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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)

ANNOUNCEMENT

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



REORIENT Financial Markets Limited

THE TRANSACTION

The Board is pleased to announce that on 7 August 2015 (after trading hours of the Stock Exchange), DCL (an indirect wholly-owned subsidiary of the Company), the Company and Shenxin Taifeng entered into the Share Transfer Agreement pursuant to which DCL has conditionally agreed to sell and Shenxin Taifeng has conditionally agreed to acquire 100% equity interests in the Target Companies.

On the same day, Shenxin Taifeng entered into the Subscription Agreements with the Subscribers, including Mr. Guo Wei and China Fund Management (with Mr. Yan Guorong as one of the Asset Trustees), pursuant to which Shenxin Taifeng has conditionally agreed to issue New A Shares and the Subscribers have conditionally agreed to subscribe New A Shares.

Pursuant to the Share Transfer Agreement and the Subscription Agreements, Shenxin Taifeng will use the proceeds from the issue of New A Shares (after deduction of issuance costs) and self-raised funds to settle the Consideration.

Upon Completion, the Company will cease to have any interest in the Target Companies and the Target Companies will cease to be the Company's subsidiaries.

Upon Completion, it is expected that Mr. Yan Guorong will cease to be a Director and will take up management role at Shenxin Taifeng.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal exceed 75%, the Disposal constitutes a very substantial disposal for the Company pursuant to Chapter 14 of the Listing Rules. Furthermore, the Share Subscription involves the subscription of New A Shares by Mr. Guo Wei and Mr. Yan Guorong (as one of the Asset Trustors), who are connected persons of the Company under the Listing Rules by virtue of them being Directors, the Transaction therefore constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the Transaction is subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

GENERAL

An Independent Board Committee has been formed to advise and provide recommendations to the Independent Shareholders in respect of the Transaction.

Reorient has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Transaction.

A circular containing, among others, further details about the Transaction, the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the recommendations of the Independent Board Committee and a notice convening the SGM is expected to be despatched to the Shareholders on or before 15 August 2015. Shareholders and potential investors of the Company should refer to the circular to be despatched by the Company for further details of the Transaction.

As the Transaction is subject to the fulfilment of the conditions precedent disclosed in this announcement (including the relevant shareholders' approvals and regulatory approvals) and may or may not materialise, Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

1. INTRODUCTION

On 7 August 2015 (after trading hours of the Stock Exchange), DCL, an indirect wholly-owned subsidiary of the Company, the Company and Shenxin Taifeng entered into the Share Transfer Agreement, pursuant to which DCL has conditionally agreed to sell and Shenxin Taifeng has conditionally agreed to acquire 100% equity interests in the Target Companies. On the same day, Shenxin Taifeng entered into the Subscription Agreements with each of the Subscribers, including Mr. Guo Wei and China Fund Management (with Mr. Yan Guorong as one of the Asset Trustors), pursuant to which Shenxin Taifeng has conditionally agreed to issue New A Shares and the Subscribers have conditionally agreed to subscribe such New A Shares. Pursuant to the Share Transfer Agreement and the Subscription Agreements, Shenxin Taifeng will use the proceeds from the issue of New A Shares (after deduction of issuance costs) and self-raised funds to settle the Consideration.

2. THE TRANSACTION

A. The Disposal

(A) The Conditional Share Transfer Agreement

A summary of the major terms of the Share Transfer Agreement is as follows:

- Date** : 7 August 2015 (after trading hours of the Stock Exchange)
- Parties** : (a) DCL;
(b) the Company; and
(c) Shenxin Taifeng.
- The Disposal** : DCL has conditionally agreed to sell and Shenxin Taifeng has conditionally agreed to acquire 100% equity interests in the Target Companies.
- Consideration** : The Consideration is RMB4.01 billion (equivalent to approximately HK\$5.01 billion), or as may be adjusted based on the finalised Valuation Report (details of the possible adjustment are set out under the heading “Determination of the Consideration” below), which will be financed by: (i) the proceeds of approximately RMB2.2 billion from the Share Subscription and (ii) self-raised funds of approximately RMB1.8 billion, and be paid in cash within 10 business days after the Completion Date.
- Conditions Precedent** : Completion is conditional upon the fulfillment of the following conditions precedent:
- (a) the Share Transfer Agreement having taken effect, namely, where the following conditions having been satisfied:
 - (i) the Transaction having been approved by the Board and the Shareholders at the SGM;
 - (ii) relevant procedures in relation to the issuing of announcement and circular and obtaining independent shareholders’ approval having been completed by the Company in compliance with Chapter 14 and Chapter 14A of the Listing Rules;
 - (iii) the Transaction having been approved by the board of directors and the shareholders of Shenxin Taifeng; and

- (iv) the Transaction having been approved by the CSRC;
- (b) the anti-trust review on concentration of business operators, conducted by The Ministry of Commerce of the PRC in regard of the Disposal, having been passed; and
- (c) the Disposal having been approved by the supervising Bureau of Commerce of each Target Company.

