
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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神州控股
DC Holdings

DIGITAL CHINA HOLDINGS LIMITED

(神州數碼控股有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 00861)

**(1) PROPOSED ISSUE OF NEW SHARES
UNDER SPECIFIC MANDATE**
**(2) CONNECTED TRANSACTION INVOLVING SUBSCRIPTION
OF NEW SHARES BY CONNECTED PERSONS**
AND
(3) NOTICE OF SGM
Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders

瑞東
REORIENT

A letter from the Board is set out on pages 4 to 15 of this circular. A letter from the Independent Board Committee containing its advice is set out on pages 16 to 17 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 38 of this circular.

A notice convening the SGM to be convened and held at Chief Executive Suite II & III, 5th Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 25 October 2016 at 10:00 a.m. (Hong Kong time) is set out on pages 44 to 46 of this circular.

If you are not able to attend the SGM in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the public office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting thereof (as the case may be). Completion and return of the accompanying form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof (as the case may be) should you so wish.

* For identification purpose only

30 September 2016

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context otherwise requires:

“Announcement”	the announcement made by the Company dated 5 September 2016 regarding, among other things, the Subscription and the Specific Mandate
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“business day(s)”	a day (excluding Saturdays, Sundays and public holidays) on which licensed banks in Hong Kong and in the PRC are generally open for business
“Company”	Digital China Holdings Limited (神州數碼控股有限公司*), an exempted company incorporated in Bermuda with limited liability in 2001, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 00861)
“Conditions Precedent”	the conditions precedent for the Subscription Completion
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Connected Subscribers”	Mr. Guo, Mr. Lin and the Other Connected Subscribers
“DCITS”	神州數碼信息服務股份有限公司 (Digital China Information Service Company Ltd.*), a sino-foreign equity joint venture registered in PRC which is an indirect non wholly-owned subsidiary of the Company, the shares of which are listed on the Shenzhen Stock Exchange
“Director(s)”	the director(s) of the Company
“Employee Subscribers”	1,077 employees (excluding Connected Subscribers) in the positions of management personnel of the Group who participated in the Subscription
“Great Dynamic Management (PTC) Limited”	a private trust company incorporated in the British Virgin Islands for the purpose of acting as trustee for the Employee Subscribers
“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 PRC

DEFINITIONS

“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors, namely Mr. WONG Man Chung, Francis, Ms. NI Hong (Hope), Dr. LIU Yun, John, Ms. YAN Xiaoyan and Mr. LAI Daniel, <i>BBS, JP</i>
“Independent Shareholders”	Shareholders (other than Mr. Guo, Mr. Lin, the Other Connected Subscribers and their respective associates and those Shareholders who are involved in, or interested in the Subscription (including the Subscribers who are Shareholders)) who are not required to abstain from voting on the resolutions to be proposed at the SGM to approve the Subscription under the Listing Rules
“Last Trading Date”	2 September 2016, being the last trading day of the Shares immediately before the date of the Subscription Agreement
“Latest Practicable Date”	27 September 2016, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining the information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Mr. Guo”	Mr. GUO Wei (郭為), an executive Director and the chairman of the Board
“Mr. Lin”	Mr. LIN Yang (林楊), an executive Director and the chief executive officer of the Company
“Other Connected Subscriber(s)”	42 employees in the position of director of any of the Company’s Subsidiaries who participated in the Subscription
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this circular
“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 Subscription by the Connected Subscribers pursuant to the Subscription Agreement
“SFO”	the Securities and Futures Ordinance (CAP. 571 of the laws of Hong Kong), as amended, supplemental or otherwise modified from time to time

DEFINITIONS

“SGM”	a special general meeting of the Company to be convened to consider and approve, among other things, the Subscription
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Specific Mandate”	a specific mandate to be sought from the Shareholders at the SGM for the allotment and issue of the Subscription Shares to the Subscribers upon Subscription Completion
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	has the meaning ascribed thereto in the section headed “Parties Involved” under “SUBSCRIPTION AGREEMENT” of this circular
“Subscription”	the subscription of the Subscription Shares by the Subscribers pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	share subscription agreement dated 5 September 2016 entered into among the Company and the Subscribers in relation to the Subscription
“Subscription Completion”	the completion of the Subscription
“Subscription Price”	HK\$5.53 per Subscription Share
“Subscription Shares”	99,391,000 new Shares to be subscribed by the Subscribers pursuant to the Subscription Agreement
“Subsidiary”	any entity within the meaning of the term “Subsidiary” as defined in the Listing Rules and the term “Subsidiaries” shall be construed accordingly

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神州控股
DC Holdings

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*)

Mr. LIN Yang (*Chief Executive Officer*)

Independent Non-Executive Directors:

Mr. WONG Man Chung, Francis

Ms. NI Hong (Hope)

Dr. LIU Yun, John

Ms. YAN Xiaoyan

Mr. LAI Daniel, *BBS, JP*

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

30 September 2016

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED ISSUE OF NEW SHARES
UNDER SPECIFIC MANDATE
(2) CONNECTED TRANSACTION INVOLVING SUBSCRIPTION
OF NEW SHARES BY CONNECTED PERSONS
AND
(3) NOTICE OF SGM**

1. INTRODUCTION

Reference is made to the Announcement in which the Board announced that on 5 September 2016, the Company entered into the Subscription Agreement with the Subscribers pursuant to which the Subscribers have conditionally agreed to subscribe for,

LETTER FROM THE BOARD

and the Company has conditionally agreed to issue 99,391,000 Subscription Shares at the Subscription Price of HK\$5.53 per Subscription Share for an aggregate amount of HK\$549,632,230.

The Independent Board Committee has been established to consider and advise the Independent Shareholders on the terms of the Subscription Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among other things, (i) details of the Subscription; (ii) a letter of advice from Reorient to the Independent Board Committee and the Independent Shareholders in relation to the Subscription by the Connected Subscribers; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Subscription by the Connected Subscribers as well as voting at the SGM; and (iv) the notice of SGM to the Shareholders together with the form of proxy to the Independent Shareholders to consider and if thought fit, to approve the Subscription and the grant of the Specific Mandate for the allotment and issue of the Subscription Shares.

2. SUBSCRIPTION AGREEMENT

Date

5 September 2016

Parties Involved

- (i) the Company, as the issuer;
- (ii) Mr. Guo, as one of the Subscribers;
- (iii) Mr. Lin, as one of the Subscribers;
- (iv) each of the Other Connected Subscribers, each as one of the Subscribers; and
- (v) Great Dynamic Management (PTC) Limited, as one of the Subscribers and as trustee of the Employee Subscribers, who, other than their employment relationship with the Group, are independent third parties not connected with the directors, chief executive or substantial shareholders of the Company or its Subsidiaries or any of their respective associates.

Each of Mr. Guo, Mr. Lin, the Other Connected Subscribers and Great Dynamic Management (PTC) Limited, is referred herein as “Subscriber” and collectively the “Subscribers”.

LETTER FROM THE BOARD

Subscription Price

The Subscription Price of HK\$5.53 per Subscription Share represents:

- (i) a discount of approximately 16.59% to the closing price of HK\$6.63 per Share as quoted on the Stock Exchange on the Last Trading Date; and
- (ii) a discount of approximately 14.87% to the average closing price of approximately HK\$6.496 per Share as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the Last Trading Date.

The aggregate subscription amount of HK\$549,632,230 will be remitted into a bank account designated by the Company upon Subscription Completion.

The Subscription Price was agreed after arm's length negotiations among the Company and the Subscribers. The Subscription Price and the discount involved were determined after taking into account, amongst others: (i) the historical closing prices of the Shares; (ii) the discount of the subscription price in transactions of other companies listed on the Main Board of the Stock Exchange which involved issue of shares for cash under specific mandate; (iii) the lock-up period imposed on the Subscription Shares; and (iv) the benchmark discount for any shares to be issued for cash under general mandate. The Board (excluding Mr. Guo and Mr. Lin who abstained from voting on the relevant Board resolutions) considers that the Subscription Price is fair and reasonable.

The gross proceeds arising from the Subscription will amount to HK\$549,632,230.

Number of Subscription Shares

The 99,391,000 Subscription Shares represent approximately 8.45% of the Company's existing issued share capital and approximately 7.79% of its issued share capital as enlarged by the Subscription. The aggregate nominal value of the Subscription Shares is HK\$9,939,100.

Out of the 99,391,000 Subscription Shares:

- (i) Mr. Guo conditionally agreed to subscribe for 54,249,000 Shares, representing approximately 4.61% of the Company's existing issued share capital and approximately 4.25% of its issued share capital as enlarged by the Subscription;
- (ii) Mr. Lin conditionally agreed to subscribe for 904,000 Shares, representing approximately 0.08% of the Company's existing issued share capital and approximately 0.07% of its issued share capital as enlarged by the Subscription;

LETTER FROM THE BOARD

- (iii) the Other Connected Subscribers conditionally agreed to subscribe for a total of 16,384,000 Shares, representing approximately 1.39% of the Company's existing issued share capital and approximately 1.29% of its issued share capital as enlarged by the Subscription, details of which are set out below; and

Name of the Other Connected Subscriber	Number of the Subscription Shares
SHUAI Yong(帥勇)	11,717,000
WANG Xinhui(王新輝)	904,000
ZHOU Yibing(周一兵)	542,000
ZHANG Jing(張晶)	379,000
LI Hongchun(李鴻春)	361,000
XIN Xin(辛昕)	180,000
HE Wenchao(何文潮)	180,000
ZHANG Dandan(張丹丹)	180,000
WANG Yufei(王宇飛)	180,000
LI Kanxia(李侃遐)	117,000
MA Jun(馬軍)	108,000
NIU Zhuo(牛卓)	99,000
LI Yang(李揚)	90,000
HU Deqiang(胡德強)	90,000
YOU Ya(游雅)	90,000
FEI Weijun(費維軍)	90,000
LI Jun(厲軍)	90,000
LIU Yao(劉遙)	90,000
MAN Wenbiao(滿文颯)	77,000
XING Jingfeng(邢景峰)	72,000
CHEN Taotao(陳滔滔)	72,000
WU Bin(吳斌)	72,000
MA Hongjie(馬洪杰)	63,000
SHAO Ding(邵丁)	54,000
YANG Jinghua(楊京華)	54,000
DOU Wang(都旺)	54,000
REN Jun(任軍)	54,000
LIU Min(劉旻)	45,000
ZHANG Hong(張弘)	41,000
ZHANG Yang(張揚)	36,000
WU Peirong(吳培榮)	27,000
YAO Wu(姚武)	27,000
HAN Zhenyu(韓振宇)	27,000
JIAO Xinhua(焦新華)	23,000
LIU Changquan(劉長泉)	18,000
CAO Jian(曹堅)	18,000
WANG Guanhua(王冠華)	18,000
HAO Jianhe(郝建和)	9,000

LETTER FROM THE BOARD

Name of the Other Connected Subscriber	Number of the Subscription Shares
LI Xiangdong(李相東)	9,000
HU Hong(胡紅)	9,000
MA Chunfang(馬春放)	9,000
LU Yanli(呂彥麗)	9,000

- (iv) Great Dynamic Management (PTC) Limited conditionally agreed to subscribe for 27,854,000 Shares, representing approximately 2.37% of the Company's existing issued share capital and approximately 2.18% of its issued share capital as enlarged by the Subscription.

