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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Interchina Holdings Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for onward transmission to the purchaser or the transferee.

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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)

- (1) PLACING OF CONVERTIBLE NOTES UNDER SPECIFIC MANDATE;**
 - (2) REFRESHMENT OF EXISTING GENERAL MANDATE;**
 - (3) CONTINUING CONNECTED TRANSACTIONS;**
- AND**
- (4) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial Adviser to the Company



KINGSTON CORPORATE FINANCE LTD.

Placing Agent



KINGSTON SECURITIES LTD.

**Independent Financial Adviser to the Independent Board Committee
and Independent Shareholders**

Huntington Asia
汉 腾 亚 洲

Huntington Asia Limited

Terms used in this cover page, have the same meanings as defined in this circular.

A letter from the board of directors of Interchina Holdings Company Limited (the “Company”) is set out on pages 5 to 27 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 28 to 29 of this circular. A letter from Huntington Asia Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 30 to 45 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at 3/F., Nexus Building, 77 Des Voeux Road Central, Hong Kong on Tuesday, 6 March 2012 at 10:00 a.m. is set out on pages 50 to 53 of this circular. A form of proxy for use by the Shareholders at the extraordinary general meeting is enclosed herein. Whether or not you are able to attend the meeting in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the office of the Company’s share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

17 February 2012

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated 13 December 2011 in relation to, inter alia, the Share Placing under the Existing General Mandate and the CN Placing under the Specific Mandate
“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
“Conversion Price”	the conversion price of HK\$0.31 per Conversion Share (subject to adjustments)
“Conversion Shares”	new Shares to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes
“Convertible Notes”	the convertible notes to be issued by the Company in the maximum aggregate principle amount of HK\$294,500,000 due on the Maturity Date pursuant to the CN Placing Agreement
“CN Placing”	the placing of up to a principle amount of HK\$294,500,000 Convertible Notes pursuant to the CN Placing Agreement
“CN Placing Agreement”	the conditional placing agreement dated 13 December 2011 entered into between the Company and the Placing Agent in relation to the CN Placing
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting to be held by the Company to consider and, if thought fit, approve (i) the CN Placing Agreement including the allotment and issue of the Conversion Shares; (ii) the Refreshment of Existing General Mandate; (iii) the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder

DEFINITIONS

“Existing General Mandate”	the general mandate to issue up to 712,533,872 Shares of the Company with par value of HK\$0.1 each granted by the Shareholders to the Directors at the annual general meeting of the Company held on 12 August 2011
“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 the Refreshment of Existing General Mandate and the terms of the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder
“Independent Financial Adviser”	Huntington Asia Limited, a licensed corporation to conduct type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to the Independent Board Committee to the Independent Shareholders in relation to the Refreshment of Existing General Mandate and the terms of the Master Agreement and the Annual Caps
“Independent Shareholders”	in respect of the Master Agreement (including the Annual Caps), any Shareholders other than Mrs. Chu and her associates; in respect of the Refreshment of Existing General Mandate, any Shareholders other than the controlling shareholders and their respective associates or, if there is no controlling shareholder, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective 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)
“Issue Mandate”	the new mandate proposed to be sought at the EGM to authorize the Directors to allot, issue and deal with new Shares not exceeding 20% of the issued share capital of the Company as at the date of the EGM
“KCA”	Kingston Capital Asia Limited
“KCA Group”	KCA and its subsidiaries

DEFINITIONS

“KCF”	Kingston Corporate Finance Limited, a licensed corporation to carry on business in type 6 (advising on corporate finance) regulated activity under the SFO
“KSL”	Kingston Securities Limited, a licensed corporation to carry on business in type 1 (dealing in securities) regulated activity under the SFO
“Latest Practicable Date”	15 February 2012 being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“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
“Maturity Date”	the date falling upon the expiry of three years from the date on which the Convertible Notes is first issued or if such date is not a business day, the immediate preceding business day
“Mrs. Chu”	Mrs. Chu Yuet Wah
“Noteholder(s)”	the holder(s) of the Convertible Notes
“Placee(s)”	placee(s) under the CN Placing
“Placing Agent”	Kingston Securities Limited
“Placing Shares”	an aggregate of 712,000,000 Placing Shares placed through KSL pursuant to the Share Placing Agreement
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Refreshment of Existing General Mandate”	the proposed refreshment of the Existing General Mandate and grant of the Issue Mandate
“Services”	provision of financial services by KCA Group to the Group, including but not limited 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

