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If you have sold or transferred all your shares in Digital China Holdings Limited (the “**Company**”), you should at once hand this supplemental circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**SUPPLEMENTAL CIRCULAR TO
THE CIRCULAR TO SHAREHOLDERS DATED 30 APRIL 2019
IN RELATION TO THE PROPOSED ADOPTION OF
EQUITY INCENTIVE SCHEME BY A SUBSIDIARY
AND
SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING**

This supplemental circular should be read together with the circular to the shareholders of the Company dated 30 April 2019 (the “**Circular**”) and the notice convening the annual general meeting of the Company (the “**AGM**”) to be held at Taishan Room, Level 5, Island Shangri-la Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Thursday, 6 June 2019 at 10:30 a.m. is set out on pages 17 to 22 of the Circular. A Second Proxy Form is enclosed with this supplemental circular for use at the AGM.

If you are not able to attend the AGM in person, you are requested to 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 AGM 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 AGM or any adjourned meeting thereof (as the case may be) should you so wish.

* *For identification purpose only*

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DEFINITIONS

In this supplemental 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 Taishan Room, Level 5, Island Shangri-la Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Thursday, 6 June 2019 at 10:30 a.m. or any adjournment thereof, notice of which is set out on pages 17 to 22 of the Circular
“Board”	the board of Directors
“Buy-back Mandate”	a general and unconditional mandate to the Directors to exercise all the powers of the Company to buy back Shares up to 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the ordinary resolution in relation thereof
“Circular”	the circular to the Shareholders dated 30 April 2019
“Closing Time”	as soon as possible and in any event not less than 48 hours before the time appointed for holding the AGM or any adjourned meeting thereof (as the case may be)
“Company”	Digital China Holdings Limited (神州數碼控股有限公司*), an exempted company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“CSRC”	China Securities Regulatory Commission
“DCITS”	神州數碼信息服務股份有限公司 (Digital China Information Service Company Ltd.*), an approximately 40.43% owned subsidiary of the Company listed on the Shenzhen Stock Exchange (stock code: 000555)
“DCITS Incentive Scheme”	an equity incentive scheme which comprises two parts, the Share Option Incentive Scheme and the Restricted Share Incentive Scheme, to be adopted by DCITS
“Director(s)”	the director(s) of the Company
“Extension Mandate”	an authorisation to extend the Issue Mandate by an amount representing the aggregate nominal amount of the Shares bought back under the Buy-back Mandate
“First Proxy Form”	the proxy form enclosed with the Circular

* *For identification purpose only*

DEFINITIONS

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Issue Mandate”	a general and unconditional mandate to the Directors to exercise all the powers of the Company to allot, issue and deal with new Shares not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the ordinary resolution in relation thereof, and the discount for any shares to be issued for cash shall not be 20% or more unless the Stock Exchange agrees otherwise
“Latest Practicable Date”	3 May 2019, being the latest practicable date prior to the printing of this supplemental circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Notice of AGM”	the notice dated 30 April 2019 convening the AGM as set out on pages 17 to 22 of the Circular
“Option Registration Date”	the completion date of registration of the grant of share options pursuant to the Share Option Incentive Scheme
“PRC”	the People’s Republic of China, which for the purpose of this supplemental circular only, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Restricted Share Incentive Scheme”	the restricted share incentive scheme under the DCITS Incentive Scheme
“Second Proxy Form”	the new proxy form enclosed with this supplemental circular
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Option Incentive Scheme”	the share option incentive scheme under the DCITS Incentive Scheme

DEFINITIONS

“Share Registrar”	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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Notice of AGM”	the supplemental notice dated 10 May 2019 convening the AGM as set out on pages 20 to 22 of this supplemental circular
“%”	per cent



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 and
Chief Executive Officer*)
Mr. LIN Yang (*Vice Chairman*)

Non-executive Directors:

Mr. YU Ziping
Mr. PENG Jing

Independent Non-executive Directors:

Mr. WONG Man Chung, Francis
Ms. NI Hong (Hope)
Dr. LIU Yun, John
Ms. YAN Xiaoyan
Mr. KING William

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

10 May 2019

To the Shareholders

Dear Sir or Madam,

**SUPPLEMENTAL CIRCULAR TO
THE CIRCULAR TO SHAREHOLDERS DATED 30 APRIL 2019
IN RELATION TO THE PROPOSED ADOPTION OF EQUITY
INCENTIVE SCHEME BY A SUBSIDIARY
AND
SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING**

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LETTER FROM THE BOARD

1. INTRODUCTION

This supplemental circular should be read together with the Circular of the Company which contains, *inter alia*, information on (1) the granting of the Issue Mandate, (2) the granting of the Buy-back Mandate, (3) the granting of Extension Mandate, (4) the re-election of the retiring Directors; and (5) the distribution of final dividend for the year ended 31 December 2018.

