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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)

ISSUE OF CONVERTIBLE NOTES

Reference is made to the announcement of the Company dated 15 June 2007 and the circular of the Company dated 6 July 2007, which set out details of the Company's acquisition of 60% equity interest in MCI. In order to satisfy payment of the balance of the Consideration (being HK\$132,680,989), the Company and the Vendor entered into an agreement on 6 August 2007 whereby the Company shall (i) pay an amount of HK\$4,189 in cash; and (ii) issue the Convertible Notes (in the principal amount of HK\$132,676,800) at the initial Conversion Price (equivalent to HK\$0.131 per Conversion Share).

Assuming the exercise in full of the conversion rights attaching to the Convertible Notes and the Conversion Price being HK\$0.131 per Conversion Share, a maximum of 1,012,800,000 Shares will be issued, representing approximately 15.11% of the issued share capital of the Company as at the date of this announcement and approximately 13.13% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

Trading in the shares of the Company has been suspended since 18 May 2007 pending publication of an announcement in relation to 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 has been suspended since 18 May 2006. The Company intends to assist in restructuring the business operations of the PRC company to facilitate resumption of trading A shares of the PRC company, which include, among others, the acquisition of A shares of the PRC company. Further information on the major transaction will be set out in an announcement to be published as soon as practicable. Pending publication of the Major Transaction Announcement, the trading in shares of the Company will remain suspended.

Reference is made to the announcement of the Company dated 15 June 2007 and the circular of the Company dated 6 July 2007, which set out details of the Company's acquisition of 60% equity interest in MCI.

BACKGROUND

Pursuant to the S&P Agreement, among other matters, the balance of the Consideration (being HK\$132,680,989) (the “**Balance**”) is payable by the Company to the Vendor in cash (or in such other manner as the Vendor may agree) within six months after the signing of the S&P Agreement.

In order to satisfy payment of the Balance, the Company and the Vendor entered into an agreement on 6 August 2007 whereby the Company shall (i) pay an amount of HK\$4,189 in cash to the Vendor; and (ii) issue the Convertible Notes (in the principal amount of HK\$132,676,800) at the initial Conversion Price (equivalent to HK\$0.131 per Conversion Share) to the Vendor.

PRINCIPAL TERMS OF THE CONVERTIBLE NOTES

Issuer	:	The Company
Principal amount	:	HK\$132,676,800
Maturity date	:	The second anniversary of the date of issue of the Convertible Notes
Conversion Price	:	HK\$0.131 per Conversion Share, which is subject to adjustment for, among other matters, subdivision or consolidation of Shares, bonus issues, rights issues, capital reduction and other events that have dilutive effect 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 (being HK\$0.131) represents (i) a discount of approximately 12.08% 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 premium of approximately 0.46% 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 premium of approximately 4.30% 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 premium of approximately 22.89% 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 the Vendor after taking into account the Group's current financial position, liquidity of Shares in the market, the market price or average market price of Shares as shown above, the fluctuation of the market price of Shares during the above period (the highest closing price being HK\$0.173 on 1 March 2007 and the lowest closing price being HK\$0.037 on 2 January 2007).

The Conversion Price (being HK\$0.131 per Conversion Share) is higher than the conversion price (being HK\$0.1 per new Share) of the convertible notes to be issued to Mr. Zhang pursuant to the subscription agreement entered into between Mr. Zhang and the Company dated 5 July 2007 (details of which are set out in the announcement of the Company dated 6 July 2007)(the "**Zhang Convertible Notes**"). A higher Conversion Price has been arrived at in relation to the issue of the Convertible Notes because the principal amount of the Convertible Notes (being HK\$132,676,800) is substantially smaller than the Zhang Convertible Notes (being HK\$1,850,000,000).

Conversion rights : Unless redemption notice shall have been previously given by the Company, the Noteholder shall have the right to convert, on any business day during a period commencing from the date of issue of the Convertible Note and ending on the second anniversary of the date of issue of the Convertible Note, the whole or any part of the outstanding principal amount of the Convertible Note into the Conversion Shares at the Conversion Price.

Any conversion shall be made in amounts of not less than a whole multiple of HK\$500,000 on each conversion unless the amount of the outstanding principal amount of the Convertible Note is less than HK\$500,000, in which case, the whole (but not part only) of that amount shall be convertible.

Ranking : The Conversion Shares, when allotted and issued, shall rank pari passu in all respects with other Shares then in issue as at the date of issue of the Conversion Shares.

Interest : 3.5% per annum on the outstanding principal amount of the Convertible Notes, payable annually in arrears.

Transferability : The Convertible Note shall be freely transferable, provided that (i) it is made to person(s) independent of the Company and not 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\$500,000.

- Voting rights** : Noteholder(s) shall not be entitled to attend or vote at any meetings of the Company by reason only of it being holder(s) thereof.
- Early redemption** : The Company shall be entitled by giving prior written notice of not less than seven days to the Noteholder, to redeem (in amount of not less than a whole multiple of HK\$500,000) the whole or part of the outstanding principal amount of the Convertible Note by paying the Noteholder an amount equal to 110% of the outstanding principal amount of the Convertible Note to be redeemed.
- Listing** : No application shall be made for the listing of the Convertible Note on the Stock Exchange or on any other stock exchange.
- Conversion Shares** : Assuming that the exercise in full of the conversion rights attaching to the Convertible Note and the Conversion Price equals to HK\$0.131 per Share, a maximum of 1,012,800,000 Conversion Shares will fall to be issued, representing approximately 15.11% of the issued share capital of the Company as at the date of this announcement and approximately 13.13% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

The Conversion Shares will be issued under the general mandate (the “**General Mandate**”) granted to the Directors at the annual general meeting of the Company held on 14 July 2007. The maximum nominal value of Shares that may be issued under the General Mandate (which has not been utilised up to the date of this announcement) is equivalent to HK\$134,038,072.60 (representing 1,340,380,726 Shares). The Conversion Shares will rank pari passu in all respects with the Shares in issue as at the date of conversion.

