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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)**

### **PROPOSED CONTINUING CONNECTED TRANSACTIONS**

**Financial Adviser to the Company**



**KINGSTON CORPORATE FINANCE LTD.**

The Group has, from time to time, engaged the KCA Group to provide financial services to the Group. To facilitate the possibly continuous engagement with the KCA Group and in compliance with Rule 14A.35 of the Listing Rules in relation to continuing connected transactions, on 6 January 2012 the Company and KCA entered into the Master Agreement which provides the framework within which the Group may engage KCA Group to provide Services to the Group from time to time for a fixed term commencing on the date of the Master Agreement up to 31 March 2014.

KCA is a direct wholly-owned subsidiary of Kingston Financial Group Limited. Mrs. Chu, a substantial shareholder in the Company, has controlling interests in Kingston Financial Group Limited. Therefore, KCA Group is an associate of Mrs. Chu, a connected person (as defined in the Listing Rules) of the Company. Accordingly, the transactions contemplated under the Master Agreement, which were entered into between the Company and the associate of its connected person, constitute continuing connected transactions under the Listing Rules.

A circular containing, among other things, details of the terms of the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder, a letter of recommendation from the Independent Board Committee to the Independent Shareholders, a letter of advice by the independent financial adviser to the Independent Board Committee and the Independent Shareholders, and a notice of the EGM will be despatched to the Shareholders on or before 1 February 2012.

## **BACKGROUND**

The Group has, from time to time, engaged the KCA Group to provide financial services to the Group. To facilitate the possibly continuous engagement with the KCA Group and in compliance with Rule 14A.35 of the Listing Rules in relation to continuing connected transactions, on 6 January 2012 the Company and KCA entered into the Master Agreement which provides the framework within which the Group may engage KCA Group to provide Services to the Group from time to time for a fixed term commencing on the date of the Master Agreement up to 31 March 2014.

## **THE MASTER AGREEMENT**

### **Master Agreement**

**Date:** 6 January 2012

**Parties:** (i) the Company  
(ii) KCA

**Duration:** commencing from the date of the Master Agreement up to 31 March 2014 (both days inclusive).

**Subject matter  
(KCA Group's  
Services  
to the Group):** provision of financial services by KCA Group to the Group, including but not limited to, securities placement, underwriting or sub-underwriting, brokerage, margin financing and corporate financial advisory services and other ancillary services.

**Annual Caps:** the parties agree that the Services will be subject to the following annual caps:

the aggregate amounts payable by the Company to KCA Group for the transactions (in respect of which Independent Shareholders' approval is proposed to be sought at the EGM) for the three months ending 31 March 2012 and for each of the two years ending 31 March 2014 shall not exceed the following:

<b>For the three months ending 31 March 2012 HK\$'000</b>	<b>For the year ending 31 March 2013 HK\$'000</b>	<b>For the year ending 31 March 2014 HK\$'000</b>
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Services (including securities placement, underwriting or sub-underwriting, brokerage and margin financing and financial advisory services)	28,000	30,000	30,000
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**Terms:** on normal commercial terms and at rates no less favorable to the Company compared to the relevant services provided by KCA Group to its other customers which are Independent Third Parties in respect of Services that are similar in terms of scale, complexity and nature to the relevant Services to be provided to the Group. Detailed payment terms will be specified in individual contracts governing particular transactions.

The Directors consider that the terms of the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder are made on an arm's length basis, in the benefits of the Group and on normal commercial terms which are no less favourable than terms available to or from Independent Third Parties. The Directors (excluding independent non-executive Directors) are of the view that the terms of the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Pursuant to the Master Agreement, the Company may engage the KCA Group to provide the Services commencing on the date of the Master Agreement up to 31 March 2014. However, each of the Company and the KCA Group reserves the right not to make or accept such appointment or engagement in respect of any transaction which it considers such appointment or engagement to be inappropriate.

## THE ANNUAL CAPS

### Historical figures

For each of the two years ended 31 March 2011 and the nine months ended 31 December 2011, the total amounts paid and/or payable by the Company to the KCA Group for the transactions were approximately:

	<b>For the year ended 31 March 2010 HK\$'000</b>	<b>For the year ended 31 March 2011 HK\$'000</b>	<b>For the nine months ended 31 December 2011 HK\$'000</b>
Services (including securities placement, underwriting or sub-underwriting, brokerage and margin financing and financial advisory services)	400	22,624	13,381 (Note)

*Note:* Such amount includes the approximate HK\$8 million falling to be payable upon completion of the CN Placing.

### Proposed annual caps for the payment to the KCA Group

The proposed annual caps have been determined by reference to, among others, (a) the actual Service fees in the two years ended 31 March 2011 and nine months ended 31 December 2011 as set out above; (b) the estimated annual aggregate fees arising from the anticipated provision of Services provided by the KCA Group in relation to securities placement, underwriting or sub-underwriting, brokerage, margin financing and financial advisory services and other ancillary services in upcoming years; (c) the market capitalization of the Company; (d) the expected market capitalization growth and anticipated business expansion of the Company; and (e) a buffer for greater flexibility for possible changes in the level or types of Services and any unexpected adverse change in the market or corporate level.

