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INTERCHINA HOLDINGS COMPANY LIMITED

國 中 控 股 有 限 公 司

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

(I) ISSUE OF CONVERTIBLE NOTES; AND (II) GRANT OF OPTION TO SUBSCRIBE FOR CONVERTIBLE NOTES

THE SUBSCRIPTION AGREEMENT

On 27 July 2009, the Company entered into the Subscription Agreement with the Subscriber in relation to (i) the issue of the First Tranche Convertible Notes; and (ii) the grant of the Convertible Note Option.

Pursuant to the Subscription Agreement, the Company has conditionally agreed to (i) issue the First Tranche Convertible Notes (in the aggregate principal amount of HK\$120,000,000) at the initial Conversion Price (equivalent to HK\$0.10 per Conversion Share in the event the Capital Reorganisation has not been completed upon the issue of the First Tranche Convertible Notes or HK\$1.00 per Conversion Share in the event the Capital Reorganisation has been completed upon the issue of the First Tranche Convertible Notes) to the Subscriber; and (ii) grant of the Convertible Note Option to the Subscriber at the premium of HK\$2,500,000, being option to subscribe for the Second Tranche Convertible Notes (in the principal amount of HK\$250,000,000) at the initial Conversion Price (equivalent to HK\$0.10 per Conversion Share in the event the Capital Reorganisation has not been completed upon the issue of the Second Tranche Convertible Notes or HK\$1.00 per Conversion Share in the event the Capital Reorganisation has not been completed upon the issue of the Second Tranche Convertible Notes).

Completion of the issue of the First Tranche Convertible Notes and the grant of the Convertible Note Option is subject to the conditions precedent set out below. It is, however, not conditional upon the Capital Reorganisation having become effective.

Assuming the Capital Reorganisation has not yet become effective upon the issue of the Convertible Notes, the Conversion Price of HK\$0.10 per Conversion Share represents (i) a premium of approximately 23.5% over the closing price of HK\$0.081 per Share as quoted on the Stock Exchange on 27 July 2009, being the last trading day immediately prior to the publication of this announcement; (ii) a premium of approximately 25% over the average closing price of HK\$0.08 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 27 July 2009; and (iii) a premium of approximately 31.6% over the average closing price of HK\$0.076 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 27 July 2009.

Assuming the Capital Reorganisation has not become effective, upon the exercise in full of the conversion rights attaching to the Convertible Notes (being the First Tranche Convertible Notes and the Second Tranche Convertible Notes), an aggregate of 3,700,000,000 new Shares will be allotted and issued by the Company, representing approximately 18.2% of the issued share capital of the Company as at the date of this announcement and approximately 15.4% of the issued share capital of the Company as enlarged by such allotment and issue of the Conversion Shares.

GENERAL

The Subscriber is (i) not a party acting in concert with any Director or substantial Shareholder; and (ii) to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, is third party independent of the Group and its connected persons.

The Conversion Shares will be issued under the General Mandate, which has been partly utilised for the issue of the June Convertible Notes.

The net proceeds from the issue of the Convertible Notes and the grant of the Convertible Note Option will be approximately HK\$372,000,000, of which HK\$120,000,000 is intended to be used for repayment of short term loan and the remaining balance will be used as general working capital of the Group.

THE SUBSCRIPTION AGREEMENT

On 24 July 2009, the Company announced the intended Capital Reorganisation.

On 27 July 2009, the Company entered into the Subscription Agreement with the Subscriber in relation to (i) the issue of the First Tranche Convertible Notes; and (ii) the grant of the Convertible Note Option, details of which are set out in the following paragraphs:

The Subscriber

The Subscriber is (i) not a party acting in concert with any Director or substantial Shareholder; and (ii) to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, is third party independent of the Group and its connected persons. As at the date of this announcement, the Subscriber holds 168,000,000 Shares, representing approximately 0.8% of the issued share capital of the Company.

