



SHARE TRANSACTION

On 24 September 2003, the Company and Talent Gain have entered into the Investment Agreement with GECIS, GE, and TIS pursuant to which Newco will be established to carry on the business of providing software development, applications outsourcing, IT support and other related professional services. The Investment Agreement contemplates an initial equity investment in Newco of, in aggregate, US\$2,000,000 by Talent Gain for 55%, GE for 25% and TIS for 20%. A further equity investment of, in aggregate, US\$1,000,000 is required by Talent Gain, GE and TIS four months after the completion of the Investment Agreement under the same shareholding ratio. Further details of the Investment Agreement are disclosed in this announcement.

Because the exercise of the GE First Put Option, TIS First Put Option, GE Second Put Option or TIS Second Put Option (subject to any applicable legal or regulatory requirements) may, at the option of GE or TIS, result in the Company issuing new shares to GE or TIS (as the case may be), the entering into the Investment Agreement has constituted a share transaction of the Company under the Listing Rules. The Company will comply with the notifiable transaction requirements under the Listing Rules in respect of any exercise of the Put Options.

INTRODUCTION

On 24 September 2003, the Company and Talent Gain have entered into the Investment Agreement with GECIS, GE, and TIS pursuant to which Newco will be established to carry on the business as described below. In accordance with the Investment Agreement, it is envisaged that Newco will conduct its business through two wholly-owned subsidiaries to be incorporated in the PRC and Japan respectively. The principal terms of the Investment Agreement are as follows:

THE INVESTMENT AGREEMENT

Date of the Investment Agreement : 24 September 2003

Parties to the Investment Agreement : (1) the Company;
(2) Talent Gain;
(3) GECIS;
(4) GE; and
(5) TIS.

Business of Newco : To provide software development, applications outsourcing, IT support and other related professional services to (i) Japan-based corporations; and (ii) multi-national corporations carrying on business in the PRC.

Conditions to the Investment Agreement : The Investment Agreement is conditional upon:
(i) Newco being incorporated in Hong Kong with the authorised and issued share capital described below;
(ii) the parties to the Investment Agreement agreeing the articles of association for Newco which shall be consistent with the terms of the Investment Agreement; and
(iii) Newco becoming a party to the Investment Agreement by executing a deed of adherence.

Completion of the Investment Agreement : Completion of the Investment Agreement shall take place within five business days (being days on which banks are open for normal business in Hong Kong, the PRC, India and Japan) after all the conditions for completion set forth in the Investment Agreement are either fulfilled or waived. If all such conditions are not either fulfilled or waived by 30 September 2003 (or such later date as the parties to the Investment Agreement may agree), then the Investment Agreement will terminate and cease to be of effect.

Authorised share capital of Newco : US\$10,000,000 divided into 10,000,000 shares of US\$1 each.

Issued and fully paid share capital of Newco immediately prior to the completion of the Investment Agreement : US\$20 comprising 20 shares of US\$1 each, all being paid up in cash at par, of which 11 shares of US\$1 each will be legally and beneficially owned by Talent Gain, 5 shares of US\$1 each will be legally and beneficially owned by GE and 4 shares of US\$1 each will be legally and beneficially owned by TIS.

Issued and fully paid share capital of Newco immediately following the completion of the Investment Agreement : US\$2,000,000 comprising 2,000,000 shares of US\$1 each, all being paid up in cash at par, of which 1,100,000 shares of US\$1 each will be legally and beneficially owned by Talent Gain, 500,000 shares of US\$1 each will be legally and beneficially owned by GE and 400,000 shares of US\$1 each will be legally and beneficially owned by TIS. The subscription to be made by Talent Gain will be financed from its internal resources.

Directors of Newco : Talent Gain, GE and TIS are entitled to appoint and maintain in office 3 directors, 1 director and 1 director of Newco respectively under the Investment Agreement.

Further subscriptions : Four months after the completion of the Investment Agreement, further subscription of Newco shares will be made in cash at par by Talent Gain for 550,000 shares of US\$1 each, by GE for 250,000 shares of US\$1 each and by TIS for 200,000 shares of US\$1 each. The subscription to be made by Talent Gain will be financed from its internal resources.