The aggregate amounts paid and/or payable for the Services provided by the KCA Group for the two years ended 31 March 2011 and nine months ended 31 December 2011 were approximately HK\$0.4 million, HK\$22.6 million and HK\$13.4 million, respectively (details have been set out in the Company's announcement dated 24 July 2009, 28 April 2010, 16 September 2010, and 13 December 2011). In addition to the historical figures of approximately HK\$36 million in aggregate arising from the Services provided by the KCA Group, the Directors have also taken into account possible potential investment opportunities (if any), which may give rise to an increase in the requirement of fund raising activities and financial advisory services. Besides, to strengthen such expansion strategies given the existing uncertain market conditions, a buffer has been added for greater flexibility. Having considered, among others, the historical Service fees, possible business expansion and investment opportunities, market conditions and anticipated growth in the market capitalization of the Company, the Directors expect that the Services provided by the KCA

Group will increase in the next three years. Accordingly, the Directors propose that the annual caps for the aggregate payment to the KCA Group under the Master Agreement shall be HK\$28 million, HK\$30 million and HK\$30 million for the three months ending 31 March 2012 and two years ending 31 March 2014 respectively.

The Directors (excluding independent non-executive Directors) are of the view that such proposed annual caps which have been arrived after arm's length negotiation are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

## **REASONS FOR THE MASTER AGREEMENT**

The Directors consider it to be in the best interests of the Group and the Independent Shareholders to enter into the Master Agreement on the following grounds:

- (i) following the corporate strategy of investment and business expansion, the Directors expect that, in order to cope with the business development of the Group, there may be a rise in the number of corporate transactions and fund raising activities;
- (ii) the KCA Group has, in its ordinary and usual course of businesses, provided several securities offering services and financial advisory and documentation services to the Company on, among other things, fund raising activities and notifiable transactions in the past years, and has a good understanding of the Company's structure, business and financial position and performance of its shares, and as a result, retaining KCA Group to provide financial services including securities placement, underwriting and sub-underwriting and financial advisory will assume smooth fund-raising activities and delivery of services, if so required; and
- (iii) the Group can be benefited from the sales and distribution network of KCA Group to enlarge the Shareholders' base in the event of any placement of Shares.

## **RELATIONSHIP BETWEEN THE PARTIES TO THE MASTER AGREEMENT AND THE COMPANY**

KCA is a direct wholly-owned subsidiary of Kingston Financial Group Limited. Mrs. Chu, a substantial shareholder in the Company, has controlling interests in Kingston Financial Group Limited. Therefore, KCA Group is an associate of Mrs. Chu, a connected person (as defined in the Listing Rules) of the Company. Accordingly, the transactions contemplated under the Master Agreement, which were entered into between the Company and the associate of its connected person, constitute continuing connected transactions under the Listing Rules.

## GENERAL

The Company was incorporated in Hong Kong with limited liability. The Company and its subsidiaries principally engaged in environmental protection and water treatment operation, property investment operation, nature resources operation and securities and financial operation.

KCA is a holding company of a number of companies, including but not limited to KSL and KCF, that are principally engaged in provision of Services.

Since the Board anticipates that the percentage ratios (other than the profit ratio) for the transactions contemplated under the Master Agreement on an annual basis will exceed 5% and the annual consideration is expected to be higher than HK\$10,000,000, the Master Agreement constitutes non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules and will accordingly be subject to reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, the Company is required to seek the approval for the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder from the Independent Shareholders at the EGM where voting must be taken by way of poll. In accordance with the Listing Rules, any connected person or Shareholder and its associates with a material interest in the transaction must abstain from voting on the relevant resolution to be proposed at the EGM. Mrs. Chu and her associates will abstain from voting on the resolution in relation to the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder, and none of any Directors have a material interest in the transaction and are not required to abstain from voting at the EGM.

The Independent Board Committee will be established to advise the Independent Shareholders in relation to the terms of the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder.

A circular containing, among other things, details of the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder, a letter of recommendation from the Independent Board Committee to the Independent Shareholders, a letter of advice by the independent financial adviser to the Independent Board Committee and the Independent Shareholders, and a notice of the EGM, will be despatched to the Shareholders on or before 1 February 2012.

## DEFINITIONS

“Annual Caps”	the maximum aggregate annual value of the transactions contemplated under the Master Agreement for the period from the date of the Master Agreement to 31 March 2012 and for each of the two financial years ending 31 March 2014
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	Interchina Holdings Company Limited, a company incorporated in Hong Kong with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting to be held by the Company to consider and, if thought fit, approve the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee comprising all independent non-executive Directors established by the Board to advise the Independent Shareholders in relation to terms of the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder
“Independent Shareholders”	any Shareholders other than Mrs. Chu and her associates
“Independent Third Parties”	person(s) or company(ies) which is/are independent of any member of the Group, the directors, the chief executive, the controlling shareholders, the substantial shareholder of the Company or its subsidiaries, further respective associates (as defined in the Listing Rules)
“KCA”	Kingston Capital Asia Limited
“KCA Group”	KCA and/or its subsidiaries

“KCF”	Kingston Corporate Finance Limited, a licensed corporation to carry on business in type 6 regulated activity under the SFO
“KSL”	Kingston Securities Limited, a licensed corporation to carry out business in type 1 regulated activity under the SFO
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreement”	the agreement dated 6 January 2012 entered into between the Company and KCA in relation to the provision of Services for the Company by the KCA Group
“Mrs. Chu”	Mrs. Chu Yuet Wah
“Services”	provision of financial services by KCA Group to the Group, including but not limit to placement, underwriting or sub-underwriting of securities, brokerage, margin financing and financial advisory services and other ancillary services for the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.1 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

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

Hong Kong, 6 January 2012

*As at the date of this announcement, the executive Directors are Mr. Lam Cheung Shing, Richard, Mr. Zhu Yongjun and Mr. Wong Hin Shek; and the independent non-executive Directors are Mr. Ho Yiu Yue, Louis, Mr. Ko Ming Tung, Edward and Mr. Chi Chi Hung, Kenneth.*