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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)**

### **DISCLOSEABLE TRANSACTIONS, CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS**

#### **Discloseable transactions**

After trading hours on 17 September 2009, Interchina Water, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with Mr. Zhao in relation to the Acquisition, being the acquisition of the Sale Shares by Interchina Water at the Acquisition Consideration, being HK\$5,200,004. On the same date, Interchina Water entered into the Subscription Agreement with the HK Company in relation to the Subscription, being the subscription of the Subscription Shares by Interchina Water at the Subscription Price, being the aggregate amount of HK\$8,999,996. The sole asset of the HK Company is its 80% equity interest in the JV Company.

Since the relevant percentage ratios under Rule 14.07 of the Listing Rules are more than 5% but less than 25%, the Acquisition and the Subscription constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules. Completion took place on 18 September 2009 and the HK Company together with the JV Company have become subsidiaries of the Company. Their financial statements will be consolidated into the accounts of the Group accordingly.

## **Continuing connected transactions in relation to the Franchise Agreement**

On 5 August 2009, the JV Company entered into the Franchise Agreement with the Municipal Management Council, which is the supervisory unit of the Drainage Bureau. The Drainage Bureau is the PRC joint venture partner of the JV Company holding 20% equity interest in the JV Company. Pursuant to the Franchise Agreement, among others, the JV Company was granted an exclusive right to manage and operate a sewage treatment plant in Taiyuan, Shanxi Province, the PRC in return for sewage treatment fees payable by the Municipal Management Council. The Franchise shall continue until the 25th anniversary of the date of Enhancement Completion (which is expected to be on or about 30 April 2010).

Following Completion, the JV Company continues to be responsible for the enhancement, remodelling, construction and operation of the sewage treatment plant under the Franchise Agreement. As the Drainage Bureau holds 20% equity interest in the JV Company and it is under the direct supervision of the Municipal Management Council, the Municipal Management Council is a connected person of the Company under the Listing Rules. Accordingly, the operation of the sewage treatment plant under the Franchise Agreement will constitute continuing connected transactions of the Company under the Listing Rules. It is expected that the sewage treatment plant will go into operation in the latter half of 2010 or early 2011.

Pursuant to the Franchise Agreement, the JV Company shall provide the Municipal Management Council with (i) the First Performance Bond in the amount of RMB10,000,000; and (ii) the Second Performance Bond in the amount of RMB3,000,000 or RMB10,000,000 (depending on the point in time of the Franchise Period). Since the Municipal Management Council is a connected person of the Company under the Listing Rules, the provision of the Performance Bonds will constitute continuing connected transactions of the Company pursuant to the Listing Rules.

Given the Franchise Agreement was entered into by the JV Company prior to the execution of the Sale and Purchase Agreement as well as the Subscription Agreement, the transactions contemplated thereunder are only subject to the reporting and disclosure requirements set out in Rule 14A.41 of the Listing Rules.

### **Connected transactions in relation to provision of the Loans to Mr. Zhao and Mr. Han**

After trading hours on 17 September 2009, Interchina Water also entered into the Loan Agreements with each of Mr. Zhao and Mr. Han in relation to the proposed provision of the Loans to them, each in the principal amount of HK\$2,900,000. The Loans shall be secured by the charge on the HK Company Shares held by each of Mr. Zhao and Mr. Han as at Completion, being 2,900,000 HK Company Shares each.

Both Mr. Zhao and Mr. Han are directors and substantial shareholders of the HK Company. Each of them is beneficially interested in approximately 14.5% of the issued share capital of the HK Company as at the date of this announcement. Accordingly, the Borrowers are connected persons of the Company under the Listing Rules, and the provision of the Loans under the Loan Agreements constitutes connected transactions of the Company under the Listing Rules.

Since each of the applicable percentage ratios (other than the profits ratio) in respect of the Loan Agreements is less than 2.5%, the Loan Agreements are only subject to the reporting and announcement requirements under Rule 14A.66 of the Listing Rules and are exempt from the Independent Shareholders' approval requirement. The Company is required by Rules 14A.45 and 14A.46 of the Listing Rules to include in its subsequent published annual report details of the Loan Agreements for the financial years during the term of the Loan Agreements.