Put options : Talent Gain has granted to GE two put options (referred to as the "GE First Put Option" and "GE Second Put Option" below) and to TIS two put options (referred to as the "TIS First Put Option" and "TIS Second Put Option" below) under the Investment Agreement, the terms of which are as follows:

GE First Put Option

Talent Gain has granted to GE an option to require Talent Gain to purchase all the shares of Newco owned by GE at the date of the exercise of such option (but subject to any applicable legal or regulatory requirements and accordingly the Company will comply with the Listing Rules in respect of any such transactions including relating to connected transactions). The GE First Put Option is exercisable at the option of GE at any time during either:

(a) the six month period commencing on the occurrence of any of the following trigger events:
(i) Newco failing to achieve the revenue targets for the first year as set out in the business plan agreed by all parties to the Investment Agreement before it was entered into by 25% or more;
(ii) Newco consistently failing to win contracts from members of the GE group within the 18 month period following the date of the Investment Agreement as a result solely of Newco's inability to meet the reasonable quality and price standards set by the members of the GE group; and
(iii) TIS exercising the TIS First Put Option; or

(b) the one year period commencing on the second anniversary of the date of the Investment Agreement.

The consideration payable by Talent Gain for the Newco shares under the GE First Put Option is, at the option of GE, either:

(a) a cash amount equal to the aggregate amount GE subscribed for those shares owned at the date of the exercise of such option plus the interest which would have accrued had the amount GE subscribed for those shares been invested at an annual rate of return of 7.5%; or

(b) such number of shares to be issued by the Company as is equal to the cash amount referred to in paragraph (a) above where the value of each share of the Company is taken as being 95% of the average closing price of such a share on the Hong Kong Stock Exchange for each of the five trading days prior to the date of the exercise of such option.

The Company has agreed to procure the issue of its shares in the event that GE elects to receive its consideration in the form of the Company's shares provided that the maximum number of shares which will be issued by the Company under the GE First Put Option shall not exceed the Issue Limit.

TIS First Put Option

Talent Gain has granted to TIS an option to require Talent Gain to purchase all the shares of Newco owned by TIS at the date of the exercise of such option (but subject to any applicable legal or regulatory requirements and accordingly the Company will comply with the Listing Rules in respect of any such transactions including relating to connected transactions). The TIS First Put Option is exercisable at the option of TIS at any time during the six month period commencing on the occurrence of any of the following trigger events:
(a) Newco failing to achieve the revenue targets for the first year as set out in the business plan agreed by all parties to the Investment Agreement before it was entered into by 25% or more; and
(b) Talent Gain, GE and TIS failing to agree the business plan for Newco in accordance with the detailed procedures set out in the Investment Agreement.

The consideration payable by Talent Gain for the Newco shares under the TIS First Put Option is, at the option of TIS, either:

(a) a cash amount equal to the aggregate amount TIS subscribed for those shares owned at the date of the exercise of such option; or

(b) such number of shares to be issued by the Company as is equal to the cash amount referred to in paragraph (a) above where the value of each share of the Company is taken as being 95% of the average closing price of such a share on the Hong Kong Stock Exchange for each of the five trading days prior to the date of the exercise of such option.

The Company has agreed to procure the issue of its shares in the event that TIS elects to receive its consideration in the form of the Company's shares provided that the maximum number of shares which will be issued by the Company under the TIS First Put Option shall not exceed the Issue Limit.

GE Second Put Option

Talent Gain has also granted to GE another option to require Talent Gain to purchase all the shares of Newco owned by GE at the date of the exercise of such option (but subject to any applicable legal or regulatory requirements and accordingly the Company will comply with the Listing Rules in respect of any such transactions including relating to connected transactions). The GE Second Put Option is exercisable at the option of GE at any time during the three month period commencing on the fourth anniversary of the date of the Investment Agreement provided that there has not previously been an initial public offering or Trade Sale in respect of the shares of Newco.

