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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in any doubt** about this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Interchina Holdings Company Limited, you should at once hand this circular with the enclosed 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.

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### INTERCHINA HOLDINGS COMPANY LIMITED

國 中 控 股 有 限 公 司

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 202)

### DISCLOSEABLE AND CONNECTED TRANSACTION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent Financial Adviser to the Independent Board Committee  
and the independent Shareholders**



粵 海 證 券 有 限 公 司  
GUANGDONG SECURITIES LIMITED

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A letter from the board of directors of Interchina Holdings Company Limited is set out on pages 4 to 12 of this circular. A letter from the Independent Board Committee containing its recommendation to the independent Shareholders is set out on pages 13 to 14 of this circular. A letter from Guangdong Securities containing its advice and recommendation to the Independent Board Committee and the independent Shareholders is set out on pages 15 to 24 of this circular.

A notice convening an extraordinary general meeting of Interchina Holdings Company Limited to be held at Room 701, Aon China Building, 29 Queen's Road Central, Hong Kong, on Friday, 25 May 2012 at 10:00 a.m. are set out on pages 30 to 31 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed with this circular.

Whether or not you are able to attend the extraordinary general meeting, you are advised to read the notice and to complete and return the enclosed form of proxy in accordance with the instructions printed thereon, to Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjourned meeting. The completion and return of the form of proxy will not preclude you from attending and voting at the extraordinary general meeting or any adjourned meeting in person if you so wish.

4 May 2012

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meaning:*

“Board”	the board of Directors
“Company”	Interchina Holdings Company Limited, a company incorporated in Hong Kong with limited liability and the issued Shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it in Rule 1.01 of the Listing Rules and as expanded under Rule 14A.11 of the Listing Rules
“Construction Period”	the period commencing from the date of the JV Agreement and ending on the trial date of the Xiangtan Sewage Treatment Plant
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at Room 701, Aon China Building, 29 Queen’s Road Central, Hong Kong, on Friday, 25 May 2012 at 10:00 a.m. to approve, among others, the JV Agreement and the transactions contemplated thereunder
“Franchise Agreement”	the franchise agreement to be entered into between the JV and the Management Committee
“Franchise Period”	together, the Construction Period and Operation Period
“Group”	the Company and its subsidiaries
“Guangdong Securities” or “Independent Financial Adviser”	Guangdong Securities Limited, a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser to advise the Independent Board Committee and the independent Shareholders in relation to the JV Agreement.
“Heilongjiang Interchina”	黑龍江國中水務股份有限公司 (Heilongjiang Interchina Water Treatment Company Limited), a company established in the PRC and its A shares are listed on the Shanghai Stock Exchange, a 53.77%-owned subsidiary of the Company
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board established by the Company comprising all independent non-executive Directors

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## DEFINITIONS

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“JV”	湘潭國中污水處理有限公司 (Xiangtan Interchina Sewage Treatment Company Limited*), a company to be established in the PRC with limited liability pursuant to the JV Agreement
“JV Agreement”	the joint venture agreement entered into between Heilongjiang Interchina, Xiangtan Jiu Hua Investment and Xiangtan City Co dated 9 March 2012 in respect of the establishment of the JV
“JV Parties”	Heilongjiang Interchina, Xiangtan Jiu Hua Investment and Xiangtan City Co
“Latest Practicable Date”	2 May 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management Committee”	湘潭九華示範區管理委員會 (the Management Committee of the Xiangtan Jiu Hua Demonstration Zone*), an authority under Xiangtan Municipal People’s Government, Hunan Province (湖南省湘潭市人民政府)
“Operation Period”	the period commencing from the trial date of the Xiangtan Sewage Treatment Plant and ending on its 28th anniversary thereafter
“PRC”	the People’s Republic of China (which for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Project”	the franchised operation of Xiangtan Sewage Treatment Plant in Xiangtan City, Hunan Province, the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	holder(s) of the Shares
“Shares”	the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Xiangtan City Co”	湘潭市污水處理有限責任公司 (Xiangtan City Sewage Treatment Company Limited*), a company established in the PRC and is 100% owned by 湘潭市國有資產管理委員會 (State-owned Assets Administration Commission of Xiangtan City*)

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## DEFINITIONS

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“Xiangtan Interchina”	湘潭國中水務有限公司 (Xiangtan Interchina Water Treatment Company Limited*), a company established in the PRC and owned as to 81.8% by Heilongjiang Interchina and as to 18.2% by Xiangtan Jiu Hua Investment
“Xiangtan Jiu Hua Investment”	湘潭九華經濟建設投資有限公司 (Xiangtan Jiu Hua Economic Construction Investment Company Limited*), a company established in the PRC and is 100% owned by the Management Committee
“Xiangtan Sewage Treatment Plant”	湘潭污水處理廠 (Xiangtan Sewage Treatment Plant*), the sewage treatment plant to be constructed and built by the JV
“m <sup>3</sup> ”	cubic meter

Conversion of RMB into HK\$ is based on the exchange rate of RMB0.81 = HK\$1.00.

\* For identification purpose only

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## LETTER FROM THE BOARD

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### INTERCHINA HOLDINGS COMPANY LIMITED

國 中 控 股 有 限 公 司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 202)**

*Executive Directors:*

Mr. Lam Cheung Shing, Richard  
Mr. Zhu Yongjun  
Mr. Shen Angang  
Mr. Wong Hin Shek  
Mr. Choi Fun Tai

*Registered office:*

Room 701, 7/F  
Aon China Building  
29 Queen's Road Central  
Hong Kong

*Independent non-executive Directors:*

Mr. Ho Yiu Yue, Louis  
Mr. Ko Ming Tung, Edward  
Mr. Chi Chi Hung, Kenneth  
Mr. Chen Yi, Ethan

4 May 2012

*To the Shareholders and, for information only,  
holders of share options of the Company*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION AND NOTICE OF EXTRAORDINARY GENERAL MEETING**

#### **INTRODUCTION**

On 9 March 2012, Heilongjiang Interchina, a 53.77%-owned subsidiary of the Company, entered into the JV Agreement with Xiangtan Jiuhua Investment and Xiangtan City Co in relation to the establishment of the JV, which will be owned as to 75.8% by Heilongjiang Interchina, as to 18.2% by Xiangtan Jiuhua Investment and as to 6% by Xiangtan City Co.