DEFINITIONS

“Shareholder(s)”	holder(s) of the Shares
“Share Placing”	the placing of 712,000,000 Placing Shares by KSL on a best effort basis pursuant to the Share Placing Agreement
“Share Placing Agreement”	the conditional placing agreement dated 13 December 2011 entered into between the Company and the Placing Agent in relation to the Share Placing, details of which are set out in the Announcement
“Specific Mandate”	the specific mandate to be sought from Shareholders at the EGM to approve, inter alia, the allotment and the issue of the Conversion Shares pursuant to conversion of Convertible Notes
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers and Share Repurchase
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

LETTER FROM THE BOARD



INTERCHINA HOLDINGS COMPANY LIMITED

國 中 控 股 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 202)

Executive Directors:

Mr. Lam Cheung Shing, Richard
Mr. Zhu Yongjun
Mr. Wong Hin Shek

Registered office:

Room 701, 7/F
Aon China Building
29 Queen's Road Central
Hong Kong

Independent non-executive Directors:

Mr. Ho Yiu Yue, Louis
Mr. Ko Ming Tung, Edward
Mr. Chi Chi Hung, Kenneth

17 February 2012

*To the Shareholders, and for information only,
holders of options of the Company*

Dear Sir or Madam,

- (1) PLACING OF CONVERTIBLE NOTES UNDER SPECIFIC MANDATE;
(2) REFRESHMENT OF EXISTING GENERAL MANDATE;
(3) CONTINUING CONNECTED TRANSACTIONS;
AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to:

- (a) the Announcement dated 13 December 2011 in relation to, among other things, the placing of Convertible Notes of up to a principle amount of HK\$294,500,000 through KSL, on a best effort basis, to not less than six CN Places in a maximum of five (5) tranches.
- (b) the announcement of the Company dated 6 January 2012 in relation to the Master Agreement entered into between the Company and KCA, which constitutes continuing connected transactions under the Listing Rules.

In addition to the above, the Board proposes the Refreshment of Existing General Mandate.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further information regarding the CN Placing Agreement (including the allotment and issue of Conversion Shares); (ii) details of the Refreshment of Existing General Mandate; (iii) further information regarding the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder; (iv) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Refreshment of Existing General Mandate and the Master Agreement (including the Annual Caps); (v) a letter of advice from the independent financial adviser, Huntington Asia Limited, to the Independent Board Committee and the Independent Shareholders in relation to the Refreshment of Existing General Mandate and the Master Agreement (including the Annual Caps); and (vi) a notice of the EGM.

I. THE CN PLACING AGREEMENT

Date

13 December 2011 (after trading hours)

Parties

The Company (as issuer) and KSL (as Placing Agent)

Placing Agent

KSL has conditionally agreed to act as the agent of the Company to place, on a best efforts basis, the Convertible Notes which are proposed to be issued in a maximum aggregate principal amount of HK\$294,500,000. The Placing Agent will receive a placing commission of 2.5% of the amount equal to the aggregate principal amount of the Convertible Notes actually placed by the Placing Agent to selected Placees in the relevant tranche of the CN Placing, which was arrived at after arm's length negotiations between the Company and the Placing Agent.

KSL is an indirect wholly-owned subsidiary of Kingston Financial Group Limited, of which Mrs. Chu is a controlling shareholder. Mrs. Chu is also a substantial shareholder of the Company. Therefore, KSL is a connected person of the Company within the meaning of Rule 14A.11 of the Listing Rules.

The Board is of the view that the terms of the CN Placing Agreement are fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

Placees

The Placing Agent will place the Convertible Notes to not less than six independent Placees (who will be independent professional, institutional or other investors), who and whose ultimate beneficial owner(s) will not be connected persons (as defined in the Listing Rules) of the Company. None of the Placee will become a substantial shareholder (as defined in the Listing Rules) immediately after the CN Placing.

LETTER FROM THE BOARD

Conditions of the CN Placing

The CN Placing is conditional upon:

- (a) the Stock Exchange granting or agreeing to grant the listing of and permission to deal in the relevant Conversion Shares under the relevant tranche of the CN Placing;
- (b) the granting of approval by the Shareholders on the CN Placing Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Notes and the allotment and issue of the Conversion Shares) at the EGM.

If the conditions are not fulfilled on or before the 90th day from the date of the EGM (or such later date as may be agreed between the Company and the Placing Agent), the CN Placing will be terminated and will not proceed and all obligations and liabilities of the parties thereunder will forthwith cease and determine and no party will have any claim against the others (save for any antecedent breaches thereof).