The consideration payable by Talent Gain for the Newco shares under the GE Second Put Option is, at the option of GE, either:

(a) a cash amount equal to the higher of:
(i) the aggregate amount GE subscribed for those shares owned at the date of the exercise of such option plus the interest which would have accrued had the amount GE subscribed for those shares been invested at an annual rate of return of 7.5%; or
(ii) the fair market value of those shares as determined by independent experts; or

(b) such number of shares to be issued by the Company as is equal to the cash amount referred to in paragraph (a) above where the value of each share of the Company is taken as being 95% of the average closing price of such a share on the Hong Kong Stock Exchange for each of the five trading days prior to the date of the exercise of such option.

The Company has agreed to procure the issue of its shares in the event that GE elects to receive its consideration in the form of the Company's shares provided that the maximum number of shares which will be issued by the Company under the GE Second Put Option shall not exceed the Issue Limit.

TIS Second Put Option

Talent Gain has also granted to TIS another option to require Talent Gain to purchase all the shares of Newco owned by TIS at the date of the exercise of such option (but subject to any applicable legal or regulatory requirements and accordingly the Company will comply with the Listing Rules in respect of any such transactions including relating to connected transactions). The TIS Second Put Option is exercisable at the option of TIS at any time during the three month period commencing on the fourth anniversary of the date of the Investment Agreement provided that there has not previously been an initial public offering or Trade Sale in respect of the shares of Newco.

The consideration payable by Talent Gain for the Newco shares under the TIS Second Put Option is, at the option of TIS, either:

(a) a cash amount equal to the higher of:
(i) the aggregate amount TIS subscribed for those shares owned at the date of the exercise of such option; or
(ii) the fair market value of those shares as determined by independent experts; or

(b) such number of shares to be issued by the Company as is equal to the cash amount referred to in paragraph (a) above where the value of each share of the Company is taken as being 95% of the average closing price of such a share on the Hong Kong Stock Exchange for each of the five trading days prior to the date of the exercise of such option.

The Company has agreed to procure the issue of its shares in the event that TIS elects to receive its consideration in the form of the Company's shares provided that the maximum number of shares which will be issued by the Company under the TIS Second Put Option shall not exceed the Issue Limit.

Drag-along rights : In the event that GE exercises the GE Second Put Option but completion of the transfer of Newco shares thereunder is not possible for legal or regulatory reasons and there has not previously been an initial public offering or Trade Sale in respect of the shares of Newco, then GE has the right to require Talent Gain to sell (all but not part only) of its shares in Newco to a third party on the same terms and conditions as GE is selling its Newco shares. The Company will comply with the notifiable transactions requirements under the Listing Rules.

TIS First Put Option

Talent Gain has granted to TIS an option to require Talent Gain to purchase all the shares of Newco owned by TIS at the date of the exercise of such option (but subject to any applicable legal or regulatory requirements and accordingly the Company will comply with the Listing Rules in respect of any such transactions including relating to connected transactions). The TIS First Put Option is exercisable at the option of TIS at any time during the six month period commencing on the occurrence of any of the following trigger events:
(a) Newco failing to achieve the revenue targets for the first year as set out in the business plan agreed by all parties to the Investment Agreement before it was entered into by 25% or more; and
(b) Talent Gain, GE and TIS failing to agree the business plan for Newco in accordance with the detailed procedures set out in the Investment Agreement.

(a) Newco failing to achieve the revenue targets for the first year as set out in the business plan agreed by all parties to the Investment Agreement before it was entered into by 25% or more; and

(b) Talent Gain, GE and TIS failing to agree the business plan for Newco in accordance with the detailed procedures set out in the Investment Agreement.

The consideration payable by Talent Gain for the Newco shares under the TIS First Put Option is, at the option of TIS, either:

(a) a cash amount equal to the aggregate amount TIS subscribed for those shares owned at the date of the exercise of such option; or

(b) such number of shares to be issued by the Company as is equal to the cash amount referred to in paragraph (a) above where the value of each share of the Company is taken as being 95% of the average closing price of such a share on the Hong Kong Stock Exchange for each of the five trading days prior to the date of the exercise of such option.

