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INTERCHINA HOLDINGS COMPANY LIMITED

國 中 控 股 有 限 公 司

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

VERY SUBSTANTIAL DISPOSAL, CONNECTED TRANSACTION AND RESUMPTION OF TRADING

On 15 October 2008, the Company and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to dispose of and the Purchaser has conditionally agreed to acquire the Sale Shares (being approximately 29.52% of the issued share capital of China Pipe as at the date of this announcement) at the Consideration, being HK\$74,000,000, which shall be satisfied in cash.

On the same date, the Company has also executed the Share Charge (being a charge on the Sale Shares) in favour of the Purchaser to secure refund of the Deposit in the event Completion does not take place.

Completion is subject to the conditions set out in the paragraph headed “Conditions precedent” in the section headed “The Sale and Purchase Agreement” below.

The issued shares of China Pipe are listed on the Stock Exchange. Ms. Wing is the wife of the brother-in-law of Mr. Zhang, an executive Director and the chairman of the Company. At the same time, Ms. Wing through her wholly-owned company is also interested in approximately 42.3% of the issued share capital of China Pipe as at the date of this announcement. Thus, the Disposal is regarded as a connected transaction of the Company under Chapter 14A of the Listing Rules. The Disposal also constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules. Accordingly, the Disposal has to be approved by the Independent Shareholders at the EGM.

The Independent Board Committee has been established to consider the Disposal and to provide recommendations to the Independent Shareholders in this regard. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Disposal.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. A circular containing, among other things, further information on the Disposal, financial information relating to the Group and China Pipe, the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, as well as the notice of EGM will be despatched to the Shareholders as soon as practicable. Mr. Zhang and his associates shall abstain from voting at the EGM.

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on Tuesday, 14 October 2008 at the request of the Company pending the publication of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on Monday, 20 October 2008.

On 15 October 2008, the Company and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to dispose of and the Purchaser has conditionally agreed to acquire the Sale Shares (being approximately 29.52% of the issued share capital of China Pipe as at the date of this announcement) at the Consideration, being HK\$74,000,000, which shall be satisfied in cash.

On the same date, the Company has also executed the Share Charge (being a charge on the Sale Shares) in favour of the Purchaser to secure refund of the Deposit in the event Completion does not take place.

THE SALE AND PURCHASE AGREEMENT

Date : 15 October 2008

Parties :

(1) Vendor : the Company

(2) Purchaser : the Purchaser. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of the Group and its connected persons. To the best knowledge of the Directors, the principal activity of the Purchaser is investment holding.

Assets to be disposed of

the Sale Shares, being 3,700,000,000 shares of HK\$0.002 each in the capital of China Pipe, representing approximately 29.52% of the issued share capital of China Pipe as at the date of this announcement. The original acquisition cost of the Sale Shares amounted to approximately HK\$296,000,000.

Consideration

The Consideration is HK\$74,000,000, which shall be satisfied in cash. The Purchaser shall pay the Deposit (which is equivalent to the amount of the Consideration) as deposit within 2 business days after the date of the Sale and Purchase Agreement. The Deposit shall be applied towards satisfaction of the Consideration at Completion.

If Completion does not take place:

- (i) due to the inability to obtain Shareholders' approval as set out in sub-paragraph (i) in the paragraph headed "Conditions precedent" below, the Deposit shall be refunded to the Purchaser and a default interest on the Deposit of 60% per annum shall be payable by the Company to the Purchaser from the date of payment of the Deposit to the date of repayment of the Deposit;
- (ii) due to the fault of the Company in complying with the terms of the Sale and Purchase Agreement, notwithstanding the Shareholders' approval as set out in sub-paragraph (i) in the paragraph headed "Conditions precedent" below having been obtained, the Deposit shall be refunded to the Purchaser and the Purchaser shall be at liberty to sue for damages; and
- (iii) due to the fault of the Purchaser, the Deposit shall be refunded to the Purchaser and no interest shall be payable.

The Consideration was determined after arm's length negotiations between the Company and the Purchaser with reference to the recent closing price per share of China Pipe as quoted on the Stock Exchange. The Consideration per Sale Share amounts to HK\$0.02 and represents:

- (i) a discount of approximately 23.1% to the closing price of HK\$0.026 per share of China Pipe as quoted on the Stock Exchange on 13 October 2008, being the last trading day of China Pipe's shares on the Stock Exchange prior to the date of the Sale and Purchase Agreement;
- (ii) a discount of approximately 13.0% to the average closing price of HK\$0.023 per share of China Pipe as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including 13 October 2008;
- (iii) a discount of approximately 47.4% to the unaudited consolidated net asset value per share of China Pipe of HK\$0.038 as at 30 June 2008, being the date on which the latest unaudited consolidated financial statements of China Pipe were made up.