Completion : After the fulfillment of all conditions precedent for Completion, (i) DCL, the Company and Shenxin Taifeng shall, within three business days from the completion of the Share Subscription, submit all necessary application documents to the relevant PRC regulatory authorities for the change of shareholders of the Target Companies; and (ii) DCL shall, within 20 business days from the completion of the Share Subscription, assist Shenxin Taifeng to complete all necessary PRC regulatory filings of the Target Companies for the change of shareholders of the Target Companies. The Completion shall take place on the date on which the PRC regulatory filing procedure is completed or the date on which new business licenses of the Target Companies are issued, whichever is later.

Upon Completion, the Company will cease to have any interest in the Target Companies and the Target Companies will cease to be the Company's subsidiaries.

(B) Valuation

China Alliance Appraisal Co., Ltd. (北京中同華資產評估有限公司), an independent valuer, performed an independent valuation in respect of the Target Companies using the income-based approach and the market-based approach, and selected the income-based approach as the adopted valuation methodology for the Valuation Report. The Valuation Report is required by the applicable laws and regulations in the PRC that are applicable to Shenxin Taifeng in connection with its acquisition of the Target Companies. Under the "Administrative Measures for Material Asset Reorganisation of Listed Companies" (CSRC Decree No.109) (《上市公司重大資產重組管理辦法》(中國證監會令第109號)) promulgated by the CSRC, Shenxin Taifeng is required to engage a qualified asset appraisal institution to issue a valuation report on the Target Companies as the Disposal forms part of a major reorganisation undertaken by Shenxin Taifeng and the consideration for which is to be determined by the parties with reference to the valuation results.

The Valuation has taken into account various factors, including but not limited to, the provision of non-competition undertakings by the Company, the completion of the group restructuring and the payment of the dividend declared by the Target Companies. Based on the Valuation Report, the appraised value of the Target Companies collectively as of 31 March 2015 was approximately RMB4.01 billion, and the estimated net profit before interest for the six financial years from 2015 to 2020 ending 31 December each year based on asset valuation using the income-based approach are:

	2015	2016	2017	2018	2019	2020
Forecast net profit (RMB'000)	<u>414,810.0</u>	<u>412,575.7</u>	<u>419,372.8</u>	<u>426,319.8</u>	<u>437,857.6</u>	<u>450,769.4</u>
Approximate equivalent amount in HK\$ (HK\$'000)	518,678.4	515,884.7	524,383.7	533,070.3	547,497.1	563,642.1

As the Valuer has adopted the income-based approach in performing the Valuation, which has taken into account the discounted cash flow forecast of the Target Companies, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules (the “**Target Companies Profit Forecast**”). As such, the requirements under Rule 14.62 of the Listing Rules are applicable.

Set out below is the information in relation to the Target Companies Profit Forecast:

(a) Assumptions

The principal assumptions, including commercial assumptions, upon which the Target Companies Profit Forecast was based, include:

- (i) the Valuation is carried out for the specific purposes set out in the Valuation Report;
- (ii) there will be no unforeseeable material changes to the external economic environment after 31 March 2015, the reference date of the Valuation;
- (iii) the operational businesses of the entities being evaluated are lawful, and there will be no unforeseeable factors that may prevent the entities being evaluated from operating as a going concern;
- (iv) upon Completion, the Company and all of its subsidiaries and branch companies will not carry out IT products distribution business;
- (v) the underlying documents and financial information provided by the entities being evaluated and the entrusting party are true, accurate and complete;
- (vi) the financial reports and transaction data of the comparable companies that are relied upon by the Valuer are true and reliable;

- (vii) the profit forecast contained in the Valuation has not considered the impact of changes and fluctuations of foreign exchange market;
- (viii) unless otherwise stated, the Valuation has not considered the impact of any mortgage or guarantee obligations on the appraisal value, nor the impact on asset prices due to changes in national macro-economic policy or the occurrence of acts of God and any other force majeure event; and
- (ix) the shareholders of the Target Companies will obtain net cash flow during the financial year evenly, instead of a lump sum at the end of the financial year.