The Company has agreed to procure the issue of its shares in the event that TIS elects to receive its consideration in the form of the Company's shares provided that the maximum number of shares which will be issued by the Company under the TIS First Put Option shall not exceed the Issue Limit.

GE Second Put Option

Talent Gain has also granted to GE another option to require Talent Gain to purchase all the shares of Newco owned by GE at the date of the exercise of such option (but subject to any applicable legal or regulatory requirements and accordingly the Company will comply with the Listing Rules in respect of any such transactions including relating to connected transactions). The GE Second Put Option is exercisable at the option of GE at any time during the three month period commencing on the fourth anniversary of the date of the Investment Agreement provided that there has not previously been an initial public offering or Trade Sale in respect of the shares of Newco.

The consideration payable by Talent Gain for the Newco shares under the GE Second Put Option is, at the option of GE, either:

(a) a cash amount equal to the higher of:

(i) the aggregate amount GE subscribed for those shares owned at the date of the exercise of such option plus the interest which would have accrued had the amount GE subscribed for those shares been invested at an annual rate of return of 7.5%; or

(ii) the fair market value of those shares as determined by independent experts; or

(b) such number of shares to be issued by the Company as is equal to the cash amount referred to in paragraph (a) above where the value of each share of the Company is taken as being 95% of the average closing price of such a share on the Hong Kong Stock Exchange for each of the five trading days prior to the date of the exercise of such option.

The Company has agreed to procure the issue of its shares in the event that GE elects to receive its consideration in the form of the Company's shares provided that the maximum number of shares which will be issued by the Company under the GE Second Put Option shall not exceed the Issue Limit.

TIS Second Put Option

Talent Gain has also granted to TIS another option to require Talent Gain to purchase all the shares of Newco owned by TIS at the date of the exercise of such option (but subject to any applicable legal or regulatory requirements and accordingly the Company will comply with the Listing Rules in respect of any such transactions including relating to connected transactions). The TIS Second Put Option is exercisable at the option of TIS at any time during the three month period commencing on the fourth anniversary of the date of the Investment Agreement provided that there has not previously been an initial public offering or Trade Sale in respect of the shares of Newco.

The consideration payable by Talent Gain for the Newco shares under the TIS Second Put Option is, at the option of TIS, either:

(a) a cash amount equal to the higher of:

(i) the aggregate amount TIS subscribed for those shares owned at the date of the exercise of such option; or

(ii) the fair market value of those shares as determined by independent experts; or

(b) such number of shares to be issued by the Company as is equal to the cash amount referred to in paragraph (a) above where the value of each share of the Company is taken as being 95% of the average closing price of such a share on the Hong Kong Stock Exchange for each of the five trading days prior to the date of the exercise of such option.

The Company has agreed to procure the issue of its shares in the event that TIS elects to receive its consideration in the form of the Company's shares provided that the maximum number of shares which will be issued by the Company under the TIS Second Put Option shall not exceed the Issue Limit.

Governing law : The laws of Hong Kong.

Guarantees : The Company and GECIS have guaranteed the due performance by Talent Gain and GE respectively of their obligations under the Investment Agreement.

REASONS FOR ENTERING INTO THE INVESTMENT AGREEMENT

The Company believes that more and more Japan-based corporations and multi-national corporations are seeking to outsource their software development, IT support and other related functions in order to achieve cost reductions. The Company is a holding company with its subsidiaries engaged mainly in the distribution of IT products, provision of systems integration services and development and distribution of networking products. The Company considers that its expertise in IT services and its low cost base in China combined with the contributions to be made by both GE and TIS as described below will enable Newco to take advantage of these opportunities and that the business to be carried on by Newco is a logical development of the Company's group's business.

GE is a member of the same group as GECIS, which is the Business Process Outsourcing arm of the global General Electric group. In addition to the equity investment, GE has also agreed to provide know-how related to the development process and management of Newco.

TIS is a leading provider of software development, IT outsourcing and IT solution services based in Japan. In addition to the equity investment, TIS has also agreed to contribute certain know-how to facilitate Newco to serve the Japanese customers including carrying out joint sales activities with Newco in the Japan market.

