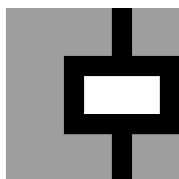


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INTERCHINA HOLDINGS COMPANY LIMITED

國中控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 202)

**(I) CONNECTED TRANSACTIONS IN RELATION TO ISSUE OF NEW SHARES AND
GRANT OF OPTIONS TO SUBSCRIBE FOR CONVERTIBLE NOTES;
AND
(II) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL**

Financial Adviser



招商證券(香港)有限公司

CHINA MERCHANTS SECURITIES (HK) CO., LTD.

THE SUBSCRIPTION AGREEMENT

On 5 July 2007, the Company entered into the Subscription Agreement with Mr. Zhang in relation to the Share Subscription and the grant of the Convertible Note Options.

Pursuant to the Subscription Agreement, the Company has conditionally agreed to (i) allot and issue the Subscription Shares (being a total of 2,700,000,000 new Shares) at the Share Subscription Price (equivalent to HK\$0.10 per Subscription Share) to Mr. Zhang; and (ii) grant of the Convertible Note Options at the premium of HK\$20 million, being options to subscribe for the First Tranche Convertible Notes (up to the aggregate principal amount of HK\$650 million) and the Second Tranche Convertible Notes (up to the aggregate principal amount of HK\$1,200 million) at the initial Conversion Price (equivalent to HK\$0.10 per Conversion Share).

Completion of the Share Subscription and the grant of the Convertible Note Options are subject to the conditions precedent set out below.

The Share Subscription Price and the Conversion Price, all being HK\$0.10 per new Share, represents (i) a discount of approximately 32.89% to the closing price of HK\$0.149 per Share as quoted on the Stock Exchange on 17 May 2007, being the last trading day immediately prior to the date of this announcement; (ii) a discount of approximately 23.31% to the average closing price of HK\$0.1304 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 17 May 2007; (iii) a discount of approximately 20.38% to the average closing price of HK\$0.1256 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 17 May 2007; and (iv) a discount of approximately 6.19% to the average closing price of HK\$0.1066 per Share as quoted on the Stock Exchange for the period commencing from 1 January 2007 and ending on 17 May 2007.

Upon completion of the Share Subscription and the exercise in full of the conversion rights attached to the First Tranche Convertible Notes and the Second Tranche Convertible Notes, an aggregate of 21,200,000,000 new Shares will be allotted and issued by the Company, representing approximately 316.33% of the issued share capital of the Company as at the date of this announcement and approximately 75.98% of the issued share capital of the Company as enlarged by such allotment and issue of new Shares.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

The Board proposes to increase the authorised share capital of the Company from HK\$1,000,000,000 divided into 10,000,000,000 Shares to HK\$4,000,000,000 divided into 40,000,000,000 Shares by the creation of additional 30,000,000,000 new Shares of HK\$0.10 each.

GENERAL

Mr. Zhang is a connected person of the Company by virtue of his being a Director. Therefore, the transactions contemplated under the Subscription Agreement constitute connected transactions of the Company under the Chapter 14A of the Listing Rules. Resolution(s) to be voted by way of poll will be proposed at the EGM seeking the approval of the Independent Shareholders in respect of the Subscription Agreement, and Mr. Zhang and his associates will be required to abstain from voting in respect of such resolution(s).

The independent board committee will be established to consider, among other things, the Subscription Agreement and the independent financial adviser will be appointed to advise, among other things, the independent board committee and the Independent Shareholders in relation to the Subscription Agreement.

A circular containing, among other things, further information on the Subscription Agreement and the proposed increase in the authorised share capital of the Company and a notice to convene the EGM will be dispatched to the Shareholders as soon as practicable in accordance to the Listing Rules.