(b) Letter from Ernst & Young and Board Letter

Ernst & Young, the reporting accountants of the Company, have examined the arithmetical accuracy of the calculations of the discounted cash flows forecast of the Target Companies underlying the Valuation Report, which does not involve the adoption of accounting policies. The Company has received a letter from Ernst & Young regarding the calculation of the discounted future estimated cash flow of the Target Companies dated 7 August 2015 (the “**Letter from Ernst & Young**”), in which Ernst & Young is of the opinion that, so far as the arithmetical accuracy of the calculation is concerned, the Target Companies Profit Forecast has been properly compiled in accordance with the assumptions adopted in the Valuation Report. The Letter from Ernst & Young is included as Appendix I to this announcement.

The Board has reviewed the Target Companies Profit Forecast and discussed the bases and assumptions upon which the Target Companies Profit Forecast has been prepared. The Board has also considered the Letter from Ernst & Young. On the basis of the foregoing, the Board confirmed that the Target Companies Profit Forecast has been made after due and careful enquiry, and issued a letter to the Stock Exchange (the “**Board Letter**”) accordingly. The Board Letter is included as Appendix II to this announcement for the purposes of Rule 14.62 of the Listing Rules, and the Company has submitted the Letter from Ernst & Young and the Board Letter to the Stock Exchange in compliance with Rules 14.62(2) and (3) of the Listing Rules.

(C) Determination of the Consideration

The Consideration is arrived at after arm’s length negotiations between the Company and Shenxin Taifeng with reference to various factors including: (i) the Valuation Report; (ii) the recent financial position and performance of the Target Companies; (iii) the outlook of the business of sales and distribution of general IT and systems products in the PRC; and (iv) the commercial reasons and benefits set out in the paragraphs headed “Reasons for and benefits of the Transaction for the Company” below.

During the approval process of the Transaction, which will take place after the SGM but prior to Completion, the Shenzhen Stock Exchange and the CSRC will consider the rationality of the valuation factors in the Valuation Report, such as

valuation assumptions, profit forecast of the underlying assets and valuation parameters. They may request certain valuation factors to be adjusted and in such case, the Valuer may need to issue a revised valuation report which may in turn, affect the valuation result stated in the Valuation Report. In such case, the Consideration will be adjusted according to the following mechanism:

- (a) if the difference in the valuation results between the finalised Valuation and the Valuation is not more than 3% of the Valuation, the Consideration will be adjusted to be the finalised Valuation; and
- (b) if the difference in the valuation results between the finalised Valuation and the Valuation is more than 3% of the Valuation, the Consideration will be determined by mutual agreement of all parties to the Share Transfer Agreement. In such case, the Company will comply with the reporting, announcement and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules as and when necessary.

During the negotiation process of the Disposal, the Company understood from Shenxin Taifeng that it could not accept the Consideration being an amount which is higher than the valuation results. On this basis, the Directors have considered factors (ii), (iii) and (iv) above, which indicate a downward prospect for the Disposal Business (as defined below). The Directors also considered the market share, branding and goodwill of the Target Companies in the Disposal Business, which are positive factors and also the price-to-earnings ratios of certain comparable companies. The Directors are of the view that the Consideration is already the highest possible price to be offered by Shenxin Taifeng and to be obtained by the Company, and the Consideration amount represents an implied price-to-earning ratio of the Disposal which is considered reasonable as compared with the average price-to-earning ratio of the comparable companies. Based on the above considerations, the Company considers that the Consideration is fair and reasonable.

(D) Non-Competition Undertakings of the Company

The Company provided the following undertakings to Shenxin Taifeng on 7 August 2015:

- (a) that through the Transaction, the Company shall dispose of all assets, liabilities and businesses related to the Group's existing distribution business of IT products (namely: (i) enterprise products such as network products, servers, storage equipments and software suites, and (ii) consumer electronic products such as notebook computers, desktop computers, PC servers and peripheral computer devices) (the "**IT products distribution business**"), and upon completion of the Transaction, the Company and enterprises whose accounts are consolidated into the consolidated financial statements of the Company shall not contain any competing businesses or assets which are same or similar to that of the IT products distribution business; and
- (b) that upon Completion, the Company shall not have, and shall not in the future carry out, by itself or through any enterprises whose accounts are consolidated into its consolidated financial statements, businesses that may compete with the IT products distribution business. In case any such

enterprise engages in business that may compete with the IT products distribution business, Shenxin Taifeng has the right to request the Company to dispose of such interests to Shenxin Taifeng at a fair price. In such case, the price will be determined by independent valuation.

The above undertakings are required to be given by the Company due to the legal requirements in the PRC with respect to the provision of non-competition undertakings in transactions of a similar nature.

Having considered the Company's business strategy in the near future to utilize its resources on the remaining businesses of the Group and the benefits that the Company and the Shareholders will receive as a result of the Disposal, the Directors consider that the provision of the non-competition undertakings is in the interest of the Company and the Shareholders as a whole.