The Connected Subscribers and Employee Subscribers

To qualify for the Subscription, the Company considered the historical and potential future contributions of the Connected Subscribers and Employee Subscribers, who shall be employees of the Group and at least satisfy any of the following criteria: (i) having worked with the Group for at least 10 years; (ii) holding manager or above position; or (iii) being considered by the relevant department head as being key to the business development of the Group, taking into account factors such as possessing professional qualification, the scarcity of such professionals in the market and sharing the Group's value and vision. The Company discussed with the qualified Connected Subscribers and Employee Subscribers on the number of Subscription Shares for which they wish to subscribe, and the Subscription and allocation of the Subscription Shares as set out above were then considered and approved by the Board (excluding Mr. Guo and Mr. Lin) having taken into account these criteria and the Subscribers' seniority within the Group.

Mr. Guo is a Connected Subscriber and his subscription for the Subscription Shares has also been approved by the remuneration committee of the Board. In approving Mr. Guo's subscription for the Subscription Shares as set out above, the following factors were taken into account:

- (i) the Subscription is part of the overall remuneration package of Mr. Guo to recognise the unique value and benefits that he has brought to the Group through his track record, network and expertise in the industry. Mr. Guo has been the key leading management executive of the business of the Group since the 1990's and has made significant contributions to the development and growth of the core business of the Group. Since 2001, Mr. Guo has held the positions of Vice Chairman, President and Chief Executive Officer, and he has been the Chairman of the Board since 2007. Throughout such period, Mr. Guo has been instrumental in the management, strategy development and expansion of the Group with his extensive experience, including in the initial public offering of the Company and the spin-off of DCITS in which the Company holds a controlling stake;

LETTER FROM THE BOARD

- (ii) the Group is transforming into the Internet, Big Data and Cloud Computing services business based on its core Sm@rt City operations, and such transformation is dependent on the Group being able to maintain a stable core team of executives with sufficient industry proficiency. Mr. Guo has in-depth knowledge and experience in such new initiatives to guide the Group's strategy and management, and the Subscription will serve as incentives for his long-term support and commitment to the growth and development of the Group that are critical to the Group's success and achieving the objective of increasing its value in the business transformation;
- (iii) Mr. Guo's agreement to subscribe for a significant portion of the Subscription Shares represents his solid commitment, both financially and by contribution efforts, to the success of the Group. Mr. Guo's subscription for the Subscription Shares will align his interest directly with those of the Group by motivating him to promote the success of the business expansion of the Group in order to achieve a correlating return for his Subscription;
- (iv) the Subscription is in-line with the prevailing human resource market practice of using share-based remuneration measures for executives, as in the case of Mr. Guo, to recognise his historical and future contributions to enhance the value of the Group to the benefits of the Shareholders;
- (v) the Subscription, while serving as a remuneration measure of the Company, will not involve any actual cash outflow by the Group, which will instead receive cash proceeds from such Subscription that can be utilised for the business development and expansion of the Group; and
- (vi) unlike receiving options under the share option scheme of the Company under which the grantee is entitled to decide whether and when to exercise such options for a guaranteed gain, the Subscription involves immediate financial commitment in the Company by Mr. Guo, who will be subject to the risk of fluctuations in the market price of the Shares during the lock-up period associated with the Subscription Shares. The return or loss of Mr. Guo's Subscription will be tied with his commitment and ability to support the Group's business expansions in the new business areas.

Ranking of Subscription Shares

The Subscription Shares, when issued and fully paid, will rank *pari passu* among themselves and with Shares in issue at the time of allotment and issue of the Subscription Shares.

LETTER FROM THE BOARD

Conditions of the Subscription Agreement

The completion of the Subscription Agreement is conditional upon, among other things:

- (i) the Independent Shareholders in the SGM to be held approving the allotment and issue of the Subscription Shares to the Subscribers pursuant to the terms and conditions of the Subscription Agreement; and
- (ii) the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the Subscription Shares.

In the event that the conditions to the Subscription Agreement are not fulfilled by 5 March 2017 or such date as may be agreed among the Company and the Subscribers, all rights, obligations and liabilities of the relevant parties in respect of or under the Subscription Agreement shall cease and terminate, and no party shall have any claim of any nature whatsoever against the other parties under the Subscription Agreement (except in respect of any accrued rights or obligations under the Subscription Agreement). For the avoidance of doubt, failure to fulfill the conditions by any Subscriber shall not affect Subscription Completion by other Subscribers.

Lock-up Undertaking

Each of the Subscribers undertakes to the Company that, without prior written consent of the Company, it/he/she shall not:

- (i) sell or otherwise directly or indirectly dispose of such number of the Subscription Shares to be allotted and issued to it/him/her for a period of six months commencing from the date on which the Subscription Completion takes place; and
- (ii) upon the expiry of abovementioned six-month period, sell or otherwise directly or indirectly dispose of 50% or more of such number of the Subscription Shares to be allotted and issued to it/him/her in the following six months.

Subscription Completion

Subscription Completion shall take place at the office of the Company at Suite 2008, 20/F., Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong or other place as the parties to the Subscription Agreement may agree, on the fifth business day after the Conditions Precedent are satisfied, or such other date as may be agreed between the parties to the Subscription Agreement.

LETTER FROM THE BOARD

Specific Mandate to issue the Subscription Shares

The Subscription Shares will be allotted and issued under the Specific Mandate to be put forward for approval by the Independent Shareholders at the SGM. The Specific Mandate, if approved at the SGM, will be valid until the Subscription Completion or termination of the Subscription Agreement.

3. APPLICATION FOR LISTING

Application will be made by the Company to the listing committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

4. SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the Company had 1,176,536,581 Shares in issue. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the shareholding structure of the Company: (i) as at the Latest Practicable Date; and (ii) immediately after the Subscription Completion (assuming that there will be no further changes in the number of total issued Shares prior to the Subscription Completion), are as follows:

Name of Shareholder	As at the Latest Practicable Date		Immediately after the Subscription Completion	
	Number of issued Shares	Approx. %	Number of issued Shares	Approx. %
GRG Banking Equipment Co., Ltd.* (廣州廣電運通金融電子股份有限公司)	286,361,000	24.34	286,361,000	22.45
Kosalaki Investments Limited	69,414,286	5.90	69,414,286	5.44
Mr. Guo	2,958,044	0.25	57,207,044	4.48
Mr. Lin	1,316,734	0.11	2,220,734	0.17
Other Connected Subscribers	883,352	0.08	17,267,352	1.35
Great Dynamic Management (PTC) Limited	—	—	27,854,000	2.18
Other Public Shareholders	<u>815,603,165</u>	<u>69.32</u>	<u>815,603,165</u>	<u>63.93</u>
Total	<u>1,176,536,581</u>	<u>100.00</u>	<u>1,275,927,581</u>	<u>100.00</u>

5. FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any fund raising activities in the past twelve months before the date of the Announcement.

6. REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Subscription will enable the Group to achieve both (i) rewarding its key employees in recognition of their past contributions to the Group and retaining such employees for the long-term growth and development of the Group; and (ii) raising funds for the Group.

LETTER FROM THE BOARD

The Company has considered various other fund raising methods and ways to incentivize its employees. However, the Company would not be able to incentivize the employees by raising funds from independent third parties or by pre-emptive issues of Shares available to all Shareholders. Given the current market conditions, the financial position of the Group and the significant cash proceeds that the Company will receive from the Subscription that would not be available from granting options to its employees under its share option scheme, the Board (excluding Mr. Guo and Mr. Lin) considers that the Subscription is the most appropriate and effective exercise for the Company to achieve both purposes of incentivizing its employees and raising funds.

Human resource is considered to be critical to the future development of the Group. The Connected Subscribers and Employee Subscribers have made important contributions to the development and growth of the Group in respect of its operations, technology, and strategy formulation and implementation. The purpose of the Subscription is to provide incentives to the Connected Subscribers and Employee Subscribers and align their interests with the growth of the Group. The Subscription is also a talent retention measure for the Connected Subscribers and Employee Subscribers, whose historical and future contributions are beneficial to the long-term growth of the Group, particularly for the Group's transformation into its new business based on Sm@rt City platforms.

Given the Subscribers will subscribe for the Subscription Shares for cash, the Subscription will strengthen the capital base and financial position of the Group for its future business expansions and investments.

The net proceeds to be received from the Subscription is estimated to be approximately HK\$545 million. As of 30 June 2016, the Group's cash and cash equivalents amount to approximately HK\$2,521 million, and as at 31 August 2016, such amount was reduced to approximately HK\$1,145 million due to repayment of the Group's bank borrowings in such period. The Company is therefore in need of cash due to its expected requirement for working capital to fund its new business operations and potential expansions that are in early stage of development.

The Company intends to apply the net proceeds as the working capital of the Group for its further business development according to its current business plan for the period from the Subscription Completion (which is anticipated to take place in November 2016) to March 2017 as follows:

- (i) approximately HK\$325 million to expand the new business of the Group based on the Sm@rt City operations that provide all-encompassing Internet city services through the Internet and smart phone applications for city administrators, enterprises and citizens based on "one centre and three platforms", namely urban information management centre, integrated citizen service platforms, integrated enterprise service platforms and integrated city administration platforms; and
- (ii) approximately HK\$140 million to provide financial services of financing, factoring, financial leasing, provision of guarantees, investments, credit lending, financial risk management and financial information consultation services in PRC.

LETTER FROM THE BOARD

The Company intends to use the remaining balance of the proceeds of approximately HK\$80 million to participate in future investments and acquisitions when opportunities arise, including the subscription for shares under a proposed placing of shares by DCITS as set out in the announcements of the Company dated 12 November 2015, 15 April 2016 and 10 May 2016. Other than this proposed placing, the Company has not committed in any further investments or other expansion projects. Therefore, the exact timetable (which will depend on many variables of different projects and the progress of the relevant counterparties that would not be within the control of the Group) and the exact allocation of the Subscription proceeds for such investments or other expansion projects cannot presently be ascertained. As conservative cash management measures, the Subscription proceeds will serve as readily available funds for the Group to implement its current business plans, prepare for any potential expansions and quickly react to any related investment opportunities once they substantiate, while maintaining our existing cash flow for operational needs and funding requirements. The Company will publish announcements in compliance with the Listing Rules in respect of such further expansions or investments as and when necessary.