Trading in the Shares has been suspended since 18 May 2007 pending the publication of an announcement regarding a major acquisition. The possible major transaction involves the acquisition of a PRC Company, the shares of which were traded on the Shanghai Stock Exchange and the trading of which was suspended since 18 May 2006. The Company intends to restructure business operations of the PRC Company to facilitate the resumption of the trading in the A shares of the PRC Company, which include, among others, the acquisition of A shares of the PRC Company. The PRC Company has submitted a resumption of trading proposal to the Shanghai Stock Exchange and is in the process of finalising such proposal. Further information on the major transaction will be set out in an announcement to be published as soon as practicable. Pending release of the announcement regarding the possible major transaction, the trading in the Shares will remain suspended until the said announcement is published.

THE SUBSCRIPTION AGREEMENT

On 5 July 2007, the Company entered into the Subscription Agreement with Mr. Zhang in relation to the Share Subscription and the grant of the Convertible Note Options, details of which are set out in the following paragraphs:

I. The Share Subscription

The subscriber

Mr. Zhang, an executive Director and the chairman of the Company and a Shareholder who is indirectly interested in approximately 1.54% of the issued share capital of the Company through Wealth Land Development Corp. as at the date of this announcement. As at the date of this announcement, Mr. Zhang is not a person acting in concert (as defined in the Takeovers Code) with any other Shareholders.

The Subscription Shares

The number of Subscription Shares shall be a total of 2,700,000,000 new Shares. The Subscription Shares represent approximately 40.29% of the issued share capital of the Company as at the date of this announcement and 28.72% of the issued share capital as enlarged by the allotment and issue of the Subscription Shares.

The Subscription Shares shall be allotted and issued as fully paid and shall rank pari passu in all respects among themselves and with all other Shares in issue as at the date of allotment and issue of the Subscription Shares, including the right to receive all future dividends and distributions which may be declared, made or paid by the Company on or after the date of allotment and issue of the Subscription Shares.

The Subscription Shares will be issued under the special mandate proposed to be sought from the Independent Shareholders at the EGM.

The Share Subscription Price

The Share Subscription Price of HK\$0.10 per Subscription Share represents:

- (i) a discount of approximately 32.89% to the closing price of HK\$0.149 per Share as quoted on the Stock Exchange on 17 May 2007, being the last trading day immediately prior to the date of this announcement;
- (ii) a discount of approximately 23.31% to the average closing price of HK\$0.1304 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 17 May 2007;

- (iii) a discount of approximately 20.38% to the average closing price of HK\$0.1256 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 17 May 2007; and
- (iv) a discount of approximately 6.19% to the average closing price of HK\$0.1066 per Share as quoted on the Stock Exchange for the period commencing from 1 January 2007 and ending on 17 May 2007.

The Share Subscription Price was determined after arm's length negotiations between the Company and Mr. Zhang, after considering the Group's existing financial position, liquidity of the Shares in the market, the market price or average market prices of the Shares as shown above, the fluctuation of the market price of the Shares during the above period (the highest and lowest closing price for the Share were HK\$0.173 on 1 March 2007 and HK\$0.037 on 2 January 2007 respectively) and the size of the amount to be raised. The executive Directors consider that the terms of the Share Subscription are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Completion

Completion of the Share Subscription will take place on the fifth Business Day after the date on which the last of the conditions set out in the paragraph headed "Conditions of the Subscription Agreement" below has been fulfilled (or such other date as the Company and Mr. Zhang may agree in writing).

II. Convertible Note Options

Subject to fulfilment of the conditions set out in the paragraph headed "Conditions of the Subscription Agreement" below, the Company shall grant to Mr. Zhang the Convertible Note Options at the premium of HK\$20 million, payable upon the grant of the Convertible Note Options.

The premium of HK\$20 million was determined after arm's length negotiations between the Company and Mr. Zhang, after considering the aggregate principal amount of the First Tranche Convertible Notes and the Second Tranche Convertible Notes to be subscribed by Mr. Zhang. The executive Directors consider that the terms of the Convertible Note Options are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(A) First Tranche Option

Pursuant to the Subscription Agreement, subject to fulfilment of the conditions set out in the paragraph headed “Conditions of the Subscription Agreement” below, the Company shall, at completion of the Share Subscription, grant to Mr. Zhang the First Tranche Option, being the option to subscribe for the First Tranche Convertible Notes. Details of the First Tranche Option are as follows:

Exercise period

The First Tranche Option shall be exercisable from the date of grant to 31 December 2007. It is exercisable in whole or in part and can be exercised on multiple occasions during the exercise period, provided that the principal amount of the First Tranche Convertible Notes subject to the relevant exercise shall be an integral multiple of HK\$50 million.