Upon Completion, the businesses of the Remaining Group will not involve in the restricted IT products distribution business and therefore will not violate the non-competition undertakings. Moreover, upon Completion, the Remaining Group will no longer possess the requisite resources, expertise and technical capabilities for engaging in the Disposal Business (as defined below). The management of the Group is also aware of the restrictions under the non-competition undertakings and will inform the Board to refrain from involving in the restricted businesses in the future.

(E) Group Restructuring

Pursuant to the Share Transfer Agreement, the Company and DCL have undertaken to procure a restructuring of the Target Companies under which the Target Companies will acquire all other subsidiaries of the Company which are engaged in the IT products distribution business and will dispose of the subsidiaries, joint ventures, associates and available-for-sale equity investments which are not engaged in the IT products distribution business to the Remaining Group before Completion. Upon the completion of the group restructuring, the Target Companies will become solely engaged in the IT products distribution business.

(F) Intellectual Property

Pursuant to the Share Transfer Agreement and as a business condition of the Disposal, in order for the Target Companies and the relevant entities of the Remaining Group to have free access to relevant trademarks which are necessary for their respective business operations, the Company and the Target Companies have procured the entry into of certain intellectual property agreements, each dated 7 August 2015, pursuant to which:

- (a) the Target Companies and/or their relevant subsidiaries have agreed to transfer to the relevant subsidiaries of the Company ownership of certain trademarks for nil consideration;
- (b) DC China has agreed to grant a subsidiary of the Company a non-exclusive right to use certain trademarks within their respective validity periods for nil consideration; and

- (c) the Company will procure its subsidiary (the “**Licensor**”) to grant a non-exclusive license, for a nominal consideration of HK\$1, to a subsidiary of the Target Companies (the “**Disposal Group Licensee**”) in regard of certain trademarks registered in Hong Kong within their respective validity periods, during such time the Disposal Group Licensee shall be registered as the registered user of the licensed trademarks in Hong Kong, while the Company through its subsidiary reserves the proprietary rights in relation with such trademarks.

The licensing arrangements under paragraphs (b) and (c) above will enable both the Target Companies and the Remaining Group to have free access to the relevant trademarks to develop their respective businesses, which is more cost-effective and time efficient than transferring the legal ownerships of the trademarks, and is therefore mutually beneficial to both parties from a commercial perspective. In addition, the underlying licensing agreements regulate the scope of use for the licensed trademarks, ensuring that the licensed trademarks will not be misused by the licensees, thereby minimizing potential reputational risk of the licensors. Furthermore, the Valuation has already taken into account the intellectual property transfer and licensing arrangements under paragraphs (a), (b) and (c) above. Based on the aforesaid, the Company considers the terms of the license and the nominal consideration of HK\$1 under paragraph (c) are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Since none of the Target Companies or Shenxin Taifeng will be a connected person of the Group under Chapter 14A of the Listing Rules upon Completion, the granting of the license by the Company does not constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

B. Share Subscription

(A) Subscription Agreements

Pursuant to the Subscription Agreements, Shenxin Taifeng will issue an aggregate of 296,096,903 New A Shares to the Subscribers, including Mr. Guo Wei and China Fund Management (with Mr. Yan Guorong as one of the Asset Trustees), at a price of RMB7.43 per New A Share (subject to adjustments in the event of ex-rights or ex-dividend actions by Shenxin Taifeng as defined in the Subscription Agreements). Shenxin Taifeng expects to obtain gross proceeds of no more than RMB2,199,999,989.29 from the Share Subscription and use such proceeds (after deduction of issuance costs) to settle the Consideration under the Share Transfer Agreement. Mr. Guo Wei and China Fund Management will subscribe an aggregate of 184,387,503 New A Shares, representing approximately 28.19% of the issued share capital of Shenxin Taifeng as enlarged by the issue of New A Shares. Each of the Subscribers has entered into a Subscription Agreement with Shenxin Taifeng, the terms of which are substantially the same. China Fund Management is a third party independent from the Company and its connected persons under Chapter 14A of the Listing Rules.