Termination and force majeure for the CN Placing

The CN Placing Agreement may be terminated by the Placing Agent, if, at any time prior to 9:00 a.m. on the relevant date of completion of the CN Placing, in the absolute opinion of the Placing Agent, the success of the CN Placing or the business or financial prospects of the Group would or might be adversely affected by:

- (a) any material breach of any of the representations and warranties set out in the CN Placing Agreement; or
- (b) any suspension in the trading of the Shares on the Stock Exchange for more than ten consecutive trading days save for the purposes of clearing of any announcements or circulars relating to the CN Placing Agreement; or
- (c) any of the following events:
 - (i) the introduction of any new laws or regulations or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the absolute opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 - (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the CN Placing Agreement) of a political, military, financial, economic, currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national, international outbreak or escalation of hostilities or armed conflict, or affecting local securities market or the occurrence of any combination of circumstances which would, in the absolute opinion of the

LETTER FROM THE BOARD

Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or adversely prejudices the success of the placing of the Convertible Notes by potential investor(s) or otherwise makes it inexpedient or inadvisable for the Company or the Placing Agent to proceed with the placing of Convertible Notes; or

- (iii) any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities) which would materially and adversely affect the success of the placing of the Convertible Notes (such success being the placing of the Convertible Notes to potential investor(s)) or otherwise in the absolute opinion of the Placing Agent makes it inexpedient or inadvisable or inappropriate for the Company or the Placing Agent to proceed with the placing of the Convertible Notes,

then and in any such case, the Placing Agent may terminate the CN Placing Agreement without liability to the Company by giving notice in writing to the Company, provided that such notice is received prior to 9:00 a.m. on the relevant completion date of the CN Placing and provided further that such termination shall not affect any partial completion of the CN Placing that have taken place prior to such date of termination.

Completion of the CN Placing

Completion of the CN Placing shall take place within four business days following the date on which the conditions of the CN Placing Agreement are fulfilled or in such other date as the Company and the Placing Agent shall agree.

The CN Placing can be completed partially by a maximum of five (5) tranches provided that the aggregate principal amount of the Convertible Notes to be issued by the Company for each partial completion shall not be less than HK\$60,000,000 and in integral multiple of HK\$3,100,000 (save for the last tranche of the CN Placing where the aggregate principal amount of the Convertible Notes to be issued by the Company may be less than HK\$60,000,000). The Company will issue an announcement upon each partial completion of the CN Placing. Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the relevant Conversion Shares once the Placing Agent confirms to the Company that the aggregate principal amount of the Convertible Notes to be subscribed by the Placees has reached HK\$60,000,000 and that partial completion of the CN Placing can take place.

The Convertible Notes

The terms of the Convertible Notes have been negotiated on arm's length basis and the principal terms of which are summarized below:

Principal amount

A maximum aggregate amount of HK\$294,500,000.

LETTER FROM THE BOARD

Interest

2% per annum, payable per quarter.

Maturity date

The Convertible Notes shall mature on the date falling upon the expiry of three (3) years from the date on which the Convertible Notes is first issued or if such date is not a business day, the immediate preceding business day.

Denomination

HK\$3,100,000 each.

Conversion price

The conversion price, subject to the adjustments, shall be HK\$0.31 per Share. The conversion price of the Convertible Notes was arrived at after arm's length negotiations between the Company and KSL and with reference to the market price of the Shares and the net asset value of the Company. The conversion price of HK\$0.31 per Share represents:

- (a) a discount of 50.00% to the closing price of HK\$0.62 per share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 18.42% to the closing price of HK\$0.38 per Share as quoted on the Stock Exchange on the date of the Announcement;
- (c) a discount of approximately 15.99% to the average of the closing price per Share of approximately HK\$0.369 as quoted on the Stock Exchange for the last five trading days up to and including the date of the Announcement; and
- (d) a discount of approximately 12.43% to the average of the closing price per Share of HK\$0.354 as quoted on the Stock Exchange for the last ten trading days up to and including the date of the Announcement.

The net proceeds raised per Conversion Share upon the full conversion of the Convertible Notes will be approximately HK\$0.302. The aggregate nominal value of the Conversion Shares assuming full conversion of the Convertible Notes is approximately HK\$95,000,000.