Issue of First Tranche Convertible Notes

Upon the exercise in full of the First Tranche Option, the aggregate principal amount of the First Tranche Convertible Notes to be issued by the Company shall be HK\$650 million.

Details of the First Tranche Convertible Notes are set out in the paragraph headed “Principal terms of the First Tranche Convertible Notes and the Second Tranche Convertible Notes” below.

(B) Second Tranche Option

Pursuant to the Subscription Agreement, subject to fulfilment of the conditions set out in the paragraph headed “Conditions of the Subscription Agreement” below, the Company shall, at completion of the Share Subscription, grant to Mr. Zhang the Second Tranche Option, being the option to subscribe for the Second Tranche Convertible Notes. Details of the Second Tranche Option are as follows:

Exercise period

Conditional upon completion of subscription of the First Tranche Convertible Notes in full, the Second Tranche Option shall be exercisable from the date of completion of the subscription of the First Tranche Convertible Notes in full to 31 December 2008. It is exercisable in whole or in part and can be exercised on multiple occasions during the exercise period, provided that the principal amount of the Second Tranche Convertible Notes subject to the relevant exercise shall be an integral multiple of HK\$50 million.

Issue of Second Tranche Convertible Notes

Upon the exercise in full of the Second Tranche Option, the aggregate principal amount of the Second Tranche Convertible Notes to be issued by the Company shall be HK\$1,200 million.

Details of the Second Tranche Convertible Notes are set out in the paragraph headed “Principal Terms of the First Tranche Convertible Notes and the Second Tranche Convertible Notes” below.

III. Principal terms of the First Tranche Convertible Notes and the Second Tranche Convertible Notes

Assuming the exercise in full of the First Tranche Option, the maximum aggregate principal amount of the First Tranche Convertible Notes shall be equivalent to HK\$650 million, which shall be issued by the Company on the fifth Business Day after the date of the relevant exercise notice.

Assuming the exercise in full of the Second Tranche Option, the maximum aggregate principal amount of the Second Tranche Convertible Notes shall be equivalent to HK\$1,200 million, which shall be issued by the Company on the fifth Business Day after the date of the relevant exercise notice.

Save for the principal amount and the date of issue as set out above, other terms of the First Tranche Convertible Notes and the Second Tranche Convertible Notes are identical:

- (1) **Issuer:** the Company
- (2) **Maturity date:** the date falling the 5th anniversary from the date of issue of the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be).
- (3) **Conversion Price:** HK\$0.10 per Conversion Share, which is subject to adjustments for, among other matters, subdivision or consolidation of Shares, bonus issues, rights issues, capital reduction and other events that have dilutive effects on the issued share capital of the Company. Every adjustment to the Conversion Price shall be certified (at the option of the Company) either by the auditors of the Company for the time being or by any approved merchant bank.

The initial Conversion Price of HK\$0.10 represents (i) a discount of approximately 32.89% to the closing price of HK\$0.149 per Share as quoted on the Stock Exchange on 17 May 2007, being the last trading day immediately prior to the date of this announcement; (ii) a discount of approximately 23.31% to the average closing price of HK\$0.1304 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 17 May 2007; (iii) a discount of approximately 20.38% to the average closing price of HK\$0.1256 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 17 May 2007; and (iv) a discount of approximately 6.19% to the average closing price of HK\$0.1066 per Share as quoted on the Stock Exchange for the period commencing from 1 January 2007 and ending on 17 May 2007.

The Conversion Price was determined after arm's length negotiations between the Company and Mr. Zhang, after considering the Group's existing financial position, liquidity of the Shares in the market, the market price or average market prices of the Shares as shown above, the fluctuation of the market price of the Shares during the above period (the highest and lowest closing price for the Share were HK\$0.173 on 1 March 2007 and HK\$0.037 on 2 January 2007 respectively) and the size of the amount to be raised.