A summary of the major terms of the Subscription Agreements is as follows:

- Date** : 7 August 2015 (after trading hours of the Stock Exchange)
- Parties** : (a) Shenxin Taifeng; and
(b) each of the Subscribers, including Mr. Guo Wei and China Fund Management.
- Subscription Shares** : Shenxin Taifeng has conditionally agreed to issue and the Subscribers have conditionally agreed to subscribe the New A Shares.
- Subscription Price** : RMB7.43 per New A Share (subject to adjustments), being 90% of the average trading price of the ordinary shares of Shenxin Taifeng quoted on The Shenzhen Stock Exchange for the 20 consecutive trading days immediately prior to the publication of Shenxin Taifeng's board resolutions on 7 August 2015.
- Lock-up Undertaking** : Each of the Subscribers, including Mr. Guo Wei and China Fund Management, undertakes to Shenxin Taifeng that for a period of 36 months from the listing date of the New A Shares on The Shenzhen Stock Exchange, the Subscriber will not transfer any of the New A Shares he or it has conditionally agreed to subscribe pursuant to the respective Subscription Agreement.
- Use of Proceeds** : The net proceeds from the issue of the New A Shares (after deduction of issuance costs) will be used to settle the Consideration under the Share Transfer Agreement.
- Conditions Precedent** : The conditions precedent for the taking effect and completion of each of the Subscription Agreements are the same as those of the Share Transfer Agreement.

(B) Acting-in-concert Agreement

Mr. Guo Wei, China Fund Management and all Asset Trustees entered into an acting-in-concert agreement on 7 August 2015, pursuant to which China Fund Management will, in respect of the shares held in the capacity of the asset trustee of Mr. Yan Guorong and certain management staff of the Target Companies, vote in agreement with Mr. Guo Wei on matters concerning shareholders of Shenxin Taifeng. Together with parties acting-in-concert, Mr. Guo Wei and China Fund Management will become the largest shareholders of Shenxin Taifeng.

C Continuing Transactions after Completion

It is currently expected that there will be the following continuing transactions between the Remaining Group and the Target Companies upon Completion:

- (i) procurement of IT-related products by the Remaining Group from Shenxin Taifeng;
- (ii) provision of IT products and services, supply chain business and maintenance services by the Remaining Group to Shenxin Taifeng; and
- (iii) leasing of real properties by the Group to Shenxin Taifeng.

The abovementioned continuing transactions would not constitute connected transactions of the Company for the purpose of Chapter 14A of the Listing Rules. The Company will ensure, and will procure its subsidiaries to ensure that such transactions will be conducted on normal commercial terms and in accordance with the relevant listing rules that are applicable to the Company or its subsidiaries as and when necessary.

3. INFORMATION ON THE GROUP, DCL, THE TARGET COMPANIES AND SHENXIN TAIFENG

A. The Group and DCL

The Company is an exempted company incorporated under the laws of Bermuda with limited liability and was listed on the Main Board of the Stock Exchange (Stock Code: 00861) in 2001. The Group currently consists of four business segments, namely (i) the “New Business” segment consisting of the Sm@rt City service group and financial service strategy unit, (ii) the “Digital China Group” segment, (iii) the “Digital China Information Service Company Ltd.” segment, and (iv) the “supply chain management strategy unit” segment. The Group officially entered the field of Sm@rt City construction in 2010 and commenced its Sm@rt City services and operation business centered on Internet-based platform through its Sm@rt City service group in 2014, providing public services to the government, enterprises and citizens through the Internet by constructing integrated service platform.

Upon completion of the disposal of the “Digital China Group” segment, the Group will shift its business focus to the remaining three business segments, and in particular, the Sm@rt City service group and the “Digital China Information Service Company Ltd.” segment.

DCL is a company incorporated under the laws of Hong Kong with limited liability. It is an indirect wholly-owned subsidiary of the Company and DCL wholly owns the Target Companies.

B. The Target Companies

The Target Companies are limited liability companies incorporated under the laws of the PRC and are wholly-owned by DCL. The Target Companies currently operate in the Group's "Digital China Group" segment. As at 31 March 2015, the Target Companies had an unaudited net asset value of approximately HK\$3.81 billion, which was arrived at upon taking into account (i) the completion of the group restructuring; (ii) the dividend declared by the Target Companies and their subsidiaries (as at the completion for the group restructuring); and (iii) the consideration to be received by the Target Companies.

Upon Completion, the Target Companies will cease to be subsidiaries of the Company, and the profit and loss, and assets and liabilities of the Target Companies will no longer be consolidated into the financial statements of the Group. Further, the Target Companies will operate in the business of sales and distribution of general IT and systems products (the "**Disposal Business**"). The following information is a summary of the net profit before and after tax of the Disposal Business for the nine months ended 31 December 2013 and the financial year ended 31 December 2014:

	For the 9 months ended 31 December 2013¹	For the 12 months ended 31 December 2014
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net profit before tax	503,595	541,521
Net profit after tax	389,517	392,169

1. The Company changed its financial year end from 31 March to 31 December with effect from 19 November 2013.

As Mr. Yan Guorong has been in charge of the businesses of the Target Companies, it is expected that he will continue to manage the Target Companies after Completion by taking up management role at Shenxin Taifeng and will cease to be a Director upon Completion.