The Directors (excluding Mr. Guo and Mr. Lin) consider that the Subscription Price and the other terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders (including minority Shareholders) as a whole.

7. IMPLICATIONS UNDER THE LISTING RULES

Each of Mr. Guo and Mr. Lin is a Director and is therefore a connected person of the Company. Each of the Other Connected Subscribers is a director of a Subsidiary/certain Subsidiaries of the Company and is therefore also a connected person of the Company. Accordingly, the Subscription by the Connected Subscribers who are connected persons of the Company constitutes a connected transaction for the Company under the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will seek the Independent Shareholders' approval for the Subscription at the SGM. Each of Mr. Guo, Mr. Lin, the Other Connected Subscribers and their respective associates, and those Shareholders who are involved in, or interested in, the Subscription (including the Subscribers who are Shareholders) shall abstain from voting in respect of the Subscription at the SGM.

Mr. Guo and Mr. Lin, being parties to the Subscription Agreement, are considered to have a material interest in the Subscription Agreement and the transaction contemplated thereunder, and they have accordingly abstained from voting on the relevant board resolutions approving the entering into of the Subscription Agreement by the Company in the board meeting.

Save as disclosed above, to the best of the Director's knowledge, information and belief having made all reasonable enquiry, the Subscribers and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

LETTER FROM THE BOARD

8. SGM

A notice convening the SGM to be held at Chief Executive Suite II & III, 5th Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 25 October 2016 at 10:00 a.m. is set out in this circular for the purpose of considering and, if thought fit, passing the ordinary resolution in relation to the Subscription, including the grant of the Specific Mandate for the allotment and issue of the Subscription Shares.

The ordinary resolution to be proposed at the SGM to approve the Subscription, including the grant of the Specific Mandate for the allotment and issue of the Subscription Shares, the full text of which is set out in the notice of SGM enclosed to this circular, will be determined by way of poll by the Shareholders.

In view of the Subscribers' material interests in the Subscription as at the Latest Practicable Date, the Subscribers and their respective associates (to the extent they have an existing interest in the Shares) will abstain from voting on the resolutions at the SGM. To the best of the Directors' knowledge, information and belief, except for the Subscribers, no other Shareholder is required to abstain from voting on the relevant resolutions at the SGM.

A form of proxy for use at the SGM is also enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and deposit the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting thereof (as the case may be). Completion and return of the accompanying form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof (as the case may be) should you so wish.

9. RECOMMENDATION

An Independent Board Committee has been established to advise the Independent Shareholders, and Reorient has been appointed as the independent financial advisor to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Subscription Agreement entered into with the Connected Subscribers and the transactions contemplated thereunder.

The Directors (excluding those who have direct or indirect interest) are of the opinion that the Subscription is conducted on normal commercial terms, is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (excluding those who have direct or indirect interest) recommend the Shareholders to vote in favour of the ordinary resolution set out in the notice of SGM enclosed to this circular.

LETTER FROM THE BOARD

10. GENERAL

Your attention is also drawn to the letter from the Independent Board Committee, the letter from Reorient and the additional information set out in the appendix to this circular and the notice of SGM.

Yours faithfully,
By Order of the Board
Digital China Holdings Limited
(神州數碼控股有限公司*)
GUO WEI
Chairman

* *For identification purposes only*



神州控股
DC Holdings

DIGITAL CHINA HOLDINGS LIMITED

(神州數碼控股有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 00861)

30 September 2016

To the Independent Shareholders

Dear Sir or Madam,

**(1) PROPOSED ISSUE OF NEW SHARES
UNDER SPECIFIC MANDATE
(2) CONNECTED TRANSACTION INVOLVING SUBSCRIPTION
OF NEW SHARES BY CONNECTED PERSONS
AND
(3) NOTICE OF SGM**

We refer to the circular dated 30 September 2016 issued by the Company to its Shareholders (the “**Circular**”), of which this letter forms part.

Terms defined in the Circular have the same meanings when used in this letter, unless the context otherwise requires.

We, being the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the Subscription by the Connected Subscribers and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable so far as the Independent Shareholders are concerned. Details of the Subscription are set out in the letter from the Board contained in the Circular. None of the members of the Independent Board Committee has any direct or indirect interest in the Subscription.

Reorient has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription by the Connected Subscribers. We wish to draw your attention to the letter from Reorient to the Independent Board Committee and the Independent Shareholders which contain its advice in respect of the Subscription by the Connected Subscribers and as set out in the Circular. Your attention is also drawn to the general information set out in the appendix to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the principal factors and reasons considered by Reorient and its conclusion and advice, we are of the opinion that the Subscription by the Connected Subscribers and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution thereunder to be proposed in the SGM approving the Subscription and the transactions contemplated.

Yours faithfully
For and on behalf of
Independent Board Committee

Mr. WONG Man Chung, Francis <i>Independent Non-executive Director</i>	Ms. NI Hong (Hope) <i>Independent Non-executive Director</i>	Dr. LIU Yun, John <i>Independent Non-executive Director</i>
Ms. YAN Xiaoyan <i>Independent Non-executive Director</i>		Mr. LAI Daniel, BBS, JP <i>Independent Non-executive Director</i>

* *For identification purposes only*

LETTER FROM REORIENT

The following is the text of a letter of advice from REORIENT Financial Markets Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, for the purpose of incorporation into this circular.



Suites 3201–3204
One Exchange Square
8 Connaught Place, Central, Hong Kong

30 September 2016

*The Independent Board Committee and
the Independent Shareholders*

Digital China Holdings Limited

Dear Sirs,

CONNECTED TRANSACTION INVOLVING SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Subscription by the Connected Subscribers, details of which are set out in the circular of the Company dated 30 September 2016 (the “**Circular**”) of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular, unless the context requires otherwise.

On 5 September 2016, the Company entered into the Subscription Agreement with the Subscribers, pursuant to which the Subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue 99,391,000 Subscription Shares at the Subscription Price of HK\$5.53 per Subscription Share for an aggregate amount of HK\$549,632,230.

Given that some of the Subscribers are connected persons of the Company, the Subscription by the Connected Subscribers constitutes a connected transaction for the Company under the Listing Rules and is subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. The Company will seek the Independent Shareholders’ approval for the Subscription at the SGM. Mr. Guo, Mr. Lin, the Other Connected Subscribers and their respective associates, and those Shareholders who are involved in, or interested in, the Subscription (including the Subscribers who are Shareholders) shall abstain from voting in respect of the Subscription at the SGM.

LETTER FROM REORIENT

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. WONG Man Chung, Francis, Ms. NI Hong (Hope), Dr. LIU Yun, John, Ms. YAN Xiaoyan and Mr. LAI Daniel, *BBS, JP*, has been established to give advice and recommendation to the Independent Shareholders in respect of the Subscription by the Connected Subscribers.

We 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 Subscription by the Connected Subscribers are fair and reasonable and whether the Subscription by the Connected Subscribers is on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

In formulating our opinion, we have relied upon the information, facts and representations contained in the announcement of the Company dated 5 September 2016, the Circular and those supplied or made available by the management of the Company to us. We have assumed that all such information, facts and representations were true and accurate in all respects at the time they were supplied or made and continued to be true and accurate at the Latest Practicable Date and can be relied upon. We have no reason to doubt the truth, accuracy and completeness of such information and representations and have confirmed with the management of the Company that no material facts have been withheld or omitted from such information and representations.

We have taken all reasonable and necessary steps to comply with the requirements set out in Rule 13.80 of the Listing Rules. We consider that we have been provided with sufficient information to enable us to reach an informed view. We have not, however, conducted any independent verification of such information or any independent in-depth investigation into the business, affairs, financial position or prospects of the Group nor have we carried out any in-depth research on the Group, the Connected Subscribers and their respective associates.

During the past two years, in respect of a transaction that constituted a very substantial disposal and a connected transaction for the Company under the Listing Rules, we acted as the independent financial adviser of the Company providing our independent view to the Company's independent board committee and the independent shareholders. Apart from normal professional fees for our services to the Company in connection with the aforesaid engagement and this engagement regarding the Subscription by the Connected Subscribers, no other arrangement existed or exists whereby we received or will receive any fees and/or benefits from the Group. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Company or its substantial shareholders, directors or chief executive, or any of their respective associates that would affect our independence as the independent financial adviser of the Company. We consider we are independent under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Subscription by the Connected Subscribers.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion on the Subscription by the Connected Subscribers, we have taken into consideration the following principal factors:

Information on the Group

Principal business

Following completion of the disposal of its 100% equity interest in traditional consumer and corporate distribution business (the “**Discontinued Operation**”) in March 2016 (the “**Disposal**”), as provided in the Company’s interim report for the six months ended 30 June 2016 (the “**2016 Interim Report**”), the Group is principally engaged in the following three business segments (the “**Continuing Operations**”):

- (i) the “DCITS” segment: Information technology (“IT”) service provider in China’s IT industry specialized in proprietary software, services, Cloud Computing and Big Data analysis persisting with the strategy of integrating Sm@rt City and Sm@rt Agriculture. The DCITS segment is carried out by DCITS, a 42.44%-owned subsidiary of the Company and whose share are listed on the Shenzhen Stock Exchange;
- (ii) the “Supply Chain Management Strategy Unit” segment: Operating through Instant Logistics to provide comprehensive intermediary and backstage logistics services for corporate customers, e-commerce platforms, branded service providers and individuals, while exploring Internet-based self-branded maintenance services; and
- (iii) the “New Business” segment: Including the “Sm@rt City Service Group” which is the provision of Sm@rt City services for city administrators, enterprises and citizens based on “one centre and three platforms” (the urban information management centre, the integrated citizen service platform, the integrated enterprise service platform and the integrated city administration platform); and the “Financial Service Strategy Unit” which is the provision of financial services, such as financing, factoring, leasing, guarantee, etc, internally as well as to third party customers.

LETTER FROM REORIENT

Financial performance of the Group

Below is a summary of the Group's consolidated financial results for the years ended 31 December 2014 and 2015 and for the six months ended 30 June 2016 as extracted from the annual report of the Company for the year ended 31 December 2015 (the "**2015 Annual Report**") and the 2016 Interim Report.