### **DISCLOSEABLE TRANSACTIONS**

After trading hours on 17 September 2009, Interchina Water, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with Mr. Zhao in relation to the Acquisition, being the acquisition of the Sale Shares by Interchina Water at the Acquisition Consideration, being HK\$5,200,004. On the same date, Interchina Water entered into the Subscription Agreement with the HK Company in relation to the Subscription, being the subscription of the Subscription Shares by Interchina Water at the Subscription Price, being the aggregate amount of HK\$8,999,996.

#### **The Sale and Purchase Agreement**

##### ***Date***

After trading hours on 17 September 2009

### ***Parties***

- Vendor : Mr. Zhao, who, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, was a third party independent of the Group and connected persons of the Group prior to the execution of the Sale and Purchase Agreement as well as the Subscription Agreement
- Purchaser : Interchina Water, a wholly-owned subsidiary of the Company

### ***Assets to be acquired***

The Sale Shares, being 5,200,004 HK Company Shares

The sole asset of the HK Company is its 80% equity interest in the JV Company.

### ***Consideration***

The total consideration for the Acquisition is HK\$5,200,004, which shall be payable by Interchina Water to the HK Company directly (in order to settle part of the amount due from Mr. Zhao to the HK Company) within seven Business Days after the date of Completion.

The Acquisition Consideration was determined after arm's length negotiations between Interchina Water and Mr. Zhao, after taking into account the unaudited net asset value of the HK Company as at 31 July 2009. The Directors consider the terms of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### ***Conditions***

Completion of the Acquisition is subject to the fulfilment of the following conditions:

- (i) Interchina Water, the HK Company and Mr. Zhao having entered into the Subscription Agreement;
- (ii) Interchina Water having obtained a PRC legal opinion to its satisfaction in relation to, among other things, the legality of the establishment and the valid existence of the JV Company, the ownership of 80% equity interest of the HK Company in the JV Company;
- (iii) Interchina Water being satisfied with the results of the due diligence review on the HK Company and the JV Company;

- (iv) all consents and other necessary approvals in respect of the Acquisition having been obtained;
- (v) the legal status and business operations of the JV Company not having been adversely affected; and
- (vi) all warranties, representations and undertakings given by Mr. Zhao under the Sale and Purchase Agreement remaining true and accurate.

Interchina Water can waive any of the above conditions precedent by notice in writing to Mr. Zhao. If the above conditions have not been fulfilled or otherwise waived (as the case may be) on or before 12 noon on 25 September 2009 or such other date as Interchina Water may agree, the Sale and Purchase Agreement shall cease and determine and neither party shall have any obligations and liabilities under the Sale and Purchase Agreement save for antecedent breaches of the same.

### ***Completion***

According to the Sale and Purchase Agreement, completion of the Acquisition will take place on the third Business Day after all conditions precedent have been fulfilled or waived (as the case may be), or such other date as may be agreed by Interchina Water and Mr. Zhao in writing.

In the event the conditions precedent have been fulfilled or waived (as the case may be), but (i) Interchina Water does not proceed to Completion, Interchina Water shall pay an amount equivalent to 10% of the Acquisition Consideration as liquidated damages to Mr. Zhao as full and final settlement of all claims under the Sale and Purchase Agreement; or (ii) Mr. Zhao does not proceed to Completion, Mr. Zhao shall pay an amount equivalent to 10% of the Acquisition Consideration to Interchina Water.

Completion of the Acquisition took place on 18 September 2009.

### **The Subscription Agreement**

#### ***Date***

After trading hours on 17 September 2009

#### ***Parties***

Subscriber : Interchina Water, a wholly-owned subsidiary of the Company

Issuer : the HK Company

Guarantor : Mr. Zhao, who, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, was a third party independent of the Group and connected persons of the Group prior to the execution of the Sale and Purchase Agreement as well as the Subscription Agreement

### ***Subscription Shares***

The HK Company has agreed to issue, and Interchina Water has agreed to subscribe for, 8,999,996 HK Company Shares.

### ***Subscription Price***

The total Subscription Price payable under the Subscription Agreement is HK\$8,999,996, which shall be payable by Interchina Water within seven Business Days after the date of Completion.

The Subscription Price was determined after arm's length negotiations between Interchina Water and the HK Company, after taking into account the aggregate nominal value of the Subscription Shares. The Directors consider the terms of the Subscription are fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

### ***Condition***

Completion of the Subscription Agreement is subject to the conditions precedent of the Sale and Purchase Agreement having been fulfilled or waived (as the case may be).