I. Issue of the First Tranche Convertible Notes

Issue Size

The principal amount of the First Tranche Convertible Notes is HK\$120,000,000.

Conditions Precedent

Please refer to the paragraph headed "Conditions of the Subscription Agreement" below.

Completion

Completion of the issue of the First Tranche Convertible Notes will take place on the fifth Business Day after the date on which the condition (i) as set out in the paragraph headed "Conditions of the Subscription Agreement" below has been fulfilled (or such other date as the Company and the Subscriber may agree in writing).

Details of the First Tranche Convertible Notes are set out in the paragraph headed "Principal Terms of the Convertible Notes" below.

II. Grant of the Convertible Note Option

Subject to fulfilment of the conditions set out in the paragraph headed "Conditions of the Subscription Agreement" below, the Company has agreed to grant to the Subscriber the Convertible Note Option at the premium of HK\$2,500,000, payable upon the grant of the Convertible Note Option.

The premium of HK\$2,500,000 was determined after arm's length negotiations between the Company and the Subscriber, after considering the initial Conversion Price of HK\$0.10 per Conversion Share prior to completion of the Capital Reorganisation, the length of the option period, and the current market price of the Shares and the fluctuation of the market price of the Shares over the last twelve months. The Directors consider that the terms of the Convertible Note Option are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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 has agreed to, at completion of the issue of the First Tranche Convertible Notes, grant to the Subscriber the Convertible Note Option, being the option to subscribe for the Second Tranche Convertible Notes. Details of the Convertible Note Option are as follows:

Exercise period

The Convertible Note Option shall be exercisable from the date of grant to 30 April 2010. 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\$10,000,000.

Issue of Second Tranche Convertible Notes

Upon the exercise in full of the Convertible Note Option, the aggregate principal amount of the Second Tranche Convertible Notes to be issued by the Company shall be HK\$250,000,000.

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

III. Principal terms of the Convertible Notes

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 on the first anniversary from the date of issue of the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be).
- (3) Conversion Price:** HK\$0.10 per Conversion Share in the event Capital Reorganisation has not been completed upon the issue of the relevant Convertible Notes or HK\$1.00 per Conversion Share in the event the Capital Reorganisation has been completed upon the issue of the relevant Convertible Notes, which is subject to further 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.

Assuming the Capital Reorganisation has not become effective upon the issue of the Convertible Notes, the initial Conversion Price of HK\$0.10 per Conversion Share represents (i) a premium of approximately 23.5% over the closing price of HK\$0.081 per Share as quoted on the Stock Exchange on 27 July 2009, being the last trading day immediately prior to the publication of this announcement; (ii) a premium of approximately 25% over the average closing price of HK\$0.08 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 27 July 2009; and (iii) a premium of approximately 31.6% over the average closing price of HK\$0.076 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 27 July 2009.

Assuming the Capital Reorganisation has become effective upon the issue of the Convertible Notes, the initial Conversion Price of HK\$1.00 per Conversion Share represents (i) a premium of approximately 23.5% over the closing price of HK\$0.81 per Consolidated Share (based on the closing price of HK\$0.081 per Share as quoted on the Stock Exchange on 27 July 2009, being the last trading day immediately prior to the publication of this announcement); (ii) a premium of approximately 25% over the average closing price of HK\$0.80 per Consolidated Share (based on the average closing price of HK\$0.08 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 27 July 2009); and (iii) a premium of approximately 31.6% over the average closing price of HK\$0.76 per Consolidated Share (based on the average closing price of HK\$0.076 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 27 July 2009).

The Conversion Price was determined after arm's length negotiations between the Company and the Subscriber, after considering the Group's existing financial position, the market price or average market price of Shares as shown above, the fluctuation of the market price of the Shares during the above period (including the highest and lowest closing price per Share of HK\$0.083 on 22 July 2009 and HK\$0.055 on 10 July 2009 respectively) and the size of the amount to be raised.

