

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Digital China Holdings Limited.



**DIGITAL CHINA HOLDINGS LIMITED**  
(神州數碼控股有限公司\*)  
(Incorporated in Bermuda with limited liability)  
(Stock Code: 00861)

**PLACING OF EXISTING SHARES  
AND  
SUBSCRIPTION FOR NEW SHARES**

**Placing Agents**



**MACQUARIE**

**J.P.Morgan**

On 16 September 2009, the Vendor and the Placing Agents entered into the Agreement under which the Vendor agreed to sell, or procure the sale of, the Placing Shares and the Placing Agents agreed, as agents of the Vendor, to procure purchasers to purchase, the Placing Shares at the Placing Price. The Placing is conditional on certain termination events upon the occurrence of which the Placing will not proceed to completion unless otherwise waived by the Placing Agents.

Pursuant to the Agreement, the Vendor has also conditionally agreed to subscribe, and the Company has conditionally agreed to allot and issue to the Vendor, the Subscription Shares at the Subscription Price.

The net proceeds to be received by the Company from the Subscription will amount to approximately HK\$367 million. The Company intends to apply the net proceeds for the strategic investments in the IT services sector, the research and development activities and general working capital of the Group.

The shareholding interest of the Vendor and the Concert Party Group in the issued share capital of the Company will be reduced from approximately 9.29% to 8.77%, and from approximately 40.37% to 38.09%, respectively, immediately upon completion of the Placing and the Subscription.

Application will be made to the Listing Committee for the granting of the listing of, and permission to deal in, the Subscription Shares.

The Concert Party Group will make an application to the Executive Director of the Corporate Finance Division of the SFC for a waiver from the obligation to make a general offer under Rule 26 of the Takeovers Code consequent on the acquisition of the Subscription Shares by the Vendor.

**As the Placing and the Subscription are subject to the satisfaction of a number of conditions and may or may not proceed to completion, Shareholders and prospective investors are advised to exercise caution when dealing in the Shares.**

## **PLACING AND SUBSCRIPTION AGREEMENT DATED 16 SEPTEMBER 2009**

### **Parties**

- (i) the Vendor;
- (ii) the Company; and
- (iii) Macquarie Capital Securities Limited and J.P. Morgan Securities (Asia Pacific) Limited (as placing agents of the Placing).

### **THE PLACING**

#### **Number of Placing Shares**

57,647,000 Shares, representing approximately 5.99% of the Company's existing issued share capital and approximately 5.65% of its issued share capital as enlarged by the issue of the Subscription Shares.

#### **The placees**

Each of the Placing Agents has agreed to procure that there will be not less than six independent placees (which will be professional, institutional and/or individual investors) in the Placing.

#### **Placing Price**

HK\$6.60 per Share, representing (i) a discount of approximately 6.52% to the closing price of HK\$7.06 per Share quoted on the Stock Exchange on 16 September 2009, the latest trading day prior to the date of the Agreement; and (ii) a discount of approximately 3.71% over the average closing price of HK\$6.85 per Share quoted on the Stock Exchange from 10 September 2009 to 16 September 2009, both dates inclusive, being the last five trading days prior to the date of the Agreement.

The Placing Price has been determined after arm's length negotiations between the parties. The Directors are of the opinion that the Placing Price is fair and reasonable and is in the best interest of the Company.

## **Rights**

The Placing Shares will be sold free of any encumbrances and third-party rights. The placees will receive all dividends and distributions declared after the date of the Agreement.

## **Independence of the Placing Agents and the placees**

To the best knowledge, information and belief of the Directors, having made all reasonable enquiry, the Placing Agents are not connected person (as defined in the Listing Rules) of the Company or any of its subsidiaries.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the placees (and their ultimate beneficial owners) procured by the Placing Agents are not connected persons of the Company (as defined in the Listing Rules). The placees (and their ultimate beneficial owners) procured by the Placing Agents are independent of, and not acting in concert with, the Vendor and parties acting in concert with it.