The purpose of this supplemental circular is to provide you with the information reasonably necessary to enable you to make an informed decision on whether to vote for or against the additional proposed resolution at the AGM in relation to the proposed adoption of the Share Option Incentive Scheme, and to give you the Supplemental Notice of AGM and the Second Proxy Form.

2. PROPOSED ADOPTION OF THE SHARE OPTION INCENTIVE SCHEME

The DCITS Incentive Scheme comprises two parts, the Share Option Incentive Scheme and the Restricted Share Incentive Scheme. The board of directors of DCITS passed a board resolution on 23 April 2019 to adopt the DCITS Incentive Scheme, subject to the approval by the shareholders of DCITS at its general meeting. An ordinary resolution will be proposed at the AGM to pass the proposed adoption of the Share Option Incentive Scheme.

Principal Terms of the DCITS Incentive Scheme

Scope of and Basis of Determining the Eligibility of Participants of the DCITS Incentive Scheme

The incentive participants of the DCITS Incentive Scheme comprise the directors, senior management and key employees of DCITS and its subsidiaries, but shall exclude the independent directors and supervisors of DCITS, as well as shareholders, individually or in aggregate, holding 5% or more of the shares in DCITS or the de facto controllers and their spouses, parents or children. All incentive participants of the DCITS Incentive Scheme must have employment, labor or service relationships with DCITS within the validity period of the DCITS Incentive Scheme.

The basis of determining the eligibility of incentive participants of the DCITS Incentive Scheme is determined in accordance with the Company Law of the PRC (中華人民共和國公司法), the Securities Laws of the PRC (中華人民共和國證券法), the Measures for the Administration of Equity Incentives of Listed Companies of the PRC (中華人民共和國上市公司股權激勵管理辦法) and other applicable laws, regulations, regulatory documents, Listing Rules and the articles of association of DCITS, with consideration of the actual circumstances.

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Underlying Shares of the DCITS Incentive Scheme

The underlying shares of the DCITS Incentive Scheme shall be the A ordinary shares to be issued by DCITS to the incentive participants of the DCITS Incentive Scheme and shall be no more than 30,000,000 shares in aggregate, representing approximately 3.11% of the total share capital of DCITS as at the Latest Practicable Date.

According to the Share Option Incentive Scheme, DCITS intends to grant 22,600,000 share options to the incentive participants of the Share Option Incentive Scheme, representing approximately 2.35% of the total share capital of DCITS as at the Latest Practicable Date. Upon fulfilment of the exercise conditions, an incentive participant of the Share Option Incentive Scheme shall be entitled by way of each share option granted to purchase one share in DCITS at the exercise price during the validity period of the Share Option Incentive Scheme, which shall commence from the Option Registration Date and end on the date on which all the share options granted to such incentive participant have been exercised or cancelled which shall not exceed 36 months.

According to the Restricted Share Incentive Scheme, DCITS intends to grant 7,400,000 restricted shares to the incentive participants of the Restricted Share Incentive Scheme, representing approximately 0.77% of the total share capital of DCITS as at the Latest Practicable Date.

Exercise Price

The exercise price of the share options granted under the Share Option Incentive Scheme is determined in accordance with Article 29 of the Administrative Measures for the Equity Incentives of Listed Companies of the PRC (中華人民共和國上市公司股權激勵管理辦法), which provides that a listed company, when granting stock options to incentive recipients under an equity incentive plan, shall determine the exercise price or the method for determining the exercise price. The exercise price shall be no less than the par value of the stock, and in principle, shall not be lower than the higher of the following prices:

- (a) the average trading price of the company stock in the trading day prior to the publication of the equity incentive plan draft; and
- (b) the average trading price of the company stock in any one of the following periods: 20 trading days, 60 trading days and 120 trading days prior to the publication of the equity incentive plan draft.

Accordingly, the exercise price of the share options to be granted under the Share Option Incentive Scheme shall be RMB12.76 per share, not less than the higher of:

- (a) the average trading price of DCITS shares on the last trading day before the announcement of the draft DCITS Incentive Scheme, being RMB12.753 per share; and

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- (b) the average trading price of DCITS shares for the last 120 trading days before the announcement of the draft DCITS Incentive Scheme, being RMB11.905 per share.

No payment shall be required to be made by the grantee under the Share Option Incentive Scheme upon being granted with share options under the Share Option Incentive Scheme.