C. Shenxin Taifeng

Shenxin Taifeng is a joint stock limited company incorporated under the laws of the PRC, the shares of which are listed on The Shenzhen Stock Exchange (Stock Code: 000034.SZ). Prior to the Transaction, Shenxin Taifeng's principal businesses were communication devices production and sales as well as forage production.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Shenxin Taifeng is a third party independent of the Company and its connected persons.

4. REASONS FOR AND BENEFITS OF THE TRANSACTION FOR THE COMPANY

With several transformations, the current and future focus of business of the Group is to engage in businesses with higher added-value and higher growth, such as Sm@rt City, Sm@rt Agriculture, Sm@rt Healthcare, Sm@rt Production, Sm@rt Logistics and related financial services in China through IT service and operation integrated with industrial application based on the Internet, cloud computing and big data technology.

In the past three years, gradual decline in the revenue and net profit of the Target Companies' systems and distribution business affected the overall revenue and profitability of the Group. The Board expects that the business environment of the Target Companies will remain challenging in the near future, and time is required to thoroughly reform the systems and distribution business in order to adjust it to the challenges in the industry and to resume steady growth of profit. The Disposal will release a substantial amount of resources invested by the Group in the Target Companies. The net proceeds from the Disposal will bring cash dividends to Shareholders and contribute to the Group's cash-flow and financial position.

Upon Completion, the Group will continue to focus on and channel its resources into the businesses of the Internet, cloud computing and big data technology. The Group will also leverage on its rich experience and solid technological expertise on systems solutions to develop higher added-value and higher growth business such as Sm@rt City, Sm@rt Agriculture, and Sm@rt Healthcare.

In view of the above, the Directors (excluding all independent non-executive Directors who will provide their views after taking into account advice from the Independent Financial Adviser) are of the view that the terms and conditions of the Share Transfer Agreement are fair and reasonable and the Transaction (including the provision of the non-competition undertakings) is in the interest of the Group and the Shareholders as a whole.

As at the date of this announcement, other than the Disposal, the Company has not entered into any agreement, reached any understanding, or is in any negotiation (concluded or otherwise) in relation to (i) any disposal of the Company's remaining assets; and (ii) any disposal or termination of the Company's existing business.

5. FINANCIAL IMPACT OF THE DISPOSAL, INTENDED USE OF PROCEEDS AND PROPOSED CONDITIONAL SPECIAL CASH DIVIDEND

Upon Completion, the Target Companies will cease to be the Company's subsidiaries and the Company will cease to have any interest in the Target Companies. It is expected that the Group will realise a one-off unaudited gain on the Disposal of approximately HK\$0.86 billion, which is calculated with reference to the Consideration of RMB4.01 billion (equivalent to approximately HK\$5.01 billion), less (i) the net asset value of the Target Companies of approximately HK\$3.81 billion (unaudited) as at 31 March 2015, and (ii) the estimated transaction costs and expenses of approximately HK\$0.34 billion attributable to the Disposal, which include professional services fees, taxes and other transaction related costs. Shareholders should note that the financial effect is shown for reference only and the actual amount of gain or loss as a result of the Disposal is subject to audit, which will be assessed based on financial position of the Target Companies as at Completion and eventually recognised in the consolidated financial statements of the Company upon Completion.

The Company expects to realize net proceeds of approximately HK\$4.67 billion (after deduction of transaction costs and expenses) from the Disposal, and intends to apply them for the following purposes:

- (a) approximately 75% of the net proceeds, or HK\$3.50 billion, to be distributed as special cash dividends (upon fulfillment of the conditions set out below). Based on 1,094,194,581 Shares in issue as at the date of this announcement and assuming no

other changes to the number of issued shares of the Company from the date of this announcement to the record date in respect of the special cash dividend, the Board has resolved to recommend the Shareholders to approve the distribution of a special cash dividend of HK\$3.20 per Share, subject to the following conditions:

- (i) the Share Transfer Agreement and the transactions contemplated thereunder, the provision of the non-competition undertakings (as set out in the section headed “Non-Competition Undertakings of the Company” above) and the transactions contemplated thereunder, as well as the proposed distribution of special cash dividends having been approved by the Independent Shareholders at the SGM; and
 - (ii) the conditions precedent to the completion of the Transaction having been satisfied;
- (b) approximately 12.5% of the net proceeds, or HK\$0.58 billion, will be used in the Group’s investment according to the strategies of the Company; and
 - (c) approximately 12.5% of the net proceeds, or HK\$0.59 billion, will be reserved as general working capital of the Group.