If the conditions precedent of the Sale and Purchase Agreement have not been fulfilled or otherwise waived (as the case may be) on or before 12 noon on 25 September 2009 or such other date as Interchina Water may agree, the Subscription Agreement shall cease and determine and neither party shall have any obligations and liabilities under the Subscription Agreement save for antecedent breaches of the same.

### ***Completion***

Completion of the Subscription will take place simultaneously with the completion of the Acquisition.

Since the relevant percentage ratios under Rule 14.07 of the Listing Rules are more than 5% but less than 25%, the Acquisition and the Subscription constitute discloseable transactions of the Company. Completion took place on 18 September 2009. As at the date of this announcement, the shareholding structure of the HK Company is as follows:

<b>Name of shareholders</b>	<b>Number of HK Company Shares held</b>	<b>Percentage</b>
Interchina Water	14,200,000	71.0%
Mr. Zhao	2,900,000	14.5%
Mr. Han	2,900,000	14.5%
	Total: 20,000,000	Total: 100%

The HK Company and the JV Company have become subsidiaries of the Company and their financial statements will be consolidated into the accounts of the Group accordingly.

#### **INFORMATION OF THE HK COMPANY AND THE JV COMPANY**

The HK Company is a company incorporated in Hong Kong on 3 September 2005, the principal business of which is investment holding. The sole asset of the HK Company is its 80% equity interest in the JV Company. Through the interests in the JV Company, the HK Company is principally engaged in the construction and operation of the sewage treatment plant. As informed by Mr. Zhao and according to the best knowledge of the Directors, the HK Company has only conducted audit on its financial statements once since its incorporation in 2005, which covered the period commencing from the date of its operation and ended on 31 March 2009. The audited net liabilities of the HK Company as at 31 March 2009 amounted to approximately HK\$62,915. The audited net loss for the period commencing from the date of its operation and ended on 31 March 2009 amounted to approximately HK\$62,915. The unaudited net assets of the HK Company as at 31 July 2009 amounted to approximately HK\$10,935,000. The unaudited net loss of the HK Company amounted to approximately HK\$1,920 for the four months ended 31 July 2009.

The JV Company is a company established in the PRC on 18 June 2009 for a term of 20 years from its date of establishment. As at the date of this announcement, the total investment and the registered capital of the JV Company are both RMB 10,000,000. None of the registered capital of the JV Company has been paid up. No financial statements of the JV Company have been made up as it has remained dormant since its establishment. The business scope of the JV Company includes provision of sewage treatment service, construction, operation and maintenance of sewage treatment facilities and consultation, design and installment of sewage treatment facilities.

On 17 August 2009, the JV Company entered into the Assets Transfer Agreement. Pursuant to the Assets Transfer Agreement, the Drainage Bureau shall (i) contribute certain machineries and motor vehicles as payment of the registered capital of the JV Company; and (ii) transfer certain machineries, electronic machineries, pipelines and drains, buildings and properties to the JV Company. The principal terms of the Assets Transfer Agreement are as follows:

Assets to be transferred:	Certain machineries, electronic machineries, pipelines and drains, buildings and properties as set out in the Assets Transfer Agreement
Effective date:	Upon the signing of the Assets Transfer Agreement and the approval from the relevant PRC authorities having been obtained
Consideration:	RMB57,924,000
Payment term:	(i) within five (5) business days after the effective date, the JV Company shall pay RMB17,377,200  (ii) the JV Company shall pay an aggregate of RMB55,027,800 on or before the conditions of transfer of assets having been fulfilled or within six (6) months after the effective date, whichever is earlier  (iii) the JV Company shall pay the remaining RMB2,896,200 on the expiry of the 12-month period after the date of transfer of assets or the commencement of the Operation Period, whichever is earlier.
Conditions for the transfer of assets:	(i) the JV Company having received from the Drainage Bureau all the necessary information and documents regarding the sewage treatment plant  (ii) the status of the assets to be transferred having been verified against those described in the Assets Transfer Agreement  (iii) the Drainage Bureau having obtained all the necessary approvals regarding the Assets Transfer Agreement and such approvals having remained valid  (iv) the JV Company having paid to the Drainage Bureau an aggregate of RMB55,027,800



Termination: Either the JV Company or the Drainage Bureau is entitled to issue a termination notice to the other party in the event that, among others, (a) the other party is in breach of the representations and warranties set out in the Assets Transfer Agreement; and (b) the termination of the Franchise Agreement.

