
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult 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 to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale of the transfer was effected for transmission to the purchaser or transferee.

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國 中 控 股 有 限 公 司
INTERCHINA HOLDINGS COMPANY LIMITED
(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.

**Joint Independent Financial Advisers to the Independent Board Committee
and the Independent Shareholders**



SOUTH CHINA CAPITAL LIMITED



**WALLBANCK BROTHERS
Securities (Hong Kong) Limited**

A letter from the board of directors of Interchina Holdings Company Limited (the "Company") is set out on pages 4 to 19 of this circular. A letter from the independent committee of the board of directors of the Company and a letter from South China Capital Limited and Wallbanck Brothers Securities (Hong Kong) Limited containing their recommendation and advice are set out on pages 20 to 21 and 22 to 42 of this circular, respectively.

A notice convening an extraordinary general meeting of the Company to be held at Room Monet, Basement 1, Grand Stanford Hotel, 70 Mody Road, Kowloon, Hong Kong on 1 September 2007 at 9:00 a.m. is set out on pages 59 to 61 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 the office of the Company's share registrar in Hong Kong, Tricor Tengis Limited at 26/F., 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. 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.

10 August 2007

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated 6 July 2007 in respect of the Subscription Agreement and the proposed increase in authorised share capital
“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 convened to be held by the Company at Room Monet, Basement 1, Grand Standford Hotel, 70 Mody Road, Kowloon, Hong Kong on 1 September 2007 at 9:00 a.m. 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

DEFINITIONS

“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 Board Committee”	an independent committee of the Board comprising Mr. Wong Hon Sum, Ms. Ha Ping and Dr. Tang Tin Sek, all being independent non-executive Directors, established to advise the Independent Shareholders in relation to the Subscription Agreement
“Joint Independent Financial Advisers”	South China Capital Limited and Wallbanck Brothers Securities (Hong Kong) Limited, being the joint independent financial advisers to the Independent Board Committee and the Independent Shareholders
“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
“Latest Practicable Date”	7 August 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained therein
“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 was indirectly interested in approximately 1.54% of the issued share capital of the Company as at the Latest Practicable Date

DEFINITIONS

“PRC”	the People’s Republic of China (for the purpose of this circular, 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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company
“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)
“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 Hong Kong Code on Takeovers and Mergers
“%”	per cent.

LETTER FROM THE BOARD



國 中 控 股 有 限 公 司
INTERCHINA HOLDINGS COMPANY LIMITED

(incorporated in Hong Kong with limited liability)
(Stock Code: 202)

Executive Directors:

Mr. Zhang Yang (*Chairman*)
Mr. Chan Wing Yuen, Hubert
Mr. Lam Cheung Shing, Richard

Registered Office:

Room 701, 7th Floor
Aon China Building
29 Queen's Road Central
Hong Kong

Independent non-executive Directors:

Mr. Wong Hon Sum
Ms. Ha Ping
Dr. Tang Tin Sek

10 August 2007

To the Shareholders

Dear Sir or Madam,

**(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**

INTRODUCTION

On 6 July 2007, the Board announced that the Company entered into the Subscription Agreement with Mr. Zhang in relation to the Share Subscription and the grant of the Convertible Note Options on 5 July 2007.

The Board also proposed 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.

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 Listing Rules and is subject to approval of the Independent Shareholders at the EGM by way of poll. The Independent Board Committee has been established to advise the Independent Shareholders in respect of the

LETTER FROM THE BOARD

Subscription Agreement. South China Capital Limited and Wallbanck Brothers Securities (Hong Kong) Limited have been appointed as the Joint Independent Financial Advisers to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is: (i) to provide you with further information relating to the Subscription Agreement and the proposed increase in the authorised share capital of the Company; (ii) to set out the recommendations from the Independent Board Committee and the advice of the Joint Independent Financial Advisers in respect of the Subscription Agreement; and (iii) to give the Shareholders a notice of the EGM convened to be held for the purpose of considering and, if thought fit, approving the Subscription Agreement and transactions contemplated thereunder as well as the proposed increase in the authorised share capital of the Company.

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 below:

I. The Share Subscription

The subscriber

Mr. Zhang, an executive Director, the chairman of the Company and a Shareholder who was indirectly interested in approximately 1.54% of the issued share capital of the Company through Wealth Land Development Corp. as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Zhang was 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 Latest Practicable Date 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 fully paid or credited 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.

LETTER FROM THE BOARD

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 the Latest Practicable Date;
- (ii) 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 the Announcement;
- (iii) 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;
- (iv) 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
- (v) 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 price 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 per 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 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.

LETTER FROM THE BOARD

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 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.

BMI Appraisals Limited has been appointed as an appraiser to appraise the value of the Convertible Note Options, the valuation report of which is set out in Appendix I to this circular.

(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:

LETTER FROM THE BOARD

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 fifth anniversary from the date of issue of the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be).

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- (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 the Latest Practicable Date; (ii) 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 the Announcement; (iii) 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; (iv) 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 (v) 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 price 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 per 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.

LETTER FROM THE BOARD

- (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 fifth 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.

LETTER FROM THE BOARD

- (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 Latest Practicable Date; (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.

LETTER FROM THE BOARD

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 Latest Practicable Date; (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;

LETTER FROM THE BOARD

- (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.

LETTER FROM THE BOARD

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 the year of 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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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 Latest Practicable Date, the Group was exploring possible business opportunities in relation to the above businesses. The preliminary negotiations of such business opportunities were still ongoing and no formal agreement had been entered into as at the Latest Practicable Date. The Company will make further announcement, if necessary, in relation to the aforesaid in compliance with the Listing Rules as and when appropriate.

The 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 ACTIVITIES DURING THE 12 MONTHS PRECEDING THE LATEST PRACTICABLE DATE

Date of announcement	Event	Net proceeds	Intended use of proceeds as stated in the announcement	Actual use of proceeds
13 February 2007	Issue of convertible notes in the aggregate principal amount of HK\$111,698,000	Approximately HK\$111.35 million	To be used for general working capital	The proceeds has been fully applied as intended.
7 August 2007	Issue of convertible notes in the aggregate principal amount of HK\$132,676,800	N/A (<i>Note</i>)	N/A (<i>Note</i>)	N/A (<i>Note</i>)

Note: As stated in the announcement of the Company dated 7 August 2007, the Company will issue convertible notes in an aggregate principal amount of HK\$132,676,800 to satisfy payment of the balance of the consideration of the Company's acquisition of 60% equity interest in Money Capture Investments Limited.

Save as disclosed above, the Company has not conducted any fund raising exercise during the 12 months immediately preceding the Latest Practicable Date.

LETTER FROM THE BOARD

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 the conversion rights attached to the First Tranche Convertible Notes and the Second Tranche Convertible Notes:

	As at the Latest Practicable Date		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:

- These Shares are held by Wealth Land Development Corp., which is wholly and beneficially owned by Mr. Zhang.
- 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 Latest Practicable Date, the authorised share capital of the Company was HK\$1,000,000,000 divided into 10,000,000,000 Shares of which 6,701,903,632 Shares were issued. In order to accommodate further expansion and growth of the Group and being one of the conditions precedent of the Subscription Agreement, the Board proposed 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.

IMPLICATIONS UNDER THE LISTING RULES

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.

LETTER FROM THE BOARD

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 Listing Rules and are subject to the approval by the Independent Shareholders by way of poll. Mr. Zhang and his associates will be required to abstain from voting in respect of the relevant resolution.

The Independent Board Committee has been established to advise the Independent Shareholders on the terms of the Subscription Agreement. South China Capital Limited and Wallbanck Brothers Securities (Hong Kong) Limited have been appointed as the Joint Independent Financial Advisers to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

EGM

The EGM will be held at Room Monet, Basement 1, Grand Standford Hotel, 70 Mody Road, Kowloon, Hong Kong on 1 September 2007 at 9:00 a.m., for the purpose of considering and, if thought fit, passing the resolutions to approve, among other matters, the Subscription Agreement and the proposed increase in the authorised share capital of the Company. A notice convening the EGM is set out on pages 59 to 61 of this circular.

In order to be valid, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed must be completed in accordance with the instructions printed thereon and delivered to the share registrar of the Company, Tricor Tengis Limited, at 26/F., 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 EGM or any adjourned meeting. The completion and return of the form of proxy will not preclude the Shareholders from attending and voting at the EGM or any adjourned meeting in person if they so wish.

PROCEDURES FOR DEMANDING A POLL

Pursuant to article 73 of the articles of association of the Company, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:–

- (a) the chairman of the meeting; or
- (b) at least three Shareholders present in person or by proxy for the time being entitled to vote; or
- (c) any Shareholder or Shareholders present in person or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

LETTER FROM THE BOARD

- (d) any Shareholder or Shareholders present in person or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which in aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

The result of the poll will be published on the Company and the Stock Exchange's websites on the Business Day following the EGM.