USE OF PROCEEDS

Newco will use the amounts to be subscribed pursuant to the Investment Agreement (as described above) for the purposes of establishing its business. Save as described above, none of the parties to the Investment Agreement are under any obligation to make further funding available to Newco.

NO CONNECTION BETWEEN THE PARTIES

As at the date of the Investment Agreement, according to all available information, GECIS, GE and TIS are independent of the Company and are not connected with the Company, its directors, chief executive or substantial shareholders or of any of its subsidiaries or of any of their respective associates.

It is likely that Newco will enter into transactions with GE, GECIS, TIS and members of their respective groups following Newco's establishment. At that time, GE and TIS will be substantial shareholders of Newco. Such transactions and the exercise of the Put Options will therefore be connected transactions for the purposes of the Listing Rules and will be subject to the provisions of the Listing Rules regarding connected transactions and, where applicable, other notifiable transactions.

INFORMATION FOR SHAREHOLDERS OF THE COMPANY

Because the exercise of the GE First Put Option, TIS First Put Option, GE Second Put Option or TIS Second Put Option (subject to any applicable legal or regulatory requirements) may, at the option of the GE or TIS, result at the Company issuing new shares to GE or TIS (as the case may be), the entering into the Investment Agreement has constituted a share transaction of the Company under the Listing Rules. An application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the new shares of the Company in the event that such new shares are to be issued pursuant to the Investment Agreement.

As mentioned above, the maximum amount of shares of the Company which can be allotted under the put options granted to GE is 5% of the issued share capital of the Company as at 8 August 2003. Similarly the maximum amount of shares of the Company which can be allotted under the put options granted to TIS is 5% of the issued share capital of the Company as at 8 August 2003. Accordingly, in the event that the maximum possible number of shares of the Company are allotted pursuant to all the Put Options, the shareholders of the Company will be diluted by approximately 9.1% (on the assumption that there is no change in the issued share capital of the Company between now and the date the options are exercised). The Company has sufficient authority remaining under the general mandate to issue shares of the Company granted at the Company's annual general meeting on 8 August 2003 to grant the Put Options and the Put Options are granted pursuant to such authority. However, the issue of new shares to connected persons will still be subject to independent shareholder approval required by the Listing Rules at the time the Put Options are exercised.

This announcement appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for shares of the Company.

DEFINITIONS

The following terms used in this announcement shall have the following meanings:

"Company" means Digital China Holdings Limited, a company incorporated under the laws of Bermuda with limited liability, the shares of which are listed on the main board of the Hong Kong Stock Exchange;

"GE" means GE Capital Mauritius Equity Investment, a company incorporated under the laws of Mauritius;

"GECIS" means GE Capital International Services, a private company with unlimited liability incorporated under the laws of India;

"Hong Kong" means the Hong Kong Special Administrative Region of The People's Republic of China;

"Hong Kong Stock Exchange" means The Stock Exchange of Hong Kong Limited;

"Investment Agreement" means the investment agreement dated 24 September 2003 entered into among the Company, Talent Gain, GECIS, GE and TIS;

"Issue Limit" means 5% of the issued share capital of the Company as at 8 August 2003, the date on which the last annual general meeting of the Company was held;

"IT" means information technology;

"Listing Rules" means the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited;

"Newco" means a company to be incorporated in Hong Kong with limited liability in accordance with the provisions of the Investment Agreement;

"PRC" means The People's Republic of China;

"Put Options" means the GE First Put Option, the TIS First Put Option, the GE Second Put Option and the TIS Second Put Option;

"Talent Gain" means Talent Gain Developments Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company;

"TIS" means TIS Inc., a company incorporated under the laws of Japan, the securities of which are listed on the Tokyo Stock Exchange, Inc. and Osaka Securities Exchange Co., Ltd.;

"Trade Sale" means a sale of more than 50% of Newco's issued share capital to a new investor; and

"US\$" means United States dollars, the lawful currency of the United States of America.

By Order of the Board
LI Qin
Chairman

Hong Kong, 24 September 2003

Website: www.digitalchina.com.hk

(* For identification purpose only)