(4) Conversion rights:

unless redemption notice shall have been previously given by the Company, holder(s) of the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be) will have the right to convert, on any Business Day during a period commencing from the date of issue of the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be) and ending on the date of the 5th anniversary of the date of issue of the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be), the whole or any part of the principal amount of the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be) into the First Tranche Conversion Shares or Second Tranche Conversion Shares (as the case may be) at the Conversion Price.

Any conversion shall be made in amounts of not less than a whole multiple of HK\$50 million on each conversion unless the amount of the outstanding note is less than HK\$50 million in which case the whole (but not part only) of that amount shall be convertible.

(5) Conversion restriction:

holder(s) of the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be) shall not be entitled to exercise the conversion rights attached to the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be) and the Company shall not issue the relevant Conversion Shares in the event that (i) such exercise would render such holder(s) of the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be) and its parties acting in concert (as defined in the Takeovers Code) holding or controlling 30% or more of the voting rights in the Company; and (ii) the exercise of which would render less than 25% of the issued share capital of the Company being held in public hands.

- (6) **Ranking:** the Conversion Shares shall rank pari passu with all other Shares in issue as at the date of allotment and issue of the Conversion Shares.
- (7) **Interest:** 3% per annum on the outstanding principal amount of the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be), payable on every 31 December after the date of issue of the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be).
- (8) **Transferability:** the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be) will be freely transferable, provided that (i) it is made to person(s) independent of the Company and the connected persons (as defined in the Listing Rules) of the Company and its subsidiaries; (ii) prior written approval of the Company has been obtained; and (iii) the principal amount to be transferred or assigned is at least HK\$50 million and in integral multiples of HK\$50 million.
- (9) **Voting rights:** holders of the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be) will not be entitled to attend or vote at any meetings of the Company by reason only of it being the holder(s) thereof.
- (10) **Early redemption:** the Company shall have the right at any time after the expiry of the third anniversary of the respective dates of issue thereof to redeem in whole or part of the outstanding principal amount of the First Tranche Convertible Notes or the Second Tranche Convertible Notes at the redemption amount (being 100% of the principal amount outstanding) in an integral multiple of HK\$50 million.
- (11) **Listing:** no application will be made for the listing of the First Tranche Convertible Notes or the Second Tranche Convertible Notes on the Stock Exchange or any other stock exchanges.

In the event the conversion rights attached to the First Tranche Convertible Notes are exercised in full at the initial Conversion Price (being HK\$0.10 per Conversion Share), a total of 6,500,000,000 First Tranche Conversion Shares will be issued, representing (i) approximately 96.99% of the issued share capital of the Company as at the date of this announcement; (ii) approximately 69.13% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares; and (iii) approximately 40.88% of the issue share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the First Tranche Convertible Shares.

In the event the conversion rights attached to the Second Tranche Convertible Notes are exercised in full at the initial Conversion Price (being HK\$0.10 per Conversion Share), a total of 12,000,000,000 Second Tranche Conversion Shares will be issued, representing (i) approximately 179.05% of the issued share capital of the Company as at the date of this announcement; (ii) approximately 127.63% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares; (iii) approximately 75.46% of the issued share capital of the Company as enlarged by allotment and issue of the Subscription Shares and the First Tranche Conversion Shares; and (iv) approximately 43.01% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Conversion Shares.

Pursuant to the Subscription Agreement, Mr. Zhang undertakes not to and will not exercise the conversion rights attached to the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be) and the Company shall not issue the relevant Conversion Shares in the event that (i) such exercise would render Mr. Zhang and parties acting in concert (as defined in the Takeovers Code) with him holding or controlling 30% or more of the voting rights in the Company; and (ii) such exercise would render less than 25% of the issued share capital of the Company being held in public hands.