RECOMMENDATIONS

The Directors consider the terms of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder.

The Directors consider that the proposed increase in the authorised share capital of the Company is in the interests of the Company and the Shareholders as a whole and therefore recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the proposed increase in the authorised share capital of the Company.

You are advised to read carefully the letter from the Independent Board Committee on pages 20 to 21 of this circular. The Independent Board Committee, having taken into account the advice of the Joint Independent Financial Advisers, the text of which is set out on pages 22 to 42 of this circular, considers that the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in respect of the Subscription Agreement and the transactions contemplated thereunder.

FURTHER INFORMATION

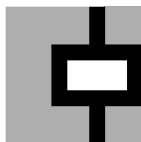
Your attention is drawn to the text of the letters from the Independent Board Committee and the Joint Independent Financial Advisers respectively containing their recommendation and advice regarding the Subscription Agreement and the transactions contemplated thereunder.

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
For and on behalf of the Board
Interchina Holdings Company Limited
Lam Cheung Shing, Richard
Director and Company Secretary

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Subscription Agreement.



國 中 控 股 有 限 公 司
INTERCHINA HOLDINGS COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

10 August 2007

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTIONS IN RELATION TO
ISSUE OF NEW SHARES AND
GRANT OF OPTIONS TO SUBSCRIBE FOR CONVERTIBLE NOTES**

We refer to the circular of the Company dated 10 August 2007 (the “Circular”), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Subscription Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders as to the fairness and reasonableness of the Subscription Agreement and the transactions contemplated thereunder and to recommend how the Independent Shareholders should vote at the EGM. The Joint Independent Financial Advisers have been appointed to advise the Independent Board Committee in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 4 to 19 of the Circular, and the letter from the Joint Independent Financial Advisers to the Independent Board Committee and the Independent Shareholders which contains their advice to us in respect of the Subscription Agreement and the transactions contemplated thereunder as set out on pages 22 to 42 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the terms of the Subscription Agreement and the advice of the Joint Independent Financial Advisers, we are of the view that the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in respect of the Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee of
Interchina Holdings Company Limited
Wong Hon Sum Ha Ping Tang Tin Sek

LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

Set out below is the text of a letter received from the Joint Independent Financial Advisers to the Independent Board Committee and the Independent Shareholders regarding the Share Subscription and the grant of the Convertible Note Options for the purpose of inclusion in this circular.



SOUTH CHINA CAPITAL LIMITED

28/F., Bank of China Tower
No. 1 Garden Road
Central
Hong Kong



**WALLBANCK BROTHERS
SECURITIES (HONG KONG) LIMITED**

1005B, Tower 1, Lippo Centre
89 Queensway, Central
Hong Kong

10 August 2007

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

Dear Sirs,

**CONNECTED TRANSACTIONS
IN RELATION TO ISSUE OF NEW SHARES AND
GRANT OF OPTIONS TO SUBSCRIBE FOR CONVERTIBLE NOTES**

INTRODUCTION

We refer to our appointment as the Joint Independent Financial Advisers to advise the Independent Board Committee and the Independent Shareholders in connection with the Share Subscription and the grant of Convertible Note Options, details of which are set out in the letter from the Board (the “Board Letter”) contained in the circular dated 10 August 2007 issued by the Company to the Shareholders (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Board announced that on 5 July 2007, the Company entered into the Subscription Agreement with Mr. Zhang, pursuant to which the Company has agreed to (i) allot and issue the Subscription Shares at the Share Subscription Price of HK\$0.10 per Subscription Share to Mr. Zhang; and (ii) grant the Convertible Note Options, being options to subscribe for the First Tranche Convertible Notes and the Second Tranche Convertible Notes (together, the “Convertible Notes”) at the premium of HK\$20 million to Mr. Zhang. The initial Conversion Price was set at HK\$0.10 per Conversion Share.

Given that Mr. Zhang is a director of the Company, the Share Subscription and the grant of the Convertible Note Options constitute connected transactions under Chapter 14A of the Listing Rules and are therefore subject to the Independent Shareholders’ approval at the EGM on a vote by way of poll. Mr. Zhang and his associates shall abstain from voting in respect of the relevant ordinary resolutions at the EGM.

LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

An Independent Board Committee comprising Mr. Wong Hon Sum, Ms. Ha Ping and Dr. Tang Tin Sek (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Share Subscription and the grant of the Convertible Note Options are 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 ordinary resolutions to be proposed at the EGM regarding the Subscription Agreement and the transactions contemplated therein. We, South China Capital Limited and Wallbanck Brothers Securities (Hong Kong) Limited, have been appointed as the Joint Independent Financial Advisers to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our advice and recommendation 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, complete and accurate in all material respects at the time when they were made and continue to be so as at the date of the despatch of the Circular. 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 enquiries and careful considerations. 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 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 recommendation in compliance with Rule 13.80 of the Listing Rules.

In addition, we have reviewed the independent valuation report in respect of the fair value of the Convertible Note Options as at the date of the Subscription Agreement (the “CNO Valuation Report”), being prepared by BMI Appraisals Limited (the “Valuer”) and as set out in Appendix I to the Circular. We have also discussed the methodologies adopted and the bases and assumptions made in determining the fair value of the Convertible Note Options with the Valuer. From the information provided by the Valuer, we note that the Valuer is experienced in the valuation of options and convertible bonds/notes for various companies listed in Hong Kong. We are therefore satisfied with the competence of the Valuer in performing the valuation of the Convertible Note Options.

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 enquires, which to the best of their knowledge and belief, there is no other fact 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 recommendation. We have not, however, conducted any independent in-depth investigation into the business and affairs of

LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

the Company, or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Share Subscription and the grant of the Convertible Note Options.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Share Subscription and the grant of the Convertible Note Options, we have taken into consideration the following principal factors and reasons:

(1) Information on the Group

The Group is principally engaged in (i) environmental protection and water treatment operation; (ii) city development and investment operation; (iii) property investment operation; and (iv) securities and financial operation.

Set out below is a table illustrating the audited financial performance of the Group for each of the two years ended 31 March 2007 as extracted from the annual report of the Company for the year ended 31 March 2007 (the “2007 Annual Report”):

	For the year ended 31 March 2007 HK\$'000	For the year ended 31 March 2006 HK\$'000	% change from 2006 to 2007 %
Turnover			
– environmental protection and water treatment operation	25,218	58,268	(56.72)
– city development and investment operation	0	66,779	(100.00)
– property investment operation	2,968	3,724	(20.30)
– securities and financial operation	5,027	5,969	(15.78)
Total	<u>33,213</u>	<u>134,740</u>	<u>(75.35)</u>
Net loss for the year	(31,148)	(109,525)	(71.56)

As depicted by the above table, the Group’s financial performance was unsatisfactory during the two years ended 31 March 2007. The Group recorded audited net loss in the said two financial years as well as decreasing audited turnover from the year ended 31 March 2006 to the year ended 31 March 2007. As referred to in the 2007 Annual Report, the Group did not derive any revenue from the city development and investment operation segment for the year ended 31 March 2007 since most of the projects under this business segment were still under construction. Due to the same reason, the Group’s revenue from the segment of environmental protection and water treatment operation had also been reducing during the two-year period under review.

LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

Nevertheless, the Directors expect that projects of these two segments will commence operation by 2008 and the Group will be able to realize earnings rapidly thereafter. In addition, the Directors are confident that the segment of environmental protection and water treatment operation will grow substantially owing to the scarce supply of fresh water in the PRC. As advised by the Directors, it is the intention of the Group to strengthen and expand its environmental protection and water treatment operation in the near future.

Set out below is a table illustrating the audited assets and liabilities position of the Group as at 31 March 2007 and 31 March 2006 as extracted from the 2007 Annual Report:

	As at 31 March 2007	As at 31 March 2006	% change from 2006 to 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Total assets	1,612,914	1,417,395	13.79
Total liabilities	<u>(805,102)</u>	<u>(708,400)</u>	<u>13.65</u>
Net asset value ("NAV")	807,812	708,995	13.94
Total borrowings	(357,966)	(406,808)	(12.01)
Gearing ratio (total borrowings/ total assets)	22.19%	28.70%	(22.67)

As depicted by the above table, the audited consolidated NAV of the Group had been relatively stable from 31 March 2006 to 31 March 2007 while the gearing level of the Group remained as high as over 20% as at the two said year-end dates.

(2) Background of and reasons for the Share Subscription and the grant of the Convertible Note Options

As mentioned in the foregoing section, the Group intends to capture the business opportunities in environmental protection and water treatment operation arising from the scarce fresh water supply in the PRC.

LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

From the 2007 Annual Report, we are aware of that the Group has the following environmental protection and water treatment operation and city development and investment operation projects being underway:

Project details	Progress
1) Sewage treatment project in Ma'anshan, Anhui Province.	Commenced trial run in May 2007.
2) Sewage treatment project in Changli, Hebei Province. The aggregate sewage treatment capacity of the Ma'anshan and the Changli project will be up to 100,000 tonnes on average per day.	Will commence operation in the first quarter of 2008.
3) Water supply project in Hanzhong, Shaanxi Province, supplying approximately 100,000 tonnes of water to Hanzhong per day.	Discussion with the Hanzhong Municipal Government about details on the operation is in progress and it is expected that the related procedures will be finalized and operation will commence by the end of 2007.
4) Acquisition of a water supply company, being the only water supply company in Hanzhong.	Reached consensus with the Hanzhong Municipal Government and the acquisition is expected to be completed by the end of 2007.
5) Development of the Interchina Mall, being a mega-scale luxurious residential and commercial complex in Changsha, Hunan Province.	Negotiating with established developer for possible cooperation in various ways.

On top of the above projects, with reference to the Board Letter, the Group is currently in negotiations on various water treatment and city development projects in the PRC. Accordingly, the Directors expect that large amount of capital will be required to finance the Group's future development in the environmental protection and water treatment operation business and the city development and investment operation business, whereby the internal resources of the Group may not be enough for financing such funding needs.

LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

As stated in the Board Letter, the net proceeds from the Share Subscription, the grant of the Convertible Note Options and subscription of the Convertible Notes of approximately HK\$2,139 million will be used in the following ways:

- (i) approximately HK\$1,300 million for expansion of the Group's environmental protection and water treatment operation 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 and investment operation 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.

In light of (i) the funding requirements for the Group's environmental protection and water treatment operation projects which are currently in progress; (ii) the Group's potential capital needs for future development in the environmental protection and water treatment operation business and the city development and investment operation business; and (iii) the Share Subscription and the grant of the Convertible Note Options being the most practicable financing method available to the Group at present (details of which is being set forth in the section which follows), we concur with the Directors that the Share Subscription and the grant of the Convertible Note Options are in the interests of the Company and the Shareholders as a whole.

(3) Other financing alternatives

The Directors confirmed that the Group has not conducted any fund raising activity during the past 12 months save and except for the issue of convertible notes as announced by the Company on 13 February 2007 (which had been completed) and the issue of convertible notes as announced by the Company on 7 August 2007 (which was announced after the announcement of the Share Subscription and the grant of the Convertible Note Options; and has not been completed on the Latest Practicable Date).

We have further enquired into the Directors of other fund raising methods which the Directors may consider for meeting the Group's financial requirements. In this regard, the Directors advised that, based on (i) the unsatisfactory financial performance of the Group during the past two years as presented in the section headed "Information on the Group" of this letter; and (ii) the high gearing level of the Group as at 31 March 2007 as shown in the same section of this letter, it will be difficult for the Group to obtain additional bank borrowings/ debts with favourable terms.

Apart from debt financing, common means of equity financing include placing, open offer and rights issue. As referred to in the Board Letter, the Directors considered that it is relatively difficult for the Group to conduct placing exercise given the unsatisfactory financial performance of the Group. Furthermore, the Group also finds it difficult to look for strategic investors with long-term commitment in light of the lengthy time for recovery of investment return from the water treatment or city

LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

development projects (such being the principal businesses of the Group). Although both open offer and rights issue allow the Shareholders to maintain their respective pro-rata shareholdings in the Company, the Directors were of the view that any arm's length underwriting is normally subject to standard force majeure clause in favour of the underwriter. In contrast, there is no force majeure clause prescribed in the Subscription Agreement. Moreover, given (i) the unsatisfactory financial performance of the Group during the two years ended 31 March 2007; (ii) the high gearing level of the Group as at 31 March 2007; and (iii) the unpopularity in the trading of the Company's shares on the Stock Exchange (details of which is being set forth in the paragraph headed "Review on trading liquidity of the Shares" of this letter), the Group will face difficulties in procuring commercial underwriting. Having considered all of the above, we are of the view that it is reasonable for the Group to seize the first available funding opportunity by way of the Share Subscription and the grant of the Convertible Note Options.

In view of that the Share Subscription and the grant of the Convertible Note Options are feasible, cost-effective and time-effective fund raising methods currently available to the Group, we consider that the Share Subscription and the grant of the Convertible Note Options are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

(4) Principal terms of 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.

The Share Subscription

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue to Mr. Zhang the Subscription Shares (being a total of 2,700,000,000 new Shares) at the Subscription Price of HK\$0.10 per Subscription Share. The Share Subscription will generate gross proceeds of HK\$270 million in cash for the Group.

The Subscription Shares represent approximately 40.29% of the issued share capital of the Company as at the Latest Practicable Date and approximately 28.72% of the issued share capital of the Company as enlarged by the Share Subscription. The Subscription Shares will rank pari passu in all respects with the Shares in issue as at the date of allotment and issue of the Subscription Shares.

The grant of the Convertible Note Options

Besides the issuance of the Subscription Shares, the Company has also conditionally agreed to grant the Convertible Note Options at the premium of HK\$20 million to Mr. Zhang under the Subscription Agreement. The Convertible Note Options will entitle Mr. Zhang to subscribe for the First Tranche Convertible Notes and the Second Tranche Convertible Notes of up to the aggregate principal amounts of HK\$650

LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

million and HK\$1,200 million respectively, with an initial Conversion Price of HK\$0.10 per Conversion Share. The Convertible Notes will bear interest from the date of issue at the rate of 3% per annum on the outstanding principal amount of the Convertible Notes which will be payable by the Company 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). Furthermore, the maturity dates of the Convertible Notes will be the date falling the 5th anniversary from the date of issue of the First Tranche Convertible Notes and the Second Tranche Convertible Notes (as the case may be).

Pursuant also to the Subscription Agreement, Mr. Zhang undertakes not to and will not exercise the conversion rights attaching 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 (the “Conversion Restrictions”).

The number of Conversion Shares to be issued upon full conversion of the Convertible Notes will be 18,500,000,000 Shares, representing approximately 276.04% of the issued share capital of the Company as at the Latest Practicable Date and approximately 66.30% of the issued share capital of the Company as enlarged by the Share Subscription and the exercise in full of the Convertible Notes. The Conversion Shares to be issued upon conversion of the Convertible Notes will rank *pari passu* in all respects with the Shares in issue on the date of conversion.

The Share Subscription Price and the Conversion Price (together, the “Issue Price”)

The Issue Price of HK\$0.10 represents:

- (a) a discount of approximately 32.89% to the closing price of HK\$0.149 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (b) 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 the Announcement (the “Last Trading Day”);
- (c) 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 the Last Trading Day;
- (d) 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 the Last Trading Day; and

LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

- (e) 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 the Last Trading Day.

As stated in the Board Letter, the Issue Price was determined after arm's length negotiations between the Company and Mr. Zhang with reference to 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 of the Shares were HK\$0.173 on 1 March 2007 and HK\$0.037 on 2 January 2007 respectively) and the amount to be raised from the Share Subscription and the grant of the Convertible Note Options. The Directors also confirmed that they consider that the terms of the Share Subscription Agreement (including the Issue Price) are fair and reasonable so far as the Independent Shareholders are concerned.

(i) Review on trading liquidity of the Shares

The average daily trading volume of the Shares, and the respective percentages of the Shares' average daily trading volume as compared to the total number of issued Shares as at the Latest Practicable Date and the total number of issued Shares held by the public as at the Latest Practicable Date in each of the 24 months during the period commencing from 1 September 2005 up to and including the Latest Practicable Date (the "Review Period") are tabulated as follows:

Month	Average daily trading volume (the "Average Volume") (Shares)	% of the Average Volume to total number of issued Shares as at the Latest Practicable Date (Note 5) %	% of Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date (Note 6) %
2005			
September	123,960,952	1.85	1.88
October (Note 1)	42,751,944	0.64	0.65
November	57,726,295	0.86	0.87
December	47,821,150	0.71	0.72
2006			
January	45,259,211	0.68	0.69
February	69,279,000	1.03	1.05
March	154,180,783	2.30	2.34
April	234,934,135	3.51	3.56
May	58,158,875	0.87	0.88
June	46,843,182	0.70	0.71
July	23,807,500	0.36	0.36
August	22,661,057	0.34	0.34
September	31,853,333	0.48	0.48

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Month	Average daily trading volume (the "Average Volume") (Shares)	% of the Average Volume to total number of issued Shares as at the Latest Practicable Date (Note 5) %	% of Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date (Note 6) %
October (Note 2)	72,847,436	1.09	1.10
November	99,167,864	1.48	1.50
December	52,504,474	0.78	0.80
2007			
January	373,145,909	5.57	5.66
February (Note 3)	677,222,500	10.10	10.26
March	506,323,977	7.55	7.67
April	357,910,167	5.34	5.42
May (Note 4)	379,123,792	5.66	5.75
June (Note 4)	N/A	N/A	N/A
July (Note 4)	N/A	N/A	N/A
August (Up to and including the Latest Practicable Date) (Note 4)	N/A	N/A	N/A

Source: Bloomberg

Notes:

1. Trading in the Shares was suspended on 13 October 2005 and 14 October 2005.
2. Trading in the Shares was suspended on 20 October 2006.
3. Trading in the Shares was suspended on 12 February 2007 and 13 February 2007.
4. Trading in the Shares has been suspended from 18 May 2007 up to the Latest Practicable Date.
5. Based on 6,701,903,632 Shares in issue as at the Latest Practicable Date.
6. Based on 6,598,408,632 Shares held in public hands as at the Latest Practicable Date.