The grant price of the restricted shares of the Restricted Share Incentive Scheme is determined in accordance with Article 23 of the Administrative Measures for the Equity Incentives of Listed Companies of the PRC (中華人民共和國上市公司股權激勵管理辦法), which provides that a listed company, when granting restricted stock to incentive recipients under an equity incentive plan, shall determine the grant price or the method for determining the grant price. The grant price shall be no less than the par value of the stock, and in principle, shall not be lower than the higher of the following prices:

- (a) 50% of the average trading price of the company stock in the trading day prior to the publication of the equity incentive plan draft; and
- (b) 50% of the average trading price of the company stock in any one of the following periods: 20 trading days, 60 trading days and 120 trading days prior to the publication of the equity incentive plan draft.

Accordingly, the grant price of the restricted shares to be granted under the Restricted Share Incentive Scheme shall be RMB6.38 per share, not less than the higher of:

- (a) RMB6.377 per share, being 50% of the average trading price of DCITS shares on the last trading day before the announcement of the draft DCITS Incentive Scheme (i.e. RMB12.753 per share); and
- (b) RMB5.953 per share, being 50% of the average trading price of DCITS shares for the last 120 trading days before the announcement of the draft DCITS Incentive Scheme (i.e. RMB11.905 per share).

Others

In addition to the information stated above, a summary of other principal terms of the Share Option Incentive Scheme is set out in Appendix I to this supplemental circular.

A copy of the draft of the DCITS Incentive Scheme has also been published on the website of CNINFO* (巨潮資訊網網站), <http://www.cninfo.com.cn> and will be available for inspection at the Company's principal place of business in Hong Kong at Suite 2008, 20th Floor Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong from the date of this supplemental circular up to the date of the AGM.

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Purpose of and reasons for adopting the DCITS Incentive Scheme

The purpose of the DCITS Incentive Scheme is to further promote the establishment and improvement of DCITS's long term incentive mechanism, attract and retain high caliber talents, encourage the initiative of directors, senior management and key employees of DCITS and its subsidiaries, so as to effectively align the interest of shareholders, DCITS and individual interests of core management, and cause all parties to focus on the long-term development of DCITS.

The DCITS Incentive Scheme expressly provides that all incentive participants must have employment, labor or service relationships with DCITS within the validity period of the DCITS Incentive Scheme. As the achievement of individual performance targets is a condition to the exercise of share options or release of restrictions in respect of the restricted shares, incentive participants should be motivated to better perform during his/her employment with, or provision of services for, DCITS. Accordingly, the DCITS Incentive Scheme will enable DCITS to attract and retain talents and serve the purpose of the DCITS Incentive Scheme (as mentioned above).

Further, the successful implementation of the DCITS Incentive Scheme would effectively promote the strategic plan of DCITS, enhance the performance of DCITS, establish a good image of DCITS in the capital markets, and increase the market value of DCITS. In view of the terms of the DCITS Incentive Scheme and the reasons above, the Directors believe that the successful implementation of the DCITS Incentive Scheme will simultaneously increase the Company's earnings as an indirect controlling shareholder, and will be conducive to the interests of the Company and the Shareholders.

Listing Rules Implications

As the Share Option Incentive Scheme constitutes a share option scheme under Chapter 17 of the Listing Rules, the adoption of the Share Option Incentive Scheme is subject to the approval of the Shareholders by an ordinary resolution at the AGM. Further, the provisions of the Share Option Incentive Scheme will comply with the requirements of Chapter 17 of the Listing Rules.

The Restricted Share Incentive Scheme does not constitute a share option scheme under Chapter 17 of the Listing Rules. However, the issue of the restricted shares under the Restricted Share Incentive Scheme by DCITS constitutes a deemed disposal of the Company of its equity interest in DCITS, and the issue of the restricted shares to the Company's connected person by DCITS constitutes a connected transaction under Chapter 14A of the Listing Rules. Assuming no new shares in DCITS are further issued from the date hereof to the date of grant of the restricted shares, the Company's shareholding in DCITS will be decreased from approximately 40.43% to approximately 40.12% of the enlarged share capital of DCITS upon the grant of the restricted shares, representing a dilution of approximately 0.31%. Upon completion, DCITS will remain as a subsidiary of the Company. According to the results of the current applicable size test percentage ratios, the above deemed disposal is exempted from the announcement requirement under Chapter 14 of the Listing Rules and the

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connected transaction will be in compliance with the de minimis transaction requirement under Rule 14A.76 of the Listing Rules. Hence, the Restricted Share Incentive Scheme is not subject to the approval of the Shareholders at the AGM.