As the Company foresees the future dilution effect on the Shareholders in relation to the Convertible Shares, subject to the issue of the First Tranche Convertible Notes or the Second Tranche Convertible Notes, the Company will keep the Shareholders informed of the level of dilution effect and all relevant details of the conversion and/or exercise of the First Tranche Convertible Notes and the Second Tranche Convertible Notes in the following manners:

- (a) the Company is to make a monthly announcement on the website of the Stock Exchange (the “Regular Announcement”) for so long as any of the First Tranche Convertible Notes or the Second Tranche Convertible Notes remain outstanding. The Regular Announcement will be made on or before the fifth Business Day of each calendar month regarding conversion information in the preceding month and include the following details in a table form:
 - (i) whether there is any conversion of the First Tranche Convertible Notes or the Second Tranche Convertible Notes. If yes, details (including the conversion date, number of new Shares issued and conversion price for each conversion) of the conversion. If there is no conversion during the preceding month, a negative statement will be made;
 - (ii) principal amount of outstanding First Tranche Convertible Notes or Second Tranche Convertible Notes after the conversion, if any;
 - (iii) changes in the issued share capital and the shareholding of the Company pursuant to other transactions (including exercise of options pursuant to any share option scheme of the Group and repurchases of Shares by the Company), if any; and
 - (iv) total issued share capital of the Company at the commencement and the last day of the preceding month.

- (b) in addition to the Regular Announcement, should the cumulative amount of new Shares issued pursuant to the exercise of the conversion rights attached to the First Tranche Convertible Notes or the Second Tranche Convertible Notes reaches 5% of the issued share capital of the Company as disclosed in the preceding Regular Announcement or Special Announcement (as defined below), as the case may be (and thereafter in a multiple of such 5% threshold), the Company should make an announcement (the “Special Announcement”) including details as stated in (a) above for the period commencing from the date of the preceding Regular Announcement or Special Announcement, as the case may be, up to the date on which the total number of the Shares issued pursuant to the latest conversion amounting to 5% of the issued share capital of the Company as disclosed in the preceding Regular Announcement or Special Announcement, as the case may be.
- (c) in addition to the Regular Announcement or the Special Announcement, if the Company forms the view that the issue of the Conversion Shares will trigger the disclosure requirements under Rule 13.09 of the Listing Rules, the Company is obliged to make such disclosures regardless of the issue of any announcements in relation to the First Tranche Convertible Notes and/or the Second Tranche Convertible Notes.

IV. Conditions of the Subscription Agreement

The Share Subscription and the grant of the Convertible Note Options are conditional upon:

- (a) the passing of the necessary resolution(s) by the Independent Shareholders at the EGM to approve (i) the Subscription Agreement and the transactions contemplated under the Subscription Agreement; and (ii) the increase in the authorised share capital of the Company;
- (b) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of and permission to deal in the Subscription Shares and the Conversion Shares (either unconditionally or subject to conditions which are acceptable to the Company); and
- (c) all other necessary waivers, consents and approvals (if required) from the relevant governmental or regulatory authorities in Hong Kong for the Subscription Agreement and the transactions contemplated under the Subscription Agreement having been obtained and fulfilled.

It is intended that one resolution would be put to vote in relation to the Share Subscription and the grant of the Convertible Note Options as the Share Subscription and the grant of the Convertible Note Options are regarded as one transaction and Mr. Zhang is only prepared to complete the Share Subscription and the grant of the Convertible Note Options together.

None of the conditions above can be waived. In the event that any of the above conditions shall not have been fulfilled by 5:00 p.m. on 5 October 2007 (or such other time and date as may be agreed in writing between the Company and Mr. Zhang), all rights, obligations and liabilities of the parties to the Subscription Agreement shall cease and determine and neither party shall have any claim against the other, save for any antecedent breaches of the Subscription Agreement.

REASONS FOR ENTERING INTO THE SUBSCRIPTION AGREEMENT AND USE OF NET PROCEEDS FROM THE SUBSCRIPTION AGREEMENT

The Group is principally engaged in environmental protection and water treatment operation, city development and investment operation, property investment operation and securities and financial operation.