## **Termination Events**

Each Placing Agent may terminate the Agreement without liability to the Vendor or the Company if any of the following shall have occurred prior to completion of the Placing:

- (a) there develops, occurs or comes into force:
  - (i) any new law or regulation or any change or prospective change in existing laws or regulations which in the sole opinion of the Placing Agents makes it impracticable or inadvisable or inexpedient to proceed with the Placing or has or is likely to have a material adverse effect on the financial position, business, results of operation or prospects of the Group as a whole; or
  - (ii) any significant event, development or change or prospective change (whether or not permanent or forming part of a series of event, developments or changes occurring or continuing before, on and/or after the date of the Agreement) in local, national or international economic, financial, fiscal, industrial, regulatory, political or military conditions, securities market conditions or currency exchange rates or exchange controls, including without limitation, any outbreak or escalation of hostilities, declaration by the United States, the United Kingdom, the People's Republic of China or Hong Kong of a national emergency or other calamity or crisis, the effect of which in the sole opinion of the Placing Agents is or would be materially adverse to the success of the Placing, or makes it impracticable or inadvisable or inexpedient to proceed therewith; or
  - (iii) the declaration of a banking moratorium by United States, the United Kingdom, the People's Republic of China or Hong Kong authorities, or any moratorium, suspension or material restriction on trading in shares or securities generally, or the establishment of

minimum prices, on the Stock Exchange, the Shanghai Stock Exchange, New York Stock Exchange or the London Stock Exchange; or

- (iv) any suspension of dealings in the Shares for any period whatsoever (other than as a result of the Placing and/or the publication of this announcement).
- (b) any breach of any of the representations, warranties and undertakings by the Vendor and/or the Company set out in the Agreement comes to the knowledge of any of the Placing Agents or any event occurs or any matter arises on or after the date of the Agreement and prior to completion of the Placing which if it had occurred or arisen before the date of the Agreement would have rendered any of such representations, warranties and undertakings untrue or incorrect or there has been a breach of, or failure to perform, any other provision of the Agreement on the part of the Vendor and/or the Company; or
- (c) any change or any development involving a prospective change in the general affairs, prospects, earnings, business, properties, stockholders' equity or in the financial or trading position of the Group as a whole which in the sole opinion of the Placing Agents is so material and adverse as to make it impractical or inadvisable to proceed with the Placing.

### **Completion of the Placing**

It is expected that completion of the Placing will take place on 21 September 2009 (or such other date as the Vendor and the Placing Agents may agree in writing).

### **Lock-up**

The Vendor undertakes to each of the Placing Agents that (except for the sale of the Placing Shares pursuant to the Agreement) for a period of 90 days from completion of the Placing ("**Lock-up Period**"), it will not and will procure that none of its nominees and companies controlled by it and trusts associated with it (whether individually or together and whether directly or indirectly) will (i) offer, lend, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares (including the Subscription Shares) or any interests therein beneficially owned or held by the Vendor or any securities convertible into or exercisable or exchangeable for or substantially similar to any such Shares or interests or (ii) enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of such Shares, whether any such transaction described in (i) or (ii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise or (iii) announce any intention to enter into or effect any such transaction described in (i) or (ii) above, unless with the prior written consent of each of the Placing Agents.

The Company undertakes to each of the Placing Agents, and the Vendor undertakes to each of the Placing Agents to procure, that during the Lock-up Period, the Company will not, except for the Subscription Shares and save pursuant to the terms of the share option scheme of the Company adopted on 18 July 2002, (i) allot or issue or offer to allot or issue or grant any option, right or warrant to subscribe (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares or any interests in Shares or any securities convertible into or exercisable or exchangeable for or substantially similar to any Shares or interest in Shares or (ii) agree (conditionally or unconditionally) to

enter into or effect any such transaction with the same economic effect as any of the transactions described in (i) above or (iii) announce any intention to enter into or effect any such transaction described in (i) or (ii) above without first having obtained the written consent of each of the Placing Agents.

## **THE SUBSCRIPTION**

### **Number of Subscription Shares**

The number of new Shares to be issued by the Company to the Vendor under the Subscription shall equal to the Placing Shares actually placed by the Placing Agents under the Placing.

### **Subscription Price**

The Subscription Price shall equal to the sum of (i) the Placing Price multiplied by the number of Subscription Shares and (ii) any interest actually earned and received on the proceeds of the Placing from the date of closing to completion of the Subscription and less the expenses payable by the Company in connection with the Placing and the Subscription, divided by the number of the Subscription Shares. The net proceeds of the Subscription amount to approximately HK\$367 million. The net price of each Share to the Company is approximately HK\$6.37 per Share.