	For the year ended 31 December		For the six months ended 30 June	
	2014 <i>HK\$'000</i> (Audited) (Restated)	2015 <i>HK\$'000</i> (Audited)	2015 <i>HK\$'000</i> (Unaudited) (Restated)	2016 <i>HK\$'000</i> (Unaudited)
CONTINUING OPERATIONS				
Revenue	12,156,231	10,630,672	4,698,838	5,428,947
Gross profit	1,851,789	2,215,970	865,875	975,988
Gross profit margin	15.2%	20.8%	18.4%	18.0%
Profit/(loss) for the year/period from continuing operations	510,081	463,508	184,563	(79,740)
DISCONTINUED OPERATION				
Profit for the year/period from a discontinued operation	<u>392,169</u>	<u>462,207</u>	<u>223,208</u>	<u>559,623</u>
Profit for the year/period	<u>902,250</u>	<u>925,715</u>	<u>407,771</u>	<u>479,883</u>

The revenue for the Continuing Operations decreased to approximately HK\$10,631 million for the year ended 31 December 2015 (the "**FY2015**") from approximately HK\$12,156 million for the year ended 31 December 2014 (the "**FY2014**"). The Company attributed the decrease in revenue to change in certain revenue recognition basis such that revenue generated from operations based on the service-fee model in the Supply Chain Management Strategy Unit segment is recognized on a net amount basis. The gross profit for the Continuing Operations increased to approximately HK\$2,216 million for FY2015 (FY2014: HK\$1,852 million) with the gross profit margin increased to approximately 20.8% for FY2015 (FY2014: 15.2%) while the profit for the Continuing Operations declined to approximately HK\$464 million (FY2014: HK\$510 million). The Company attributed the improvement in gross profits to increase in business in particular those commanding higher profit margins as a result of the growth of informatisation in the PRC and the Internet+ strategy as promoted by the PRC government while the decline in profit was primarily due to the exchange loss (due to US\$/Renminbi exchange rate fluctuation) and increase in tax expenses mainly due to the increase in pre-tax profits of the Group's member companies and revaluation gains for the Group's properties held for investments. Coupled with the increase in profit from the Discontinued Operation to approximately HK\$462 million for FY2015 (FY2014: HK\$392 million), the overall profit of the Group improved to approximately HK\$926 million (FY2014: HK\$902 million).

LETTER FROM REORIENT

The revenue derived from the Continuing Operations for the six months ended 30 June 2016 (the “**2016H1**”) increased to approximately HK\$5,429 million from approximately HK\$4,699 million for the six months ended 30 June 2015 (the “**2015H1**”). The Company attributed the increase to the growth in revenue from the DCITS segment and the new business including the Sm@rt City services due to the continuous growth of informatisation in the PRC and the Internet+ strategy as promoted by the PRC government. However, the Group reported a loss from Continuing Operations of approximately HK\$80 million for 2016H1, compared with a profit from Continuing Operations of approximately HK\$185 million for 2015H1. The Company attributed the loss from Continuing Operations for 2016H1 to increase in research and development expenses and staff expenses due to new business expansion, increase in financing costs due to higher loan interest rates and increased outstanding loans, decrease in investment gains generated from investee companies, the dilution of shareholdings in HC International, Inc. (“**HC International**”) as a result of conversion of convertible debts into shares of HC International by its directors at a conversion price lower than the Group’s investment costs in HC International and the increase in exchange loss due to the devaluation of Renminbi. Coupled with the increase in profit from the Discontinued Operation for 2016H1 to approximately HK\$560 million (2015H1: HK\$223 million) primarily due to a one-off gain arising from the Disposal, the Group reported an overall profit of approximately HK\$480 million for 2016H1 (2015H1: HK\$408 million).

Set out below is a summary of unaudited assets and liabilities of the Group as at 30 June 2016 as extracted from the 2016 Interim Report:

	As at 30 June 2016 <i>HK\$’000</i> (Unaudited)
Total current assets	12,330,139
Total non-current assets	<u>9,857,521</u>
Total assets	<u>22,187,660</u>
Total current liabilities	9,318,513
Total non-current liabilities	<u>3,888,573</u>
Total liabilities	<u>13,207,086</u>
Net assets	<u><u>8,980,574</u></u>

As at 30 June 2016, the Group reported total assets of approximately HK\$22,188 million and total liabilities of approximately HK\$13,207 million, resulting in net assets of the Group of approximately HK\$8,981 million. The Group’s cash and cash equivalents amounted to approximately HK\$2,472 million as at 30 June 2016. Based on the Group’s net debts (being total bank borrowing net of cash) of approximately HK\$5,447 million and total equity of approximately HK\$8,981 million as at 30 June 2016, the Group’s gearing ratio (being net debts divided by total equity) amounts to approximately 60.7%.

LETTER FROM REORIENT

As reported in the 2016 Interim Report, following completion of the disposal of its traditional distribution business in March 2016, the Group's business is in the process of transforming into a Big Data and Cloud Computing service business based on Sm@rt City platforms. As at 30 June 2016, seven cities including Longyan, Tangshan and Huizhou had been signed up for integrated citizen or enterprise services and 21 integrated citizen and enterprise service platforms had commenced operation. During the six months ended 30 June 2016, the Company entered into a strategic cooperation agreement on Sm@rt City operation with the Jiangsu Government and China Telecom. Such cooperation is expected to expedite the Group's Sm@rt City expansion in the Jiangsu market. The Group will explore various business models and endeavor to enhance its ability to commercialize the platform data from its Sm@rt City operation.

As the Group is undergoing transformation and its new business is being developed, the Company believes that it is of primary importance that the Group could retain and motivate its staff who are critical to the Group in achieving its goals. The Company considers that the entering into of the Subscription with those crucial staff (including the Connected Subscribers) would deepen their commitment to the Group's transformation and development of new business.

Major terms of the Subscription Agreement

- Date: 5 September 2016
- Parties Involved:
- (i) the Company, as the issuer;
 - (ii) Mr. Guo, as one of the Subscribers;
 - (iii) Mr. Lin, as one of the Subscribers;
 - (iv) each of the Other Connected Subscribers, each as one of the Subscribers; and
 - (v) Great Dynamic Management (PTC) Limited, as one of the Subscribers and as trustee of the Employee Subscribers (comprising 1,077 employees of the Group), who, other than their employment relationship with the Group, are independent third parties not connected with the directors, chief executive, substantial shareholders of the Company or its Subsidiaries or any of their respective associates.

The Subscribers

To be qualified to participate in the Subscription, the Company considered the historical and potential future contributions of the Subscribers, who shall be employees of the Group and at least satisfy any of the following criteria: (i) having worked with the Group for at least 10 years; or (ii) manager or above position; or (iii) being considered by the relevant department head as being key to the business development of the Group, taking into account factors such as possessing professional qualifications, the scarcity of such

LETTER FROM REORIENT

professionals in the market and other factors including sharing the Group's value and vision. The Company discussed with the qualified employees who indicated the numbers of Subscription Shares for which they wish to subscribe. Based on their positions and departments in terms of importance to the Group, their contribution and performance and their development potential to contribute to the Group's success having regard to factors such as their ability to innovate, the Company may set caps on the number of Subscription Shares to be subscribed for by the qualified employees. We reviewed and found that the numbers of Subscription Shares to be subscribed for by the Subscribers are within such caps that may be in place.

The table below provides information on the Connected Subscribers and other Subscriber, and the numbers of the Subscription Shares as agreed between the Company and the Subscribers:

Subscribers	Position in the Group	Number of Subscription Shares	Subscription amount HK\$	Percentage of the total issued Shares as at the Latest Practicable Date
CONNECTED SUBSCRIBERS				
1. Mr. Guo	Chairman and Executive Director Mr. Guo is responsible for the strategic development, investment projects and management of the Group. He is the Chairman of the Board of the Company. He is also a director of certain subsidiaries of the Company. Mr. Guo formulates and oversees the Group's transformation strategies and development of new business. The Company considers that he is crucial in leading the Group in its transformation process. In showing his commitment to the Group's future development, he has agreed to subscribe for 54,249,000 Subscription Shares, representing approximately 4.61% of the issued Shares as at the Latest Practicable Date.	54,249,000	299,996,970	4.61%
2. Mr. Lin	CEO and Executive Director Mr. Lin is responsible for the development of the Group's transformation process and the overall business management of the Group. He is also a director of certain subsidiaries of the Company. In particular, Mr. Lin oversees and manages the Group's execution of the development of new business of Sm@rt City services business.	904,000	4,999,120	0.08%
<i>Other Connected Subscribers (who are directors of subsidiary/subsidiaries of the Company)</i>				
3. Shuai Yong	Senior Vice President of the Company	11,717,000	64,795,010	0.996%
4. Wang Xinhui	President of the Company	904,000	4,999,120	0.077%
5. Zhou Yibing	Director and President of DCITS and Director of its subsidiary	542,000	2,997,260	0.046%
6. Zhang Jing	Vice President of the Company	379,000	2,095,870	0.032%
7. Li Hongchun	Vice President of DCITS and Director of its subsidiary	361,000	1,996,330	0.031%
8. Xin Xin	Chief Financial Officer of the Company	180,000	995,400	0.015%
9. He Wenchao	Vice President of DCITS and Director of its subsidiary	180,000	995,400	0.015%
10. Zhang Dandan	Vice President of DCITS and Director of its subsidiary	180,000	995,400	0.015%