As at the date of this announcement, the transfers contemplated under the Assets Transfer Agreement have not yet been completed.

## **DETAILS OF THE CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE FRANCHISE AGREEMENT**

### **The Franchise Agreement**

#### ***Date***

5 August 2009

#### ***Parties***

(A) JV Company, which has become an indirect non-wholly-owned subsidiary of the Company upon Completion

(B) Municipal Management Council

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Drainage Bureau, being the PRC joint venture partner of the JV Company holding 20% equity interest in the JV Company, is under the direct supervision of the Municipal Management Council. Thus, the Municipal Management Council is regarded as a connected person of the Company under the Listing Rules.

### **Principal terms of the Franchise Agreement**

Franchise Period: the Franchise Period comprises 2 phases:

- (i) the Construction Period – being the period commencing from the date of approval of the Assets Transfer Agreement by the relevant PRC authorities and ending on the date of the Enhancement Completion; and
- (ii) the Operation Period – being the period commencing from the date of Enhancement Completion and ending on its 25th anniversary thereafter

- Major rights and obligations of the JV Company:
- (a) the JV Company shall have been duly established having the registered capital of RMB90,930,000, of which 80% shall be owned by the HK Company and 20% shall be owned by the Municipal Management Council
  - (b) responsible for all costs, obligations and risks associated with the finance, design, construction, operation, management and maintenance of the facilities of the Project
  - (c) receive sewage treatment fee from the Municipal Management Council at RMB0.998/m<sup>3</sup>, subject to the right of the Municipal Management Council to withhold the relevant amount of the sewage treatment fee payable to the JV Company if the JV Company fails to provide adequate amount of the Second Performance Bond (details of which are set out in the paragraph headed “The Second Performance Bond” below)
  - (d) during the Franchise Period, the capacity of the sewage treatment plant shall be maintained at 160,000 m<sup>3</sup> per day
  - (e) subject to the Assets Transfer Agreement being approved by the relevant PRC authorities, the JV Company shall provide the First Performance Bond issued by the bank/financial institution approved by the Municipal Management Council in the amount of RMB10,000,000, which shall be released upon the expiry of 12 months after the date of Enhancement Completion, or upon the expiry of 6 months after the early termination of the Franchise Agreement in the event such early termination occurs during the Construction Period – this is to secure the JV Company’s obligations to finance, design, enhance and re-model the Project facilities under the Franchise Agreement
  - (f) the JV Company shall provide the Second Performance Bond issued by the bank/financial institution approved by the Municipal Management Council
    - (i) in the amount of RMB3,000,000 for the first 20 years of the Franchise Period; and
    - (ii) in the amount of RMB10,000,000 for the last 5 years of the Franchise Period until the expiry of 15 PRC working days after the return of assets to the Municipal Management Council at the end of the Franchise – this is to secure the JV Company’s obligations to manage, operate and provide maintenance to the Project under the Franchise Agreement

(g) the financing of the JV Company for payment of its registered capital shall be completed within 30 PRC working days after the Assets Transfer Agreement has been approved by the relevant PRC authorities (such deadline can be extended to a date falling on or before the expiry of three months therefrom upon agreement by the JV Company and the Municipal Management Council)

Major obligations  
of Municipal  
Management Council:

(a) ensure the Franchise be granted to the JV Company throughout the Franchise Period

(b) assist the JV Company to liaise with the relevant government departments in Taiyuan City

(c) assist the JV Company to obtain all necessary approvals and licences

(d) procure that the JV Company shall obtain the land use rights for the sewage treatment plant at nil consideration

Restriction of transfer:

Within five (5) years upon the relevant PRC authorities approving the Assets Transfer Agreement, the shareholders of the JV Company are prohibited from disposing of their interests in the JV Company. Thereafter, the shareholders of the JV Company are allowed to dispose of their interests in the JV Company upon obtaining the prior written approval from the Municipal Management Council.

Termination:

Either the JV Company or Municipal Management Council is entitled to issue a termination notice to the other party in the event that, among others, (a) the other party is in breach of the representations and warranties set out in the Franchise Agreement; and (b) the termination of the Assets Transfer Agreement.