From the above table, we are aware of that (i) during the period between September 2005 to December 2006, the percentage of the Average Volume to total number of issued Shares held by public ranged from 0.34% to 3.56%; (ii) the percentage of the Average Volume to total number of issued Shares held by public was less than 2% in 14 months during the Review Period; and (iii) save and except for February 2007 and March 2007, the percentage of the Average Volume to total number of issued Shares held by public was around 5% from January 2007 to May 2007 while the trading of the Shares had been suspended from 18 May 2007 to the Latest Practicable Date. Accordingly, we are of the view that the trading in the Shares was relatively thin during the Review Period save and except for February 2007 and March 2007.

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As a result of such unpopularity in the trading of the Company's shares in normal circumstances, a discount to the Share price may have to be offered in order to attract investors to subscribe for new shares of the Company. Furthermore, the thin average daily trading volume of the Shares may also create difficulties for the Company to exploit other equity financing opportunities, such as placing, open offer and rights issue.

(ii) Comparison with other subscription of new shares

For the purpose of assessing the fairness and reasonableness of the Share Subscription Price, we have researched for the recent transactions announced by companies listed in Hong Kong for the period from 6 January 2007 to 5 July 2007, being the six-month period immediately before the date of the Announcement (the "Comparison Period"), involving subscription of new shares (top-up placing is excluded as there is no placing of existing Shares involved in the Share Subscription). To the best of our knowledge, we have identified 17 of such transactions (the "Subscription Comparables") and summarised our relevant findings as below:

Date of announcement	Company name (Stock code)	Premium/(discount) of issue price over/to		
		closing share price as at the last trading day prior to the transaction announcement (the "Last Day of Trading") %	average closing share price for the five trading days up to and including the Last Day of Trading %	average closing share price for the ten trading days up to and including the Last Day of Trading %
11 January 2007	HKC (Holdings) Limited (190)	(11.33)	(8.65)	(7.06)
22 January 2007	Star Cruises Limited (678)	(9.49)	0.17	1.69
26 January 2007	GFT Holdings Limited (1003)	(42.90)	(33.30)	(32.90)
6 February 2007	Benefun International Holdings Limited (1130)	(17.50)	(16.88)	(16.24)
14 March 2007	Sunny Global Holdings Limited (1094)	(4.76)	(3.85)	(3.66)
15 March 2007	Poly (Hong Kong) Investments Limited (119)	(2.86)	(0.12)	0.83
20 March 2007	Sunny Global Holdings Limited (1094)	0.00	17.85	27.16
4 April 2007	Sino Union Petroleum & Chemical International Limited (346)	(8.30)	34.60	63.60

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Date of announcement	Company name (Stock code)	Premium/(discount) of issue price over/to		
		closing share price as at the last trading day prior to the transaction announcement (the “Last Day of Trading”) %	average closing share price for the five trading days up to and including the Last Day of Trading %	average closing share price for the ten trading days up to and including the Last Day of Trading %
16 May 2007	MAE Holdings Limited (851)	(90.00)	(86.58)	(86.03)
4 June 2007	EPRO Limited (8086)	(60.00)	(61.54)	(48.67)
6 June 2007	IIN International Limited (8128)	(48.72)	(51.69)	(44.93)
13 June 2007	China Photar Electronics Group Limited (8220)	(94.24)	(94.53)	(93.28)
29 June 2007	Freeman Corporation Limited (279) (Note)	(15.30)	(19.50)	(20.20)
3 July 2007	Forefront Group Limited (885)	(1.30)	(5.24)	(7.88)
4 July 2007	Yantai North Andre Juice Company Limited (8259)	(12.59)	2.08	6.98
4 July 2007	Zhong Hua International Holdings Limited (1064)	(16.70)	(14.30)	(13.40)
5 July 2007	Shenzhen High-tech Holdings Limited (106) (Note)	(18.46)	(17.45)	(21.83)
Maximum		0.00	34.60	63.60
Minimum		(94.24)	(94.53)	(93.28)
Average		(26.73)	(21.11)	(17.40)
6 July 2007	The Company	(32.89)	(23.31)	(20.38)

Source: the Stock Exchange’s website (www.hkex.com.hk)

Note: The premium/discount calculation was based on share price as at the agreement date since trading in the shares of the selected companies were not suspended due to the transactions.

As indicated by the above table, the subscription price of the Subscription Comparables ranged from (i) a discount of approximately 94.24% to 0% to the respective closing share prices as at the Last Day of Trading (“the Last Day Range”) with an average of approximately 26.73% discount (“the Last Day Average”); (ii) a discount of approximately 94.53% to a premium of approximately 34.60% to/over the

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respective average closing share prices for the last five trading days up to and including the Last Day of Trading (the “Five-Day Average Range”) with an average of approximately 21.11% discount (“the Five-Day Average”); and (iii) a discount of approximately 93.28% to a premium of approximately 63.60% to/over the respective average closing share prices for the last ten trading days up to and including the Last Day of Trading (the “Ten-Day Average Range”) with an average of approximately 17.40% discount (the “Ten-Day Average”).

Consequently, the Share Subscription Price:

- (i) being of a discount of approximately 32.89% to the closing price per Share as quoted on the Stock Exchange as at the Last Trading Day, is higher than the Last Day Average and falls within the Last Day Range;
- (ii) being of a discount of approximately 23.31% to the average closing price per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day, is higher than the Five-Day Average and falls within the Five-Day Average Range; and
- (iii) being of a discount of approximately 20.38% to the average closing price per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day, is higher than the Ten-Day Average and falls within the Ten-Day Average Range.

Although the Share Subscription Price is at discount to the recent closing prices of the Shares and the respective discounts as represented by the Share Subscription Price to the closing prices of the Shares are higher than the Last Day Average, the Five-day Average and the Ten-Day Average, given (i) the unsatisfactory financial performance of the Group for the two years ended 31 March 2007; (ii) the historical thin trading volume of the Shares; and (iii) the massive size of the Subscription Shares relative to the total number of issued Shares which may create downward pressure on the Share price, we are of the view that the said discount is inevitable. Moreover, having also considered that the respective discounts as represented by the Share Subscription Price to the closing prices of the Shares are within the Last Day Range, the Five-day Average Range and the Ten-Day Average Range, we are of the view that the Share Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

(iii) Fair value of the Convertible Note Options

According to the CNO Valuation Report, the fair value of the Convertible Note Options was approximately HK\$21.30 million as at 5 July 2007 (the “CNO Fair Value”), being the date of the Subscription Agreement. Thus, the premium of HK\$20 million for the Convertible Note Options represents a discount of approximately 6.50% to the CNO Fair Value.

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We have reviewed the CNO Valuation Report and enquired into the Valuer on the methodologies adopted and the bases and assumptions made in arriving at the CNO Fair Value. In this regard, the Valuer confirmed that the fair value of the Convertible Note Options was derived from the fair value of the Convertible Notes (consisting the borrowing portion and the conversion option) by adopting the Black-Scholes Option Pricing Model (the “Black Scholes OPM”).

From the CNO Valuation Report, we note that the value of the borrowing portion of the Convertible Notes is the present value of the contractual stream of future cash flows of the Convertible Notes (i.e. the interest and redemption payment) and was calculated by the discounted cash flow approach (the “DCF Approach”). Upon further discussion with the Valuer, we understand that the Valuer had estimated the discount rate for the DCF Approach to be the sum of (i) the risk free rate (being the yields of the Exchange Fund Notes of the Hong Kong Monetary Authority); (ii) a country risk premium of 1% applied to the PRC since the Company’s sales are generated from both Hong Kong and the PRC; and (iii) the specific credit spread for the Company which was in turn arrived at by referencing to the credit rating of the Company based on its audited financial results as extracted from the 2007 Annual Report. After assessing the audited financial results of the Group for the year ended 31 March 2007, the Valuer had assigned a “CCC” to “CC” credit rating to the Company using the classification standard as stated in Standard & Poors’ Corporate Ratings Criteria 2006, and had applied a corresponding credit spread of 10.90% to the discount rate. We have also studied and enquired into the Valuer of the rationale of the application of the credit spread of 10.90% and are of the view that the credit spread of 10.90% has been fairly and reasonably stated.

