Charmway Trading Limited (Note 3)	Beneficial owner/ Interests of parties to concert group agreement (Note 10)	77,373,077/ 389,522,997	38.19
Hony Capital Fund III, L.P. (Note 3)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	77,373,077/ 389,522,997	38.19
Hony Capital Fund III, G.P. L.P. (Note 3)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	77,373,077/ 389,522,997	38.19
Hony Capital Fund III, G.P. Limited (Note 3)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	77,373,077/ 389,522,997	38.19
Hony Capital Management III Limited (Note 3)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	77,373,077/ 389,522,997	38.19
John Huan ZHAO (Note 3)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	77,373,077/ 389,522,997	38.19
Fine Elite Management Limited (Note 4)	Beneficial owner/ Interests of parties to concert group agreement (Note 10)	33,159,890/ 389,522,997	38.19
IDG Technology Venture Investment III, LLC (Note 4)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	33,159,890/ 389,522,997	38.19
IDG Technology Venture Investment III, L.P. (Note 4)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	33,159,890/ 389,522,997	38.19
IDG-Accel China Growth Fund GP Associates Ltd. (Note 4)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	33,159,890/ 389,522,997	38.19
IDG-Accel China Growth Fund Associates L.P. (Note 4)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	33,159,890/ 389,522,997	38.19
IDG-Accel China Growth Fund L.P. (Note 4)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	33,159,890/ 389,522,997	38.19

Name	Capacity	Number of Shares (Note 1)	Percentage of aggregate holding in Shares (%) (Note 11)
Patrick J. MCGOVERN (Note 4)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	33,159,890/ 389,522,997	38.19
Quan ZHOU (Note 4)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	33,159,890/ 389,522,997	38.19
Kosalaki Investments Limited (Note 5)	Beneficial owner/ Interests of parties to concert group agreement (Note 10)	89,414,286/ 389,522,997	38.19
Legend Holdings Limited (Notes 6 & 7)	Beneficial owner/ Interest of a controlled corporation	15,013,077/ 141,368,642	15.33
Employees' Shareholding Society of Legend Holdings Limited (Notes 6 & 8)	Interest of controlled corporations	156,381,719	15.33
Allianz SE (Note 9)	Interest of controlled corporations	66,410,000	6.51

## Notes:

- 1 All of the interests disclosed herein represent long position in the shares of the Company.
- 2 187,111,744 Shares were beneficially held by SIBL, which is wholly-owned by SAIF Partners III L.P.. SAIF Partners III L.P. is controlled by SAIF III GP, L.P. which is controlled by Mr. Andrew Y. YAN, director of the Company, through SAIF III GP Capital Ltd..
- 3 77,373,077 Shares were beneficially held by CTL, which is wholly-owned by Hony Capital Fund III, L.P.. Hony Capital Fund III, L.P. is controlled by Hony Capital Fund III, G.P. L.P., which is controlled by Hony Capital Fund III, G.P. Limited. Hony Capital Fund III, G.P. Limited is wholly-owned by Hony Capital Management III Limited. Hony Capital Management III Limited is owned as to 55% by Mr. John Huan ZHAO and 45% indirectly by Legend Holdings Limited through Right Lane Limited.
- 4 33,159,890 Shares were beneficially held by FEML, which is jointly-owned by IDG Technology Venture Investment III, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P.. IDG Technology Venture Investment III, L.P. is controlled by IDG Technology Venture Investment III, LLC, which is in turn controlled by Mr. Quan ZHOU and Mr. Patrick J. MCGOVERN. Both IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by IDG-Accel China Growth Fund Associates L.P. which is controlled by IDG-Accel China Growth Fund GP Associates Ltd. which is in turn controlled by Mr. Quan ZHOU and Mr. Patrick J. MCGOVERN. IDG-Accel China Investors L.P. is controlled by IDG-Accel China Investors Associates Ltd. which is in turn controlled by Mr. Quan ZHOU and Mr. Jim BREYER.

- 5 KIL, incorporated in the BVI with limited liability, is wholly-owned by Mr. GUO.
- 6 The English names “Legend Holdings Limited” and “Employees’ Shareholding Society of Legend Holdings Limited” are direct transliterations of their Chinese registered names “聯想控股有限公司” and “聯想控股有限公司職工持股會” respectively.
- 7 141,368,642 Shares were held by Right Lane Limited, a wholly-owned subsidiary and a controlled corporation of Legend Holdings Limited, and therefore Legend Holdings Limited was deemed to be interested in such shares by virtue of the SFO.
- 8 Employees’ Shareholding Society of Legend Holdings Limited was the controlling shareholder of Legend Holdings Limited and was therefore deemed to be interested in the 156,381,719 Shares in which Legend Holdings Limited was interested.
- 9 66,410,000 Shares were beneficially held by RCM Asia Pacific Limited. RCM Asia Pacific Limited was indirectly wholly-owned by Allianz SE.
- 10 A concert parties agreement dated 1 August 2007 entered into among the concert group, namely SIBL, CTL, FEML, KIL and Mr. GUO Wei.
- 11 The percentage of aggregate holding in shares was calculated on the basis of 1,020,037,581 Shares in issue as at the Latest Practicable Date.