Immediately upon the exercise in full of the conversion rights attaching to the Convertible Notes, the Vendor and its parties acting in concert will not hold 30% or more of voting rights in the Company.

SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company immediately before and after the exercise of the conversion rights attaching to the Convertible Note in full is as follows:

	Shareholding immediately prior to the issue of the Conversion Shares		Shareholding immediately after the issue of the Conversion Shares (assuming conversion of Convertible Note in full)	
	Number of Shares	% (approximate)	Number of Shares	% (approximate)
Wealth Land Development Corp. (Note)	103,495,000	1.54	103,495,000	1.34
The Vendor	0	0	1,012,800,000	13.13
Public	6,598,408,632	98.46	6,598,408,632	85.53
Total	<u>6,701,903,632</u>	<u>100</u>	<u>7,714,703,632</u>	<u>100</u>

Note: Wealth Land Development Corp. is wholly and beneficially owned by Zhang Yang, an executive Director and the chairman of the Company.

REASON FOR ISSUE OF THE CONVERTIBLE NOTES

Pursuant to the S&P Agreement, among other matters, the Balance (being HK\$132,680,989) is payable by the Company to the Vendor in cash (or in such other manner as the Vendor may agree) within six months after the signing of the S&P Agreement.

As at 31 March 2007, the cash or cash equivalents of the Group amounted to approximately HK\$159 million. The Directors consider that by issuing the Convertible Notes to satisfy part payment of the Balance, the Group would be more flexible in utilising the Group's existing financial resources to further its other operations.

FUND RAISING ACTIVITY DURING THE 12 MONTHS IMMEDIATELY PRIOR TO 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.

The conversion rights attached to the above convertible notes of the Company have been exercised in full as at the date of this announcement.

Pursuant to the announcement of the Company dated 6 July 2007, the Company and Mr. Zhang Yang, an executive Director and the chairman of the Company, entered into a subscription agreement on 5 July 2007 in relation to (i) the allotment and issue of 2,700,000,000 new Shares; (ii) grant of options to subscribe for convertible notes up to aggregate principal amount of HK\$650 million and HK\$1,200 million (the “**Subscription**”). The net proceeds raised therefrom would amount to approximately HK\$2,139 million, which was intended to be applied 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.

As at the date of this announcement, completion of the Subscription has not yet taken place.

LATEST DEVELOPMENT OF THE COMPANY

Trading in the shares of the Company has been suspended since 18 May 2007 pending the publication of an announcement in relation to a major transaction (the “**Major Transaction Announcement**”). 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 have been suspended since 18 May 2006. The Company intends to assist in restructuring the 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. Further information on the major transaction will be set out in the Major Transaction Announcement to be published as soon as practicable.

Shareholders and public investors should note that there is no assurance as to whether or when the proposed major transaction will proceed, or whether it will be completed successfully. In the meantime, the trading in Shares will remain suspended until the Major Transaction Announcement is published.

The Board would also like to update the Shareholders that the Group is currently engaged in preliminary negotiations in relation to possible acquisition of investment properties in the PRC. However, no terms have been agreed as at the date of this announcement and the proposed acquisition may or may not proceed.

DEFINITIONS

In this announcement, the following expressions shall, unless the context requires otherwise, have the following meanings:

“Acquisition”	the acquisition of the Equity Interest together with the Vendor’s interest in all the Shareholder’s Loan advanced by the Vendor to MCI pursuant to the S&P Agreement
“Board”	the board of Directors
“business day”	a day (other than Saturdays) on which banks in Hong Kong are generally open for the transaction of normal banking business
“Company”	Interchina Holdings Company Limited, a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the Stock Exchange
“Completion”	completion of the Acquisition
“Consideration”	the total consideration for the Acquisition, being HK\$195,039,455
“Convertible Notes”	convertible note of the Company in the principal amount of HK\$132,676,800
“Conversion Price”	HK\$0.131, being the price at which each Conversion Share will be issued upon a conversion of all or part of the Convertible Note (subject to adjustment)
“Conversion Shares”	Shares to be issued upon conversion of the Convertible Note
“Directors”	the directors of the Company
“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
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the date falling on the second anniversary of the date of issue of the Convertible Note
“MCI”	Money Capture Investments Limited, a company incorporated in the British Virgin Islands, which is owned as to 60% by the Vendor and 40% by the Company
“Noteholder”	the person who is for the time being the holder of the Convertible Note
“PRC”	The People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC

“S&P Agreement”	the agreement dated 11 June 2007 entered into between the Company and the Vendor
“Shares”	share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Shareholder’s Loan”	the shareholder’s loan then owed by the Company to the Vendor and to be acquired by the Company from the Vendor pursuant to the S&P Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Li Gong Tao (李功韜)
“%”	per cent.

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

Hong Kong, 7 August 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.