To the extent that any Shareholder is an incentive participant of the Share Option Incentive Scheme, such Shareholder is required to abstain from voting on the resolution approving the Share Option Incentive Scheme.

3. SUPPLEMENTAL NOTICE OF AGM AND SECOND PROXY FORM

As a result of the additional resolution to be proposed at the AGM subsequent to the despatch of the Circular (containing the Notice of AGM and First Proxy Form), a Supplemental Notice of AGM is set out on pages 20 to 22 of this supplemental circular.

The Second Proxy Form for use at the AGM is enclosed with this supplemental circular and such form is also available on the websites of the Company at www.dcholdings.com and the Stock Exchange at www.hkexnews.hk. If you are not able to attend the AGM in person, you are requested to complete and return the Second Proxy Form in accordance with the instructions printed thereon to the public office of the Share Registrar before the Closing Time. Completion and return of the Second Proxy Form will not preclude you from attending and voting in person at the AGM or any adjourned meeting thereof (as the case may be) should you so wish.

4. VOTING AT THE AGM

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at a general meeting must be taken by poll. Accordingly, the resolution set out in the Supplemental Notice of the AGM will be put to the vote by way of a poll.

After the closure of the AGM, an announcement on the poll results will be published on the Company's website at www.dcholdings.com and the Stock Exchange's website at www.hkexnews.hk.

5. RECOMMENDATION

In addition to the recommendations contained in the Circular, the Directors believe that the proposed adoption of the Share Option Incentive Scheme as set out in this supplemental circular is in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend you to vote in favour of the relevant resolutions to be proposed at the AGM.

6. GENERAL INFORMATION

Your attention is drawn to additional information as set out in Appendix I to this supplemental circular.

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7. RESPONSIBILITY STATEMENT

This supplemental 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 supplemental 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 supplemental circular misleading.

Yours faithfully,
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

* *For identification purpose only*

The following is a summary of the principal terms of the Share Option Incentive Scheme proposed to be approved by the Shareholders at the AGM in addition to the terms disclosed in the Letter from the Board.

1. CONDITIONS

The Share Option Incentive Scheme is conditional on the approval of the Shareholders and the shareholders of DCITS at the AGM and the general meeting of DCITS, respectively.

2. DURATION OF THE SHARE OPTION INCENTIVE SCHEME

The effective term of the Share Option Incentive Scheme shall commence from the Option Registration Date to the date on which all share options granted to grantees under the Share Option Incentive Scheme have been exercised or cancelled, provided that the term shall not exceed 36 months.

DCITS shall grant share options under the Share Option Incentive Scheme and complete the relevant announcement and registration procedures within 60 days after the DCITS Incentive Scheme is approved at a general meeting of the shareholders of DCITS. If DCITS fails to complete the said procedures within the requisite period, DCITS shall promptly disclose the reason for such failure, the Share Option Incentive Scheme shall terminate immediately and any share options not granted shall lapse immediately.

3. MAXIMUM NUMBER OF DCITS SHARES IN RESPECT OF WHICH SHARE OPTIONS MAY BE GRANTED

According to the Share Option Incentive Scheme:

- (a) The total number of underlying shares involved in all effective incentive schemes of DCITS shall not in aggregate exceed 10% of the total share capital of DCITS as at the time when the Share Option Incentive Scheme was submitted to the shareholders meeting of DCITS for approval.
- (b) The total number of shares of DCITS which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Incentive Scheme and any other scheme of DCITS shall not in any event exceed 30% of the total A ordinary shares in issue of DCITS from time to time.
- (c) The total number of shares of DCITS issued pursuant to all effective equity incentive schemes of DCITS to any incentive participant shall not in aggregate exceed 1% of the total shares in issue of DCITS.

**4. VALUE OF THE SHARE OPTIONS TO BE GRANTED UNDER THE SHARE
OPTION INCENTIVE SCHEME**

DCITS has selected the Black-Scholes model to calculate the fair value of the share options to be granted under the Share Option Incentive Scheme and calculated the estimated fair value of such options on 23 April 2019 by using this model, with the total estimated fair value being RMB38,837,400 (the actual fair value will be calculated on the date of granting the share options under the Share Option Incentive Scheme).