Upon establishment of the JV, it will enter into the Franchise Agreement with the Management Committee. Pursuant to the Franchise Agreement, among others, the JV will be granted an exclusive right to manage, operate and maintain a sewage treatment plant in Xiangtan City in return for sewage treatment fees payable by the Management Committee.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, Xiangtan Jiu Hua Investment is interested in 18.2% of the equity interest in Xiangtan Interchina, a non-wholly owned subsidiary of the Company. Accordingly, Xiangtan Jiu Hua Investment is regarded as a connected person of the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios are more than 5% but less than 25% and the total consideration is more than HK\$10,000,000, the signing of the JV Agreement constitutes a discloseable and connected transaction of the Company, subject to the reporting, announcement and independent Shareholders' approval requirements under the Listing Rules. No Shareholder has a material interest in the JV Agreement and thus no Shareholder will be required to abstain from voting at the EGM.

This circular provides you with further details of the JV Agreement and the notice of the EGM.

### THE JV AGREEMENT

#### Date

9 March 2012

#### Parties

1. Heilongjiang Interchina, which is indirectly owned as to 53.77% by the Company as at the Latest Practicable Date
2. Xiangtan Jiu Hua Investment, which is interested in 18.2% of the equity interest in Xiangtan Interchina, a non-wholly owned subsidiary of the Company and therefore is regarded as a connected person of the Company under Chapter 14A of the Listing Rules. It is engaged in investment and construction of infrastructure facilities, land development and operation of park projects (first class land reserve and operation), construction and investment of park projects, project planning and property management
3. Xiangtan City Co, a company principally engaged in investment and operation of sewage treatment project in Xiangtan City, Hunan Province, the PRC. To best knowledge, information and belief of the Directors having made all reasonable enquiries, Xiangtan City Co together with its ultimate beneficial owner(s) are parties independent of the Group and its connected persons as at the Latest Practicable Date. Prior to entering into of the JV Agreement, Xiangtan City Co has no relationship with Xiangtan Jiu Hua Investment

#### Business Scope

Pursuant to the JV Agreement, subject to the approval by the relevant PRC authorities, the JV's scope of business shall be (i) the construction, installation, operation and maintenance of the sewage and reclaimed water treatment plant and facilities; (ii) receipt of the reclaimed water and sewage treatment fees, provision of water quality inspection and technology consultation services; (iii) scientific research, development and application of sewage treatment and other related services.

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## LETTER FROM THE BOARD

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### Registered capital and capital contribution

Pursuant to the JV Agreement, the registered capital of the JV shall be RMB48,000,000 (equivalent to approximately HK\$59,260,000). Each of the JV Parties shall pay up their respective contributions to the registered capital of the JV as follows:

JV Parties	Form of Contribution	Amount	Equity interest in the JV
Heilongjiang Interchina	Cash	RMB36,390,000	75.8%
Xiangtan Jiu Hua Investment	Cash	RMB8,730,000	18.2%
Xiangtan City Co	Cash	<u>RMB2,880,000</u>	<u>6%</u>
	Total:	<u>RMB48,000,000</u>	<u>100%</u>

The JV Parties shall pay up their respective contributions to the registered capital of the JV within 45 days upon the date of issue of the business licence of the JV.

The capital contribution of RMB36,390,000 (equivalent to approximately HK\$44,926,000) by Heilongjiang Interchina will be financed by internal resources of the Group.

Pursuant to the Franchise Agreement, the total investment amount by the JV thereunder shall be RMB180,000,000.

### Term

The JV shall have a term of 30 years from the date of issue of the business licence of the JV.

### Board composition

The board of directors of the JV shall comprise six directors. Each of Heilongjiang Interchina, Xiangtan Jiu Hua Investment and Xiangtan City Co shall have the right to nominate four members, one member and one member to the board of directors of the JV respectively.

### Profit and loss sharing

The JV Parties will be entitled to share the profits and bear the losses of the JV in proportion of their equity interests in the JV.

### Pre-emptive rights

Each of the JV Parties may transfer its equity interest in the JV to any third party subject to the pre-emptive rights of the other JV Parties.



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## LETTER FROM THE BOARD

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### Obligations of each JV Parties

Xiangtan Jiu Hua Investment shall, among others:

- (a) make the capital contribution in accordance with the terms of the JV Agreement;
- (b) assist the JV in the procedures of its establishment; and
- (c) assist the JV in entering into the land use rights contract with the relevant PRC authorities.

Each of Heilongjiang Interchina and Xiangtan City Co shall, among others:

- (a) make the capital contribution in accordance with the terms of the JV Agreement;
- (b) provide relevant technology and human resources support and services to ensure the treated sewage meets the standards required by the PRC.

### Effectiveness

The JV Agreement shall become effective upon the approval by the Shareholders having been obtained.

### Condition precedent

There is no condition precedent under the JV Agreement.

### THE FRANCHISE AGREEMENT

Upon the formal establishment of the JV, the JV will enter into the Franchise Agreement with the Management Committee, pursuant to which the Management Committee will grant the franchise for the Project to the JV. The Management Committee is an authority under Xiangtan Municipal People's Government, Hunan Province (湖南省湘潭市人民政府) responsible for the coordination, development and management of Xiangtan Jiu Hua Demonstration Zone of Hunan Province, the PRC. To best knowledge, information and belief of the Directors having made all reasonable enquiries, the Management Committee together with its ultimate beneficial owner(s) are parties independent of the Group and its connected persons as at the Latest Practicable Date. The principal terms of the Franchise Agreement are as follows:

Franchise: the JV will be granted an exclusive right to manage, operate and maintain a sewage treatment plant, being the Xiangtan Sewage Treatment Plant, in Xiangtan City in return for sewage treatment fees payable by the Management Committee

Franchise Period: the Franchise Period comprises 2 phases:

- (i) the Construction Period — being the period commencing from the date of the Franchise Agreement and ending on the trial date of the Xiangtan Sewage Treatment Plant; and

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## LETTER FROM THE BOARD

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- (ii) the Operation Period — being the period commencing from the trial date of the Xiangtan Sewage Treatment Plant and ending on its 28th anniversary thereafter

Project investment: the total investment for the Project shall be RMB180,000,000 (equivalent to approximately HK\$222,222,000). The JV shall invest RMB116,100,000 (equivalent to approximately HK\$143,333,000) on or before 30 September 2013 (of which RMB68,100,000 (equivalent to approximately HK\$84,074,000) shall be liaised by Heilongjiang Interchina by way of borrowing) while the remaining shall be injected by the end of 2015.