As stated in the annual report of the Company for the year ended 31 March 2007, according to the United Nations, water is in short supply around the world and there will be 2.8 billion people living in regions with water shortage by 2025. Fresh water resource is also decreasing in the PRC. Nevertheless, business opportunity arises from the lack of water. Particularly, as the Qualified Domestic Institutional Investor program and Qualified Foreign Institutional Investor program gradually broadened in 2006, most investors are like fish getting water and investment in the water treatment industry in the PRC has grown tremendously. Furthermore, the central government of the PRC is trying to develop brand names in the water industry. The Group will capture all these opportunities and set up more development plans to achieve a higher yield for the Shareholders.

As mentioned in the annual report of the Company for the year ended 31 March 2007, as the economy of the PRC is undergoing a rapid restructuring and becoming more open, the Group will capture the opportunities thus arise and seeks diversified developments in the existing four main businesses of the Group.

Currently, the Group is in negotiations regarding various projects in the PRC in both water treatment and city development business. Leveraging on the experience and expertise of the Group, the Group is confident to obtain such projects with favourable terms and at relatively low costs. The Group needs to finance such development of the environmental protection and water treatment business, as well as conduct city development and investment, which require a large amount of money, whereby the internal resources of the Group are not enough for financing the funds.

The Company has considered the following fund raising methods and, as stated below, found it difficult or not suitable for the Group to raise fund other than entering into the Subscription Agreement:

- it is relatively difficult for the Group to obtain funding through bank borrowings or from other financial institutions given the gearing ratios of the Company having been maintained at the levels of approximately 22% (for the year ended 31 March 2007) and approximately 28% (for the year ended 31 March 2006) and the financial performance of the Group for the three years ended 31 March 2007 was unsatisfactory;
- it is relatively difficult for the Group to conduct placing to investors given the financial performance of the Group for the three years ended 31 March 2007 was unsatisfactory and the usual time of investment return for water treatment or city development projects (such being the principal business of the Group) is relatively long, with results usually seen only after two or more years. Therefore, the Group finds it difficult to look for strategic investors with long-term commitment; and

- the Company does not intend to pursue fund raising methods such as rights issue and open offer having considered the fact that (i) rights issue and open offer would require more cash outlay; and (ii) the Group finds it difficult to look for underwriter for rights issue or open offer in view of the unsatisfactory financial performance of the Group for the three years ended 31 March 2007.

The Directors believe that, at this stage, the Share Subscription and the grant of the Convertible Note Options are the most appropriate means for the Group to finance the fund. Having tried the usual means for fund-raising, the Company and Mr. Zhang have reached agreement to finance the operations of the Group as more particularly set out in the Subscription Agreement.

The gross proceeds from the Share Subscription, the grant of the Convertible Note Options and subscription of the First Tranche Convertible Notes and the Second Tranche Convertible Notes will be approximately HK\$2,140 million. After deducting the related expenses of approximately HK\$1 million, the net proceeds from the Share Subscription, the grant of the Convertible Note Options and subscription of the First Tranche Convertible Notes and the Second Tranche Convertible Notes will be approximately HK\$2,139 million. It is intended that such net proceeds will be used as follows:

- (i) approximately HK\$1,300 million for expansion of the Group's environmental protection and water treatment business, of which HK\$640 million and HK\$660 million will be used in 2007 and 2008 respectively;
- (ii) approximately HK\$600 million for expansion of the Group's city development business, of which HK\$300 million and HK\$300 million will be used in 2007 and 2008 respectively; and
- (iii) the balance of approximately HK\$239 million to be applied as the Group's general working capital.

The Company intends to use approximately HK\$1,900 million of the proceeds for investment in environmental protection and water treatment business and city development business. As at the date of this announcement, the Group is exploring possible business opportunities in relation to the above businesses. The preliminary negotiations of such business opportunities are still undergoing and no formal agreement has been entered into as at the date of this announcement. The Company will make further announcement, if necessary, in relation to the aforesaid matters in accordance with the requirements of the Listing Rules as and when appropriate.