Save as disclosed herein, at the Latest Practicable Date, no other interests or short positions in Shares or underlying Shares were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and there were no other persons who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote at general meetings of any other member of the Group.

### COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their associates had interests in a business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

### DIRECTORS’ INTEREST AND SERVICE CONTRACT

As at the Latest Practicable Date:

- (a) none of the Directors had any interest, direct or indirect, in any assets which had been, since the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (b) none of the Directors was materially interested in any contract or arrangement subsisting as at the date of this circular and which is significant in relation to the business of the Group; and

- (c) none of the Directors had an existing or proposed service contract with any member of the Group (excluding the contracts expiring or determinable by any member of the Group within one year within payment of compensation, other than statutory compensation).

## LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

## EXPERT QUALIFICATION AND CONSENT

- (a) The following sets out the qualifications of the expert which has given its opinion or advice as contained in this circular:

<b>Name</b>	<b>Qualification</b>
ICBC International Capital	A licensed corporation under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

- (b) ICBC International Capital did not have any shareholding, direct or indirect, in any members of the Group or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of the Group as at the Latest Practicable Date.
- (c) ICBC International Capital does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any members of the Group, or which are proposed to be acquired or by or leased to any members of the Group since March 2009, the date to which the latest published audited financial statements of the Company were made up.
- (d) ICBC International Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.

## MISCELLANEOUS

- (a) The company secretary of the Company is Mr. WONG Chi Keung, an associate of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.
- (b) The registered office of the Company is located at Canon's Court 22, Victoria Street, Hamilton HM 12, Bermuda. The principal place of business of the Company in Hong Kong is located at Suite 2008, 20th Floor, Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

- (c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Abacus Limited, located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

**NO MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2009, being the date to which the latest published audited financial statements of the Group were made up.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the office at Suite 2008, 20th Floor, Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong from the date of this circular up to and including 3 November 2009:

- (a) the memorandum and bye-laws of the Company;
- (b) the Transaction Documents;
- (c) the letter dated 6 October 2009 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 13 to 14 of this circular;
- (d) the letter dated 6 October 2009 from ICBC International Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 15 to 21 of this circular; and
- (e) the letter of consent referred to in the paragraph headed "Expert Qualification and Consent" in this Appendix.



**神州数码**  
**Digital China**

**DIGITAL CHINA HOLDINGS LIMITED**

(神州數碼控股有限公司\*)

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 00861)

**NOTICE IS HEREBY GIVEN** that a SGM will be held at Suite 2008, 20th Floor, Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong on Tuesday, 3 November 2009 at 10:00 a.m. or any adjournment thereof (as the case may be) for the purpose of considering and, if thought fit, passing with or without modification the following resolution as ordinary resolution of the Company:

**ORDINARY RESOLUTION**

**“THAT:**

- (a) the execution of the Equity Interest Transfer Agreement, DCITS Share Pledge Agreement, Beijing DCITACL Share Pledge Agreement, Beijing DCITACL Equity Interest Transfer and Pre-emptive Right Agreement (collectively, the **“Transaction Documents”**) and the transactions contemplated thereunder be and are hereby approved, confirmed and/or ratified; and
- (b) any one director of the Company be and is hereby authorised to execute all such other documents, instruments or agreements and to do or take all such actions or things as such director considers necessary or desirable to implement and/or give effect to the Transaction Documents and the transactions contemplated thereunder.”

By Order of the Board  
**Digital China Holdings Limited**  
(神州數碼控股有限公司\*)

**LIN Yang**  
*President*

Hong Kong, 6 October 2009

**Registered office:**

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

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## NOTICE OF SGM

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***Head office and principal place  
of business in Hong Kong:***

Suite 2008, 20th Floor  
Devon House  
Taikoo Place  
979 King's Road  
Quarry Bay  
Hong Kong

*Notes:*

- (1) Any shareholder of the Company entitled to attend and vote at the SGM shall be entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend and vote instead of him/her. A proxy need not be a shareholder of the Company.
- (2) Where there are joint holders of any share of the Company, any one of such joint holders may vote at the SGM, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the SGM, then one of the said persons so present whose name stands first on the register of shareholders of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- (3) To be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting thereof (as the case may be). Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the SGM or at any adjourned meeting thereof (as the case may be).
- (4) As at the date of this notice, the board of Directors of the Company comprises two executive Directors, namely, Mr. GUO Wei (Chairman and Chief Executive Officer) and Mr. LIN Yang (President); four non-executive Directors, namely, Mr. Andrew Y. YAN, Mr. TANG Xudong, Mr. CHEN Derek and Mr. QIU Zhongwei; and four independent non-executive Directors, namely Mr. HU Zhaoguang, Professor WU Jinglian, Mr. WONG Man Chung, Francis and Mr. KWAN Ming Heung, Peter.

\* *For identification purpose only*