Regarding the conversion option of the Convertible Notes, we note that the Black-Scholes OPM had been adopted in the calculation. We were given to understand by the Valuer that the Black-Scholes OPM is a commonly accepted model in today’s option pricing environment and is more suitable for the valuation of the conversion option of the Convertible Notes as compared to the binomial option pricing model. We have also studied and enquired into the Valuer of the rationale of the parameters, such as the price volatility of the Shares and the expected life span of the Convertible Notes, being adopted by the Valuer when using the Black-Scholes OPM and are of the view that those parameters had been fairly and reasonably stated.

Subsequent to the computation of the fair value of the Convertible Notes by summing up the fair values of the borrowing portion and the conversion option, the Valuer, as aforementioned, assessed the fair value of the Convertible Note Options from the fair value of the Convertible Notes by adopting the Black-Scholes OPM. Once again, we have studied and enquired into the Valuer of the parameters being adopted and are also of the view that those parameters had been fairly and reasonably stated.

During our discussion with the Valuer, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the methodologies adopted and the bases and assumptions made to arrive at the CNO Fair Value. Having this being the case, in our opinion, the CNO Fair Value had been computed in a fair and reasonable way. Since the premium for the Convertible Note Options represents only a

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minimal discount to the fair value of the Convertible Note Options, we consider that the premium of HK\$20 million for the Convertible Note Options to be fair and reasonable so far as the Independent Shareholders are concerned.

(iv) Comparison with other issuance of convertible notes

To assess the fairness and reasonableness of the terms of the Convertible Notes, we have identified transactions that involved the issue of convertible bonds/notes by companies listed in Hong Kong during the Comparison Period. To the best of our knowledge, we found 16 of such transactions which met these criteria (the “CN Comparables”). The table below summarises our relevant findings:

Date of announcement	Company (stock code)	Term Year(s)	Annual interest rate %	Premium/ (discount) of conversion price over/to the closing share price as at the Last Day of Trading %
10 January 2007	Cosmopolitan International Holdings Limited (120)	2	0.00	(56.25)
26 January 2007	GFT Holdings Limited (1003)	2	0.00	(42.90)
13 February 2007	Guo Xin Group Limited (1215)	2	3.50	(19.10)
26 February 2007	Poly Investments Holdings Limited (263)	3	2.00	(18.03)
12 March 2007	Willie International Holdings Limited (273)	2	0.00	(14.53)
22 March 2007	Wonson International Holdings Limited (651)	2	4.00	0.00
28 March 2007	Radford Capital Investment Limited (901)	2	7.50	6.25
29 March 2007	China Rich Holdings Limited (1191)	5	0.00	(29.82)
10 April 2007	Cosmopolitan International Holdings Limited (120)	3	0.00	(12.39)
8 May 2007	Wing Hing International (Holdings) Limited (621)	2	1.00	6.38

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Date of announcement	Company (stock code)	Term Year(s)	Annual interest rate %	Premium/ (discount) of conversion price over/to the closing share price as at the Last Day of Trading %
16 May 2007	First Shanghai Investments Limited (227)	2	1.00	(0.75)
28 May 2007	Zhongyu Gas Holdings Limited (8070)	5	1.00	13.75
8 June 2007	Tak Shun Technology Group Limited (1228)	2	1.00	(46.43)
11 June 2007	Wai Yuen Tong Medicine Holdings Limited (897)	2	1.00	3.57
29 June 2007	Big Media Group Limited (8167)	3	4.00	3.57
3 July 2007	Get Nice Holdings Limited (64)	3	5.00	5.00
Maximum		5.0	7.50	13.75
Minimum		2.0	0.00	(56.25)
Average		2.6	1.94	(12.61)
6 July 2007	The Company	5	3.00	(32.89)

Source: the Stock Exchange's website (www.hkex.com.hk)

(a) Maturity date

The maturity date of the Convertible Notes will be the date falling the 5th anniversary from the date of issue of the Convertible Notes. By comparison, we note that the terms to maturity of the CN Comparables ranged from two years to five years and that the average term to maturity of the CN Comparables was approximately 2.6 years. The term to maturity of the Convertible Notes hence falls within the said market range and we are therefore of the view that it is fair and reasonable so far as the Independent Shareholders are concerned.

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(b) Interest Rate

The interest rates of the CN Comparables ranged from 0% to 7.5% per annum, with an average of approximately 1.94% per annum. The annual interest rate carried by the Convertible Notes of 3% is thus slightly higher than the average of the CN Comparables but is still within the said market range. Besides that, we have enquired into and were advised by the Directors that the interest rates of the Group's existing bank loans range from 5.2% to 8%.

Having taken into account the interest rate of the Convertible Notes of 3% per annum which (i) falls within the interest rate range of the CN Comparables; and (ii) is lower than the borrowing costs of the Group for all of its existing banking facilities, we are of the view that the interest rate of the Convertible Notes is fair and reasonable so far as the Independent Shareholders are concerned.

(c) Conversion Price

The conversion prices of the CN Comparables ranged from a discount of approximately 56.25% to a premium of approximately 13.75% to/over the respective closing prices of their shares as at the last trading day prior to the release of the relevant issue of convertible bonds/notes announcements. Accordingly, the Conversion Price, which represents a discount of approximately 32.89% to the closing price of the Shares as at the Last Trading Day, is higher than the average of the CN Comparables and falls within the said market range.

Based on the foregoing market analysis, and also that (i) the issue of the Convertible Notes is an integral part of the Subscription Agreement; (ii) the issue of the Subscription Shares and the grant of the Convertible Note Options is the most practicable financing method currently available to the Group; and (iii) the conversion of the Convertible Notes will provide sizeable amount of cash for the Group's future investment and development, we are of the view that the Conversion Price even though is at discount to the closing price of the Shares is fair and reasonable so far as the Independent Shareholders are concerned.

Other terms of the Subscription Agreement

We have also reviewed the other terms of the Subscription Agreement (including the terms of the Convertible Notes) and are not aware of any terms which are exceptional to normal market practice.

Conclusion

To summarise, having considered that:

- (a) it is justifiable for the Subscription Price to be at discount to the recent Share prices due to the reasons we have put forth in the paragraph headed "Comparison with other subscription of new shares" of this letter;

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- (b) the discounts to the recent Share prices as represented by the Subscription Price are within the respective ranges of the Subscription Comparables;
- (c) the premium for the Convertible Note Options of HK\$20 million is only at slight discount to the CNO Fair Value which had been fairly and reasonable estimated;
- (d) the terms of the Convertible Notes, including the time to maturity, interest rate and the Conversion Price, are fair and reasonable so far as the Independent Shareholders are concerned; and
- (e) the other terms of the Subscription Agreement (including the terms of the Convertible Notes) are not exceptional to normal market practice,

we are of the view that the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(5) Dilution effect on the shareholdings of the existing public Shareholders

Upon completion of the Share Subscription, a total of 2,700,000,000 new Shares will be issued. Whereas upon the full conversion of the Convertible Notes, a maximum of 18,500,000,000 new Shares will be issued, comprising 6,500,000,000 new Shares and 12,000,000,000 new shares which may fall to be issued upon the full conversion of the First Tranche Convertible Notes and the Second Tranche Convertible Notes respectively. The table below demonstrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon completion of the Share Subscription; (iii) upon completion of the Share Subscription and after the First Tranche Convertible Notes are converted in full; and (iv) upon completion of the Share Subscription and after the Convertible Notes are converted in full:

	As at the Latest Practicable Date		Upon completion of the Share Subscription		Upon completion of the Share Subscription and the exercise in full of the conversion rights attaching to the First Tranche Convertible Notes (Note 2)		Upon completion of the Share Subscription and the exercise in full of the conversion rights attaching to the Convertible Notes (Note 2)	
	Approximate Shares	%	Approximate Shares	%	Approximate Shares	%	Approximate Shares	%
Mr. Zhang and the parties acting in concert (as defined in the Takeovers Code) with him (Notes 1 & 2)	103,495,000	1.54	2,803,495,000	29.82	4,768,980,899	29.99	8,367,780,899	29.99
Public Shareholders	6,598,408,632	98.46	6,598,408,632	70.18	11,132,922,733	70.01	19,534,122,733	70.01
– Existing	6,598,408,632	98.46	6,598,408,632	70.18	6,598,408,632	41.49	6,598,408,632	23.65
– New (Note 2)	–	–	–	–	4,534,514,101	28.52	12,935,714,101	46.36
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

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Notes:

1. These shares are held by Wealth Land Development Corp., which is wholly and beneficially owned by Mr. Zhang.
2. Conversion of the Convertible Notes is subject to the Conversion Restrictions pursuant to the Subscription Agreement. This table is therefore prepared based on the assumption that Mr. Zhang will dispose his Shares which exceed the 29.99% limit in the market.