Relevant factors for calculating the estimated fair value are set out below:

- (i) Price of the underlying shares: RMB12.99 per share (assuming the closing price of shares of DCITS is RMB12.99 per share on the date of granting share options under the Share Option Incentive Scheme);
- (ii) Validity period: 1 year, 2 years (the period counting from the Option Registration Date to the first day of each of the exercise periods of such options);
- (iii) Volatility rate: 25.9667%, 21.7765% (based on the respective historical volatility rate of Shenzhen Stock Exchange Index in the past one year and two years);
- (iv) Risk-free interest rate: 1.50%, 2.10% (based on the financial institution RMB deposit benchmark interest rate for one and two years term set by the People's Bank of China); and
- (v) Dividend rate: 0.2546%, 0.2050%. (the dividend rate of DCITS in the previous one and two years before the announcement of the DCITS Incentive Scheme).

The calculation results of the fair value of the share options above are subject to a number of assumptions of the parameters used herein and the limitation of the model adopted, therefore the estimated value of the share options to be granted under the Share Option Incentive Scheme may be subjective and uncertain.

5. RESTRICTIONS ON GRANT OF SHARE OPTIONS

The following conditions must be satisfied before share options are granted under the Share Option Incentive Scheme:

- (a) none of the following events has occurred on the part of DCITS:
 - (i) issue of an accountants' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the accountants' report of DCITS for its latest financial year;
 - (ii) issue of an accountants' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control for the latest financial year;

- (iii) failure to conduct profit distribution in accordance with laws and regulations, the articles of association of DCITS and public undertakings during the most recent 36 months after listing;
 - (iv) circumstances where the implementation of an equity incentive scheme is prohibited by laws and regulations or applicable Listing Rules, including without limitation after inside information has come to the knowledge of DCITS until it has announced the relevant information; and
 - (v) any other circumstances as determined by the CSRC or relevant regulatory authorities.
- (b) none of the following events have occurred on the part of the grantee of the Share Option Incentive Scheme:
- (i) being identified as an ineligible personnel by the Shenzhen Stock Exchange in the last 12 months;
 - (ii) being identified as an ineligible personnel by the CSRC and its resident agencies in the last 12 months;
 - (iii) imposition of administrative penalties or measures prohibiting the grantee from entering into the market by the CSRC and its resident agencies in the last 12 months due to material noncompliance of laws or regulations;
 - (iv) being prohibited from acting as a director or senior management personnel of DCITS under the Company Law of the PRC (中華人民共和國公司法);
 - (v) being prohibited from participating in an equity incentive scheme of a listed company under relevant laws and regulations and applicable Listing Rules; and
 - (vi) any other circumstances as determined by the CSRC or relevant regulatory authorities.

6. THE MINIMUM PERIOD FOR WHICH SHARE OPTIONS MUST BE HELD BEFORE THEY CAN BE EXERCISED AND THE EXERCISE PERIOD

The minimum period for which share options granted under the Share Option Incentive Scheme must be held before they can be exercised is 12 months from the Option Registration Date.

Subject to the fulfillment of the conditions for exercising the share options under the Share Option Incentive Scheme, grantees may exercise their share options within 24 months after the expiry of 12 months from the Option Registration Date in two tranches as follows:

Tranche	Exercise period	Percentage of share option exercisable
First tranche (“ First Tranche ”)	From the first trading day after the expiry of 12 months from the Option Registration Date to the last trading day within 24 months from the Option Registration Date	50%
Second tranche (“ Second Tranche ”)	From the first trading day after the expiry of 24 months from the Option Registration Date to the last trading day within 36 months from the Option Registration Date	50%

7. EXERCISE CONDITIONS OF THE SHARE OPTIONS

During the exercise period of the Share Option Incentive Scheme, a number of conditions must be satisfied before the grantees can exercise their share options, including:

- (a) none of the following events has occurred on the part of DCITS:
 - (i) issue of an accountants’ report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the accountants’ report of DCITS for its latest financial year;
 - (ii) issue of an accountants’ report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control for the latest financial year;
 - (iii) failure to conduct profit distribution in accordance with laws and regulations, the articles of association of DCITS and public undertakings during the most recent 36 months after listing;
 - (iv) prohibition from implementation of an equity incentive scheme by laws and regulations or applicable Listing Rules; and
 - (v) any other circumstances as determined by the CSRC or relevant regulatory authorities.

- (b) none of the following events have occurred on the part of the grantee of the Share Option Incentive Scheme:
- (i) being identified as an ineligible personnel by the Shenzhen Stock Exchange in the last 12 months;
 - (ii) being identified as an ineligible personnel by the CSRC and its resident agencies in the last 12 months;
 - (iii) imposition of administrative penalties or measures prohibiting the grantee from entering into the market by the CSRC and its resident agencies in the last 12 months due to material noncompliance of laws or regulations;
 - (iv) being prohibited from acting as a director or senior management personnel of DCITS under the Company Law of the PRC (中華人民共和國公司法);
 - (v) being prohibited from participating in an equity incentive scheme of a listed company under relevant laws and regulations; and
 - (vi) any other circumstances as determined by the CSRC or relevant regulatory authorities.
- (c) DCITS achieving the following financial performance targets:

Tranche	Financial performance targets
First Tranche	the net profit of DCITS for the year of 2019 shall not be less than RMB360 million
Second Tranche	the net profit of DCITS for the year of 2020 shall not be less than RMB435 million.