Under the Franchise Agreement, the JV Partners are not obliged to contribute to the remaining investment for the Project. However, according to the current intentions of the JV Partners, they will inject the remaining investment for the Project and/or provide guarantee or security for the RMB68,100,000 borrowing by the JV in proportion to their equity interests in the JV. In the event that the JV Partners will inject and/or provide guarantee or security to the JV not in proportion to their equity interests in the JV, the Company will issue the announcement in accordance with the Listing Rules.

Construction of the Xiangtan Sewage Plant: construction of the Xiangtan Sewage Treatment Plant comprises 2 phrases:

- (i) Phrase I: commence construction on or before 30 June 2012 and commence operation with a capacity of 50,000 m<sup>3</sup> per day on or before 30 December 2013
- (ii) Phrase II: commence construction in early 2015 and commence operation with a capacity of aggregate of 100,000 m<sup>3</sup> per day (together with Phrase I) in 2016

Location of the Xiangtan Sewage Treatment Plant: 湘潭經開區滬昆高以南，興隆湖以西，長城路以北 (south of Hu Kun High Speed Railway, west of Xing Long Hu, north of Chang Cheng Road, Jing Kai District, Xiangtan\*) with an area of 101.32 acres (the “**Land**”), the land use rights of which will be obtained through tender process at the initial consideration of RMB34,250,000 (equivalent to approximately HK\$42,284,000)

- Major rights and obligations of the JV:
- (a) the JV shall have been duly established within 45 working days upon signing of the JV Agreement
  - (b) the JV shall be responsible for all costs, obligations and risks associated with the construction, operation and maintenance of the Xiangtan Sewage Treatment Plant

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## LETTER FROM THE BOARD

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- (c) the JV shall receive sewage treatment fees from the Management Committee at RMB1.06/m<sup>3</sup>, subject to adjustment every two years after 6 months from the trial date. The JV shall be entitled to an excess treatment fee in the event the treatment capacity has been exceeded
  - (d) during the Franchise Period, the capacity of the Xiangtan Sewage Treatment Plant shall be maintained at 50,000 m<sup>3</sup> per day for Phrase I and an aggregate of 100,000 m<sup>3</sup> per day for Phrase I and Phrase II
  - (e) during the Franchise Period, the JV shall not have other investment or conduct business other than those set out in its business licence
- Major obligations of the Management Committee:
- (a) it shall be responsible for the daily operation and maintenance of the auxiliary pipelines of the Project
  - (b) it guarantees that the Land is free from all encumbrances and is not subject to any charges or leases
  - (c) it shall be responsible for the costs and procedures in relation to reclaim of the Land, relocation of existing residents and compensation of the Land and shall ensure there are permanent public utilities surrounding the Land for the construction and operation of the Xiangtan Sewage Treatment Plant
  - (d) it shall assist the JV to liaise with the relevant governmental departments in Xiangtan City and to obtain all necessary approvals and licences
- Restriction of transfer:
- prior to the expiry of 5 years after the date of the Franchise Agreement, shareholders of the JV are prohibited from disposing of their equity interests in the JV. Thereafter, the shareholders of the JV are allowed to dispose of their equity interests in the JV upon obtaining the prior written approval from the Management Committee
- Termination:
- either the JV or the Management Committee is entitled to issue a termination notice to the other party in the event that, among others, the other party is in breach of the representations set out in the Franchise Agreement
- Repurchase of assets:
- upon the expiry of the Franchise Agreement, the Management Committee shall repurchase the Xiangtan Sewage Treatment Plant from the JV at the consideration not less than the valuation amount

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## LETTER FROM THE BOARD

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As in line with the industry practice of operating sewage plants in the PRC on a Build-Own-Operate model, there is no stipulation under the Franchise Agreement as regards the method or basis of valuation of the Xiangtan Sewage Treatment Plant upon the expiry of the Franchise Agreement. According to the knowledge of the Group, a market value approach, being “the estimated amount for which the property should be exchanged on the date of valuation/ expiration of the franchise agreement between a willing buyer and a willing seller in an arm’s length transaction after proper marketing” is commonly adopted for this kind of transaction

Condition precedent:                   there is no condition precedent under the Franchise Agreement

### **Information on the JV Parties**

The Group is principally engaged in environmental and water treatment operation, property investment operation and securities and financial operation as well as strategic investment in Hong Kong and the PRC.

Xiangtan Jiuhoa Investment is a company established in the PRC engaging in investment and construction of infrastructure facilities, land development and operation of park projects (first class land reserve and operation), construction and investment of park projects, project planning and property management. It is interested in 18.2% equity interest of Xiangtan Interchina, a non-wholly owned subsidiary of the Company. Hence, it is regarded as a connected person of the Company under the Listing Rules.

Xiangtan City Co is a company established in the PRC engaging in investment and operation of sewage treatment project in Xiangtan City, Hunan Province, the PRC.

### **REASONS FOR THE ESTABLISHMENT OF THE JV**

Xiangtan Municipal People’s Government intends to carry out market-oriented reforms towards the water supply system in Xiangtan Jiuhoa Demonstration Zone to achieve investment diversification. In this connection, according to a document dated 5 September 2011 issued by Hunan Provincial Development and Reform Commission in respect of the “Approval for the Feasibility Study Report on Xiangtan Jiuhoa Sewage Treatment Project” (Xiang Fa Gai Huan Zi [2011] No. 1391), a consent has been granted for the Project. Based on the decision made by the Management Committee, the Project will be constructed by way of franchise.

Given that the Group has invested in a water supply project in Xiangtan Jiuhoa Demonstration Zone, and good co-operative relationship has been formed between the Group, Xiangtan Jiuhoa Investment and the Management Committee, it is agreed by the parties to expand their scope of cooperation. The JV will be granted an exclusive right to manage, operate and maintain the Xiangtan Sewage Treatment Plant with daily capacity of 100,000 m<sup>3</sup> in Xiangtan City, Hunan Province, the PRC for 28 years.

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## LETTER FROM THE BOARD

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The Directors considered that the establishment of the JV and the entering into of the Franchise Agreement by the JV is an indication that the Group has realised its philosophy of integration of water supply and drainage by stepping into both water supply project and sewage project in the same region. This achievement will capture long term future financial benefit from its expanding business development in Xiangtan City and bring steady income to the Group to enhance its earning base. In view of the sewage treatment capacity and the total investment cost for the Project, the Directors considered that the Operation Period of 28 years can secure the profitability of the JV. Upon establishment of the JV, the JV will become a subsidiary of the Company and its financial statements will be consolidated into the accounts of the Group accordingly.