As illustrated by the above table, the shareholdings of the existing public Shareholders would be diluted from approximately 98.46% to:

- (i) approximately 70.18% upon completion of the Share Subscription;
- (ii) approximately 41.49% upon completion of the Share Subscription and after the full conversion of the First Tranche Convertible Notes; and
- (iii) approximately 23.65% upon completion of the Share Subscription and after the full conversion of the Convertible Notes.

We consider the aforementioned extents of dilution on the shareholding interests of the existing public Shareholders to be significant. However, as balanced by the fact that the Group is in need of capital for its present and future business development and that the Share Subscription and the grant of the Convertible Note Options is the most practicable financing method available to the Group at present, we consider the possible dilution on the shareholding interests of the existing public Shareholders to be justifiable.

(6) Financial effects of the Share Subscription and the grant of the Convertible Note Options

Effect on net asset value

As referred to in the 2007 Annual Report, the audited consolidated NAV of the Group was approximately HK\$807.81 million as at 31 March 2007. As confirmed by the Directors, the NAV of the Group would rise due to the issue of the Subscription Shares and the receipt of the premium for the Convertible Note Options by the Company. Furthermore, the Directors also confirmed that the exercise of the Convertible Note Options would likely to have positive impact on the NAV of the Group. However, the amount of the said impact could not be determined at this stage until the date of exercise of the Convertible Note Options.

The NAV of the Group would mount in the event that the holders of the Convertible Notes exercise the conversion rights attaching thereto and convert the Convertible Notes into Conversion Shares.

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Effect on earnings

The Directors expected that the Share Subscription and the grant of the Convertible Note Options will not have immediate impact on the earnings position of the Group despite that the Share Subscription and the grant of the Convertible Note Options can provide funds for the Group's future development in the environmental protection and water treatment operation business and the city development and investment operation business.

Effect on gearing

The gearing level of the Group, which is calculated as total borrowings divided by total assets, was approximately 22.19% as at 31 March 2007. As aforementioned, the NAV and the total assets of the Group would rise due to the issue of the Subscription Shares and the receipt of the premium for the Convertible Note Options by the Company whereas the Group's total borrowings would remain unchanged. Hence, the Directors confirmed that the gearing level of Group would be improved after that. When the Convertible Note Options are exercised and the Convertible Notes are issued, the total borrowings of the Group would increase and the Group would likely to record a higher gearing level. Nevertheless, the Group's gearing level would be alleviated upon conversion of the Convertible Notes into Conversion Shares.

Effect on working capital

As mentioned previously, the gross proceeds from the Share Subscription and the premium of the Convertible Note Options are HK\$270 million and HK\$20 million respectively. Thus, the Share Subscription and the grant of the Convertible Note Options would increase the working capital of the Group by HK\$290 million. In the event that the Convertible Note Options are exercised, the Group would be able to receive a maximum of HK\$1,850 million in cash, being the sum of the principal amounts of the First Tranche Convertible Notes and the Second Tranche Convertible Notes. At the same time, the 3% interest obligation per annum of the Convertible Notes would lead to a corresponding reduction in the working capital of the Group.

In light of the financial effects of the Share Subscription and the grant of the Convertible Note Options as highlighted above, namely (i) the overall increase in the NAV of the Group; (ii) the uncertain change in the gearing level of the Group but as offset by the probable enhancement of the Group's future business development opportunities; and (iii) the overall enlargement of the Group's working capital despite the increase in interest expenses, we are of view that the Share Subscription and the grant of the Convertible Note Options are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

RECOMMENDATION

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Share Subscription and the grant of the Convertible Note Options are 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 ordinary resolutions to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated therein and we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions in this regard.

Yours faithfully,
For and on behalf of
South China Capital Limited
Graham Lam
Director

Yours faithfully,
For and on behalf of
WALLBANCK BROTHERS
Securities (Hong Kong) Limited
Phil Chan
Chief Executive Officer

The following is the text of a letter prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 5 July 2007 of the market value of the First Tranche Option and the Second Tranche Option to subscribe for the First Tranche Convertible Notes and the Second Tranche Convertible Notes.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

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10 August 2007

The Directors

Interchina Holdings Company Limited

Room 701, 7th Floor
Aon China Building
29 Queen's Road
Central
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from Interchina Holdings Company Limited (the "Company") for us to provide our valuations of two tranches of Options ("First Tranche Option" and "Second Tranche Option", together referred to as the "Convertible Notes Options") to subscribe for two tranches of Convertible Notes ("First Tranche Convertible Notes" and "Second Tranche Convertible Notes", together referred to as the "Convertible Notes") of the Company that were issued pursuant to the subscription agreement as at 5 July 2007.

This report presents a brief description of the Convertible Notes, a description of the subscription agreement, the basis of valuation & assumptions, explains the valuation methodology utilized and presents our conclusion of values.

SCOPE OF VALUATIONS

We understand that the purpose of our valuations is to express our opinion on the fair values of the Convertible Notes Options for your public documentation purposes.

DATE OF VALUATION

We were instructed by the Company to value the Convertible Notes Options as at 5 July 2007.

A BRIEF DESCRIPTION OF CONVERTIBLE NOTES

A convertible note is a loan to the company, with an interest rate, that the investor has the right to convert the entire principal amount of the note (and often any accrued interest) into equity when an institutional investor subsequently makes an investment.

DESCRIPTION OF THE SUBSCRIPTION AGREEMENT**Reasons for Entering into the Subscription Agreement**

The Company intends to use the proceeds from the Convertible Notes Options and the Convertible Notes for investment in environmental protection and water treatment business as well as city development business, which are its principle businesses.

First Tranche Option

Principal Amount : HK\$650,000,000
Expiration Date : 31 December 2007

Second Tranche Option

Principal Amount : HK\$1,200,000,000
Expiration Date : 31 December 2008

First Tranche Convertible Notes

Issuer : The Company
Maturity Date : The date falling the 5th anniversary from the date of issue of the First Tranche Convertible Notes
Conversion Price : HK\$0.10
Interest : 3% per annum on the outstanding principal amount of the First Tranche Convertible Notes, payable on every 31 December after the date of issue of the First Tranche Convertible Notes

Second Tranche Convertible Notes

Issuer : The Company
Maturity Date : The date falling the 5th anniversary from the date of issue of the Second Tranche Convertible Notes
Conversion Price : HK\$0.10
Interest : 3% per annum on the outstanding principal amount of the Second Tranche Convertible Notes, payable on every 31 December after the date of issue of the Second Tranche Convertible Notes

BASIS AND ASSUMPTIONS

For the purpose of determining the values of the Convertible Notes Options, we have considered all the prominent factors affecting the values, including, but not limited to, the following:

- The date of issue was assumed to be as at 5 July 2007;
- The terms and conditions of the subscription agreement;
- The nature of the Convertible Notes Options;
- The nature of the Convertible Notes;
- The historical price of the underlying trading security of the Company;
- The historical volatility of the underlying trading security of the Company;
- The historical volatility of Hong Kong Exchange Fund Notes;
- The conversion price of the Convertible Notes;
- The exercisable period of the Convertible Notes Options;
- The exercisable period of the Convertible Notes;
- The expected dividend yield of the underlying trading security of the Company;
- Other factors materially affecting the values of the Convertible Notes Options; and
- Other factors materially affecting the values of the Convertible Notes.

For achieving more realistic and accurate values of the Convertible Notes Options, the following assumptions have been adopted:

- There will be no substantial fluctuation in the economic outlook and specific industry outlook affecting the continuity of the business of the Company and the price of the underlying securities;
- There will be no material changes in the existing political, legal, technological, fiscal or economic condition which may significantly affect the continuity of the business of the Company; and
- The information provided by the Company is true and accurate.

VALUATION METHODOLOGY

1. Convertible Notes

a. Borrowing Portion

The borrowing portion consists of the interest payment at 3% per annum payable on every 31 December after the date of issue and the redemption amount upon maturity of the Convertible Notes.