### **Mandate to issue new Shares**

The Subscription Shares will be issued under the general mandate granted to the Directors pursuant to an ordinary resolution passed by the Shareholders at the annual general meeting held on 25 August 2009. Under such general mandate, the Company is allowed to allot and issue up to 192,478,116 Shares, out of which no Share has been allotted and issued pursuant to such general mandate as at the date of this Announcement.

### **Ranking**

The Subscription Shares, when fully paid, will rank equally with the existing issued shares of the Company.

### **Conditions of the Subscription**

Completion of the Subscription is conditional upon:

- (a) completion of the Placing having occurred pursuant to the terms of the Agreement;
- (b) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Subscription Shares; and

- (c) the Executive Director of the Corporate Finance Division of the SFC waiving the obligations of the Concert Party Group to make a general offer under Rule 26.1 of the Takeovers Code with respect to the acquisition of the Subscription Shares by the Vendor.

### **Completion of the Subscription**

Completion of the Subscription will take place on the second business day after the date upon which the last of the conditions as set out above shall have been satisfied provided that it shall take place no later than a date falling 14 days after the date of the Agreement (or such other time or date as the Vendor and the Company may agree in writing and subject to compliance with the Listing Rules).

In the event that the conditions are not fulfilled within 14 days after the date of the Agreement (or such later date as may be agreed between the parties and subject to compliance with the Listing Rules), then the Subscription and all rights and obligations hereunder will cease and terminate and none of the parties shall have any claim against the other for costs, damages, compensation or otherwise.

If completion of the Subscription takes place more than 14 days after the date of the Agreement, the Subscription would not fall within the exemption under Listing Rule 14A.31(3)(d) and would be subject to the relevant requirements of the Listing Rules regarding connection transactions.

### **Application for Listing from the Stock Exchange and waiver from SFC**

Application will be made to the Listing Committee for the granting of the listing of, and permission to deal in, the Subscription Shares.

As the percentage shareholding (and voting rights) of the Concert Party Group will be reduced from 40.37 % to 34.38% immediately after completion of the Placing and will be increased back to 38.09% immediately after completion of the Subscription, the Concert Party Group is required to make a general offer under Rule 26 of the Takeovers Code. Thus, the Concert Party Group will make an application to the Executive Director of the Corporate Finance Division of the SFC for a waiver from the obligation to make a general offer under Rule 26.1 of the Takeovers Code as a result of the Placing and the Subscription.

### **EFFECT OF THE PLACING AND THE SUBSCRIPTION**

The shareholding structure of the Company before and after the Placing and the Subscription is summarised as follows:

	At the date of this Announcement (Note 1)		Immediately after completion of the Placing but before the Subscription (Note 2)		Immediately after completion of the Placing and the Subscription (Note 2)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
<b>Concert Party Group</b>						
The Vendor	89,414,286	9.29	31,767,286	3.30	89,414,286	8.77
GUO Wei	1,504,000	0.16	1,504,000	0.16	1,504,000	0.15
Sparkling Investment (BVI) Limited	187,111,744	19.44	187,111,744	19.44	187,111,744	18.34
Charmway Trading Limited	77,373,077	8.04	77,373,077	8.04	77,373,077	7.59
Fine Elite Management Limited	33,159,890	3.45	33,159,890	3.45	33,159,890	3.25
<b>Sub-total</b>	<b>388,562,997</b>	<b>40.37*</b>	<b>330,915,997</b>	<b>34.38*</b>	<b>388,562,997</b>	<b>38.09*</b>
<b>Other Shareholders</b>						
Legend Holdings Limited	156,381,719	16.25	156,381,719	16.25	156,381,719	15.33
LIN Yang#	56,000	0.01	56,000	0.01	56,000	0.01
<b>Sub-total</b>	<b>156,437,719</b>	<b>16.26</b>	<b>156,437,719</b>	<b>16.26</b>	<b>156,437,719</b>	<b>15.34</b>
<b>Public Shareholders</b>						
Placees	-	-	57,647,000	5.99	57,647,000	5.65
Other Shareholders	417,389,865	43.37	417,389,865	43.37	417,389,865	40.92
<b>Sub-total</b>	<b>417,389,865</b>	<b>43.37</b>	<b>475,036,865</b>	<b>49.36</b>	<b>475,036,865</b>	<b>46.57</b>
<b>Total</b>	<b>962,390,581</b>	<b>100.00</b>	<b>962,390,581</b>	<b>100.00</b>	<b>1,020,037,581</b>	<b>100.00</b>