Return of assets:

Upon termination of the Franchise Agreement or the expiry of the Franchise Agreement, the JV Company shall return, among others, (a) the land use rights for the sewage treatment plant; (b) all the rights and benefits of the facilities of the Project, including but not limited to, the buildings and construction of the Project, all the related machinery and equipments; (c) all title documents relating to the facilities of the Project.

Following Completion, the JV Company continues to be responsible for the enhancement, re-modelling, construction and operation of the sewage treatment plant under the Franchise Agreement. As the Drainage Bureau is currently holding 20% equity interest in the JV Company and it is under the direct supervision of the Municipal Management Council, the Municipal Management Council is a connected person of the Company under the Listing Rules. Accordingly, the operation of the sewage treatment plant under the Franchise Agreement constitutes continuing connected transactions of the Company under the Listing Rules.

### **Provision of Performance Bonds**

Pursuant to the Franchise Agreement, the JV Company shall provide the Municipal Management Council with (i) the First Performance Bond in the amount of RMB10,000,000; and (ii) the Second Performance Bond in the amount of RMB3,000,000 or RMB10,000,000 (depending on the point in time of the Franchise Period). Principal terms of the Performance Bonds are set out below:

#### ***The First Performance Bond***

Time to provide the First Performance Bond:	Within 7 PRC working days after the date on which the Assets Transfer Agreement has been approved by the relevant PRC authorities
Amount	: RMB10,000,000 – in the event part of the First Performance Bond has been exercised by the Municipal Management Council, the JV Company is required to top up such amount so that the amount of the First Performance Bond shall be maintained at RMB10,000,000 from time to time
Issuing authority	: such bank or financial institution as may be approved by the Municipal Management Council
Purpose	: to secure the JV Company's obligations to finance, design, enhance and re-model the Project facilities under the Franchise Agreement
Term	: from the date on which the Assets Transfer Agreement has been approved by the relevant PRC authorities until the expiry of 12 months after the date of Enhancement Completion, or upon the expiry of 6 months after the early termination of the Franchise Agreement in the event such early termination occurs during the Construction Period

Exercise of the First Performance Bond : the Municipal Management Council shall be entitled to exercise the First Performance Bond by notice in writing if:

- (i) the JV Company has breached its obligations in relation to the construction work regarding the enhancement and re-modeling of the Project facilities during the Construction Period;
- (ii) the JV Company has failed to rectify any defects of the Project facilities within 12 months after commencement of the Operation Period; or
- (iii) the JV Company fails to obtain financing in relation to payment of its registered capital before the date set out in sub-paragraph (g) in the paragraph headed “Principal terms of the Franchise Agreement” above.

***The Second Performance Bond***

Amount : (i) RMB3,000,000 for the first 20 years of the Franchise Period; and

(ii) RMB10,000,000 for the last 5 years of the Franchise Period until the expiry of 15 PRC workings days after the return of assets to the Municipal Management Council at the end of the Franchise

in the event part of the Second Performance Bond has been exercised by the Municipal Management Council, the JV Company is required to top up such amount so that the amount of the Second Performance Bond shall be maintained at RMB3,000,000 or RMB10,000,000 (as the case may be) from time to time

Issuing authority : such bank or financial institution as may be approved by the Municipal Management Council

Purpose : to secure the JV Company’s obligations to manage, operate and provide maintenance of the Project under the Franchise Agreement

Term : from the date of the Enhancement Completion until the expiry of 15 PRC working days after the return of assets to the Municipal Management Council at the end of the Franchise

- Exercise of the Second Performance Bond : the Municipal Management Council shall be entitled to exercise the Second Performance Bond by notice in writing if:
- (i) the JV Company has failed to provide the relevant amount of the Second Performance Bond in accordance with the sub-paragraph headed “Amount” in this paragraph headed “The Second Performance Bond”;
  - (ii) the JV Company has breached its obligation in relation to the sewage treatment capacity;
  - (iii) the JV Company fails to subscribe to the requisite insurance;
  - (iv) the JV Company has failed to carry out the final large-scale maintenance within nine months prior to the end of the Franchise, which shall be completed within six months after its commencement.

Since the Municipal Management Council has become a connected person of the Company under the Listing Rules upon Completion, the provision of the Performance Bonds constitutes continuing connected transactions of the Company pursuant to the Listing Rules.