(4) Conversion rights: holder(s) of the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be) shall 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 third Business Day before first 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 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\$500,000 on each conversion unless the amount of the outstanding Convertible Note is less than HK\$500,000 in which case the whole (but not part only) of that amount shall be convertible.

(5) Ranking: the Conversion Shares shall rank pari passu with all other Shares or Consolidated Shares in issue as at the date of allotment and issue of the Conversion Shares.

(6) Interest: 5% 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.

(7) Transferability: assignment or transfer of the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be) may only be made if: (i) it is made to person(s) who are not connected persons (as such term is defined in Rule 1.01 and as extended by Rule 14A.11 of the Listing Rules) of the Group; (ii) prior written approval of the Stock Exchange (if applicable) and the Company shall have been obtained in respect thereof; and (iii) the principal amount to be transferred or assigned is at least HK\$500,000 and integral multiples of HK\$500,000.

(8) Voting rights: holders of 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.

(9) Early redemption: the Company and the Subscriber shall not be entitled to redeem any part of the outstanding principal amount of the Convertible Notes prior to the Maturity Date.

(10) 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.

Assuming the Capital Reorganisation has not become effective upon the issue of the Convertible Notes, in the event the conversion rights attaching to the First Tranche Convertible Notes are exercised in full at the initial Conversion Price of HK\$0.10 per Conversion Share, a total of 1,200,000,000 new Shares will be issued, representing (i) approximately 5.9% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 5.6% of the issued share capital of the Company as enlarged by the allotment and issue of such First Tranche Conversion Shares.

Assuming the Capital Reorganisation has not become effective upon the issue of the Convertible Notes, in the event the conversion rights attaching to the Second Tranche Convertible Notes are exercised in full at the initial Conversion Price of HK\$0.10 per Conversion Share, a total of 2,500,000,000 new Shares will be issued, representing (i) approximately 12.3% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 10.4% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

Assuming the Capital Reorganisation has not become effective upon the issue of the Convertible Notes, in the event the conversion rights attaching to the Convertible Notes are exercised in full at the initial Conversion Price of HK\$0.10 per Conversion Share, a total of 3,700,000,000 new Shares will be issued, representing (i) approximately 18.2% of the issued share capital of the Company as at the date of this announcement; (ii) approximately 15.4% of the issued share capital of the Company as enlarged by the allotment and issue of such Conversion Shares; (iii) approximately 15.2% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares and the allotment and issue of the new Shares upon the exercise in full of the conversion rights attached to the convertible notes of the Company in the aggregate principal amount of HK\$35,000,000 (the “**June Convertible Notes**”, details of which are set out in the announcement of the Company dated 9 June 2009).

Assuming the Capital Reorganisation has become effective upon the issue of the Convertible Notes, in the event the conversion rights attaching to the Convertible Notes are exercised in full at the initial Conversion Price of HK\$1.00 per Conversion Share, a total of 370,000,000 new Consolidated Shares will be issued, representing (i) approximately 18.2% of the aggregate of 2,028,619,363 issued Consolidated Shares calculated based on the issued share capital of the Company as at the date of this announcement; and (ii) approximately 15.4% of the aggregate of 2,398,619,363 issued Consolidated Shares calculated based on the issued share capital of the Company as at the date of this announcement and as enlarged by the allotment and issue of the Conversion Shares; and (iii) approximately 15.2% of the aggregate of 2,433,619,363 issued Consolidated Shares calculated based on the issued share capital of the Company as at the date of this announcement as enlarged by the allotment and issue of the Conversion Shares and such new Consolidated Shares upon the exercise in full of the conversion rights attached to the June Convertible Notes.

The Conversion Shares will be issued under the general mandate (the “**General Mandate**”) granted to the Directors by a resolution of the Shareholders passed at the annual general meeting of the Company held on 6 September 2008 (the “**AGM**”) subject to the limit of up to 20% of the issued share capital of the Company as at the date of the AGM. The maximum number of Shares to be issued under the General Mandate is 4,057,238,726 Shares. The General Mandate has been utilised in relation to 350,000,000 Shares which shall be allotted and issued upon the exercise in full of the conversion rights attached to the June Convertible Notes.