Heilongjiang Interchina shall be interested in 75.8% equity interest in the JV upon its establishment. Hence, the JV will become a subsidiary of the Company. The operation and financial position of the JV will be under the control of Heilongjiang Interchina. The financial statement of the JV will therefore be consolidated into the accounts of Heilongjiang Interchina instead of sharing the profits and bearing the losses of the JV in proportion of their equity interests in the JV as set out in the JV Agreement.

The Board considered that the entering into of the JV Agreement and the Franchise Agreement has been/will be entered into after arm's length negotiation and the terms of the JV Agreement and the Franchise Agreement are on normal commercial terms which are fair and reasonable and in the interests of the Shareholders as a whole.

### LISTING RULES IMPLICATION

As at the Latest Practicable Date, Xiangtan Jiuhua Investment is interested in 18.2% of the equity interest in Xiangtan Interchina, a non-wholly owned subsidiary of the Company. Accordingly, Xiangtan Jiuhua Investment is regarded as a connected person of the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios are more than 5% but less than 25% and the total consideration is more than HK\$10,000,000, the signing of the JV Agreement constitutes a discloseable and connected transaction of the Company, subject to the reporting, announcement and independent Shareholders' approval requirements under the Listing Rules.

Since (i) the reason for the establishment of the JV is to carry out the Project through entering into the Franchise Agreement with the Management Committee — the Franchise Agreement is part and parcel to the transaction as a whole, which is common practice for industry of this kind; (ii) when calculating the applicable five tests under the Listing Rules in relation to the JV Agreement, it had already been taken into account the total investment for the Project under the Franchise Agreement, i.e. RMB180,000,000; (iii) details of the JV Agreement and the Franchise Agreement had already been disclosed in this circular, the Company considers the entering into of the Franchise Agreement should not subject to a separate independent shareholders' approval and should not be viewed as a separate transaction.

### EGM

The EGM will be held at Room 701, Aon China Building, 29 Queen's Road Central, Hong Kong, on Friday, 25 May 2012 at 10:00 a.m.. The notice of the EGM is set out on pages 30 to 31 of this circular. The purpose of the EGM is to consider and, if thought fit, to approve the JV Agreement and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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The Independent Board Committee has been established to consider the JV Agreement and to provide recommendations to the independent Shareholders in this regard. Guangdong Securities has been appointed to advise the Independent Board Committee and the independent Shareholders in relation to the JV Agreement. No Director has a material interest in the JV Agreement and thus no Director had abstained from voting on the Board resolution. No Shareholder has a material interest in the JV Agreement and thus no Shareholder will be required to abstain from voting at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you will be able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the share registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 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 EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof if you so wish.

### RECOMMENDATION

The Directors are of the opinion that the terms of the JV Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors recommend the independent Shareholders to vote in favour of the resolution as set out in the notice of the EGM to approve the JV Agreement and the transactions contemplated thereunder at the EGM.

### GENERAL

Your attention is drawn to the letter from the Independent Board Committee, the letter from Guangdong Securities and the additional information set out in the Appendix to this circular.

Yours faithfully,  
For and on behalf of the Board of  
**Interchina Holdings Company Limited**  
**Lam Cheung Shing, Richard**  
*Executive Director and Chief Executive Officer*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### INTERCHINA HOLDINGS COMPANY LIMITED

國 中 控 股 有 限 公 司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 202)**

4 May 2012

*To the independent Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

#### **INTRODUCTION**

We refer to the circular dated 4 May 2012 (the “**Circular**”) of Interchina Holdings Company Limited (the “**Company**”) of which this letter forms part. Terms used in this letter shall have the meanings as defined in the Circular unless the context requires otherwise.

We, being the independent non-executive Directors, have been appointed to form the Independent Board Committee to advise you as to whether the terms of the JV Agreement are fair and reasonable so far as the independent Shareholders are concerned and whether the entering into of the JV Agreement is in the interests of the Company and the Shareholders as a whole.

Guangdong Securities has been appointed as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders on the fairness and reasonableness of the terms of the JV Agreement.

We wish to draw your attention to the letter from the Board as set out on pages 4 to 12 of the Circular and the letter from Guangdong Securities as set out on pages 15 to 24 of the Circular which contain, among other things, their advice, recommendations to use regarding the terms of the JV Agreement and the principal factors and reasons taken into consideration for their advice and recommendations.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### RECOMMENDATION

Having taken into account the advice and recommendations of Guangdong Securities and the principal factors and reasons taken into consideration by them in arriving at their opinion, we consider that the terms of the JV Agreement are fair and reasonable as far as the independent Shareholders are concerned and the entering into of the JV Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the JV Agreement.

Yours faithfully,

**Ho Yiu Yue, Louis**      **Chi Chi Hung, Kenneth**  
**Ko Ming Tung, Edward**      **Chen Yi, Ethan**  
*Independent Board Committee*



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## LETTER FROM GUANGDONG SECURITIES

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*Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the independent Shareholders in respect of the JV Agreement for the purpose of inclusion in this circular.*



**粵海證券有限公司**  
**GUANGDONG SECURITIES LIMITED**

Units 2505–06, 25/F.  
Low Block of Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

4 May 2012

*To: The independent board committee and the independent shareholders  
of Interchina Holdings Company Limited*

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders in respect of the JV Agreement, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 4 May 2012 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 9 March 2012, Heilongjiang Interchina, a 53.77%-owned subsidiary of the Company, entered into the JV Agreement with Xiangtan Jiu Hua Investment and Xiangtan City Co in relation to the establishment of the JV, which will be owned as to 75.8% by Heilongjiang Interchina, as to 18.2% by Xiangtan Jiu Hua Investment and as to 6.0% by Xiangtan City Co. Pursuant to the JV Agreement, the registered capital of the JV shall be RMB48,000,000 (equivalent to approximately HK\$59,259,000).

Upon establishment of the JV, it will enter into the Franchise Agreement with the Management Committee. Pursuant to the Franchise Agreement, among others, the JV will be granted an exclusive right to manage, operate and maintain a sewage treatment plant, namely the Xiangtan Sewage Treatment Plant, in Xiangtan City, Hunan Province, the PRC in return for sewage treatment fees payable by the Management Committee. The Franchise Period comprises the Construction Period and the Operation Period and shall end on the 28th anniversary from the trial date of the Xiangtan Sewage Treatment Plant. Pursuant to the Franchise Agreement, the total investment amount by the JV thereunder shall be RMB180,000,000 (equivalent to approximately HK\$222,222,000).

The signing of the JV Agreement constitutes a discloseable and connected transaction of the Company and is therefore subject to the reporting, announcement and independent Shareholders' approval requirements under the Listing Rules. No Shareholder has a material interest in the JV Agreement and thus no Shareholder will be required to abstain from voting at the EGM.