- (d) subject to DCITS achieving the relevant annual financial performance targets, the results of the annual assessment to be conducted by the remuneration and appraisal committee of DCITS against the grantee being 80 points or above or graded at “A”.

In the event that any of the above exercise conditions cannot be fulfilled within the relevant exercise period, share options granted under the Share Option Incentive Scheme shall be cancelled by DCITS. In the event that the above exercise conditions have been fulfilled but share options granted under the Share Option Incentive Scheme have not been exercised upon expiry of the relevant exercise period, such share options shall be cancelled by DCITS.

8. RIGHTS ATTACHING TO THE SHARE OPTIONS

Prior to the exercise of the share options granted under the Share Option Incentive Scheme, the incentive participants shall not be entitled to voting rights at a general meeting of DCITS, rights to dividend, transfer or any other rights (including rights arising from the liquidation of DCITS).

The shares of DCITS to be allotted and issued upon exercise of the share options to be granted under the Shares Option Incentive Scheme are the ordinary A shares of DCITS which will be subject to all the provisions of the articles of association of DCITS for the time being in force, and will rank *pari passu* in all respects with the fully paid shares in issue of DCITS on the date of allotment and issue of shares (i.e. having identical voting rights, rights to dividend, transfer or any other rights (including rights arising from the liquidation of DCITS)) and accordingly will entitle the holders to receive all dividends or other distributions paid or made after the date of allotment and issue of shares, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date, which is on or before the date of allotment and issue of shares.

9. ADJUSTMENTS TO THE NUMBER OF SHARE OPTIONS AND THE EXERCISE PRICE

Adjustment to the number of share options under the Share Option Incentive Scheme

In the event of any capitalization issue, bonus issue, subdivision of shares, rights issue or share consolidation concerning DCITS before the exercise of share options granted under the Share Option Incentive Scheme by the grantee, the number of share options to be granted to the incentive participants of the Share Option Incentive Scheme shall be adjusted as follows and in accordance with the procedures as set out in the Share Option Incentive Scheme:

(a) Capitalization issue, bonus issue or subdivision of shares

$$Q = Q_0 \times (1 + n)$$

where: Q_0 represents the number of share options before adjustment; n represents the ratio of increase per share arising from the capitalization issue, bonus issue or subdivision of shares, i.e. the number of shares increased per share upon issue of shares by capitalization issue, bonus issue or subdivision of shares; Q represents the number of share options after adjustment.

(b) Rights issue

$$Q = Q_0 \times P_1 \times (1 + n) \div (P_1 + P_2 \times n)$$

where: Q_0 represents the number of share options before adjustment; P_1 represents the closing price of the shares of DCITS on the record date; P_2 represents the price of the shares of DCITS in the rights issue; n represents the ratio of such rights issue, i.e. the ratio of the number of the shares of DCITS to be issued under the rights issue to the total share capital of DCITS before the rights issue; Q represents the number of share options after adjustment.

(c) Consolidation of shares

$$Q = Q_0 \times n$$

where: Q_0 represents the number of share options before adjustment; n represents the share consolidation ratio, i.e. one share of DCITS shall be consolidated into n share; Q represents the number of share options after adjustment.

Adjustment to the exercise price of share options under the Share Option Incentive Scheme

In the event of any capitalization issue, bonus issue, subdivision of shares, rights issue or share consolidation concerning DCITS before the exercise of share options granted under the Share Option Incentive Scheme by the grantee, the exercise price of such share options shall be adjusted as follows and in accordance with the procedures as set out in the Share Option Incentive Scheme:

(a) Capitalization issue, bonus issue or subdivision of shares

$$P = P_0 \div (1 + n)$$

where: P_0 represents the exercise price before adjustment; n represents the ratio of increase per share arising from capitalization issue, bonus issue or subdivision of shares; P represents the exercise price after the adjustment.

(b) Rights issue

$$P = P_0 \times (P_1 + P_2 \times n) \div [P_1 \times (1 + n)]$$

where: P_0 represents the exercise price before the adjustment; P_1 represents the closing price of the shares of DCITS on the record date; P_2 represents the price of the rights issue; n represents the ratio of the rights issue, i.e. the ratio of the number of share of DCITS to be issued under the rights issue to the total share capital of DCITS before the rights issue; P represents the exercise price after adjustment.