LETTER FROM REORIENT

Subscribers	Position in the Group	Number of Subscription Shares	Subscription amount HK\$	Percentage of the total issued Shares as at the Latest Practicable Date
11. Wang Yufei	Director of a subsidiary of DCITS	180,000	995,400	0.015%
12. Li Kanxia	Vice President of DCITS and Director of its subsidiary	117,000	647,010	0.010%
13. Ma Jun	Director and General Manager of a strategic business unit of a subsidiary of DCITS	108,000	597,240	0.009%
14. Niu Zhuo	General Manager of the finance department of the Company	99,000	547,470	0.008%
15. Li Yang	Assistant President of the Company	90,000	497,700	0.008%
16. Hu Deqiang	Vice President of the Financial Service Strategy Unit	90,000	497,700	0.008%
17. You Ya	Assistant President of the Company	90,000	497,700	0.008%
18. Fei Weijun	Vice President of the Company	90,000	497,700	0.008%
19. Li Jun	Vice President of DCITS and Director of its subsidiary	90,000	497,700	0.008%
20. Liu Yao	Vice President of DCITS and Director of its subsidiary	90,000	497,700	0.008%
21. Man Wenbiao	Director and Financial Controller of a subsidiary of DCITS	77,000	425,810	0.007%
22. Xing Jingfeng	Assistant President of Company	72,000	398,160	0.006%
23. Chen Taotao	Vice President of the Supply Chain Management Strategy Unit	72,000	398,160	0.006%
24. Wu Bin	Director and Vice President of a subsidiary of DCITS	72,000	398,160	0.006%
25. Ma Hongjie	Director and General Manager of a subsidiary of DCITS	63,000	348,390	0.005%
26. Shao Ding	Vice President of the Supply Chain Management Strategy Unit	54,000	298,620	0.005%
27. Yang Jinghua	General Manager of the Supply Chain Management Strategy Unit (business maintenance service unit)	54,000	298,620	0.005%
28. Dou Wang	Deputy General Manager of the Supply Chain Management Strategy Unit (business maintenance service unit)	54,000	298,620	0.005%
29. Ren Jun	Financial Controller of DCITS and Director of its subsidiary	54,000	298,620	0.005%
30. Liu Min	General Manager of the Supply Chain Management Strategy Unit (finance department)	45,000	248,850	0.004%
31. Zhang Hong	Director of a subsidiary of Sm@rt City services business	41,000	226,730	0.003%
32. Zhang Yang	General Manager of the Supply Chain Management Strategy Unit (e-commerce business unit)	36,000	199,080	0.003%
33. Wu Peirong	General Manager of the Sm@rt City Services business (business development unit of the central China area)	27,000	149,310	0.002%
34. Yao Wu	General Manager of the Sm@rt City Services business (smart card business)	27,000	149,310	0.002%
35. Han Zhenyu	General Manager of the Supply Chain Management Strategy Unit	27,000	149,310	0.002%
36. Jiao Xinhua	General Manager of the Sm@rt City Services business (Business Management Department of the southern China area)	23,000	127,190	0.002%
37. Liu Changquan	Deputy General Manager of the Sm@rt City Services business (smart card business)	18,000	99,540	0.002%
38. Cao Jian	Deputy General Manager of the Supply Chain Management Strategy Unit (logistic business of the southern China area)	18,000	99,540	0.002%
39. Wang Guanhua	Director and General Manager of a subsidiary of DCITS	18,000	99,540	0.002%

LETTER FROM REORIENT

Subscribers	Position in the Group	Number of Subscription Shares	Subscription amount HK\$	Percentage of the total issued Shares as at the Latest Practicable Date
40. Hao Jianhe	General manager of the Sm@rt City Services business (Cangzhou company)	9,000	49,770	0.001%
41. Li Xiangdong	Product Director of the Sm@rt City Services business (Cangzhou company)	9,000	49,770	0.001%
42. Hu Hong	General Manager of the Supply Chain Management Strategy Unit (logistic business of the southern China area)	9,000	49,770	0.001%
43. Ma Chunfang	General Manager of the Supply Chain Management Strategy Unit (logistic business of the northern China area)	9,000	49,770	0.001%
44. Lu Yanli	General Manager of the Supply Chain Management Strategy Unit (instant storage and business to consumer business unit)	9,000	49,770	0.001%
Sub-total		71,537,000	395,599,610	6.08%
OTHER SUBSCRIBER				
45. Great Dynamic Management (PTC) Limited	A private trust company for the purpose of acting as trustee for 1,077 employees (other than the Connected Subscribers) in the positions of management personnel of the Group who participated in the Subscription	27,854,000	154,032,620	2.37%
Grand total		99,391,000	549,632,230	8.45%

Subscription Price

The Subscription Price of HK\$5.53 per Subscription Share represents a discount of:

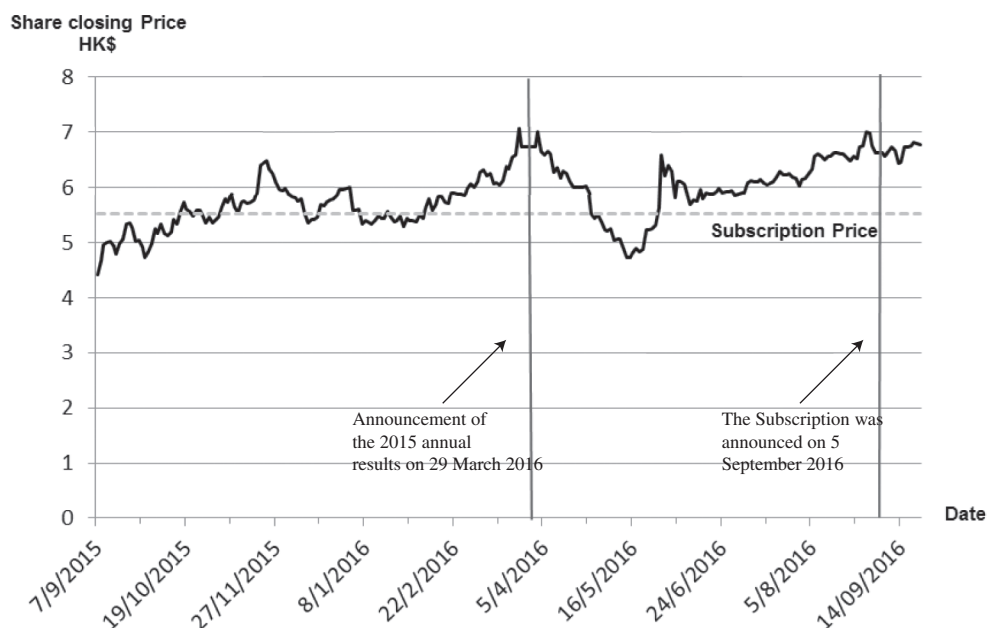
- (i) approximately 16.59% to the closing price of HK\$6.63 per Share as quoted on the Stock Exchange on the Last Trading Day (the “**Last Trading Day Discount**”);
- (ii) approximately 18.99% to the average closing price of approximately HK\$6.826 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day (the “**5-Day Discount**”);
- (iii) approximately 17.44% to the average closing price of approximately HK\$6.698 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day (the “**10-Day Discount**”);
- (iv) approximately 14.87% to the average closing price of approximately HK\$6.496 per Share as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the Last Trading Day (the “**30-Day Discount**”); and
- (v) approximately 19.15% to the closing price of HK\$6.84 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

LETTER FROM REORIENT

The Company advised that the Subscription Price was determined by reference to the (i) historical closing prices of the Shares; (ii) the discount of the subscription price in transactions of other companies listed on the Main Board of the Stock Exchange which involved issue of shares for cash under specific mandate; (iii) the lock-up period imposed on the Subscription Shares; and (iv) the benchmark discount for any shares to be issued for cash under general mandate. The Company fixed the Subscription Price at HK\$5.53 representing a discount of not more than 15% (i.e. approximately 14.87%) to the average closing price of approximately HK\$6.496 per Share as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the Last Trading Day.

Historical Share price performance

Below are the historical closing prices of the Shares as quoted on the Stock Exchange's website during the 12-month period prior to 5 September 2016 up to and including the Latest Practicable Date (the "**Review Period**"). We consider that the Review Period provides a sufficient timeframe, covering the most recent Share price performance up to and including the Latest Practicable Date, to indicate the general trend of the Share price.



Source: the Stock Exchange's website (www.hkex.com.hk)

During the Review Period, the closing prices of the Shares had been fluctuating within the range of HK\$7.065 (being highest closing price on 21 March 2016) to HK\$4.417 (being the lowest closing price on 7 September 2015), while a special cash dividend of HK\$3.2 per Share was paid to the Shareholders on 19 April 2016. The Subscription Price falls within such range. Since 10 June 2016 up to the Latest Practicable Date, the closing price of the Shares had been showing a general upward trend. During the Review Period, the average closing price of the Shares was HK\$5.875; the Subscription Price represents a discount of approximately 5.88% to such average closing price.

LETTER FROM REORIENT

Historical trading volume and liquidity of Shares

Below are the average daily turnover of the Shares in each month and the respective percentages of the Shares' average daily turnover as compared to the total number of issued Shares of the Company as at the date of the Subscription Agreement and the total number of issued Shares held by the public Shareholders as at the date of the Subscription Agreement during the Review Period:

	Number of trading days	Average daily turnover Shares	Percentage of the average daily turnover to total number of issued Shares held by the public Shareholders as at the date of the Subscription Agreement (Note 1)	Percentage of the average daily turnover to total number of issued Shares as at the date of the Subscription Agreement (Note 2)
2015				
September (from 8 September)	16	5,423,792	0.67%	0.46%
October	20	7,370,651	0.90%	0.63%
November	21	7,723,101	0.95%	0.66%
December	22	3,790,893	0.46%	0.32%
2016				
January	20	6,985,126	0.86%	0.59%
February	18	9,205,155	1.13%	0.78%
March	17	13,610,514	1.67%	1.16%
April	20	9,772,755	1.20%	0.83%
May	21	9,398,594	1.15%	0.80%
June	21	9,168,842	1.12%	0.78%
July	20	9,935,451	1.22%	0.84%
August	22	5,824,996	0.71%	0.50%
September (up to the Latest Practicable Date)	18	7,692,954	0.94%	0.65%
Average		8,146,371	1.00%	0.69%

Source: the Stock Exchange's website (www.hkex.com.hk)

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Notes:

1. Based on 815,603,165 Shares held by public Shareholders as at the date of the Subscription.
2. Based on 1,176,536,581 Shares in issue as at the date of the Subscription.

From the above table, (i) the percentage of the average daily turnover to the total number of issued Shares held by the public as at the date of the Subscription Agreement ranged from approximately 0.46% in December 2015 to approximately 1.67% in March 2016, with an average of 1.00%. The percentage of the average daily turnover to total number of issued Shares as at the date of the Subscription Agreement ranged from 0.32% in December 2015 to 1.16% in March 2016, with an average of 0.69%. The average daily trading volume of the Shares was as low as approximately 3.8 million Shares for December 2015 representing approximately 0.46% of the total issued Shares held by the public Shareholders as at the date of the Subscription Agreement and approximately 0.32% of the total issued Shares as at the date of the Subscription Agreement. In such month recording the lowest trading volume during the Review Period, based on information from Bloomberg, the average daily trading turnover amounted to approximately HK\$32.26 million.