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## LETTER FROM GUANGDONG SECURITIES

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The Independent Board Committee comprising Mr. Ho Yiu Yue, Louis, Mr. Ko Ming Tung, Edward, Mr. Chi Chi Hung, Kenneth and Mr. Chen Yi, Ethan (all being independent non-executive Directors) has been established to advise the independent Shareholders on (i) whether the terms of the JV Agreement are on normal commercial terms and are fair and reasonable so far as the independent Shareholders are concerned; (ii) whether the signing of the JV Agreement is in the interests of the Company and the Shareholders as a whole; and (iii) how the independent Shareholders should vote in respect of the relevant resolution(s) to approve the JV Agreement and the transactions contemplated thereunder at the EGM. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders in this respect.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Heilongjiang Interchina, Xiangtan Jiuhua Investment, Xiangtan City Co, the JV or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the signing of the JV Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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## LETTER FROM GUANGDONG SECURITIES

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Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly extracted from the relevant sources.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the JV Agreement, we have taken into consideration the following principal factors and reasons:

#### 1. Background of and reasons for the signing of the JV Agreement

##### *Information on the Group*

With reference to the Board Letter, the Group is principally engaged in environmental and water treatment operation, property investment operation and securities and financial operation as well as strategic investment in Hong Kong and the PRC.

Set out below are the financial information on the Group for the six months ended 30 September 2011 and each of the two years ended 31 March 2011 as extracted from the Company's interim report for the six months ended 30 September 2011 (the "**Interim Report**") and the Company's annual report for the year ended 31 March 2011:

	<b>For the six months ended 30 September 2011 HK\$'000 (Unaudited)</b>	<b>For the year ended 31 March 2011 HK\$'000 (Audited)</b>	<b>For the year ended 31 March 2010 HK\$'000 (Audited)</b>	<b>% change from the year ended 31 March 2010 to the year ended 31 March 2011 %</b>
Turnover	363,417	413,473	243,770	69.62
<i>Turnover from environmental protection and water treatment operation</i>	<i>171,987</i>	<i>357,017</i>	<i>211,945</i>	<i>68.45</i>
(Loss)/Profit for the period/year from continuing operations	(124,924)	(82,919)	69,616	(219.11)

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**LETTER FROM GUANGDONG SECURITIES**

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	As at 30 September 2011 <i>HK\$'000</i> <i>(Unaudited)</i>	As at 31 March 2011 <i>HK\$'000</i> <i>(Audited)</i>	As at 31 March 2010 <i>HK\$'000</i> <i>(Audited)</i> <i>(Restated)</i>	% change from 31 March 2010 to 31 March 2011 %
Net assets	4,257,556	4,292,028	2,358,119	82.01
Cash and cash equivalents	392,138	1,072,985	129,140	730.87

From the above table, we noted that the environmental protection and water treatment operation of the Group constituted a major operating segment of the Group in terms of turnover since the year ended 31 March 2010 and the turnover from this segment increased by approximately 68.45% for the year ended 31 March 2011. As advised by the Directors, such increase was mainly attributable to (i) the increase in construction service income for a water treatment project of the Group; and (ii) the contribution from a sewage and water treatment project of the Group which commenced operation in November 2010. Nevertheless, the Group turned to be loss making for the year ended 31 March 2011 due to (i) the realised loss arising from investment in listed securities as compared to a realised gain for the previous year; (ii) the recognition of share-based payment expenses in respect of share options granted during the year ended 31 March 2011; and (iii) the increase in administrative expenses mainly due to continuing expansion of the environmental protection and water treatment operation and increase in professional expenses.

As advised by the Directors, as at the Latest Practicable Date, the Group's environmental protection and water treatment operation comprised a total of 12 projects, which included 4 water supply projects and 8 sewage treatment projects with aggregate daily processing capacity of approximately 1,237,500 tonnes. The Directors also advised us that the Group has established a clear development objective for Heilongjiang Interchina to focus on the management and operation of water treatment projects. While focusing on its existing environmental protection and water treatment business development, the Group will actively expand nature resources operation as another core business of the Group, so as to strengthen the Group's profit in the long run.

*Information on the JV Parties*

With reference to the Board Letter, Xiangtan Jiu Hua Investment is a company established in the PRC engaging in investment and construction of infrastructure facilities, land development and operation of park projects (first class land reserve and operation), construction and investment of park projects, project planning and property management.

Xiangtan City Co is a company established in the PRC engaging in investment and operation of sewage treatment project in Xiangtan City, Hunan Province, the PRC.

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## LETTER FROM GUANGDONG SECURITIES

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### *Reasons for the signing of the JV Agreement*

With reference to the Board Letter, Xiangtan Municipal People's Government intends to carry out market-oriented reforms towards the water supply system in Xiangtan Jiuhua Demonstration Zone to achieve investment diversification. In this connection, according to a document dated 5 September 2011 issued by Hunan Provincial Development and Reform Commission in respect of the "Approval for the Feasibility Study Report on Xiangtan Jiuhua Sewage Treatment Project" (Xiang Fa Gai Huan Zi [2011] No. 1391), a consent has been granted for the Project. Based on the decision made by the Management Committee, the Project will be constructed by way of franchise.

As advised by the Directors, given that the Group has invested in a water supply project in Xiangtan Jiuhua Demonstration Zone, and good co-operative relationship has been formed among the Group, Xiangtan Jiuhua Investment and the Management Committee, it is agreed by the parties to expand their scope of cooperation. The JV will be granted an exclusive right to manage, operate and maintain the Xiangtan Sewage Treatment Plant with daily capacity of 100,000 m<sup>3</sup> in Xiangtan City, Hunan Province, the PRC for 28 years.

The Directors considered that the establishment of the JV and the entering into of the Franchise Agreement by the JV is an indication that the Group has realised its philosophy of integration of water supply and drainage businesses by stepping into both water supply project and sewage project in the same region. The Directors expected that this achievement will capture long term future financial benefit from its expanding business development in Xiangtan City, Hunan Province, the PRC and thereby bring steady income to the Group to enhance its earning base. In view of the sewage treatment capacity and the total investment cost for the Project, the Directors considered that the Operation Period of 28 years can secure the profitability of the JV.