The conversion prices of the Convertible Notes may be adjusted upon occurrence of adjustment events, which include consolidation or sub-division of Shares, capitalisation of profits or reserves, capital distributions in cash or specie, rights issues or subsequent issue of securities in the Company, and will in any event not be adjusted below the par value of the Shares.

LETTER FROM THE BOARD

Conversion

Each Noteholder may convert the whole or part of the principal amount of the relevant Convertible Notes (in multiple of HK\$3,100,000 at any one time of conversion) into Conversion Shares unless the principal amount of the outstanding Convertible Notes are less than HK\$3,100,000 in which case the whole (but not part only) of such outstanding principal amount of the Convertible Notes shall be converted.

No conversion shall be made by the Noteholder unless the Noteholder provides, to the reasonable satisfaction of the Company, evidence that (i) such Noteholder and its associates will not render Shares held in public hands being less than the minimum public float of the Shares required under the Listing Rules; and (ii) such Noteholder, its associates and its parties acting in concert (as defined under the Takeovers Code) will not become obliged to make a mandatory offer in accordance with the Takeovers Code immediately upon conversion.

Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Notes in the aggregate amount of HK\$294,500,000 at the conversion price of HK\$0.31 per Share by all holders of the Convertible Notes, the Company will issue an aggregate of approximately 950,000,000 Conversion Shares, representing approximately 22.22% of the existing issued share capital of the Company and approximately 18.18% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

Ranking

The Conversion Shares will rank pari passu in all respects with all the Shares then in issue at the date of the conversion notice.

Redemption by the Company

The Company shall, at any time before the Maturity Date, have the option to redeem the Convertible Notes in whole or in part by giving not less than 7 clear business days' prior notice. The amount payable for any redemption shall be the relevant amount of the principal amount of the Convertible Notes so redeemed.

Status of the Convertible Notes

The Convertible Notes constitute a direct, general, unconditional and unsecured obligation of the Company and rank pari passu and rateably without preference (with the exception of obligations in respect of taxes and certain other mandatory provisions of applicable law exceptions) equally with all other present and/or future unsecured and unsubordinated obligations of the Company. The holders of the Convertible Notes shall not be entitled to receive dividend of the Company.

LETTER FROM THE BOARD

Transferability

The Convertible Notes are freely transferrable except that the Convertible Notes may not be assigned or transferred to a connected person of the Company. The Company will notify the Stock Exchange should it become aware of the Convertible Notes have been assigned or transferred to a connected person of the Company.

Voting Rights

The Convertible Notes do not confer any voting rights at any meetings of the Company.

Listing

No application will be made for the listing of the Convertible Notes. Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Conversion Shares in the manner as set out above.

Specific Mandate

The Conversion Shares to be issued pursuant to conversion of the Convertible Notes will be, if approved by the Shareholders at the EGM, allotted and issued under a specific mandate.

Reasons for the CN Placing and use of proceeds

The Board considers that the issue of the Convertible Notes is an appropriate means of raising additional capital for the Company since the CN Placing is subject to Shareholders' approval and represents an opportunity to the Company to broaden its shareholder and capital base and strengthen the cash position of the Company. Apart from the CN Placing, the Directors have also considered other fund-raising alternatives such as open offer and rights issue but are of the view that the issue of Convertible Notes shall be more effective in terms of both cost and time as the formers require the presence of an underwriter, which would be more difficult to procure under the prevailing uncertain market conditions. In addition, the issue of Convertible Notes may not result in an immediate dilution effect to the existing Shareholders but provides the Company with immediate funding at a low financing cost, i.e. 2% interest per annum, should the Noteholders do not convert the Convertible Notes immediately. Accordingly, the Board considers that the CN Placing is fair and reasonable to the Shareholders and the Company as a whole.

The gross proceeds and the net proceeds from the CN Placing will be approximately HK\$294,500,000 and HK\$286,600,000. In view of the current financial position and development plan of the Group as explained below, the Board intends to apply the net proceeds obtained from the CN Placing (i) as to HK\$143,300,000 for general working capital (of which approximately HK\$130 million will be applied for repayment of the Group's borrowings and approximately HK\$13.3 million will be reserved for other general capital purpose (such as payment of staff costs, administrative costs, accounts payables incurred from business operation, and other business operation costs, etc.); and (ii) as to HK\$143,300,000 for potential investment in new projects in relation to environmental protection and water treatment operation.

LETTER FROM THE BOARD

Status of proceeds from previous corporate actions

The Group has recently undergone the disposal of a subsidiary (details of which are set out in the Company's announcement dated 28 October 2011) and the completion of the Share Placing (details of which are set out in the Company's announcements dated 13 and 30 December 2011, and has procured net proceeds of approximately HK\$184.4 million and HK\$214.8 million respectively).