V. Conditions of the Subscription Agreement

The issue of the First Tranche Convertible Notes and the grant of the Convertible Note Option are conditional upon:

- (i) granting of approval by the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares; and
- (ii) the representations and warranties given by the Subscriber and the Company remaining true and accurate in all aspects and not misleading in any respect as of Completion by reference to the facts and circumstances subsisting as at Completion.

Condition set out in (ii) above can be waived. In the event that any of the above conditions shall not have been fulfilled by 30 September 2009 (or such other time and date as may be agreed in writing by the Company), all rights, obligations and liabilities of the parties to the Subscription Agreement shall cease and terminate and neither party shall have any claim against the other, save for any antecedent breaches of the Subscription Agreement.

Completion of the issue of the First Tranche Convertible Notes and the grant of the Convertible Note Option is not conditional upon the Capital Reorganisation having become effective.

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, property investment operation and securities and financial operation.

The Directors consider that the entering into of the Subscription Agreement will provide the Company with immediate financing with lower interest rates. This shall allow the Company to repay the existing indebtedness, which has been incurred with comparatively higher interest rates. Besides, the issue of the Convertible Notes will not have an immediate dilution effect on the shareholding of the existing Shareholders and, if the conversion rights attaching to the Convertible Notes are exercised in full, the capital base of the Company will be enlarged.

The gross proceeds from the issue of the Convertible Notes and the grant of the Convertible Note Option will be approximately HK\$372,500,000. After deducting the related expenses of approximately HK\$500,000, the net proceeds from the issue of the Convertible Notes and the grant of the Convertible Note Option will be approximately HK\$372,000,000. It is intended that such net proceeds will be used as to HK\$120,000,000 for repayment of short term loan, and the remaining balance will be used as general working capital of the Group. However, if the very substantial disposal of the Company (details of which are set out in the circular of the Company dated 24 July 2009) is not approved by the Shareholders at the extraordinary general meeting to be held on 18 August 2009, the advance of approximately HK\$146.9 million (the “**Advances**”) from Shanghai Fanghua Shiyi Development Limited would become immediately due and payable and part of the above net proceeds shall be used to settle the Advances.

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

Date of announcement	Event	Net proceeds	Intended use of proceeds as stated in the announcement	Actual use of proceeds
9 June 2009	Issue of June Convertible Notes	Approximately HK\$34,800,000	To be used for general working capital	The proceeds have been fully applied as intended.

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

SHAREHOLDING STRUCTURE OF THE COMPANY

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

	As at the date of this announcement		Upon the exercise in full of the conversion rights attaching to the First Tranche Convertible Notes (but before the exercise of any of the conversion rights attaching to the Second Tranche Convertible Notes or the June Convertible Notes) assuming the Capital Reorganisation has not become effective		Upon the exercise in full of the conversion rights attaching to the First Tranche Convertible Notes and the Second Tranche Convertible Notes (but before the exercise of any of the conversion rights attached to the June Convertible Notes) assuming the Capital Reorganisation has not become effective		Upon the exercise in full of the conversion rights attaching to the First Tranche Convertible Notes, the Second Tranche Convertible Notes and the June Convertible Notes assuming the Capital Reorganisation has not become effective		Upon the exercise in full of the conversion rights attaching to the First Tranche Convertible Notes, the Second Tranche Convertible Notes and the June Convertible Notes upon the Capital Reorganisation having become effective	
	Shares	Approximate %	Shares	Approximate %	Shares	Approximate %	Shares	Approximate %	Shares	Approximate %
Mr. Zhang Yang (Note)	4,225,495,000	20.83	4,225,495,000	19.67	4,225,495,000	17.62	4,225,495,000	17.36	422,549,500	17.36
Mr. Chan Tim Shing	1,347,130,000	6.64	1,347,130,000	6.27	1,347,130,000	5.62	1,347,130,000	5.54	134,713,000	5.54
The Subscriber and his parties in concert	168,000,000	0.83	1,368,000,000	6.37	3,868,000,000	16.13	3,868,000,000	15.89	386,800,000	15.89
Holder of the June Convertible Notes	–	–	–	–	–	–	350,000,000	1.44	35,000,000	1.44
Other public Shareholders	14,545,568,632	71.70	14,545,568,632	67.69	14,545,568,632	60.63	14,545,568,632	59.77	1,454,556,863	59.77
Total	20,286,193,632	100	21,486,193,632	100	23,986,193,632	100	24,336,193,632	100	2,433,619,363	100