In accordance with the relevant accounting standards, the fair value of the borrowing portion is the present value of the contractual stream of future cash flows. In our valuations, we applied the discounted cash flow (DCF) method to determine the fair value of the borrowing portion by applying a discount rate in the DCF model to determine the present value of the interest payment and the redemption amount. The DCF formula is as follow:

$$NPV = \frac{CF_1}{(1+r_1)^1} + \frac{CF_2}{(1+r_2)^2} + \dots + \frac{CF_n}{(1+r_n)^n}$$

Where:

NPV = Net present value

CF = Cash Flow

r = discount rate

t = period

The discount rate is equal to the cost of capital. It is the sum of the risk-free rate and the credit spread corresponding to the Company. The risk-free rate was determined with reference to the yields of the Hong Kong Exchange Fund Notes as at the date of valuation as extracted from Bloomberg. The credit spread was determined with reference to the classification stated in the Corporate Ratings Criteria 2006 from Standard & Poor's. By considering the Company's financial ratios including EBIT interest coverage, funds from operations to total debt, total debt to EBITDA, return on capital and total debt to total debt plus equity, we determined that the indicated credit rating of the Company was CCC to CC, in which 40% belongs to CCC and 60% belongs to CC. Since the credit spreads for CCC and CC are 10% and 11.5% respectively, a corresponding credit spread of 10.90% was used to calculate the discount rate. Since the Company's sales are generated from both Hong Kong and

China, a country risk premium of 1.00% has been included in the calculation of the discount rates. The discount rates used over the period of 5.75 years are as follows:

	Year								
As at 5 July 2007	0.5	1.5	2.5	3.5	4.5	5.25	5.5	5.75	
Risk-Free Rate	3.90%	4.21%	4.37%	4.48%	4.56%	4.61%	4.62%	4.63%	
Credit Spread	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%	10.90%
Country Risk	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Discount Rate	15.80%	16.11%	16.27%	16.38%	16.46%	16.51%	16.52%	16.53%	

b. Conversion Option

Black-Scholes Option Pricing Model and Binomial Option Pricing Model are two widely accepted and adopted option valuation models in the market. In determining the fair values of the conversion options of the Convertible Notes, we have adopted the Black-Scholes Option Pricing Model due to its relative ease of being verified and auditable when compared to Binomial Option Pricing Model. The Black Scholes Option Pricing Model is one of the most important concepts in modern financial theory. It was developed in 1973 by Fisher Black, Robert Merton and Myron Scholes and is still widely used today. It is also regarded as one of the best ways of determining the fair values of options. The Black-Scholes Option Pricing Model assumptions are:

1. The stock pays no dividends during the option's life.
2. European exercise terms are used.
3. Markets are efficient.
4. No commissions are charged.
5. It is possible to short sell the underlying stock.
6. Interest rates remain constant and known.
7. It is possible to borrow and lend cash at a constant risk-free interest rate.
8. Trading in the stock is continuous.

The Black-Scholes Option Pricing Model is expressed in the following three equations:

$$OP = SN(d_1) - Xe^{-rt}N(d_2)$$

Where:

$$d_1 = \frac{\ln\left(\frac{S}{X}\right) + \left(r + \frac{v^2}{2}\right)t}{v\sqrt{t}}$$

$$d_2 = d_1 - v\sqrt{t}$$

The variables are:

OP	=	the current value of the call option
S	=	the current spot price
X	=	the strike price
t	=	time remaining until expiration, expressed as a percent of a year
r	=	the risk-free interest rate
v	=	the volatility of stock price (the standard deviation of stock price)
Ln	=	natural logarithm
N(x)	=	standard normal cumulative distribution function
e	=	the exponential function

2. Convertible Notes Options

In determining the fair values of the Convertible Notes Options, we have also adopted the Black-Scholes Option Pricing Model.

PRINCIPAL VALUATION PARAMETERS

1. Convertible Notes

We have used the following key valuation parameters in assessing the fair values of the Convertible Notes:

a. *Borrowing Portion*

First Tranche Convertible Notes

	Parameter	Value
a)	Principal Amount	HK\$650,000,000
b)	Interest	3% per annum
c)	Borrowing Rate	15.80%-16.51%

Second Tranche Convertible Notes

	Parameter	Value
a)	Principal Amount	HK\$1,200,000,000
b)	Interest	3% per annum
c)	Borrowing Rate	16.11%-16.53%

- a) The principal amount is the face amount of the Convertible Notes.
- b) The interest is set out in the subscription agreement.
- c) The borrowing rate is the cost of borrowing of the Company.

The fair values of the borrowing portions of the Convertible Notes as at 5 July 2007 are as follows:

Convertible Notes	Fair Value (in HK\$)
First Tranche Convertible Notes	352,326,651
Second Tranche Convertible Notes	602,149,634

b. Conversion Option

As at 5 July 2007

a)	Spot Price	HK\$0.149
b)	Conversion Price	HK\$0.100
c)	Risk Free Rate	4.347%
d)	Expected Option Life	2 years
e)	Nature of the Option	Call
f)	Volatility	82.37%
g)	Dilution Adjustment	24%

- a) The spot price of the Company's share was extracted from Bloomberg.
- b) The conversion price of the Convertible Notes was determined by the decision of the Board of the Company, as stated in the subscription agreement of the Company.
- c) The risk free rate was determined with reference to the yield of Hong Kong Exchange Fund Notes as extracted from Bloomberg.
- d) Expected option life was determined based on the information stated in the subscription agreement of the Company and the following plain vanilla formula:

$$\text{Expected term} = ((\text{vesting term} + \text{original contractual term}) / 2)$$

The exercisable period for the conversion option is 5 years. Since the Company could redeem the Convertible Notes at any time after the expiry of the third anniversary of the date of issue, the value of the conversion option for the last two years of the contractual term is offset by the Company's early redemption option. Based on the plain vanilla formula, the expected life of the conversion option is calculated below:

$$\text{Expected life} = (0+3) / 2 = 1.5 \text{ years.}$$

As calculated under the sub-section "Convertible Notes Options" of "Principal Valuation Parameters" in this report, the expected life of the First Tranche Option and the Second Tranche Option are 3 months and 9 months

respectively. By taking the average of their expected lives, it is around 6 months. So the expected life of the conversion option is (1.5 years + 6 months) = 2 years.

- e) As stated in the subscription agreement of the Company, the options granted are all call options.
- f) The historical price volatility of the share price of the Company was extracted from Bloomberg.
- g) Dilution adjustment was adopted due to the exercise of the conversion options. The converted shares will have adverse impact on the price of the shares of the Company. The number of shares outstanding of the Company as at the date of valuation is 6,651,900,000. After issuing the subscription shares of 2,700,000,000 and converting the Convertible Notes to 18,500,000,000 conversion shares, the dilution adjustment can be calculated as below:

$$6,651,900,000 / (6,651,900,000 + 2,700,000,000 + 18,500,000,000) = 24\%$$

The fair values of the conversion options of the Convertible Notes as at 5 July 2007 are as follows:

Convertible Notes	Fair Value <i>(in HK\$)</i>
First Tranche Convertible Notes	132,815,768
Second Tranche Convertible Notes	245,198,340

c. *The Total Values of the Convertible Notes*

The fair values of the Convertible Notes as at 5 July 2007 are as follows:

Convertible Notes	Fair Value <i>(in HK\$)</i>
First Tranche Convertible Notes	485,142,419
Second Tranche Convertible Notes	847,347,974

2. Convertible Notes Options

We have used the following key valuation parameters in assessing the fair values of the Convertible Notes Options.

a. First Tranche Option

As at 5 July 2007

a)	Spot Price	HK\$485,142,419
b)	Strike Price	HK\$650,000,000
c)	Risk Free Rate	3.884%
d)	Expected Option Life	3 months
e)	Nature of the Option	Call
f)	Volatility	22.51%

b. Second Tranche Option

As at 5 July 2007

a)	Spot Price	HK\$847,347,974
b)	Strike Price	HK\$1,200,000,000
c)	Risk Free Rate	4.074%
d)	Expected Option Life	9 months
e)	Nature of the Option	Call
f)	Volatility	34.12%

- The spot prices of the Convertible Notes were calculated under the sub-section “Convertible Notes” of “Principal Valuation Parameters” in this report.
- The strike prices of the Convertible Notes Options were determined by the decision of the Board of the Company, as stated in the subscription agreement of the Company.
- The risk free rates were determined with reference to the yield of Hong Kong Exchange Fund Notes as extracted from Bloomberg.
- Expected option lives were determined based on the information stated in the subscription agreement of the Company and the following plain vanilla formula:

$$\text{Expected term} = ((\text{vesting term} + \text{original contractual term}) / 2)$$

The expiration dates of the First Tranche Option and the Second Tranche Option are 31 December 2007 and 31 December 2008 respectively and their corresponding exercisable periods are around 6 months and 18 months. Based on the plain vanilla formula, the expected lives of the First Tranche Option and the Second Tranche Option were calculated below:

First Tranche Option: Expected term = (0+6) / 2 = 3 months

Second Tranche Option: Expected term = $(0+18) / 2 = 9$ months

- e) As stated in the subscription agreement of the Company, the options granted are all call options.

- f) The volatilities were the weighted average of the historical price volatility of the share price of the Company and the historical volatility of the yields of Hong Kong Exchange Fund Notes, which were extracted from Bloomberg. Since the Convertible Notes comprise the borrowing portion and the conversion option, both the historical price volatility of the share price of the Company and the historical volatility of the yields of Hong Kong Exchange Fund Notes were taken into account.