### **Listing Rules Implications**

Given the Franchise Agreement was entered into by the JV Company prior to the execution of the Sale and Purchase Agreement as well as the Subscription Agreement, the transactions contemplated thereunder (including the provision of the Performance Bonds) are only subject to the reporting and disclosure requirements set out in Rule 14A.41 of the Listing Rules. Upon any variation or renewal of the Franchise Agreement (including the provision of the Performance Bonds), the Company must comply in full with all applicable, reporting, disclosure and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

## **REASONS FOR AND BENEFIT OF THE ACQUISITION, THE SUBSCRIPTION AND THE CONTINUING TRANSACTIONS UNDER THE FRANCHISE AGREEMENT**

The Group is principally engaged in the investment in environmental and water treatment operation, property investment operation and securities and financial operation as well as strategic investment in Hong Kong and the PRC. The HK Company and the JV Company have become subsidiaries of the Company following Completion.

Pursuant to the Franchise Agreement, the sewage treatment fee receivable by the JV Company shall be RMB0.998/m<sup>3</sup>. No adjustment can be made in relation to the sewage treatment fee during the first two years of operation. Commencing from the third year of operation, the sewage treatment fee can be adjusted every two years in accordance with the terms of the Franchise Agreement. The JV Company shall be entitled to an excess treatment fee in the event the treatment capacity has been exceeded. Pursuant to the Franchise Agreement, the date of Enhancement Completion shall be on or around 30 April 2010. It is expected that the sewage treatment plant will go into operation in the latter half of 2010 or early 2011.

The Directors believe that the contribution of the Franchise Agreement will bring steady income to the Group to enhance its earning base. Under the Franchise Agreement, the Municipal Management Council agreed to grant the JV Company an exclusive right to invest, finance, design, re-model, construct and operate the sewage treatment plant for with the Operation Period of 25 years. In view of the sewage treatment capacity, which has to be maintained at 160,000 m<sup>3</sup> per day, and the estimated total investment cost for the Project of approximately RMB 180 million, the Directors considered that the Operation Period of 25 years can secure the profitability of the JV Company. The estimated total investment of RMB180 million has not been stipulated under any contractual agreement among the parties. It is purely an estimation of the Directors for the Project as a whole, based on the construction costs and sewage treatment capacity in accordance with the Group's experience in operating sewage treatment plants.

The construction of the enhanced sewage treatment plant shall be completed on or before 30 April 2010. Following the Enhancement Completion, the JV Company will be principally engaged in the provision of sewage treatment services for both domestic and industrial uses in Taiyuan City, Shanxi Province, the PRC. The Project is equipped with newly built and technologically advanced sewage treatment facilities with average sewage treatment capacity of 160,000 m<sup>3</sup> per day. Accordingly, the Directors consider that the Acquisition and the Subscription, which have brought along the opportunity for the Group to operate the Project, will provide long term financial benefit to the Group and allow the Group to capture future financial benefit from its expanding business development in Taiyuan City, Shanxi Province, the PRC.

The Directors believe that the provision of the Performance Bonds are in line with the market practice of operation of a sewage treatment plants in the PRC.

The Directors consider that the continuing connected transactions contemplated under the Franchise Agreement (including the provision of the Performance Bonds) will be entered into the ordinary and usual course of business of the JV Company. They also consider that the terms of the Franchise Agreement and the Performance Bonds have been negotiated and will be conducted on an arm's length basis and on normal commercial terms. The Directors are of the view that the Franchise Agreement, the continuing connected transactions, the terms thereof (including the Operation Period of 25 years) as well as the Performance Bonds are fair and reasonable and in the best interest of the Group and the Shareholders as a whole.

## **DETAILS OF THE CONNECTED TRANSACTIONS IN RELATION TO PROVISION OF LOANS TO MR. ZHAO AND MR. HAN**

### **The Loan Agreements**

#### ***Date***

After trading hours on 17 September 2009

#### ***Lender***

Interchina Water, a wholly-owned subsidiary of the Company

#### ***Borrowers***

- (1) Mr. Zhao, who (i) to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, was a third party independent of the Group and connected persons of the Group prior to the execution of the Sale and Purchase Agreement as well as the Subscription Agreement; but (ii) a director and a substantial shareholder of the HK Company as at the date of this announcement, being beneficially interested in 14.5% of the issued share capital of the HK Company after Completion
- (2) Mr. Han, who (i) to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, was a third party independent of the Group and connected persons of the Group prior to the execution of the Sale and Purchase Agreement as well as the Subscription Agreement; but (ii) a director and a substantial shareholder of the HK Company as at the date of this announcement, being beneficially interested in 14.5% of the issued share capital of the HK Company after Completion

The Borrowers are therefore connected persons of the Company under the Listing Rules after Completion.