Note: Mr. Zhang Yang was an executive Director and the chairman of the Company who had resigned on 11 May 2009.

GENERAL

Application will be made by the Company to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Conversions Shares to be issued upon the exercise of the Convertible Notes.

DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it under the Hong Kong Code on Takeovers and Mergers
“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) on which licensed banks in Hong Kong are open for business during the normal business hours in Hong Kong
“Capital Reorganisation”	the proposed reorganisation of the share capital of the Company involving capital reduction and share consolidation, details of which are set out in the announcement of the Company dated 24 July 2009
“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
“Consolidated Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company upon the Capital Reorganisation having become effective
“Conversion Price”	the initial conversion price of HK\$0.10 per Conversion Share in the event the Capital Reorganisation has not been completed upon the issue of the Convertible Notes or HK\$1.00 per Conversion Share in the event the Capital Reorganisation has been completed upon the issue of the Convertible Notes, subject to adjustment
“Conversion Shares”	together, the First Tranche Conversion Shares and the Second Tranche Conversion Shares
“Convertible Notes”	together, the First Tranche Convertible Notes and the Second Tranche Convertible Notes
“Convertible Note Option”	option to subscribe the Second Tranche Convertible Notes

“Director(s)”	director(s) of the Company (including the independent non-executive Director(s))
“First Tranche Conversion Shares”	the new Shares or Consolidated Shares to be allotted and issued by the Company upon the exercise of the conversion rights attaching to the First Tranche Convertible Notes by the holder thereof
“First Tranche Convertible Notes”	the convertible notes in the aggregate principal amount of HK\$120,000,000 to be issued by the Company
“General Mandate”	has the meaning ascribed to it in the sub-paragraph headed “Conversion Shares” of the paragraph headed “Principal terms of the Convertible Notes” of this announcement
“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
“June Convertible Notes”	has the meaning ascribed to it in the paragraph headed “Principal Terms of the Convertible Notes”
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the date falling the first anniversary of the issue of the First Tranche Convertible Notes or the Second Tranche Convertible Notes (as the case may be)
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“Second Tranche Conversion Shares”	the new Shares or Consolidated Shares to be allotted and issued by the Company upon the exercise of the conversion rights attaching to the Second Tranche Convertible Notes by the holder thereof
“Second Tranche Convertible Notes”	the convertible notes up to the aggregate principal amount of HK\$250,000,000 to be issued by the Company upon the exercise of the Convertible Note Option

“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of the Company of HK\$0.10 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Mr. Yao Kangda
“Subscription Agreement”	the conditional subscription agreement dated 27 July 2009 entered into between the Company and the Subscriber in relation to the subscription of the First Tranche Convertible Notes and the grant of the Convertible Note Option
“%”	per cent.

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

Hong Kong, 27 July 2009

As at the date of this announcement, the executive Directors are Ms. Wing Man Yi, Mr. Lam Cheung Shing, Richard, Mr. Zhu Yongjun and Dr. Mu Simon Xinming; and the independent non-executive Directors are Mr. Ho Yiu Yue, Louis, Ms. Ha Ping, Mr. Ko Ming Tung, Edward and Dr. Fu Tao.