Further announcement will be made by the Company when Completion have taken place, and the details of the record date, which is to be determined by the Board and by reference to which entitlements to the payment of the special cash dividend will be determined, and closure of the register of members of the Company in determining the Shareholder’s entitlement to the proposed special cash dividend, will be announced therein.

6. LISTING RULES IMPLICATIONS

As the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal exceed 75%, the Disposal constitutes a very substantial disposal for the Company pursuant to Chapter 14 of the Listing Rules. Furthermore, the Share Subscription involves the subscription of New A Shares by Mr. Guo Wei and Mr. Yan Guorong (as one of the Asset Trustees), who are connected persons of the Company under the Listing Rules by virtue of them being Directors, the Transaction therefore constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the Transaction is subject to the reporting, announcement and the Independent Shareholders’ approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

7. GENERAL

An Independent Board Committee has been formed to advise and provide recommendations to the Independent Shareholders in respect of the Transaction.

Reorient has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Transaction.

8. DESPATCH OF CIRCULAR

A circular containing, among others, further details about the Transaction, the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the recommendations of the Independent Board Committee and a notice convening the SGM is expected to be despatched to the Shareholders on or before 15 August 2015. Shareholders and potential investors of the Company should refer to the circular to be despatched by the Company for further details of the Transaction.

As the Transaction is subject to the fulfilment of the conditions precedent disclosed in this announcement (including the relevant shareholders' approvals and regulatory approvals) and may or may not materialise, Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, save as the context otherwise requires, the defined terms shall have the following meanings:

“Asset Trustor(s)”	asset trustors who provided funds to China Fund Management for the Share Subscription
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“business day(s)”	the legal working days in China excluding Saturdays, Sundays and legal holidays, unless otherwise specified in this announcement
“China” or “PRC”	the People’s Republic of China (excluding, for the purpose of this announcement, Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
“China Fund Management”	China Fund Management Co., Ltd.* (中信建投基金管理有限公司), a company incorporated under the laws of PRC
“Company”	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 in 2001, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 00861)
“Completion”	completion of the Disposal pursuant to the Share Transfer Agreement
“Completion Date”	the date on which Completion takes place
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the cash consideration of RMB4.01 billion for the Disposal, or as may be adjusted based on finalised Valuation Report
“CSRC”	The China Securities Regulatory Commission (中國證券監督管理委員會)

“DCL”	Digital China Limited (神州數碼有限公司), a company incorporated under the laws of Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“DC China”	Digital China (China) Limited* (神州數碼(中國)有限公司), a limited liability company incorporated under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“DC Guangzhou”	Guangzhou Digital China Information Technology Co., Ltd.* (廣州神州數碼信息科技有限公司), a limited liability company incorporated under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“DC Shanghai”	Shanghai Digital China Limited* (上海神州數碼有限公司), a limited liability company incorporated under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal by DCL of 100% equity interests in the Target Companies
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IT”	information technology
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Transaction
“Independent Shareholders”	the Shareholders other than those who are required to abstain from voting at the SGM
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“New A Share(s)”	296,096,903 new ordinary share(s) to be issued and allotted by Shenxin Taifeng to the Subscribers pursuant to the Subscription Agreements entered into between Shenxin Taifeng and each of the Subscribers
“Remaining Group”	the Company and its subsidiaries, excluding the Target Companies and their subsidiaries after the group restructuring

“Reorient” or “Independent Financial Adviser”	Reorient Financial Markets Limited, a licensed corporation to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transaction
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended from time to time
“SGM”	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Share Transfer Agreement, the Transaction, the transactions contemplated thereunder and the proposed distribution of special cash dividend
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Subscription”	the subscription for the New A Shares by the Subscribers pursuant to the terms of the Subscription Agreements
“Share Transfer Agreement”	the agreement dated 7 August 2015 entered into between DCL, the Company and Shenxin Taifeng in relation to the Disposal
“Shenxin Taifeng”	Shenzhen Shenxin Taifeng Group Co., Ltd.* (深圳市深信泰豐(集團)股份有限公司), a joint stock limited company incorporated under the laws of the PRC, the shares of which are listed on The Shenzhen Stock Exchange (Stock Code: 000034.SZ)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	investors to subscribe the New A Shares, including Mr. Guo Wei and China Fund Management
“Subscription Agreement(s)”	the agreements each dated 7 August 2015 entered into between Shenxin Taifeng and each of the Subscribers in relation to the subscription of the New A Shares by the Subscribers
“Target Companies”	DC China, DC Shanghai and DC Guangzhou
“Transaction”	the Disposal and the Share Subscription
“Valuation”	the valuation result on the Target Companies as at 31 March 2015 prepared by the Valuer
“Valuation Report”	the valuation report in relation to the Valuation dated 7 August 2015

“Valuer” China Alliance Appraisal Co., Ltd.(北京中同華資產評估有限公司),
an independent valuer

“%” per cent

For the purpose of this announcement, unless stated otherwise, amounts denominated in RMB have been translated, for the purpose of illustration only, into HK\$ at an exchange rate of RMB1.00:HK\$1.2504. No representation is made that any amounts in RMB and HK\$ can be or could have been converted at the relevant dates at the above rates or at any other rates at all.