Although the Consideration per Sale Share was (i) at a discount to the recent closing prices of China Pipe's shares; (ii) below the unaudited consolidated net asset value of China Pipe as at 30 June 2008; and (iii) that loss is expected to be incurred as a result of the Disposal, given the recent market conditions, the Directors (excluding the independent non-executive Directors whose view will be provided after taking into account the opinion and advice made by the independent financial adviser to be appointed by the Company) consider that the terms of the Disposal are fair and reasonable and are on normal commercial terms, which are in the interests of the Company and the Shareholders as a whole.

The entire amount of the Consideration is payable upfront within 2 business days after the date of the Sale and Purchase Agreement, which will immediately increase the Group's cash inflow. In the event Independent Shareholders' approval could not be obtained and the Long Stop Date had not been extended, the amount of default interest payable is approximately HK\$11,100,000, representing 15% of the Consideration. The Directors consider that such 15% basis is reasonable and is in line with market practice. The Directors notice that in other similar share acquisitions, the deposit payable might amount to 10% of the aggregate consideration while the refund amount is 2 times of the deposit, which, if applied to the Disposal, would render the refund amount even greater. Further taking into account the difficulty to borrow such amount from any financial institutions without any security amid the current market conditions and that the default interest rate is legal under the laws of Hong Kong, the Directors (excluding the independent non-executive Directors whose view will be provided after taking into account the opinion and advice made by the independent financial adviser to be appointed by the Company) also consider that the rate of the default interest is fair and reasonable.

Conditions precedent

The Disposal is subject to the following conditions:

- (i) the passing of the necessary resolutions by the Shareholders (other than those required to abstain from voting under the Listing Rules and the Takeovers Code) at the EGM to approve the transactions contemplated under the Sale and Purchase Agreement; and
- (ii) other than was required to clear the announcement(s) in relation to the proposed sale and purchase of the Sale Shares or as a result of any mandatory cash offer to be made by the Purchaser for all issued shares of China Pipe other than those already owned or agreed to be acquired by the Purchaser under Rule 26 of the Takeovers Code, trading of China Pipe's shares on the Stock Exchange not being suspended for more than 5 consecutive business days and the Stock Exchange or the SFC not having notified China Pipe that the listing of its shares would be withdrawn or suspended or objected to and any such notification not having subsequently been withdrawn;

The condition set out in sub-paragraph (i) above cannot be waived. The Purchaser may waive the condition set out in sub-paragraph (ii) above by notice in writing to the Company. If the conditions set out above are not satisfied or waived (as the case may be) on or before the Long Stop Date, the Sale and Purchase Agreement shall lapse and shall be of no further effect. No party to the Sale and Purchase Agreement shall have any claim against or liability to the other party, save in respect of any antecedent breach thereof.

Completion

Completion shall take place on the second business day after all conditions have been satisfied or waived, as the case may be.

SHARE CHARGE

On 15 October 2008, the Company has also executed the Share Charge (being a charge on the Sale Shares) in favour of the Purchaser to secure refund of the Deposit in the event Completion does not take place.

INFORMATION ON CHINA PIPE

The Sale Shares represent approximately 29.52% interest in the issued share capital of China Pipe. China Pipe is an exempted company incorporated under the laws of Bermuda with limited liability on 25 September 2000. China Pipe is an investment holding company and its issued shares are listed on the Stock Exchange (stock code: 380). The principal activities of China Pipe and its subsidiaries are trading and distribution of construction materials, mainly water pipes and fittings.

Set out below is the unaudited consolidated financial information of China Pipe for the six months ended 30 June 2008 and the audited consolidated financial information of China Pipe for the two years ended 31 December 2007 and 2006:

	For the six months ended 30 June 2008	For the year ended 31 December 2007	For the year ended 31 December 2006
	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Net assets	474,881,000	447,609,000	339,864,000
Profit before taxation	37,885,000	84,583,000	71,616,000
Profit after taxation	25,581,000	67,104,000	59,302,000

The investment in China Pipe is treated as investment in associated company in the books of the Company and is consolidated by adopting the equity accounting method.

INFORMATION ON THE GROUP AND REASONS OF DISPOSAL

The Group is principally engaged in the investment in environmental and water treatment operation and city development and investment operation as well as strategic investment in Hong Kong and the PRC.

As at 30 September 2008, the indebtedness of the Group amounted to approximately HK\$203 million and is repayable before the end of December 2008.

On 5 August 2008, the Company announced that the Group had entered into a disposal agreement for the disposal of land at a consideration of RMB474,266,500. As at the date of this announcement, such disposal has not yet been completed and no part of the consideration has been received by the Group.