## *Terms*

Save for the identity of each of the Borrowers, the terms of the Loan Agreements are identical. Principal terms of the Loan Agreements are as follows:

Loan	:	HK\$2,900,000
Interest rate	:	HIBOR (12-month average for the year preceding each annual interest payment date), simple interest to be accrued daily from the date of payment and shall be payable annually
Conditions precedent:		(i) Completion having taken place;  (ii) execution of the relevant Share Charge  (iii) the Borrower not having been declared bankrupt and there being no breach of warranties and representations under the respective Loan Agreement
Repayment	:	The Loan, together with outstanding interest accrued, is repayable on the first Business Day immediately following the Repayment Date. Interest shall be payable yearly in arrears.
Pre-payment	:	The Loan or any part of it, together with any interest accrued, may be repaid by each of the Borrowers at any time by giving three Business Days' prior written notice to Interchina Water.

## **Share Charges**

Pursuant to the Loan Agreements, as continuing security for the Loans provided by Interchina Water to the Borrowers, the Borrowers shall execute the Share Charges thereby charging by way of first fixed charge the aggregate of 5,800,000 HK Company Shares together with all their rights, title, benefits and interests in favour of Interchina Water.

## **Reasons and benefits for entering into the Loan Agreements**

As at the date of this announcement, the Borrowers are owing to the HK Company an aggregate amount of approximately HK\$11,000,000 (the "HK Company Loan"). In order to procure the HK Company to have sufficient funding for injection to the registered capital of the JV Company, the Loans will be used to settle part of the HK Company Loan. The remaining amount of the HK Company Loan shall be settled by the direct payment of the Acquisition Consideration to the HK Company as set out in the paragraph

headed “Discloseable Transactions” above. The Directors (including the independent non-executive Directors) consider that the terms of Loan Agreements are fair and reasonable, are on normal commercial terms and in the best interest of the Group and its Shareholders as a whole.

Since each of the applicable percentage ratios (other than the profits ratio) in respect of the Loan Agreements is less than 2.5%, the Loan Agreements are only subject to the announcement and reporting requirements under Rule 14A.66 of the Listing Rules and are exempt from the Independent Shareholders’ approval requirement. The Company is required by Rules 14A.45 and 14A.46 of the Listing Rules to include in its subsequent published annual report details of the Loan Agreements for the financial years during the term of the Loan Agreements.

## **DEFINITIONS**

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

<b>“Acquisition”</b>	the acquisition of the Sale Shares from Mr. Zhao by Interchina Water at the Acquisition Consideration
<b>“Acquisition Consideration”</b>	the total consideration for the Acquisition, being HK\$5,200,004
<b>“Assets Transfer Agreement”</b>	the assets transfer agreement dated 17 August 2009 entered into between the JV Company and the Drainage Bureau
<b>“associate”</b>	has the meaning ascribed to it under the Listing Rules
<b>“Board”</b>	the board of Directors
<b>“Borrowers”</b>	Mr. Zhao and Mr. Han
<b>“Business Day”</b>	a day (other than Saturdays and Sundays) on which licensed banks in Hong Kong are generally open for business during their normal business
<b>“Company”</b>	Interchina Holdings Company Limited, a company incorporated in Hong Kong with limited liability, the issued Shares of which are listed on the Stock Exchange
<b>“Completion”</b>	completion of the Acquisition and the Subscription