Comparable transactions

Based on the announcements posted on the Stock Exchange's website by companies listed on the Main Board of the Stock Exchange, on a best effort basis, we set out below an exhaustive list of transactions that involved issue of shares for cash under specific mandate announced by companies listed on the Main Board of the Stock Exchange during the period commencing from six months prior to 5 September 2016 up to and including the Latest Practicable Date, excluding issue of consideration shares for acquisition, issue of bonds and warrants, issue of shares by companies whose shares are under prolonged trading suspension and issue of shares not listed on the Stock Exchange (the "**Comparable Transactions**"). The Comparable Transactions were conducted under various circumstances and may be different from those of the Subscription, such as the size of the share issue, the means by way of subscription and/or placing by a placing agent, the reason for the share issue and the use of proceeds. Given that the Comparable Transactions represent issue of shares for cash under specific mandate by Main Board companies whose shares are not under prolonged trading suspension, we consider that they are valid comparable transactions providing market information on the issue price relative to the then prevailing market share price of the issuer that is relevant to the assessment of the Subscription Price.

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	Date of announcement	Stock code	Company name	Subscriber(s)/ place(s) being connected person(s)	Subscription/ placing price (HK\$)	Premium/ (discount) of the subscription/ placing price over/(to) the closing share price on the last trading date prior to the agreement date	Premium/ (discount) of the subscription/ placing price over/(to) the 5-day average closing share price	Premium/ (discount) of the subscription/ placing price over/(to) the 10-day average closing share price	Premium/ (discount) of the subscription/ placing price over/(to) the 30-day average closing share price
	2016								
1.	26 September	1918	Sunac China Holdings Limited	Yes	6.180	1.64%	3.17%	6.86%	8.90%
2.	21 September	686	United Photovoltaics Group Limited	(Note 1)	0.581	(20.36)%	(18.80)%	(19.36)%	(10.60)%
3.	19 September	299	New Sports Group Limited	No	0.062	(47.46)%	(48.84)%	(48.63)%	(49.43)%
4.	15 September	648	China Wah Yan Healthcare Limited	No	0.055	(11.29)%	(14.06)%	(13.66)%	(16.16)%
5.	31 August	1522	China City Railway Transportation Technology Holdings Company Limited	Yes	1.350	(9.40)%	(8.54)%	(8.60)%	(4.66)%
6.	17 August	833	Alltronics Holdings Limited	No	1.490	(49.49)%	(50.07)%	(50.07)%	(48.46)%
7.	7 August	3823	Tech Pro Technology Development Limited	No	0.250	(13.79)%	7.11%	(79.88)%	(87.75)%
8.	5 August	989	Ground Properties Company Limited	No	1.000	(14.53)%	(17.08)%	(16.74)%	7.99%
9.	21 July	969	Hua Lien International (Holdings) Company Limited (Note 2)	No	0.160	(49.21)%	(49.21)%	(49.04)%	(52.73)%
10.	13 July	361	Sino Golf Holdings Limited	No	0.114	(62.62)%	(57.34)%	(51.76)%	(41.42)%
11.	13 July	512	China Grand Pharmaceutical and Healthcare Holdings Limited	Yes	1.400	(1.41)%	(0.28)%	(0.94)%	(1.87)%
12.	17 June	181	Fujian Holdings Limited	Yes	0.430	4.88%	4.88%	3.74%	1.45%
13.	8 June	1803	ASR Logistics Holdings Limited	Yes	0.700	(5.41)%	(12.50)%	(12.83)%	(15.19)%
14.	27 May	1430	Suchuang Gas Corporation Limited	Yes	2.550	19.16%	19.16%	21.66%	21.03%
15.	24 May	906	CPMC Holdings Limited (Note 3)	No	2.600	(22.85)%	(20.59)%	(20.51)%	(24.68)%
16.	22 May	906	CPMC Holdings Limited (Note 3)	Yes	2.600	(21.45)%	(19.95)%	(20.54)%	(24.87)%
17.	20 May	904	China Green (Holdings) Limited	No	0.100	(61.54)%	(59.81)%	(59.68)%	(59.59)%
18.	19 May	1106	Sino Haijing Holdings Limited	No	0.100	(29.08)%	(29.58)%	(30.07)%	(32.19)%
19.	17 May	166	New Times Energy Corporation Limited	Yes	0.154	(2.53)%	(1.28)%	(3.75)%	0.54%
20.	11 May	3311	China State Construction International Holdings Limited	Yes	11.140	0.91%	(1.73)%	(4.84)%	(5.02)%
21.	4 May	1386	Walker Group Holdings Limited	Yes	1.233	(7.99)%	(14.38)%	(20.71)%	(27.31)%
22.	3 May	1141	Skyway Securities Group Limited	No	0.180	(13.88)%	(14.61)%	(18.92)%	(8.09)%
23.	27 April	6893	Hin Sang Group (International) Holdings Co. Ltd.	No	1.180	(24.36)%	(22.57)%	(21.49)%	(18.23)%
24.	13 April	789	Artini China Co. Ltd.	Yes	0.074	(24.49)%	(22.43)%	(22.51)%	(26.93)%
25.	23 March	416	Bank of Jinzhou Co., Ltd.	No	5.680	(4.70)%	(3.14)%	(2.10)%	(0.51)%
26.	18 March	539	Victory City International Holdings Limited	No	0.520	(10.34)%	(8.45)%	(18.62)%	(21.88)%
27.	16 March	1175	FU JI Food and Catering Services Holdings Limited (Note 4)	(Note 4)	0.540	(1.82)%	(1.10)%	(1.46)%	13.33%
28.	15 March	985	CST Mining Group Limited (Note 5)	(Note 5)	0.100	20.48%	20.48%	24.84%	30.49%
29.	11 March	431	Greater China Financial Holdings Limited	No	0.700	22.81%	(25.37)%	(33.33)%	(38.27)%
30.	8 March	1380	China Kingstone Mining Holdings Limited	No	0.100	9.89%	31.23%	37.74%	38.44%
					Max	22.81%	31.23%	37.74%	38.44%
					Min	(62.62)%	(59.81)%	(79.88)%	(87.75)%
					Average	(14.34)%	(14.52)%	(17.84)%	(16.46)%
					The	(16.59)%	(18.99)%	(17.44)%	(14.87)%
					Subscription				

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Notes:

1. On 21 September 2016, United Photovoltaics Group Limited (“UPG”) entered into a subscription agreement with an independent third party, a subscription agreement with a connected person of UPG, and a subscription agreement with a party acting in concert with the aforesaid connected person of UPG.
2. On 21 July 2016, Hua Lien International (Holdings) Company Limited (“Hua Lien”) entered into a subscription agreement with a subscriber to subscribe for new shares of Hua Lien and entered into another placing agreement with a placing agent to procure the placement of new shares of Hua Lien.
3. On 22 May 2016, CPMC Holdings Limited (“CMPC”) entered into a subscription agreement with its connected persons and announced that it made an offer to its employees to subscribe for shares in CPMC. On 24 May 2016, CPMC entered into the subscription agreement with its employees.
4. On 14 March 2016, FU JI Food and Catering Services Holdings Limited (“FU JI”) entered into a placing agreement with a placing agent to place new shares of FU JI to independent third parties and entered into two subscription agreements respectively with a connected person of FU JI and an independent third party. The relative announcement was made by FU JI on 16 March 2016.
5. On 15 March 2016, CST Mining Group Limited (“CST”) entered into a subscription agreement with a connected person of FU JI to subscribe for new shares of CST and entered into a placing agreement with a placing agent to place new shares of FU JI to the connected person and other independent third parties.
6. The subscription price is based on the minimum issue price as provided in the relevant announcement/circular.

The Last Trading Discount and the 5-Day Discount are higher than the relative average discounts of the Comparable Transactions while the 10-Day Discount and the 30-Day Discount both fall below the relative average discounts of the Comparable Transactions. Among the Comparable Transactions, a number of Comparable Transactions have discounts larger than the discounts of the Subscription Price. 11 of them have discounts larger than the Last Trading Day Discount, 11 of them have discounts larger than the 5-Day Discount, 16 of them have discounts larger than the 10-Day Discount and 16 of them have discounts larger than the 30-Day Discount.

The Group reported a loss from Continuing Operations of approximately HK\$79.7 million for the six months ended 30 June 2016 compared with a profit of approximately HK\$184.6 million for the previous corresponding period. Since completion of the disposal of its traditional distribution business in March 2016, the Group is in the process of business transformation into new business based on Sm@rt City platforms. As stated in the 2016 Interim Report, the Group is exploring business models while it endeavors to enhance its ability to commercialise the platform data. We consider that the Group’s transformation is still in the development stage and the commercialisation of its new business based on the Sm@rt City is being explored and developed. Coupled with the lock-up undertaking by the Subscribers under which the disposal of the Subscription Shares shall be subject to certain lock-up as further detailed below under the section headed “Lock-up undertaking”, we consider that although the Last Trading Discount and the 5-Day Discount are higher than the relative average discounts of the Comparable Transactions, there are considerable risks associated with the Subscribers’ investments in the Company under the Subscription.

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As indicated above, a significant number of the Comparable Transactions have discounts greater than those of the Subscription Price; it is not uncommon for issue of shares for cash under specific mandate to have discounts larger those of the Subscription Price in the market. We consider this fair in the Company's case in particular given that the Group is in the stage of a business transformation which continuing inputs and supports of management is essential as explained above.

Taking into account the aforesaid as well as the 10-Day Discount and the 30-Day Discount both falling below the relative average discounts of the Comparable Transactions and the Subscription Price falling within the range of the closing prices of the Shares during the Review Period as shown in the section headed "Historical Share price performance" above, we consider that the Subscription Price is fair and reasonable.

Lock-up undertaking

Each of the Subscribers undertakes to the Company that, without prior written consent of the Company, it/he/she shall not:

- (i) sell or otherwise directly or indirectly dispose of such number of the Subscription Shares to be allotted and issued to it/him/her for a period of six months commencing from the date on which the Subscription Completion takes place; and
- (ii) upon the expiry of abovementioned six-month period, sell or otherwise directly or indirectly dispose of 50% or more of such number of the Subscription Shares to be allotted and issued to it/him/her in the following six months.

We are of the view that the lock-up arrangement is in the interests of the Company and the Shareholders as a whole as the Subscribers will not be allowed to sell the Shares on market immediately after completion of the Subscription which could create potential short-term pressure on the Share price. Of the 30 Comparable Transactions, only 9 of them contain lock-up arrangements with lock-up periods ranging from 6 months to 3 years. Considering that a majority of the Comparable Transactions do not have any lock-up arrangement while the lock-up period under the Subscription falls within the lock-up periods of the minority of the Comparable Transactions that contain lock-up arrangements, we are of the view that the lock-up arrangement under the Subscription is fair and reasonable.

Reasons for and benefits of the Subscription

As mentioned in the section headed "Principal business" above, following completion of the disposal of the distribution business in March 2016, the Group is in the process of transformation into Big Data and Cloud Computing services business based on the Sm@rt City platforms. The Company recognises that people are crucial to the success of the Group, especially in its transformation to the new business.