\* The discrepancy between this figure and the summation of this column is caused by rounding of figures

# Mr LIN Yang is an executive Director

Note:

- (1) The table assumes no Shares are issued pursuant to the employee share option scheme of the Company between the date of this announcement and completion of the Placing and the Subscription (both dates inclusive). As at the date of this announcement there were outstanding options issued pursuant to the share option scheme of the Company which entitle the holders thereof to receive 8,500,000 Shares upon full exercise of such options.
- (2) This assumes that all the Placing Shares are placed and no placees will become a substantial Shareholder upon completion of the Placing.

## REASONS FOR THE PLACING AND THE SUBSCRIPTION AND USE OF PROCEEDS

In view of current capital market conditions, the Directors consider that the Placing and the Subscription represent a good opportunity for the Company to raise funds. It will also increase the capital base of the Company and broaden its shareholder base. The Company intends to use the estimated net proceeds of approximately HK\$367 million for the strategic investments in the IT services sector, the research and development activities and general working capital of the Group.

The Directors believe the terms of the Placing and the Subscription, which have been negotiated on an arm's length basis in accordance with normal commercial terms, are fair and reasonable.

The Company has not raised any other funds by way of issues of equity securities in the 12 months immediately preceding the date of the Agreement.

## DEFINITIONS

“Agreement”	the placing and subscription agreement dated 16 September 2009 entered into between the Vendor, the Company and the Placing Agents in relation to the Placing and the Subscription
“associate”	has the meaning ascribed to it in the Listing Rules
“Company”	Digital China Holdings Limited (神州數碼控股有限公司*), an exempted company incorporated under the laws of Bermuda with limited liability, the Shares are listed on the main board of the Stock Exchange
“Concert Party Group”	collectively, the Vendor, Mr GUO Wei, Sparkling Investment (BVI) Limited, Charmway Trading Limited and Fine Elite Management Limited, all of whom have entered into a concert parties' agreement dated 1 August 2007 and are parties acting in concert within the meaning of the Takeovers Code
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“IT”	information technology
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange in force for the time being
“Placing”	the placing of the Placing Shares by the Placing Agents pursuant to the Agreement
“Placing Agents”	Macquarie Capital Securities Limited and J.P. Morgan Securities (Asia Pacific) Limited



“Placing Price”	HK\$6.60 per Placing Share
“Placing Shares”	57,647,000 Shares currently owned by the Vendor
“SFC”	the Securities and Futures Commission
“Share(s)”	share(s) of nominal value of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	Holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Shares by the Vendor at the Subscription Price pursuant to the Agreement
“Subscription Price”	the amount per Subscription Share which is equal to the amount of the sum of the Placing Price multiplied by the number of Subscription Shares and any interest actually earned and received on the proceeds of the Placing from the date of closing to completion of the Subscription and less the expenses which are payable by the Company in connection with the Placing and Subscription divided by the number of Subscription Shares
“Subscription Shares”	new Shares to be subscribed by the Vendor under the Agreement at the Subscription Price and at an amount which represents the number of Placing Shares actually placed by the Placing Agents under the Placing
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“trading day”	has the meaning ascribed to it in the Listing Rules
“Vendor”	Kosalaki Investments Limited, a limited liability company incorporated in the British Virgin Islands, whose entire issued share capital is owned by Mr GUO Wei, the Chairman and the Chief Executive Officer of the Company
“%”	per cent.

By Order of the Board  
**Digital China Holdings Limited**  
(神州數碼控股有限公司\*)  
**GUO Wei**  
*Chairman and Chief Executive Officer*

Hong Kong, 16 September 2009

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

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

Non-executive Directors: Mr. Andrew Y. YAN, Mr. TANG Xudong, Mr. CHEN Derek and Mr. QIU Zhongwei

Independent Non-executive Directors: Mr. HU Zhaoguang, Professor WU Jinglian, Mr. WONG Man Chung, Francis and Mr. KWAN Ming Heung, Peter

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

*Website: [www.digitalchina.com.hk](http://www.digitalchina.com.hk)*

*\* For identification purposes only*