(c) Consolidation of shares

$$P = P_0 \div n$$

where: P_0 represents the exercise price before adjustment; n represents the share consolidation ratio; P represents the exercise price after adjustment.

In the case of issuance of new shares by DCITS, the number of share options under the Share Option Incentive Scheme and the exercise price of such options will not be adjusted.

10. ALTERATION OF THE DCITS INCENTIVE SCHEME

The terms of the DCITS Incentive Scheme (including the terms of the Share Option Incentive Scheme) can be altered by the following procedures:

- (a) if DCITS intends to alter the DCITS Incentive Scheme before its shareholders consider and approve such scheme at a general meeting, such alteration shall be considered and approved by the board of DCITS;
- (b) if DCITS intends to alter the DCITS Incentive Scheme before the Shareholders consider and approve such scheme at the AGM, such alteration shall be considered and approved by the board of the Company;
- (c) if DCITS intends to alter the DCITS Incentive Scheme after its shareholders have considered and approved such scheme at a general meeting, such alteration shall be considered and approved at a general meeting of DCITS, provided that alteration of the DCITS Incentive Scheme must not result in the following:
 - (i) the exercise of share options granted or to be granted under the Share Option Incentive Scheme being accelerated; or
 - (ii) the exercise price of the share options granted or to be granted under the Share Option Incentive Scheme being reduced;
- (d) the independent opinions of the independent directors and the supervisors of DCITS must be obtained in relation to whether the altered DCITS Incentive Scheme is for the benefit of the continuing development of DCITS and whether such alteration is harmful to the interests of DCITS and its shareholders as a whole;
- (e) a professional opinion of a law firm must be obtained in relation to whether the alteration of the DCITS Incentive Scheme complies with the terms of the DCITS Incentive Scheme and the applicable rules, laws and regulations, and whether such alteration is harmful to the interests of DCITS and its shareholders as a whole;

- (f) after the approval of the DCITS Incentive Scheme at the AGM, as long as DCITS is still a subsidiary of the Company which is listed on the Stock Exchange, no amendment shall be made in favour of the incentive participants of the Share Option Incentive Scheme in respect of matters related to share options as stipulated in Rules 17.03 of the Listing Rules without prior approval by the Shareholders at a general meeting of the Company. Any implementation matters relating to share options under the Share Option Incentive Scheme, significant modification of the terms or conditions of the Share Option Incentive Scheme or any modification of the terms and conditions of the share options granted (except for the matters authorized by the shareholders of DCITS at its general meeting to be administrated by the directors of DCITS) which involves the requirements of the Listing Rules shall be examined and approved by the Shareholders at a general meeting of the Company. The revised Share Option Incentive Scheme shall still comply with the relevant provisions of Chapter 17 of the Listing Rules; and
- (g) the directors of DCITS should be authorized to adjust the number of shares options granted under the Share Option Incentive Scheme and the exercise price of such options in the situations stipulated in the section titled “9. ADJUSTMENTS TO THE NUMBER OF SHARE OPTIONS AND THE EXERCISE PRICE”.

11. TERMINATION OF THE DCITS INCENTIVE SCHEME

The DCITS Incentive Scheme (including the Share Option Incentive Scheme) shall be terminated and the share options which have been granted to the incentive participants of the Share Option Incentive Scheme but not yet exercised shall not be exercised anymore and shall be cancelled by DCITS accordingly if any of the following occurs to DCITS:

- (a) issue of an auditors’ report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the accounting financial report for the latest accounting year;
- (b) issue of an auditors’ report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the internal control for the latest accounting year;
- (c) failure to conduct profit distribution in accordance with laws and regulations, the articles of association of DCITS and public undertakings during the most recent 36 months after listing;
- (d) prohibition from implementation of an equity incentive scheme by laws and regulations and any applicable Listing Rules; and
- (e) other circumstances that require termination of the DCITS Incentive Scheme, as determined by the China Securities Regulatory Commission or relevant authorities.



SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING

THIS NOTICE is supplemental to the Notice of AGM issued by Digital China Holdings Limited (the “**Company**”) to convene the AGM at Taishan Room, Level 5, Island Shangri-la Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Thursday, 6 June 2019 at 10:30 a.m..

Details of the proposed resolutions to be considered at the AGM are set out in the Notice of AGM. Unless otherwise stated, terms defined herein shall have the same meanings as those defined in the circular of the Company dated 30 April 2019 and the supplemental circular of the Company dated 10 May 2019 (the “**Supplemental Circular**”).