COMMENTS

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which were used in formulating our calculation. We are unable to accept any responsibilities for the information that have been supplied to us by the Company. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We also sought and received confirmation from the Company that no material facts have been omitted from the information supplied.

Further, whilst the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant economic uncertainties and contingencies, many of which are beyond the control of the Company or us.

REMARKS

As part of our analysis, we have reviewed financial information provided by the management. We have assumed the accuracy of, and have relied on, such information. We have relied to a considerable extent on such information provided in arriving at our opinion.

We assume that there are no hidden or unexpected conditions associated with the assets and obligations that might adversely affect the reported status. Further, we assume no responsibility for changes in market conditions, which may require an adjustment in the report status.

Unless otherwise specified, all money amounts stated herein are in Hong Kong Dollars (HK\$) and no allowances have been made for any exchange transfers.

CONCLUSION OF VALUES

Our conclusion of values is based on accepted valuation procedures and practices. Further, whilst the consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company or us.

Based on our investigation and analysis outlined in this report, it is our opinion that the fair values of the Convertible Notes Options of the Company as at 5 July 2007 are as follows:

	As at 5 July 2007 HK\$
i) First Tranche Option	124,409
ii) Second Tranche Option	<u>21,175,440</u>
Total	<u><u>21,299,849</u></u>

We hereby certify that we have neither present nor prospective interest in the Company or the results reported.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Marco T.C. Sze

B.Eng(Hon), MBA(Acct), CFA
Senior Manager

Dr. Tony Cheng

BSc, MUD, MBA(Finance),
MSc(Eng), PhD(Econ),
MHKIS, MCI Arb, AFA, SIFM, FCIM,
MASCE, MIET, MIEEE, MASME, MIE, MAIC
Director

Notes:

1. Mr. Marco Sze holds a Master's Degree of Business Administration in Accountancy from the City University of New York - Baruch College and is a holder of Chartered Financial Analyst. He has about 3 years' experience in valuing various financial instruments in Hong Kong and China.
2. Dr. Tony Cheng is a member of the Hong Kong Institute of Surveyors (General Practice), a senior member of the International Management Accountants Association, a member of the American Society of Civil Engineers, a member of the American Society of Mechanical Engineers and a member of Institute of Industrial Engineers (U.K.). He has about 4 years' experience in valuing various financial instruments in Hong Kong and China.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executives of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executives of the Company 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 position 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	Approximate percentage of shareholding
Mr. Zhang	The Company	Interests of controlled corporation (Note 1)	103,495,000 Shares (L)	1.54%
		Beneficial interests (Note 2)	21,200,000,000 Shares (L)	316.33%

(L) denotes the long position held in the Shares

Notes:

- These Shares are held by Wealth Land Development Corp., which is wholly and beneficially owned by Mr. Zhang, who is a Director and the chairman of the Company.
- These Shares represent the aggregate amount of Subscription Shares to be allotted and issued to Mr. Zhang upon completion of the Share Subscription and the Conversion Shares to be allotted and issued to Mr. Zhang upon the exercise in full of the conversion rights attached to the First Tranche Convertible Notes and the Second Tranche Convertible Notes, which were deemed to be interested by Mr. Zhang under the SFO as at the Latest Practicable Date.

Save as disclosed above, none of the Directors or chief executives 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) Person having 5% or more shareholding

As at the Latest Practicable Date, so far as was known to the Directors, no persons (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 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.

(c) Material interests

As at the Latest Practicable Date, none of the Directors and proposed Directors had any direct or indirect interests in any assets which had since 31 March 2007 (being the date to which the latest published audited consolidated accounts of the Company were made up) been 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. Save for Mr. Zhang's execution of the Subscription Agreement, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

3. 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, excluding contracts expiring or determinable by the Group within a year without payment of any compensation (other than statutory compensation).

4. 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.

5. MATERIAL ADVERSE CHANGES

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2007, being the date to which the latest published audited consolidated accounts of the Company were made up, to 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 was engaged in any litigation, or claims of material importance were known to the Directors to be pending or threatened against any member of the Group.

7. QUALIFICATION AND CONSENT OF EXPERTS

The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
South China Capital Limited	a deemed licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO
Wallbanck Brothers Securities (Hong Kong) Limited	a licensed corporation to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
BMI Appraisals Limited	professional surveyors and valuers

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the expert's statement 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, each of the above experts did not have any shareholding, direct or indirect, 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 2007, being the date of the latest published audited consolidated 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.

8. MISCELLANEOUS

- (a) The registered office of the Company is at Room 701, 7/F., Aon China Building, 29 Queen's Road Central, Hong Kong.
- (b) The share registrar of the Company is Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (c) The secretary of the Company is Mr. Lam Cheung Shing, Richard, who is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants.
- (d) The qualified accountant of the Company is Mr. Lau Chi Lok, Freeman who is an associate member of Hong Kong Institute of Certified Public Accountants and a member of CPA Australia (as required under Rule 3.24 of the Listing Rules).
- (e) The English text of this circular shall prevail over the Chinese text.

9. 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 9:00 a.m. to 6:00 p.m. on any Business Day, from the date of this circular up to and including the date of the EGM:

- (a) the Subscription Agreement;
- (b) the memorandum and articles of association of the Company;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 20 to 21 of this circular;
- (d) the letter of advice from the Joint Independent Financial Advisers, the text of which is set out on pages 22 to 42 of this circular;
- (e) the valuation report of the market value of the First Tranche Option and the Second Tranche Option, the text of which is set out on pages 43 to 54 of this circular;
- (f) the consent letter from each of the Joint Independent Financial Advisers and BMI Appraisals Limited referred to in the paragraph headed "Qualification and consent of experts" in this appendix;
- (g) this circular;
- (h) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since 31 March 2007, being the date of the latest published audited accounts of the Company were made up; and
- (i) the audited consolidated accounts of the Group for the two years ended 31 March 2007.

NOTICE OF THE EGM



國 中 控 股 有 限 公 司
INTERCHINA HOLDINGS COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “**EGM**”) of Interchina Holdings Company Limited (the “**Company**”) will be held at Room Monet, Basement 1, Grand Standford Hotel, 70 Mody Road, Kowloon, Hong Kong on 1 September 2007 at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the terms and conditions of the subscription agreement dated 5 July 2007, including the draft terms and conditions of the First Tranche Convertible Notes (as defined below) and the Second Tranche Convertible Notes (as defined below) annexed thereto (the “**Subscription Agreement**”, a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) entered into between the Company as issuer and Mr. Zhang Yang as subscriber (the “**Subscriber**”) pursuant to which the Company has conditionally agreed to (i) allot and issue 2,700,000,000 new shares of HK\$0.10 each (the “**Shares**”) in the capital of the Company at the subscription price of HK\$0.10 per Share to Mr. Zhang Yang; and (ii) grant of the convertible note options (the “**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) (the “**First Tranche Convertible Notes**”) and the second tranche convertible notes (up to the aggregate principal amount of HK\$1,200 million) (the “**Second Tranche Convertible Notes**”) at the initial conversion price of HK\$0.10 per Share, be and are hereby approved;
- (b) the issue of 2,700,000,000 new Shares by the Company to the Subscriber or its nominee(s), pursuant to the terms and conditions of the Subscription Agreement, be and is hereby approved;
- (c) the grant of the Options by the Company to the Subscriber or its nominee(s) pursuant to the terms and conditions of the Subscription Agreement be and is hereby approved;
- (d) the issue of the First Tranche Convertible Notes by the Company to the Subscriber or its nominee(s) pursuant to the terms and conditions of the Subscription Agreement and the allotment and issue of new Shares by the Company upon the exercise of the conversion rights attaching to the First Tranche Convertible Notes be and are hereby approved;

NOTICE OF THE EGM

- (e) the issue of the Second Tranche Convertible Notes by the Company to the Subscriber or its nominee(s) pursuant to the terms and conditions of the Subscription Agreement and the allotment and issue of new Shares by the Company upon the exercise of the conversion rights attaching to the Second Tranche Convertible Notes be and are hereby approved; and
- (f) the directors of the Company be and are hereby authorised on behalf of the Company to do all such things and sign, seal, execute, perfect and deliver all such documents as they may in their discretion consider necessary, desirable or expedient, for the purposes of or in connection with the implementation and/or give effect to any matters relating to the Subscription Agreement, the First Tranche Convertible Notes, the Second Tranche Convertible Notes and all transactions contemplated thereunder.”
2. “**THAT** the authorised share capital of the Company be and is hereby increased from HK\$1,000,000,000 to HK\$4,000,000,000 by the creation of an additional 30,000,000,000 new Shares.”

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

Hong Kong, 10 August 2007

Registered office:

Room 701, 7th Floor
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 proxies 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, 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 Share 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, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
4. As at the date of this notice, 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.