The Directors have considered various financing proposals for the repayment of indebtedness as set out above. However, in light of the present tumultuous situation in the financial markets, it is relatively difficult for the Group to obtain funding through bank borrowings or borrowings from other financial institutions. It is also relatively difficult for the Group to negotiate extension of repayment. As such, the Board has decided to dispose of its strategic investment in China Pipe for immediate cash inflow and intends to use the proceeds for repayment of indebtedness of the Group.

In view of the above, the Directors (excluding the independent non-executive Directors whose view will be provided after taking into consideration the opinion and recommendation made by the independent financial adviser to be appointed by the Company) are of the view that the terms of the Disposal are fair and reasonable, which have been arrived at after arm's length negotiations and are in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE DISPOSAL

After Completion, the Company will cease to have any interest in China Pipe and China Pipe will cease to be an associate of the Company.

Without taking into account the expenses to be incurred in connection with the Disposal, based on the Consideration of HK\$74,000,000 and the investment cost in China Pipe as at 30 September 2008 of HK\$296,000,000, the Group is expected to incur a loss of approximately HK\$222,000,000 as a result of the Disposal.

USE OF PROCEEDS

The net proceeds of approximately HK\$73,500,000 from the Disposal will be used to for repayment of short-term liabilities of the Group.

IMPLICATIONS OF THE LISTING RULES

Ms. Wing is the wife of the brother-in-law of Mr. Zhang, an executive Director and the chairman of the Company. At the same time, Ms. Wing through her wholly-owned company is also interested in approximately 42.3% of the issued share capital of China Pipe as at the date of this announcement. Thus, the Disposal is regarded as a connected transaction of the Company under Chapter 14A of the Listing Rules. The Disposal also constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules. Accordingly, the Disposal has to be approved by the Independent Shareholders at the EGM.

GENERAL

The Independent Board Committee has been established to consider the Disposal and to provide recommendations to the Independent Shareholders in this regard. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Disposal.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. A circular containing, among other things, further information on the Disposal, financial information relating to the Group and China Pipe, the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, as well as the notice of EGM will be despatched to the Shareholders as soon as practicable. Mr. Zhang and his associates shall abstain from voting at the EGM.

RESUMPTION OF TRADING

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DEFINITIONS

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

“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“China Pipe”	China Pipe Group Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the Stock Exchange
“Company”	Interchina Holdings Company Limited, a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the Stock Exchange
“Completion”	completion of the Disposal in accordance with the Sale and Purchase Agreement
“connected person”	has the meaning ascribed to it under Rule 1.01 and as extended by Rule 14A.11 of the Listing Rules

“Consideration”	the total consideration for the Disposal, being HK\$74,000,000, which shall be satisfied in cash pursuant to the terms of the Sale and Purchase Agreement
“Deposit”	such sum as equivalent to the amount of the Consideration
“Director(s)”	the director(s) of the Company
“Disposal”	disposal of the Sale Shares by the Company pursuant to the Sale and Purchase Agreement
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholder(s), other than Mr. Zhang and his associates, who are entitled to vote at the EGM pursuant to the Listing Rules and the Takeovers Code
“Independent Board Committee”	the independent committee of the Board established by the Company comprising all independent non-executive Directors
“Long Stop Date”	the 58th day from the date of posting of the offer document in relation to the mandatory cash offer to be made by the Purchaser for all issued shares of China Pipe not already owned or agreed to be acquired by the Purchaser under Rule 26 of the Takeovers Code or such later date as may be agreed by the Company and the Purchaser in writing and consented to by the SFC (where required)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Zhang”	Zhang Yang, an executive Director and the chairman of the Company
“Ms. Wing”	Wing Man Yi, the wife of the brother-in-law of Mr. Zhang
“PRC”	the People’s Republic of China, excluding Hong Kong, Macau and Taiwan for the purpose of this announcement

“Purchaser”	Singapore Zhongxin Investment Company Limited
“Sale and Purchase Agreement”	the sale and purchase agreement dated 15 October 2008 entered into between the Company and the Purchaser in relation to the Disposal
“Sale Shares”	the 3,700,000,000 shares of HK\$0.002 each in the capital of China Pipe held by the Company
“SFC”	the Securities and Futures Commission of Hong Kong
“Share(s)”	share(s) of the Company
“Share Charge”	the legal charge over the Sale Shares executed by the Company (as chargor) in favour of the Purchaser (as chargee)
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“%”	per cent.

On behalf of the Board
Interchina Holdings Company Limited
Lam Cheung Shing, Richard
Director and Company Secretary

Hong Kong, 17 October 2008

As at the date of this announcement, the executive Directors are Mr. Zhang Yang, Mr. Zhu Yongjun, 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.