The Directors further advised us that under the Twelve "Five-Year Plan" of the PRC, the energy-saving environmental protection industry is one of the PRC's seven strategic emerging industries. For our due diligence purpose, we have also searched over the internet for the government policies on the environmental protection and water treatment industry. We noted that in 2011, the No. 1 Document of the Central Committee of the Chinese Communist Party had put forward the strategy to accelerate the development of water conservancy projects in the PRC. On 29 February 2012, seven PRC governmental organisations jointly issued 《關於進一步做好水利改革發展金融服務的意見》(the advice to the financial service sector regarding the further development of water conservancy\*), which emphasised on the financial support to the development of water conservancy projects in the PRC. We also noted from a news release dated 22 March 2012 and published on the website of the Ministry of Water Resources, the PRC that preferential policies were given to the construction of water conservancy projects by depending mostly on public finance and supplemented by private investment and farmers' labour input. In addition, according to the statistics issued by the National Bureau of Statistics of China, the sewage discharged in Hunan Province, the PRC amounted to approximately 1.54 billion m<sup>3</sup> in 2010 while the quantity of sewage treated in Hunan Province, the PRC was only approximately 0.91 billion m<sup>3</sup> in 2010. According to the 《湖南國民經濟和社會發展十二五規劃綱要》(The twelve five-year plan regarding the development of the economy and society of Hunan Province\*), the People's Government of

\* For identification purpose only

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Hunan Province has formulated a three-year plan to build sewage treatment plants in Hunan Province, the PRC and target to achieve the city sewage treatment rate of 85% during the Twelve “Five-Year” of the PRC. The Directors believed that the current favourable government policies on the environmental protection and water treatment industry (including the sewage treatment industry in Hunan Province, the PRC) would benefit the environmental protection and water treatment operation projects of the Group.

Given the above reasons for and possible benefits of the establishment of the JV, including that (i) the environmental protection and water treatment operation is a core business of the Group and the Group’s proposed investment in the JV represents an opportunity for the Group to further expand its existing core business; (ii) it is the Group’s business strategy to integrate the water supply and drainage businesses by stepping into both water supply project and sewage project in the same region; and (iii) the current favourable government policies on the environmental protection and water treatment industry (including the sewage treatment industry in Hunan Province, the PRC) and the prospects of the JV, we are of the view that the signing of the JV Agreement, which is in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole.

### 2. Principal terms of the JV Agreement

On 9 March 2012, Heilongjiang Interchina entered into the JV Agreement with Xiangtan Jiu Hua Investment and Xiangtan City Co in relation to the establishment of the JV. Set out below are the major terms of the JV Agreement:

#### *Business scope*

Pursuant to the JV Agreement, subject to the approval by the relevant PRC authorities, the JV Parties will establish the JV and the JV’s scope of business shall be (i) the construction, installation, operation and maintenance of the sewage and reclaimed water treatment plant and facilities; (ii) receipt of the reclaimed water and sewage treatment fees, provision of water quality inspection and technology consultation services; and (iii) scientific research, development and application of sewage treatment and other related services.

#### *Registered capital and capital contribution*

The registered capital of the JV shall be RMB48,000,000 (equivalent to approximately HK\$59,259,000). Each of the JV parties shall pay up their respective contributions to the registered capital of the JV as follows:

<b>JV Parties</b>	<b>Form of contribution</b>	<b>Amount</b>	<b>Equity interest in the JV</b>
Heilongjiang Interchina	Cash	RMB36,390,000	75.8%
Xiangtan Jiu Hua Investment	Cash	RMB8,730,000	18.2%
Xiangtan City Co	Cash	<u>RMB2,880,000</u>	<u>6.0%</u>
	Total:	<u>RMB48,000,000</u>	<u>100.0%</u>

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We have enquired into the Directors regarding the basis for determining the registered capital of the JV and were advised that the registered capital of RMB48,000,000 (equivalent to approximately HK\$59,259,000) was determined based on the estimated land cost of approximately RMB36,000,000 (equivalent to approximately HK\$44,444,000) (including the estimated relevant tax expenses) and the general working capital of the JV of approximately RMB12,000,000 (equivalent to approximately HK\$14,815,000) for pre-operating purpose. We have reviewed the proposed terms of the Franchise Agreement and understand that the JV shall bid for a land in Xiangtan City, Hunan Province, the PRC for the development of the Xiangtan Sewage Treatment Plant and the first quoted price for the land is expected be approximately RMB34,250,000 (equivalent to approximately HK\$42,284,000). Given the above, we concur with the Directors that the estimated land cost of approximately RMB36,000,000 (equivalent to approximately HK\$44,444,000) is justifiable.

The capital contribution of RMB36,390,000 (equivalent to approximately HK\$44,926,000) by Heilongjiang Interchina will be financed by internal resources of the Group.

Pursuant to the Franchise Agreement, the total investment amount by the JV thereunder shall be RMB180,000,000 (equivalent to approximately HK\$222,222,000).

### *Term*

The JV shall have a term of 30 years from the date of issue of the business licence of the JV.

### *Board composition*

The board of directors of the JV shall comprise six directors. Each of Heilongjiang Interchina, Xiangtan Jiu Hua Investment and Xiangtan City Co shall have the right to nominate four members, one member and one member to the board of directors of the JV respectively.

### *Profit and loss sharing*

The JV Parties will be entitled to share the profits and bear the losses of the JV in proportion of their equity interests in the JV.

### *Pre-emptive rights*

Each of the JV Parties may transfer its equity interest in the JV to any third party subject to the pre-emptive rights of the other JV Parties.

### *Obligations of each JV Parties*

Xiangtan Jiu Hua Investment shall, among other things:

- (a) make the capital contribution in accordance with the terms of the JV Agreement;
- (b) assist the JV in the procedures of its establishment; and



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- (c) assist the JV in entering into the land use rights contract with the relevant PRC authorities.

Each of Heilongjiang Interchina and Xiangtan City Co shall, among other things:

- (a) make the capital contribution in accordance with the terms of the JV Agreement;
- (b) provide relevant technology and human resources support and services to ensure the treated sewage meets the standards required by the PRC.

Further details of the JV Agreement are set out in the section headed “The JV Agreement” in the Board Letter.

As confirmed by the Directors, the JV Agreement has been entered into after arm’s length negotiation. The Directors considered that the terms of the JV Agreement are on normal commercial terms and are fair and reasonable so far as the independent Shareholders are concerned and the signing of the JV Agreement, which is in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole.

In addition to the above, we noted from an announcement made by Beijing Enterprises Water Group Limited (stock code: 371) on 24 June 2010 regarding the formation of a joint venture which would be responsible for all construction works for the sewage treatment and pipeline network and the relevant infrastructures for a water supply project in the PRC that the major terms of the relevant joint venture agreement entered into by Beijing Enterprises Water Group Limited are similar to the major terms of the JV Agreement, in terms of capital contribution, board composition, profit and loss sharing and pre-emptive rights. With this being the case, together with our discussions with the Directors as aforesaid, we are of the view that the above major terms of the JV Agreement are on normal commercial terms and are fair and reasonable so far as the independent Shareholders are concerned.

