
THIS DOCUMENT 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 or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



神州数码
Digital China

神州數碼控股有限公司*

DIGITAL CHINA HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

PROPOSALS FOR GENERAL MANDATES TO ISSUE SHARES AND TO REPURCHASE SHARES

A notice convening the annual general meeting of Digital China Holdings Limited (the "Company") to be held at the Prestige Room, Plaza Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 8 August 2003 at 9:30 a.m. at which the proposals as referred to in this circular will be considered is set out in the annual report of the Company for the year ended 31 March 2003 despatched to the shareholders of the Company together with this circular. Whether or not you are able to attend the annual general meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's Branch Share Registrar in Hong Kong, Abacus Share Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the annual general meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the annual general meeting or any adjourned meeting (as the case may be) should you so wish.

* For identification purpose only

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DEFINITIONS

In this circular, except where the context otherwise requires, the following expressions shall have the following meanings:

“AGM”	the annual general meeting of the Company to be held at the Prestige Room, Plaza Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 8 August 2003 at 9:30 a.m. or any adjournment thereof;
“Annual Report”	the annual report of the Company for the year ended 31 March 2003 despatched to the Shareholders together with this circular;
“Company”	Digital China Holdings Limited (神州數碼控股有限公司*), a company incorporated in Bermuda with limited liability and whose Shares are listed on the Stock Exchange;
“Directors”	the directors of the Company;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Latest Practicable Date”	3 July 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as modified from time to time;
“Notice of AGM”	the notice convening the AGM as set out in the Annual Report;
“Ordinary Resolutions”	the proposed ordinary resolutions as referred to in the Notice of AGM;
“Share(s)”	shares of HK\$0.10 each in the capital of the Company;
“Shareholder(s)”	Registered holder(s) of Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“Takeovers Code”	Code on Takeovers and Mergers and Share Repurchases.

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LETTER FROM THE BOARD



神州数码
Digital China

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

Executive Directors:

Mr. LI Qin (*Chairman*)
Mr. GUO Wei (*Vice Chairman, President
and Chief Executive Officer*)
Mr. ZENG Maochao
Mr. LIN Yang
Mr. YU Lishan
Mr. HUA Zhinian

Non-executive Directors:

Mr. William O. GRABE

Independent Non-executive Directors:

Prof. WU Jinglian
Mr. LEUNG Pak To, Francis

Registered Office:

Cedar House
41 Cedar Avenue
Hamilton HM12
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

10 July 2003

To the Shareholders

Dear Sir or Madam,

**PROPOSALS FOR GENERAL MANDATES TO ISSUE SHARES
AND TO REPURCHASE SHARES**

I. INTRODUCTION

At the annual general meeting of the Company held on 18 July 2002, ordinary resolutions were passed by the then Shareholders giving general mandates to the Directors to issue and allot Shares and to exercise the powers of the Company to repurchase its own Shares. These general mandates will lapse at the conclusion of the forthcoming AGM. The Ordinary Resolutions will therefore be proposed by the Directors to the Shareholders at the AGM to renew these general mandates.

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LETTER FROM THE BOARD

The purpose of this circular is to provide Shareholders with information on the proposed renewal of the general mandates to issue and allot Shares and to repurchase Shares and to enable Shareholders to make an informed decision on whether to vote for or against the Ordinary Resolutions in relation thereto.

II. GENERAL MANDATES

1. General Mandate to Issue Shares

At the AGM, Ordinary Resolution No. 1 will be proposed to the Shareholders to grant to the Directors a general and unconditional mandate to allot, issue and deal with, during the period following the passing of such resolution and up to the conclusion of the next annual general meeting of the Company (or such earlier period as stated in the resolution), Shares representing up to 20 per cent. of the Company's issued share capital as at the date of the passing of such resolution (the "**Issue Mandate**"). In addition, Ordinary Resolution No. 3 will also be proposed at the AGM to authorise the extension of the Issue Mandate by adding to it the number of Shares repurchased by the Company under the Repurchase Mandate (as defined herebelow).

2. General Mandate to Repurchase Shares

Ordinary Resolution No. 2 will be proposed at the AGM to grant to the Directors a general and unconditional mandate to exercise the powers of the Company to repurchase, at any time following the passing of such resolution until the conclusion of the next annual general meeting of the Company (or such earlier period as stated in the resolution), Shares up to a maximum of 10 per cent. of the Company's issued share capital as at the date of the passing of such resolution (the "**Repurchase Mandate**").

An explanatory statement required to be sent to Shareholders in compliance with the Listing Rules in connection with the Repurchase Mandate is contained in the Appendix to this circular.

III. ANNUAL GENERAL MEETING

Ordinary Resolutions No. 1, No. 2 and No. 3 are set out in the Notice of AGM included in the Annual Report.

A form of proxy is enclosed for use by you at the AGM. Whether or not you intend to be present at the AGM, you are requested to complete and return the form of proxy to the Company's Branch Share Registrar in Hong Kong as soon as possible, but in any event not less than 48 hours before the time fixed for holding the AGM. The lodging of the form of proxy will not preclude you from attending the AGM and voting in person should you so wish.