<b>“connected person(s)”</b>	has the meaning ascribed to it under the Listing Rules
<b>“Construction Period”</b>	the period commencing from the date of approval of the Assets Transfer Agreement by the relevant PRC authorities and ending on the date of the Enhancement Completion
<b>“Directors”</b>	the directors of the Company
<b>“Drainage Bureau”</b>	太原市排水管理處 (Taiyuan City Drainage Management Bureau)
<b>“Enhancement Completion”</b>	completion of the enhancement and re-modeling of the Project facilities under the Franchise Agreement, which is expected to be on or around 30 April 2010
<b>“First Performance Bond”</b>	the performance bond to be issued by the bank/financial institution approved by the Municipal Management Council in the amount of RMB10,000,000 to secure the JV Company’s obligations to finance, design, enhance and re-model the Project facilities under the Franchise Agreement, covering the period after the approval of the Assets Transfer Agreement until its release upon the expiry of 12 months after the date of Enhancement Completion, or until its release upon the expiry of 6 months after the early termination of the Franchise Agreement in the event such early termination occurs during the Construction Period
<b>“Franchise”</b>	the right of franchise granted under the Franchise Agreement
<b>“Franchise Agreement”</b>	the franchise agreement dated 5 August 2009 entered into between JV Company and the Municipal Management Council
<b>“Franchise Period”</b>	together, the Construction Period and the Operation Period
<b>“Group”</b>	the Company and its subsidiaries
<b>“HIBOR”</b>	Hong Kong Interbank Offered Rate
<b>“HK Company”</b>	Regent Victor Development Limited 豪峰發展有限公司, a company incorporated in Hong Kong
<b>“HK Company Shares”</b>	shares of HK\$1.00 each in the share capital of HK Company

<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the PRC
<b>“Interchina Water”</b>	Interchina Water Treatment Limited (國中水務有限公司), a limited company incorporated in the British Virgin Islands, a wholly-owned subsidiary of the Company
<b>“JV Company”</b>	the joint venture company established in the PRC of which 80% and 20% of its equity interest are owned by the HK Company and Drainage Bureau respectively
<b>“Listing Rules”</b>	the Rules Governing the Listing of Securities on the Stock Exchange
<b>“Loan Agreements”</b>	the two loan agreements dated 17 September 2009 entered into between Interchina Water as lender and each of Mr. Zhao and Mr. Han as Borrowers in relation to the Loans
<b>“Loan(s)”</b>	the proposed loans of HK\$2,900,000 to each of the Borrowers pursuant to the relevant Loan Agreements
<b>“Mr. Han”</b>	Mr. Han Xiao
<b>“Mr. Zhao”</b>	Mr. Zhao Libo
<b>“Municipal Management Council”</b>	太原市市政管理局 (Taiyuan City Municipal Management Council)
<b>“Operation Period”</b>	the period commencing from the date of Enhancement Completion and ending on its 25th anniversary thereafter
<b>“Performance Bonds”</b>	together, the First Performance Bond and the Second Performance Bond
<b>“PRC”</b>	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan
<b>“Project”</b>	the franchised operation of Yangjiabao Sewage Treatment Plant in Taiyuan City, Shanxi Province, the PRC (太原市楊家堡污水處理廠特許經營項目)
<b>“Repayment Date”</b>	the sixth anniversary of the date of advance of the Loan

<b>“Sale and Purchase Agreement”</b>	the sale and purchase agreement dated 17 September 2009 entered into between Interchina Water and Mr. Zhao in relation to the Acquisition
<b>“Sale Shares”</b>	5,200,004 HK Company Shares
<b>“Second Performance Bond”</b>	the performance bond to be issued by the bank/financial institution approved by the Municipal Management Council in the amount of (i) RMB3,000,000 for the first 20 years of the Franchise Period; and (ii) RMB10,000,000 for the last 5 years of the Franchise Period until the expiry of 15 PRC working days after the return of assets to the Municipal Management Council at the end of the Franchise Period, so as to secure the JV Company’s obligations to manage, operate and provide maintenance of the Project under the Franchise Agreement
<b>“Share Charges”</b>	the charge over 2,900,000 HK Company Shares executed by Mr. Zhao in favour of Interchina Water and the charge over 2,900,000 HK Company Shares executed by Mr. Han in favour of Interchina Water
<b>“Shareholder(s)”</b>	holder(s) of Shares
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Subscription”</b>	the subscription of 8,999,996 HK Company Shares from the HK Company by Interchina Water at the Subscription Price
<b>“Subscription Agreement”</b>	the subscription agreement dated 17 September 2009 entered into between Interchina Water, HK Company and Mr. Zhao in relation to the Subscription
<b>“Subscription Price”</b>	the aggregate price of HK\$8,999,996 in relation to the Subscription
<b>“Subscription Shares”</b>	8,999,996 HK Company Shares
<b>“HK\$”</b>	Hong Kong dollars, the lawful currency of Hong Kong

“%”

per cent.

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

Hong Kong, 18 September 2009

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