### *Other terms of the JV Agreement*

We have also reviewed the other major terms of the JV Agreement (such as “Default”, “Liquidation” and “Finance, taxation and auditing”) and consulted the legal adviser to the Company regarding those major terms of the JV Agreement. To the best of our knowledge, given our work done as aforesaid and based on the representation of the legal adviser to the Company, the major terms of the JV Agreement are common. Consequently, we consider that the terms of the JV Agreement are on normal commercial terms and are fair and reasonable so far as the independent Shareholders are concerned.

### **3. The Franchise Agreement**

Upon the formal establishment of the JV, the JV will enter into the Franchise Agreement with the Management Committee, pursuant to which the Management Committee will grant the franchise for the Project to the JV. The Management Committee is an authority under Xiangtan



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Municipal People's Government, Hunan Province (湖南省湘潭市人民政府) responsible for the coordination, development and management of Xiangtan Jiuhua Demonstration Zone of Hunan Province, the PRC.

The JV will be granted an exclusive right to manage, operate and maintain a sewage treatment plant, namely the Xiangtan Sewage Treatment Plant, in Xiangtan City, Hunan Province, the PRC in return for sewage treatment fees payable by the Management Committee. The Franchise Period comprises the Construction Period and the Operation Period and shall end on the 28th anniversary from the trial date of the Xiangtan Sewage Treatment Plant. The Xiangtan Sewage Treatment Plant shall commence operation with the capacity of 50,000 m<sup>3</sup> per day on or before 30 December 2013 and 100,000 m<sup>3</sup> per day in 2016.

According to the Directors and the Franchise Agreement, the total investment for the Project shall be RMB180,000,000 (equivalent to approximately HK\$222,222,000). The JV shall invest RMB116,100,000 (equivalent to approximately HK\$143,333,000) on or before 30 September 2013 (of which RMB48,000,000 (equivalent to approximately HK\$59,259,000) shall be financed by the registered capital of the JV and RMB68,100,000 (equivalent to approximately HK\$84,074,000) shall be liaised by Heilongjiang Interchina by way of borrowing) while the remaining RMB63,900,000 (equivalent to approximately HK\$78,889,000) shall be injected by the end of 2015 and the source of funding of which is undetermined as at present.

Further details of the proposed terms of the Franchise Agreement are set out in the section headed "The Franchise Agreement" in the Board Letter.

#### **4. Possible financial effects of the signing of the JV Agreement**

As confirmed by the Directors, Heilongjiang Interchina shall be interested in 75.8% equity interest in the JV upon its establishment. Hence, the JV will become a subsidiary of the Company. The operation and financial position of the JV will be under the control of Heilongjiang Interchina. The financial statements of the JV will therefore be consolidated into the accounts of Heilongjiang Interchina instead of sharing the profits and bearing the losses of the JV in proportion of their equity interests in the JV.

##### *Effects on net asset value and earnings*

As extracted from the Interim Report, the unaudited consolidated net asset value of the Group was approximately HK\$4,257.56 million as at 30 September 2011. The Group expected that the establishment of the JV would not lead to a material change in the net asset value of the Group. Taking into account the future prospects of the JV as highlighted above, the Directors expected that the signing of the JV Agreement would likely to have a positive impact on the future earnings of the Group.

##### *Effects on gearing and working capital*

As extracted from the Interim Report, the Group's gearing ratio (defined as total outstanding borrowings over total assets) was approximately 29.4% as at 30 September 2011. As confirmed by the Directors, the total outstanding borrowings and total assets of the Group are expected to remain unchanged upon establishment of the JV. The gearing ratio of the

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Group would hence remain unchanged upon establishment of the JV. Regarding the working capital position of the Group, given that the capital contribution to the registered capital of the JV by Heilongjiang Interchina will be financed by internal resources of the Group, the Group's working capital would be reduced upon establishment of the JV.

Furthermore, while the total investment for the Project of RMB180,000,000 (equivalent to approximately HK\$222,222,000) shall be partly liaised by Heilongjiang Interchina by way of borrowing, the Group's future gearing ratio and working capital would be affected depending on the method(s) to finance the remaining portion of the total investment for the Project by the Group which as confirmed by the Directors is undetermined as at present.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the JV Agreement.

### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the JV Agreement are on normal commercial terms and are fair and reasonable so far as the independent Shareholders are concerned; and (ii) the signing of the JV Agreement, which is in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the JV Agreement and the transactions contemplated thereunder and we recommend the independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,  
For and on behalf of  
**Guangdong Securities Limited**  
**Graham Lam**  
*Managing Director*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### (a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange were as follows:

Name	Name of company in which interests or short positions were held	Nature of interests	Number of shares	Approximately percentage of shareholding
Lam Cheung Shing, Richard	The Company	Beneficial owner	49,900,000 (L) (Note 1)	1.17%
Shen Angang	The Company	Beneficial owner	187,865,000 (L)	4.39%
Zhu Yongjun	The Company	Beneficial owner	47,200,000 (L) (Note 2)	1.10%
Ho Yiu Yue, Louis	The Company	Beneficial owner	3,500,000 (L) (Note 2)	0.08%

(L) denotes the long position held in the Shares

*Notes:*

- These Shares represent 7,700,000 Shares beneficially owned by Mr. Lam Cheung Shing, Richard and 42,200,000 Shares that may be allotted and issued to Mr. Lam Cheung Shing, Richard upon the exercise in full of the rights attached to the options granted by the Company.
- These Shares represent the Shares that may be allotted and issued to each of Mr. Zhu Yongjun and Mr. Ho Yiu Yue, Louis upon the exercise in full of the rights attached to the options granted by the Company.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at the Latest Practicable Date, any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

**(b) Substantial Shareholders**

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2011, being the date to which the latest audited consolidated accounts of the Company have been made up) or had options in respect of such capital:

Name of substantial Shareholder	Name of company in which interests or short positions were held	Nature of interests	Number of shares	Approximately percentage of shareholding
Rich Monitor Limited	The Company	Beneficial owner	1,033,300,000 (L)	24.17%
Chu Yuet Wah	The Company	Interest in controlled corporation	1,033,300,000 (L) <i>(Note)</i>	24.17%

(L) denotes the long position held in the Shares

*Note:* Rich Monitor Limited is wholly-owned by Ms. Chu Yuet Wah. Thus, Ms. Chu Yuet Wah is deemed to be interested in 1,033,300,000 Shares pursuant to the SFO.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, no person (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital.