The executive Directors consider that the terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FUND RAISING ACTIVITY DURING THE PAST 12 MONTHS FROM THE DATE OF THIS ANNOUNCEMENT

Date of announcement	Event	Net proceeds	Intended use of proceeds as stated in the announcement	Actual use of proceeds
13 February 2007	Issue of an aggregate of HK\$111,698,000 convertible notes	Approximately HK\$111.35 million	To be used for general working capital	The proceeds has been fully applied as intended.

Save as disclosed above, the Company has not conducted any fund raising exercise during the past 12 months immediately preceding the date of this announcement.

SHAREHOLDING STRUCTURE OF THE COMPANY

The table below shows the change in shareholding of the Company as a result of completion of the Share Subscription and the exercise in full of conversion rights attached to the First Tranche Convertible Notes and the Second Tranche Convertible Notes:

	As at the date of this announcement		Upon completion of the Share Subscription		Upon completion of the Share Subscription and the exercise in full of the conversion rights attached to the First Tranche Convertible Notes		Upon completion of the Share Subscription and the exercise in full of the conversion rights attached to the First Tranche Convertible Notes and the Second Tranche Convertible Notes	
	Shares	Approximately %	Shares	Approximately %	Shares	Approximately %	Shares	Approximately %
Mr. Zhang and the parties acting in concert (as defined in the Takeovers Code) with him (Note 1)	103,495,000	1.54	2,803,495,000	29.82	9,303,495,000 (Note 2)	58.51	21,303,495,000 (Note 2)	76.35
Public	6,598,408,632	98.46	6,598,408,632	70.18	6,598,408,632	41.49	6,598,408,632	23.65
Total	6,701,903,632	100.00	9,401,903,632	100.00	15,901,903,632	100.00	27,901,903,632	100.00

Notes:

1. These Shares are held by Wealth Land Development Corp., which is wholly and beneficially owned by Mr. Zhang.
2. Pursuant to the Subscription Agreement, Mr. Zhang undertakes not to and will not exercise the conversion rights attached to the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be) and the Company shall not issue the relevant Conversion Shares in the event that (i) such exercise would render Mr. Zhang and parties acting in concert (as defined in the Takeovers Code) with him holding or controlling 30% or more of the voting rights in the Company; and (ii) such exercise would render less than 25% of the issued share capital of the Company being held in public hands. Moreover, the Company will take appropriate steps to ensure that sufficient public float exists. Thus the Shares held by Mr. Zhang and the parties acting in concert (as defined in the Takeovers Code) with him shown above are for illustration purposes only.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the date of this announcement, the authorised share capital of the Company is HK\$1,000,000,000 divided into 10,000,000,000 Shares of which 6,701,903,632 Shares are in issue. As to accommodate further expansion and growth of the Group and it is one of the conditions precedent of the Subscription Agreement, the Board proposes to increase the authorised share capital of the Company from HK\$1,000,000,000 divided into 10,000,000,000 Shares to HK\$4,000,000,000 divided into 40,000,000,000 Shares by the creation of additional 30,000,000,000 new Shares of HK\$0.10 each.

The proposed increase in authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

GENERAL

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

Mr. Zhang is a connected person of the Company by virtue of his being a Director. Therefore, the transactions contemplated under the Subscription Agreement constitute connected transactions of the Company under the Chapter 14A of the Listing Rules. Resolution(s) to be voted by way of poll will be proposed at the EGM seeking the approval of the Independent Shareholders in respect of the Subscription Agreement, and Mr. Zhang and his associates will be required to abstain from voting in respect of such resolution(s).

The independent board committee will be established to consider, among other things, the Subscription Agreement and the independent financial adviser will be appointed to advise, among other things, the independent board committee and the Independent Shareholders in relation to the Subscription Agreement.

A circular containing, among other things, further information on the Subscription Agreement and the proposed increase in the authorised share capital of the Company and a notice to convene the EGM will be dispatched to the Shareholders as soon as practicable in accordance to the Listing Rules.

The Share Subscription and the grant of the Convertible Note Options may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in Shares.