LETTER FROM THE BOARD

IV. RECOMMENDATION

The Directors believe that the Issue Mandate and the Repurchase Mandate are in the best interests of the Company and the Shareholders. Accordingly, the Directors recommend you to vote in favour of all relevant Ordinary Resolutions to be proposed at the AGM.

Yours faithfully,
For and on behalf of the Board of
Digital China Holdings Limited
LI Qin
Chairman

The following is the explanatory statement to provide Shareholders the information prescribed by the Listing Rules in connection with the Repurchase Mandate.

The Listing Rules provide that all proposed repurchases of securities by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of its shareholders in general meeting, either by way of a general mandate or by a specific approval of a particular transaction. A maximum of 10 per cent. of the fully paid-up securities of a company as at the date of the passing of the relevant resolution may be repurchased on the Stock Exchange.

SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$200,000,000 divided into 2,000,000,000 shares of HK\$0.10 each and number of Shares in issue was 858,704,331. In addition, as at 24 June 2003, there were outstanding options in respect of 67,491,000 Shares granted under the old share option scheme of the Company adopted on 14 May 2001.

Subject to the passing of the Ordinary Resolution No. 2 set out in the Notice of AGM and on the basis that no further Shares will be issued or repurchased prior to the AGM, the Company would be allowed under the Repurchase Mandate to repurchase a maximum of 85,870,433 Shares during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid-up.

REASONS FOR THE REPURCHASE

The Directors believe that it is in the best interests of the Company and the Shareholders to give the Directors a general authority to repurchase Shares. Such repurchases may, depending on the circumstances, result in an increase in net assets and/or earnings per Share. The Directors are seeking the grant of a general mandate to repurchase Shares to give the Company the flexibility to do so if and when appropriate. The Directors will decide the number(s) of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased at the relevant time having regard to the circumstances then pertaining.

FUNDING OF REPURCHASE

It is envisaged that any repurchase would be funded out of funds legally available for such purpose under the laws of Bermuda and the Memorandum of Association and the Bye-laws of the Company. The working capital or gearing position of the Company could be adversely affected (as compared with the position disclosed in the audited accounts of the Company for the year ended 31 March 2003) in the event that the proposed Share repurchases were to be carried out in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital or gearing level of the Company as is from time to time appropriate.

GENERAL

None of the Directors nor (to their best knowledge and having made all reasonable enquiries) any of their associates (as defined in the Listing Rules) presently intend to sell Shares to the Company in the event that the Repurchase Mandate is granted.

The Directors have undertaken to the Stock Exchange to exercise the power of the Company to make repurchases pursuant to the Repurchase Mandate and in accordance with the Listing Rules, the laws of Bermuda and the Company's Memorandum of Association and Bye-Laws.

If, as a result of a share repurchase, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of the Company or become obliged to make a mandatory offer under Rules 26 and 32 of the Takeovers Code.

As at the Latest Practicable Date, according to the register maintained under Section 336 of the Securities and Futures Ordinance (Cap. 571), 聯想控股有限公司 (Legend Holdings Limited[†]) ("LHL"), which held 426,785,314 Shares (representing approximately 49.7 per cent. of the issued share capital of the Company) was the controlling shareholder (as defined in the Listing Rules) of the Company.

In the event that the Repurchase Mandate is exercised in full, the shareholding of LHL in the issued share capital of the Company would increase to approximately 55.2 per cent. and such increase would give rise to an obligation to make a mandatory offer under Rules 26 and 32 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the exercise in full of the Repurchase Mandate. As at the date of this circular, the Directors do not intend to exercise the Repurchase Mandate in full or to an extent which would trigger a mandatory offer under Rules 26 and 32 of the Takeovers Code.

In the event that the Repurchase Mandate is exercised in full, to the best knowledge of the Directors such repurchase would not give rise to any consequences under the Listing Rules where less than a prescribed minimum percentage of 25 per cent. of the issued share capital of the Company will be held in public hands. As at the date of this circular, the Directors do not intend to exercise the Repurchase Mandate in full and the Company will take all reasonable steps to ensure compliance with this prescribed minimum percentage requirement under the Listing Rules.

The Company had not purchased any Shares (whether on the Stock Exchange or otherwise) in the six months preceding the Latest Practicable Date.

[†] Its English name is the direct transliteration of its Chinese registered name

No connected person (as defined in the Listing Rules) of the Company has notified it of a present intention to sell Shares to the Company and no such persons have undertaken not to sell any such Shares to the Company in the event that the Repurchase Mandate is granted by the Shareholders.

The highest and lowest prices at which the Shares were traded on the Stock Exchange in each of the previous 12 calendar months prior to the Latest Practicable Date were as follows:

	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
2002		
July	3.7000	2.6750
August	2.9750	2.2250
September	2.8000	2.2750
October	2.5750	2.1500
November	2.5500	2.2500
December	2.8250	2.3250
2003		
January	2.7750	2.3750
February	2.6000	2.3250
March	2.4750	2.2250
April	2.4250	1.8000
May	2.6500	2.0000
June	2.5500	1.9600