**3. MATERIAL INTERESTS**

As at the Latest Practicable Date, none of the Directors or proposed Directors had any direct or indirect interests in any assets which have since 31 March 2011 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2011, being the date to which the latest audited consolidated financial statements of the Company have been made up), or were proposed to be acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2011, being the date to which the latest audited consolidated financial statements of the Company have been made up). As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which was significant in relation to the business of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2011, being the date to which the latest audited consolidated financial statements of the Company have been made up).

**4. SERVICE CONTRACT**

As at the Latest Practicable Date, there was no existing or proposed service contract between any of the Directors or proposed Directors and the Company or any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2011, being the date to which the latest audited consolidated financial statements of the Company have been made up), excluding contracts expiring or determinable by the Group within a year without payment of any compensation (other than statutory compensation).

**5. DIRECTORS' INTERESTS IN COMPETING BUSINESS**

To the best knowledge of the Directors, none of the Directors or their respective associates (within the meaning defined in the Listing Rules) had any interests in any business which competed or might compete with the business of the Group as at the Latest Practicable Date.

**6. LITIGATION**

As at the Latest Practicable Date, so far as the Directors were aware, neither the Company nor any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2011, being the date to which the latest audited consolidated financial statements of the Company have been made up) was engaged in any litigation or claims of material importance which were known to the Directors to be pending or threatened against any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2011, being the date to which the latest audited consolidated financial statements of the Company have been made up).

## 7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm there is no material adverse change in the financial and trading position of the Company since 31 March 2011, being the date to which the latest audited consolidated financial statements of the Company have been made up.

## 8. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Guangdong Securities Limited	a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

Guangdong Securities has given and has not withdrawn its written consent to the issue of this circular with the opinion included in the form and context in which it is included and the references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Guangdong Securities had no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did they have any direct or indirect interest in any assets which had been, since 31 March 2011, being the date of the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

## 9. MISCELLANEOUS

- (a) So far as is known to the Directors, as at the Latest Practicable Date, there was (i) no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder, whereby he has or may have temporarily or permanently passed control over the exercise of the voting rights in respect of his Shares to a third party, either generally or on a case-by-case basis.
- (b) So far as is known to the Directors, as at the Latest Practicable Date, there was no discrepancy between any Shareholder's beneficial shareholding interest in the Company as disclosed in this circular and the number of Shares in respect of which he will control or will be entitled to exercise control over the voting right at the EGM.
- (c) The registered office of the Company is at Room 701, 7/F, Aon China Building, 29 Queen's Road, Central, Hong Kong.
- (d) The share registrar of the Company is Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong.

- (e) The secretary of the Company is Mr. Lau Chi Lok, who is a fellow member of the Australian Society of Certified Practising Accountants and a member of the Hong Kong Institute of Certified Public Accountants.
- (f) The English text of this circular shall prevail over the Chinese text.

#### **10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at Room 701, 7/F, Aon China Building, 29 Queen's Road, Central, Hong Kong during normal business hours on any business day, from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the JV Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 13 to 14 of this circular;
- (d) the letter of advice from Guangdong Securities to the Independent Board Committee and the independent Shareholders, the text of which is set out on pages 15 to 24 of this circular;
- (e) the consent letter from Guangdong Securities referred to in the paragraph headed "Qualification and consent of expert" in this Appendix;
- (f) the audited consolidated accounts of the Group for the two years ended 31 March 2011;
- (g) the circular of the Company dated 17 February 2012; and
- (h) this circular.

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## NOTICE OF EGM

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### INTERCHINA HOLDINGS COMPANY LIMITED

### 國 中 控 股 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 202)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Interchina Holdings Company Limited (“**Company**”) will be held at Room 701, Aon China Building, 29 Queen’s Road Central, Hong Kong, on Friday, 25 May 2012 at 10:00 a.m. (or an adjournment thereof) for considering, and if thought fit, passing the following resolution as ordinary resolution of the Company:

#### ORDINARY RESOLUTION

“**THAT:**

- (a) the joint venture agreement dated 9 March 2012 (the “**JV Agreement**”, a copy of which has been produced to this meeting marked “A” and initialed by the chairman of the meeting for the purpose of identification) entered into between 黑龍江國中水務股份有限公司 (Heilongjiang Interchina Water Treatment Company Limited\*) (“**Heilongjiang Interchina**”), a 53.77%-owned subsidiary of Interchina Holdings Company Limited (the “**Company**”), 湘潭九華經濟建設投資有限公司 (Xiangtan Jiuhua Economic Construction Investment Company Limited\*) (“**Xiangtan Jiuhua Investment**”) and 湘潭市污水處理有限責任公司 (Xiangtan City Sewage Treatment Company Limited\*) (“**Xiangtan City Co**”) in relation to the establishment of a joint venture enterprise in the People’s Republic of China, which will be owned as to 75.8% by Heilongjiang Interchina, as to 18.2% by Xiangtan Jiuhua Investment and as to 6% by Xiangtan City Co, be hereby approved, confirmed and ratified; and
- (b) the directors of the Company be and are hereby authorised to do all things and acts and sign all documents which they may consider necessary, desirable or expedient to implement and/or give effect to any matters relating to or in connection with the JV Agreement and any of the transactions contemplated thereunder.”

By order of the Board of  
**Interchina Holdings Company Limited**  
**Lam Cheung Shing, Richard**  
*Executive Director and Chief Executive Officer*

Hong Kong, 4 May 2012

\* For identification purpose only



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## NOTICE OF EGM

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*Registered office:*

Room 701, 7/F  
Aon China Building  
29 Queen's Road Central  
Hong Kong

*Notes:*

1. A shareholder entitled to attend and vote at the above meeting may appoint one or more than one proxy to attend and to vote in his stead. A proxy need not be a shareholder of the Company.
2. Where there are joint registered holders of any share of the Company (the "**Share**"), any one such persons may vote at the meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company's share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 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 meeting or any adjourned meeting.
4. As at the date of this notice, the executive Directors are Mr. Lam Cheung Shing, Richard, Mr. Zhu Yongjun, Mr. Shen Angang, Mr. Wong Hin Shek and Mr. Choi Fun Tai, and the independent non-executive Directors are Mr. Ho Yiu Yue, Louis, Mr. Ko Ming Tung, Edward, Mr. Chi Chi Hung, Kenneth and Mr. Chen Yi, Ethan.