Trading in the Shares has been suspended since 18 May 2007 pending the publication of an announcement regarding a major acquisition. The possible major transaction involves the acquisition of a PRC company (the “PRC Company”), the shares of which were traded on the Shanghai Stock Exchange and the trading of which was suspended since 18 May 2006. The Company intends to restructure business operations of the PRC Company to facilitate the resumption of the trading in the A shares of the PRC Company, which include, among others, the acquisition of A shares of the PRC Company. The PRC Company has submitted a resumption of trading proposal to the Shanghai Stock Exchange and is in the process of finalising such proposal. Further information on the major transaction will be set out in an announcement to be published as soon as practicable. Pending release of the announcement regarding the possible major transaction, the trading in the Shares will remain suspended until the said announcement is published.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“associate(s)”	has the meaning ascribed to this term in the Listing Rules
“Board”	the board of Directors
“Business Day”	a day, other than a Saturday and a day on which a tropical cyclone warning no.8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m., on which licensed banks in Hong Kong are open for general banking business throughout their normal business hours
“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
“Conversion Price”	the initial conversion price of HK\$0.10 per Conversion Share (subject to adjustment)
“Conversion Shares”	together, the First Tranche Conversion Shares and the Second Tranche Conversion Shares
“Convertible Note Options”	together, the First Tranche Option and the Second Tranche Option
“Director(s)”	director(s) of the Company

“EGM”	the extraordinary general meeting of the Company to be held to consider and approve, among others, the Subscription Agreement and the transactions contemplated thereunder and the proposed increase in the authorised share capital of the Company
“First Tranche Conversion Shares”	the new Shares to be allotted and issued by the Company upon the exercise of the conversion rights attached to the First Tranche Convertible Notes by the holder thereof
“First Tranche Convertible Notes”	the redeemable convertible notes up to the aggregate principal amount of HK\$650 million to be issued by the Company upon the exercise of the First Tranche Option
“First Tranche Option”	the option granted by the Company to Mr. Zhang pursuant to the Subscription Agreement to subscribe for the First Tranche Convertible Notes
“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
“Independent Shareholder(s)”	Shareholder(s) (other than Mr. Zhang and his associates) who are entitled to vote at the EGM pursuant to the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Zhang”	Mr. Zhang Yang, who is an executive Director, the chairman of the Company and a Shareholder who is indirectly interested in approximately 1.54% of the issued share capital of the Company as at the date of this announcement
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Second Tranche Conversion Shares”	the new Shares to be allotted and issued by the Company upon the exercise of the conversion rights attached to the Second Tranche Convertible Notes by the holder thereof
“Second Tranche Convertible Notes”	the redeemable convertible notes up to the aggregate principal amount of HK\$1,200 million to be issued by the Company upon the exercise of the Second Tranche Option

“Second Tranche Option”	the option granted by the Company to Mr. Zhang pursuant to the Subscription Agreement to subscribe for the Second Tranche Convertible Notes
“Share Subscription”	the subscription of the Subscription Shares by Mr. Zhang subject to and upon the terms and conditions of the Subscription Agreement
“Share Subscription Price”	HK\$0.10 per Subscription Share
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of the Company of HK\$0.10 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the conditional subscription agreement dated 5 July 2007 entered into between the Company and Mr. Zhang in relation to the Share Subscription and the grant of the Convertible Note Options
“Subscription Shares”	a total of 2,700,000,000 new Shares to be issued by the Company to Mr. Zhang pursuant to the Subscription Agreement
“Takeovers Code”	the Code on Takeovers and Mergers
“%”	per cent.

By Order of the Board
Interchina Holdings Company Limited
Lam Cheung Shing, Richard
Director and Company Secretary

Hong Kong, 6 July 2007

As at the date of this announcement, the executive Directors are Mr. Zhang Yang, Mr. Chan Wing Yuen, Hubert and Mr. Lam Cheung Shing, Richard; and the independent non-executive Directors are Mr. Wong Hon Sum, Ms. Ha Ping and Dr. Tang Tin Sek.