As set out in the 2015 Annual Report, the Group will recruit talents and incentivize new ventures and innovation to the greatest possible extent through the development of a new incentive regime, so that innovation will become a genetic character of the Company.

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As set out in the 2016 Interim Report, the Company will continue to launch different incentive programs, such as employees' shareholdings, options and innovative venture fund supporting internal business ventures.

As set out in the Letter from the Board, human resource is considered to be critical to the future development of the Group. The Subscribers have made important contributions to the development and growth of the Group in respect of its operations, technology, and strategy formulation and implementation. The purpose of the Subscription is to provide incentives to the Subscribers and align their interests with the growth of the Group. The Subscription is also a talent retention measure for the Subscribers, whose historical and future contributions are beneficial to the long-term growth of the Group, particularly for the Group's transformation into its new business based on Sm@rt City platforms. We agree that the Subscription would deepen the commitment of the Group's key employees to the success of the Group's development. As set out in the section headed "The Subscribers", employees are selected on the basis of factors including their importance to the Group's business development and their development potential to contribute to the Group's success. We reviewed the titles of the Subscribers and found that most of them are management staff of the Group. We discussed with the Company with regard to its business focus and noted that the Subscribers play a significant role in the Group's business development; in particular, Mr. Guo (Chairman of the Board and Executive Director of the Company) and Mr. Lin (CEO and Executive Director of the Company) are instrumental in guiding and carrying out the Group's transformation into the new business particularly the Sm@rt City service business.

The Subscription would further align the interests of the Subscribers with the performance of the Group. The Share price performance should have a direct long-term relationship to the performance of the Group; we are of the view that the Subscription can motivate the Subscribers to make contributions to the Group, improving the Group's business which in turn will improve the Share price performance and enhance the return of the Subscribers' investments in the Company through the Subscription.

The Company favoured the Subscription over granting share options given that unlike share options, the Subscription will result in immediate actual ownership of Shares and will align the long-term interests of the Subscribers with those of the Shareholders and the Subscription will immediately raise funds for the Company strengthening the Group's financial position and provide funds for further business developments and investments. The Company considered that the discount offered on the Subscription Price will encourage the qualified employees to participate in the Subscription and the Subscription recognises continual support and contribution of the key employees of the Group.

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As set out in the Letter from the Board, the Company intends to apply the net proceeds of HK\$545 million as the working capital of the Group for its further business development according to its current business plan for the period from the Subscription Completion (which is anticipated to take place in November 2016) to March 2017 as follows:

- (i) approximately HK\$325 million to expand the new business of the Group based on the Sm@rt City operations that provide all-encompassing Internet city services through the Internet and smart phone applications for city administrators, enterprises and citizens based on “one centre and three platforms”, namely urban information management centre, integrated citizen service platforms, integrated enterprise service platforms and integrated city administration platforms; and
- (ii) approximately HK\$140 million to provide financial services of financing, factoring, financial leasing, provision of guarantees, investments, credit lending, financial risk management and financial information consultation services in the PRC.

The Company intends to use the remaining balance of the proceeds of approximately HK\$80 million to participate in future investments and acquisitions when opportunities arise, including the subscription for shares under a proposed placing of shares by DCITS as set out in the announcements of the Company dated 12 November 2015, 15 April 2016 and 10 May 2016.

We reviewed and discussed with the management of the Company in respect of the monthly estimation of the use of proceeds for financial services and the Sm@rt City operations. We found that it is estimated based on the amounts of loans targeted to be provided under the Group’s financial services business and the investment amounts and working capital estimated to be required for the Sm@art City operations.

The subscription by Mr. Guo and Mr. Lin under the Subscription has been considered and approved by the remuneration committee. In particular, in approving Mr. Guo’s subscription under the Subscription, the Remuneration Committee took into account the following factors:

- (1) the Subscription is part of the overall remuneration package of Mr. Guo to recognise the unique value and benefits that he has brought to the Group through his track record, network and expertise in the industry. Mr. Guo has been the key leading management executive of the business of the Group since the 1990’s and has made significant contributions to the development and growth of the core business of the Group. Since 2001, Mr. Guo has held the positions of Vice Chairman, President and Chief Executive Officer, and he has been the Chairman of the Board since 2007. Throughout such period, Mr. Guo has been instrumental in the management, strategy development and expansion of the Group with his extensive experience, including in the initial public offering of the Company and the spin-off of DCITS in which the Company holds a controlling stake;

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- (2) the Group is transforming into the Internet, Big Data and Cloud Computing services business based on its core Sm@rt City operations, and such transformation is dependent on the Group being able to maintain a stable core team of executives with sufficient industry proficiency. Mr. Guo has in-depth knowledge and experience in the new initiatives in such areas to guide the Group's strategy and management, and the Subscription will serve as incentives for his long-term support and commitment to the growth and development of the Group that are critical to the success of the Group in achieving the objective of increasing its value in such business transformation;
- (3) Mr. Guo's agreement to subscribe for a significant portion of the Subscription Shares represents his solid commitment, both financially and by contribution efforts, to the success of the Group. Mr. Guo's subscription for the Subscription Shares will align his interest directly with those of the Group by motivating him to promote the success of the business expansion of the Group in order to achieve a correlating return for his investment in the Shares under the Subscription;
- (4) the Subscription is in-line with the prevailing human resource market practice of using share-based compensation as a common remuneration measures for executives, as in the case of Mr. Guo, to recognise his historical and future contributions to enhance the value of the Group to the benefits of the Shareholders;
- (5) the Subscription, while serving as a remuneration measure of the Company, will not involve any actual cash outflow by the Group, which will indeed receive proceeds from such Subscription that can be utilised for the business development and expansion of the Group; and
- (6) unlike receiving options under the share option scheme of the Company under which the grantee is entitled to decide whether and when to exercise such options for a guaranteed gain, the Subscription involves immediate financial commitment in the Company by Mr. Guo, who will be subject to the investment risk of fluctuations in the market price of the Shares during the lock-up period associated with the Subscription Shares. The return or loss of Mr. Guo's investment in the Subscription Shares will also be directly tied with his commitment and ability to support the Group's business expansions in the new business areas.

We discussed with the management of the Company and reviewed the 2015 Annual Report, and noted that Mr. Guo has over 28 years of experience in business strategy development and business management. As stated in the 2015 Annual Report, Mr. Guo holds various positions in the government and in the industry. He is a Standing Committee Member of the 12th National Committee of the Chinese People's Political Consultative Conference, a member of the 4th Advisory Committee for State Informatisation and the Chairman of the 6th Council of China Non-Governmental Science Technology Entrepreneurs Association. As stated in the 2016 Interim Report, the Group is in the process of transformation into new business based on the Sm@rt City platforms. As Chairman of the Board and Executive Director of the Company responsible for the strategic

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development and management of the Group, we agree that Mr. Guo is instrumental in the Group's development and is critical to the Group's transformation into the new business. As mentioned above, the Group is in the process of business transformation exploring business models while it endeavors to enhance its ability to commercialise the platform data. Its transformation is at a development stage. Coupled with the lock-up undertaking by Mr. Guo as stated in section headed "Lock-up undertaking", although the Subscription Price is at discounts to the then market prices before entering into the Subscription Agreement, we consider that there are considerable risks associated with Mr. Guo's investment in the Company under the Subscription and despite such risks, Mr. Guo is showing its commitment in the Company by subscribing for a significant portion of the Subscription Shares.

The terms of the Subscription offered to the Connected Subscribers are equivalent to the terms offered to the other subscriber representing other key employees of the Group who are not connected persons of the Company.

Having considered the above, we agree that the Subscription would further motivate the key employees to devote their efforts to the Group, benefiting the long-term development of the Group. Although the Subscription is not in the Group's ordinary and usual course of business, the Subscription is incidental to the development of the Group's business.

Financial effects of the Subscription

Earnings

With regard to the Subscription, if the Subscription Price is below the closing price of the Shares on the date of fulfilling all conditions precedent to the Subscription (the "**Discount**"), the Group will book a share-based expense based on the Discount multiplied by the number of the Subscription Shares, which may be subject to adjustment based on valuation of the Subscription Shares if an independent valuer is appointed by the Company. If the Subscription Price is higher than the closing price of the Shares on the date of fulfilling all conditions precedent to the Subscription, the Group will not book any expense or profit. For illustrative purposes, based on the closing price of the Shares of HK\$6.84 each as at the Latest Practicable Date, as if all conditions precedent to the Subscription were fulfilled then, the Company would book a share-based expense of approximately HK\$130 million arising from the Subscription, subject to any valuation adjustment.

The share-based expense is a non-cash item which should not have any material impact on the Group's operations.

Financial position

As at 30 June 2016, the consolidated cash and cash equivalents of the Group amounted to approximately HK\$2,472 million, the total assets of the Group amounted to approximately HK\$22,188 million and the net assets of the Group amount to

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approximately HK\$8,981 million. The Subscription will increase the Group's cash position, total assets and net assets by the amount of the net proceeds of approximately HK\$545 million.

Gearing

Based on the Group's net debts and total equity as at 30 June 2016, the gearing level of the Group will improve from 60.7% to 51.5% as a result of the Subscription.

Effect on the shareholding structure of the Company

The Subscription Shares represent approximately 8.45% of the Company's existing issued share capital and approximately 7.79% of its issued share capital as enlarged by the Subscription Shares.

Set out below is the shareholding structure of the Company as at the Latest Practicable Date and immediately after the Subscription:

	As at the		Immediately	
	Latest Practicable Date		after the Subscription	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Mr. Guo	2,958,044	0.25%	57,207,044	4.48%
Kosalaki Investments Limited <i>(Note)</i>	69,414,286	5.90%	69,414,286	5.44%
Mr. Lin	1,316,734	0.11%	2,220,734	0.17%
Other Connected Subscribers	883,352	0.08%	17,267,352	1.35%
GRG Banking Equipment Co., Ltd. (廣州廣電運通金融電子 股份有限公司)	286,361,000	24.34%	286,361,000	22.45%
Great Dynamic Management (PTC) Limited	—	0.00%	27,854,000	2.18%
Existing public Shareholders	<u>815,603,165</u>	<u>69.32%</u>	<u>815,603,165</u>	<u>63.93%</u>
Total	<u><u>1,176,536,581</u></u>	<u><u>100.00%</u></u>	<u><u>1,275,927,581</u></u>	<u><u>100.00%</u></u>

Note:

These 69,414,286 Shares were beneficially held by Kosalaki Investments Limited ("KIL"), of which Mr. Guo is the controlling shareholder and also a director of KIL; therefore, Mr. Guo was deemed to be interested in such Shares in which KIL was interested.