As the intended usages stated in the Company's announcement, out of the total net proceeds from the subsidiary disposal, the Group had used approximately HK\$82.1 million (44.5%) to finance its sewage treatment project of Shandong Hekou Lanse Economic Development Zone in the PRC with a capacity of 40,000 tonnes/day, with a franchise period of 30 years (as referred to the Company's announcement dated 26 August 2011), and planned to use approximately HK\$81.6 million (44.3%) within 6 months for the investment in the water supply plant project of the Xiangtan Jiuhua Demonstration Zone with a capacity of 300,000 tonnes/day during the franchise period of 30 years (as referred to in the Company's announcement dated 18 May 2011). The Group intends to retain the remaining proceeds of approximately HK\$20.7 million (11.2%) as general working capital. On the other hand, shortly after the completion of the Share Placing in December 2011, and as detailed in the section headed "Fund raising activities of the Company in the past 12 months" in this circular, the Group had used approximately HK\$134.9 million (62.8%), HK\$52 million (24.2%) and HK\$17.6 million (8.2%) of the relevant proceeds for the development of its nature resources operation, repayment of bank borrowings and other general working capital purpose (such as payment of staff costs, administrative costs, accounts payables incurred from business operation, and other business operation costs, etc.) respectively.

Given the above, a substantial portion of about 92.2% of the proceeds from the subsidiary disposal and Share Placing had been used up and/or allocated for specific usages. As at the Latest Practicable Date, only a relative small amount of approximately HK\$31 million (7.8%) of the proceeds is retained and the Directors intend to reserve such remaining proceeds as general working capital of the Group (such as payment of staff costs, administrative costs, accounts payables incurred from business operation, and other business operation costs, etc.).

Cash and debt position of the Group

The Group currently has a high gearing position and needs to take on a substantial burden on finance costs. As stated in the Company's Interim Report 2011, as at 30 September 2011, the Company had an aggregate of bank and other borrowings of approximately HK\$2,107 million, in which HK\$1,677 million would become due within one year and HK\$430 million was of non-current nature. Out of the debts, approximately HK\$1,710 million were secured by intangible assets, other financial assets, and investment properties of the Company in the PRC and Hong Kong, and the Company's interest in shares of Heilongjiang Interchina Water Treatment Co., Ltd. ("**Heilongjiang Interchina**"), an indirectly owned subsidiary of the Company which its shares are listed on the Shanghai Stock Exchange. None of the bank and other borrowings is related to any connected persons of the Company as at the Latest Practicable Date.

With the borrowings above, the Group recorded a soaring finance cost of approximately HK\$83.0 million as at 30 September 2011, representing about a 1.5-times increase from HK\$33.3 million in the previous financial year. The Board has been taking actions to reduce the Group's

LETTER FROM THE BOARD

debt position in order to lower the interest expenses. In the last several months, the Company has repaid debts of approximately HK\$231 million, in which approximately HK\$52 million from the proceeds of the Share Placing and approximately HK\$179 million from the internal resources of the Group.

As at 31 January 2012, the Group had an unaudited cash and bank balance of approximately HK\$454.6 million and an outstanding bank and other borrowings of approximately HK\$1,876 million. In order to maintain a healthy cash balance and in view of the considerable loan size remained outstanding, the Directors intend to apply approximately HK\$130 million for repayment of the Group's borrowings and approximately HK\$13.3 million for other general capital purpose such as payment of staff costs, administrative costs, accounts payables incurred from business operation, and other business operation costs, etc, from 50% of the proceeds of the CN Placing.

Business development and expansion

It is the Group's strategy to continue to look for investment opportunities with a view to enhancing the Group's asset portfolio, strengthening the foothold of the Group and maximizing Shareholders' benefit. Under the prevailing unstable global market conditions, the Directors believe that the environmental protection and water treatment operation, being the core business of the Group and with the current favourable government policies, shall be less influenced by economy volatility.

The Group looks for investment opportunities of which the Directors consider appropriate on an on-going basis. As disclosed in the Company's announcement dated 15 February 2012, Heilongjiang Interchina entered into a sale and purchase agreement in relation to the acquisition of an aggregate of 10% equity interest in a company established in the PRC (the "**Target Company**") and an option agreement for the acquisition of a further aggregate of 90% equity interest in the Target Company at an aggregate consideration of approximately HK\$80.2 million. In the event the said option is exercised, the aggregate exercise price would amount to approximately HK\$611.1 million. The Target Company is principally engaged in the development of the treatment technology and technique and the production of equipment/construction of facility for sewage water treatment purpose. Details of the transactions are set out in the Company's announcement dated 15 February 2012.