By Order of the Board
Digital China Holdings Limited
(神州數碼控股有限公司*)
LIN Yang
Chief Executive Officer

Hong Kong, 7 August 2015

As at the date of this announcement, the Board comprises nine Directors, namely:

Executive Directors: Mr. GUO Wei (Chairman), Mr. LIN Yang (Chief Executive Officer) and Mr. YAN Guorong (President)

Non-executive Director: Mr. Andrew Y. YAN

Independent Non-executive Directors: Mr. WONG Man Chung, Francis, Ms. NI Hong (Hope), Mr. ONG Ka Lueng, Peter, Dr. LIU Yun, John and Ms. YAN Xiaoyan

Website: www.digitalchina.com.hk

* *For identification purpose only*

**APPENDIX I — LETTER FROM
THE REPORTING ACCOUNTANTS IN RELATION TO THE VALUATION REPORT**



7 August 2015

The Board of Directors
Digital China Holdings Limited
Suite 2008, 20/F
Devon House, Taikoo Place
979 King's Road, Quarry Bay
Hong Kong

Dear Sirs,

We refer to the discounted cash flow forecast (hereinafter referred to as the “**Underlying Forecast**”) underlying the valuation dated 7 August 2015 prepared by China Alliance Appraisal Co., Ltd. in respect of the IT products distribution business as at 31 March 2015. The Underlying Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

RESPONSIBILITIES

The Underlying Forecast has been prepared by the directors of Digital China Holdings Limited (the “**Company**”) based on a set of assumptions (the “**Assumptions**”).

The Company’s directors are solely responsible for the Underlying Forecast. It is our responsibility to form an opinion on the arithmetical accuracy of the calculations of the Underlying Forecast based on our procedures.

BASIS OF OPINION

We carried out our work with reference to Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations is concerned, the Company’s directors have properly compiled the Underlying Forecast in accordance with the Assumptions made by the directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

OPINION

In our opinion, so far as the arithmetical accuracy of the calculations is concerned, the Underlying Forecast has been properly compiled in accordance with the Assumptions adopted by the directors.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

APPENDIX II — LETTER FROM THE BOARD
IN RELATION TO THE VALUATION REPORT



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)

Hong Kong Exchanges and Clearing Limited
11/F., One International Finance Centre,
1 Harbour View Street, Central,
Hong Kong

7 August 2015

Dear Sirs,

Re: Very Substantial Disposal and Connected Transaction — disposal of 100% equity interests in three indirectly wholly-owned companies, namely, Digital China (China) Limited* (神州數碼(中國)有限公司), Shanghai Digital China Limited* (上海神州數碼有限公司) and Guangzhou Digital China Information Technology Co., Ltd.* (廣州神州數碼信息科技有限公司) (together, the “Target Companies”)

We refer to the valuation report dated 7 August 2015 (the “**Valuation Report**”) prepared by China Alliance Appraisal Co., Ltd. (北京中同華資產評估有限公司) (the “**Valuer**”) in relation to the valuation on the Target Companies as at 31 March 2015 (the “**Valuation**”). The Valuation, prepared based on the income-based approach, involves the calculation of discounted future estimated cash flow of the Target Companies (the “**Forecast**”) and therefore constitutes a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We have considered different aspects including the bases and assumptions based upon which the Valuation has been prepared, and reviewed the Valuation for which the Valuer is responsible. We have also considered the letter dated 7 August 2015 from our reporting accountants, Ernst & Young, regarding whether the Forecast, so far as the arithmetical accuracy of the calculation is concerned, have been properly complied with the assumptions as set out in the Valuation Report. We have noted that the Forecast in the Valuation are mathematically accurate and has complied with the bases and assumptions as set out in the Valuation Report.

On the basis of the foregoing, we are of the opinion that the Valuation has been made after due and careful enquiry.

Yours faithfully,

By Order of the Board
Digital China Holdings Limited
(神州數碼控股有限公司*)
LIN Yang
Chief Executive Officer

* *For identification purpose only*