Upon allotment and issue of all the Subscription Shares under the Subscription, the shareholding of the existing public Shareholders will be diluted from approximately 69.32% to approximately 63.93%.

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Having considered the reasons for and benefits of the Subscription and the Subscription Price being fair and reasonable, we consider that the dilution effects on the shareholding of the existing public Shareholders upon allotment and issue of the Subscription Shares under the Subscription is acceptable.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the terms of the Subscription by the Connected Subscribers are on normal commercial terms that are fair and reasonable, and the Subscription by the Connected Subscribers is in the interests of the Company and the Shareholders as a whole. Although the Subscription is not in the ordinary and usual course of the Group's business, we consider that it is incidental to the Group's principal business. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
REORIENT Financial Markets Limited
Allen Tze
Managing Director

Mr. Allen Tze is a licensed person registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and has over 17 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares or Debentures

As at the Latest Practicable Date, the interests and short positions of each Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated companies (within the meaning of Part XV of the SFO), which were required (a) 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 each of the Directors and chief executive had taken or was deemed to have taken under such provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in the Listing Rules were as follows:

Name	Capacity	Personal interests	Corporate interests	Total (Note 1)	Approximate percentage of aggregate interests (%) (Note 3)
Mr. GUO	Beneficial owner and interests of a controller corporation	2,958,044	69,414,286 (Note 2)	72,372,330	6.15
Mr. LIN	Beneficial owner	1,316,734	—	1,316,734	0.11
Mr. LAI Daniel, BBS, JP	Beneficial owner	4,000	—	4,000	0.00

Notes:

- All of the interests disclosed herein represent long position in the Shares.
- These 69,414,286 Shares were beneficially held by Kosalaki Investments Limited (“**KIL**”), of which Mr. Guo is the controlling shareholder and also a director; therefore, Mr. Guo was deemed to be interested in such Shares in which KIL was interested.
- The approximate percentage of interests is based on the aggregate nominal value of the shares/ underlying shares comprising the interests held as a percentage of the aggregate nominal value of all the issued share capital of the Company of the same class immediately after the relevant event and as recorded in the register maintained under Section 352 of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had interests or short positions in the shares, underlying shares or debentures of the Company and its associated companies (within the meaning of Part XV of the SFO) which were required (a) 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 each of the Directors or chief executive had taken or deemed to have taken under the provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at the Latest Practicable Date, to the best knowledge of the Directors, the following persons (other than the Directors and chief executive of the Company) had the following interests or short position in the Shares and underlying shares of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or required to be recorded in the register required to be kept under Section 336 of Part XV of the SFO:

Name	Capacity	Number of Shares <i>(Note 1)</i>	Approximate percentage of aggregate interests (%) <i>(Note 7)</i>
Kosalaki Investments Limited <i>(Note 2)</i>	Beneficial owner	69,414,286	5.90
Allianz SE	Interests of controlled corporations	93,841,000 <i>(Note 3)</i>	7.98
Guangzhou Radio Group Co., Ltd.* (廣州無線電集團 有限公司)	Interests of a controlled corporation	286,361,000 <i>(Note 4)</i>	24.34
GRG Banking Equipment Co., Ltd.* (廣州廣電運通金 融電子股份有限公司)	Beneficial owner	286,361,000 <i>(Note 4)</i>	24.34
Dragon City International Investment Limited	Beneficial owner	150,070,000 <i>(Notes 5 and 6)</i>	12.76
Yip Chi Yu	Interests of a controlled corporation/Interest of a substantial shareholder's spouse	150,070,000/ 1,860 <i>(Note 5)</i>	12.76
Huang Shaokang	Beneficial owner/Interest of a substantial shareholder's spouse	1,860/ 150,070,000 <i>(Note 5)</i>	12.76

Notes:

1. All of the interests disclosed herein represent long position in the Shares.
2. KIL is controlled by Mr. Guo who is a Director and a director of KIL.
3. Out of these 93,841,000 Shares in aggregate, 92,266,000 Shares were held by Allianz Global Investors Asia Pacific Limited, 1,447,000 Shares by Allianz Global Investors Taiwan Ltd., and 128,000 Shares by Allianz Global Investors U.S. LLC. All of the aforementioned companies were indirectly controlled by Allianz SE.
4. The 286,361,000 Shares were beneficially held by GRG Banking Equipment Co., Ltd.* (廣州廣電運通金融電子股份有限公司) (listed on the Shenzhen Stock Exchange), in which Guangzhou Radio Group Co., Ltd.* (廣州無線電集團有限公司) is a 52.52% controlling shareholder.
5. Out of the 150,071,860 Shares in aggregate, 150,070,000 Shares were held by Dragon City International Investment Limited, which is controlled by Ms. Yip Chi Yu, and 1,860 Shares were held by Mr. Huang Shaokang, spouse of Ms. Yip Chi Yu.
6. As at the Latest Practicable Date, 78,000,000 shares were issued on 17 June 2016. The remaining considerations shares are yet to be issued pending completion.
7. The approximate percentage of interests is based on the aggregate nominal value of the shares/ underlying shares comprising the interests held as a percentage of the aggregate nominal value of all the issued share capital of the Company of the same class immediately after the relevant event and as recorded in the register maintained under Section 336 of the SFO.

Save as disclosed above, as at Latest Practicable Date, the Company had not been notified by any persons who had interests or short positions in the Shares or underlying Shares of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept under Section 336 of Part XV of the SFO.

3. MATERIAL INTERESTS

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or any professional adviser named in paragraph 9 of this Appendix had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2015, being the date of the latest published audited financial statements of the Company.

As at the Latest Practicable Date and save as disclosed in this circular, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its Subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his/her respective associates (as defined in the Listing Rules) was interested in any business apart from the Group's business that competes or is likely to compete (either directly or indirectly) with the Group's business.

5. SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its Subsidiaries which is not terminable within one year without payment of compensation, other than statutory compensation.

6. LITIGATION

So far as the Directors were aware, neither the Company nor any of its Subsidiaries was engaged in any litigation or claim of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its Subsidiaries as at the Latest Practicable Date.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, the date to which the latest audited financial statements of the Group were made up.

8. CONSENT

Reorient has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the references to its name in the form and context in which they respectively appear.

9. QUALIFICATIONS OF EXPERTS

The following is the qualification of the professional adviser who has given opinions or advice contained in this circular:

Name	Qualifications
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

As at the Latest Practicable Date, Reorient was not beneficially interested in the share capital of any member of the Group or had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

The letter of advice given by Reorient to the Independent Board Committee and the Independent Shareholders was made on 30 September 2016 for the Company in this circular.

10. MISCELLANEOUS

The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

The head office and principal place of business of the Company in Hong Kong is situated at Suite 2008, 20th Floor, Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

The Company's branch share registrar and transfer office in Hong Kong is Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The secretary of the Company is Mr. WONG Chi Keung, who is a fellow member of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at 37th Floor, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong during normal business hours (i.e. from 9:00 a.m. to 5:00 p.m. (Hong Kong time)) on any business day (except Saturdays, Sundays and public holidays) from the date of this circular up to and including the date of SGM:

- (a) the Subscription Agreement;
- (b) the written consent referred to in the paragraph headed "Consent" in this appendix;
- (c) the letter of recommendation from the Independent Board Committee;
- (d) the letter of advice from Reorient; and
- (e) this circular.



神州控股
DC Holdings

DIGITAL CHINA HOLDINGS LIMITED
(神州數碼控股有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 00861)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “SGM”) of Digital China Holdings Limited (the “Company”) will be held at Chief Executive Suite II & III, 5th Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 25 October 2016 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 resolutions of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the subscription in relation to 99,391,000 new shares of the Company (the “**Subscription Shares**”) at a price of HK\$5.53 per Subscription Share by the subscribers pursuant to the subscription agreement dated 5 September 2016 entered into among the Company and the subscribers (the “**Subscription Agreement**”) (the “**Subscription**”), a copy of which has been produced to the SGM marked “A” and signed by the chairman of the SGM for the purpose of identification, be and are hereby approved;
- (b) any director of the Company be and is hereby authorised to do all acts and things and execute any agreements, deeds, instruments and any other documents, under hand or under seal, or make such arrangement as he/she may determine to be appropriate, necessary or desirable to give effect to or in connection with the Subscription and the allotment and issue of the Subscription Shares and, subject to and in accordance with the applicable law and regulations, to approve and make such immaterial variation, amendment, supplement or waiver of immaterial matters relating to the Subscription in the interests of the Company and its shareholders (the “**Shareholders**”) as a whole; and

NOTICE OF SGM

- (c) subject to and conditional upon (i) the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Subscription Shares; and (ii) the fulfillment of other conditions precedent as set out in the Subscription Agreement, the unconditional specific mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with the Subscription Shares pursuant to the Subscription Agreement be and is hereby confirmed and approved.”

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

Hong Kong, 30 September 2016

* *For identification purpose only*

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

Notes:

- (i) For the purposes of determining shareholders' eligibility to attend and vote at the SGM, the register of members of the Company will be closed. Details of such closure are set out below:

Latest time to lodge transfer documents for registration 4:30 p.m. on Friday, 21 October 2016

Closure of register of members Monday, 24 October 2016 to
Tuesday, 25 October 2016
(both dates inclusive)

Record date Tuesday, 25 October 2016

During the above closure period, no transfer of shares will be registered. To be eligible to attend and vote at the SGM, all properly completed transfer documents accompanied by the relevant share certificates must be lodged for registration at the public office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest time.

NOTICE OF SGM

- (ii) Any Shareholder entitled to attend and vote at the SGM or any adjournment thereof (as the case may be) shall be entitled to appoint another person as his/her proxy to attend and vote instead of him/her. Votes may be given either personally or by duly authorised corporate representative or by proxy. A Shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a Shareholder.
- (iii) Where there are joint registered holders of any share of the Company, any one of such persons may vote at the SGM or any adjournment thereof (as the case may be), either personally 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 or any adjournment thereof (as the case may be) personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- (iv) 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 of that power or authority shall be deposited at the public office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time 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 any adjournment thereof (as the case may be).
- (v) As at the date hereof, the board of directors of the Company comprises two executive directors, namely Mr. GUO Wei (Chairman) and Mr. LIN Yang (Chief Executive Officer); and five independent non-executive directors, namely Mr. WONG Man Chung, Francis, Ms. NI Hong (Hope), Dr. LIU Yun, John, Ms. YAN Xiaoyan and Mr. LAI Daniel, *BBS, JP*.