SUPPLEMENTAL NOTICE IS HEREBY GIVEN that the AGM will be held at Taishan Room, Level 5, Island Shangri-la Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Thursday, 6 June 2019 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution in addition to the resolutions set out in the Notice of AGM:

ORDINARY RESOLUTION

“**THAT:**

- (a) the share option incentive scheme under an equity incentive scheme (the “**Share Option Incentive Scheme**”) of 神州數碼信息服務股份有限公司 (Digital China Information Service Company Ltd.*), an approximately 40.43% owned subsidiary of the Company listed on the Shenzhen Stock Exchange (stock code: 000555) (“**DCITS**”), the rules of which are set out in the document marked “A” which has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification, be and is hereby approved by the Company;
- (b) the directors of DCITS be and are hereby authorised:
 - i. to administer the Share Option Incentive Scheme at their absolute discretion and to grant options to subscribe for shares of DCITS (the “**DCITS Shares**”) in accordance with the rules of the Share Option Incentive Scheme;

* For identification purpose only

SUPPLEMENTAL NOTICE OF ANNUAL GENERAL MEETING

- ii. to modify and/or amend the Share Option Incentive Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the Share Option Incentive Scheme relating to modification and/or amendment and the requirements of the Listing Rules;
 - iii. to allot, issue and deal with any DCITS shares pursuant to the exercise of the subscription rights under any options which may be granted from time to time in accordance with the terms of the Share Option Incentive Scheme; and
 - iv. to do all such acts as they may in their absolute discretion consider necessary, desirable or expedient in order to give full effect to the Share Option Incentive Scheme;
- (c) the directors of the Company be and are hereby authorised to execute all such documents and take all such steps as they may deem necessary, desirable or expedient to effect the adoption of the Share Option Incentive Scheme by DCITS.”

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, 10 May 2019

Notes:

- (i) A second form of proxy (the “**Second Proxy Form**”) is enclosed with this supplemental circular.
- (ii) A Shareholder who has not yet lodged the First Proxy Form with the Share Registrar is requested to lodge the Second Proxy Form with the instructions printed thereon if the Shareholder wishes to appoint proxy/proxies to attend the AGM or any adjournment thereof (as the case may be) on its/his/her behalf. In this case, the First Proxy Form should not be lodged with the Share Registrar.
- (iii) A Shareholder who has already lodged the First Proxy Form with the Share Registrar should note that:
 - (a) If no Second Proxy Form is lodged with the Share Registrar, the First Proxy Form, if correctly completed, will be treated as a valid proxy form lodged by the Shareholder. The proxy so appointed by the Shareholder will be entitled to vote in accordance with the instructions previously given by the Shareholder (if no such instructions are given) at his/her discretion or to abstain from voting on any resolution properly put to the AGM, including the additional proposed resolution set out in the Supplemental Notice of AGM.

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- (b) If the Second Proxy Form is lodged with the Share Registrar before the Closing Time, the Second Proxy Form, if correctly completed, will revoke and supersede the First Proxy Form previously lodged by it/him/her and will be treated as a valid proxy form lodged by the Shareholder.
- (c) If the Second Proxy Form is lodged with the Share Registrar after the Closing Time, or if lodged before the Closing Time but is incorrectly completed, the proxy appointment under the Second Proxy Form will be invalid. The proxy so appointed by the Shareholder under the First Proxy Form, if correctly completed, will be entitled to vote in the manner as mentioned in (a) above as if no Second Proxy Form was lodged with the Share Registrar. Accordingly, Shareholders are advised to complete the Second Proxy Form carefully and lodge the Second Proxy Form with the Share Registrar before the Closing Time.
- (iv) Shareholders are reminded that completion and submission of the First Proxy Form and/or the Second Proxy Form shall not preclude Shareholders from attending the AGM or any adjournment thereof (as the case may be) and voting in person should they so wish.
- (v) If you are a non-registered Shareholder (i.e. your Shares are held through an intermediary, for example, a bank, custodian or securities broker) or registered in the name of your nominee, you will not receive the Second Proxy Form directly from the Company, and you will need to give instructions to your intermediary/nominee to vote on your behalf. If you wish to attend and vote at the AGM, you should seek authorisation to do so from your intermediary/nominee directly.
- (vi) Please refer to the Notice of AGM for details of the other ordinary resolutions to be passed at the AGM, closure of the register of members of the Company and eligibility for attending the AGM, proxy and other relevant matters.

* *For identification purpose only*