As at the Latest Practicable Date, the Group has identified a project in the PRC related to exploration, processing/production and sale of natural soda water. The Company is in negotiation with the counterparty and neither definitive agreements nor terms have been entered as at the Latest Practicable Date. The Directors preliminarily estimate that the Group's investment size for this project, if realized, would reach above HK\$60 million. The Directors consider that the above projects will be beneficial for the Group to become a leading domestic water business enterprise and therefore intend to use 50% of the proceeds from the CN Placing for the preparation of the above projects, if realized, and any possible investment opportunities. As at the Latest Practicable Date, save for the projects aforementioned, no other specific investment opportunities have been identified by the Group.

Having considered the above, the Directors are of the view that the CN Placing, which will provide the Group with higher feasibility in working capital management and capturing potential investment opportunities, is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Fund raising activities of the Company in the past 12 months

Apart from the fund raising activities mentioned below, the Company has not carried out any fund raising activities during the 12 months immediately preceding the Latest Practicable Date.

Date of initial announcement	Fund raising activity	Intended use of net proceeds	Actual use of net proceeds
13 December 2011	Placing of 712,000,000 Placing Shares under Existing General Mandate at HK\$0.31 per Placing Share	<ul style="list-style-type: none"> — Approximately HK\$130 million for the development of its nature resources operation — Approximately HK\$84.8 million for general working capital of the Group 	<ul style="list-style-type: none"> — Approximately HK\$127.3 million used for the settlement of the amounts payable for the acquisition of Universe Glory Limited in relation to the development of nature resources operation, details of which are set out in the Company's announcement dated 2 March 2011 — Approximately HK\$7.6 million used for the capital expenditure for the abovementioned nature resources project — Approximately HK\$52 million used for repayment of bank borrowings

LETTER FROM THE BOARD

Date of initial announcement	Fund raising activity	Intended use of net proceeds	Actual use of net proceeds
			<ul style="list-style-type: none"> — Approximately HK\$17.6 million used for other general working capital of the Group (such as payment of staff costs, administrative costs, accounts payables incurred from business operation, and other business operation costs, etc.) — Approximately HK\$10.3 million reserved for general working capital of the Group (such as payment of staff costs, administrative costs, accounts payables incurred from business operation, and other business operation costs, etc.)

The Board is of the view that the above actual uses of net proceeds do not deviate from their intended uses. In relation to the development of nature resources operation, the Board considers the acquisition of Universe Glory Limited has milestone significance to the Group's development in the field, and therefore the abovementioned consideration settlement and capital expenditure serve a necessary step for the development in that area. In relation to the general working capital, the Board views that any matters connected to the management of resources required for the Group's daily operation are regarded as general working capital. These include repayment of bank borrowings, payment of staff costs, administrative costs, accounts payables incurred from business operation, and other business operation costs, etc.

LETTER FROM THE BOARD

Effects on shareholding structure

The existing shareholding structure of the Company and the effect on the shareholding structure of the Company upon full conversion of the Conversion Shares are set out as below:

	As at the		Upon completion of		Upon completion of	
	Latest Practicable Date	Approx.%	full conversion of	the Convertible Notes	the Convertible Notes and	full exercise of
	<i>No. of Shares</i>		<i>No. of Shares</i>	<i>Approx.%</i>	<i>No. of Shares</i>	<i>Approx.%</i>
Mr. Lam Cheung Shing, Richard <i>(Note 1)</i>	7,700,000	0.18	7,700,000	0.15	49,900,000	0.93
Mr. Zhu Yongjun <i>(Note 1)</i>	—	—	—	—	47,200,000	0.88
Mr. Ho Yiu Yue, Louis <i>(Note 2)</i>	—	—	—	—	3,500,000	0.07
Rich Monitor Limited <i>(Note 3)</i>	1,033,300,000	24.17	1,033,300,000	19.78	1,033,300,000	19.22
Public Shareholders						
Noteholders	—	—	950,000,000	18.18	950,000,000	17.67
Other Public Shareholders	<u>3,233,669,363</u>	<u>75.65</u>	<u>3,233,669,363</u>	<u>61.89</u>	<u>3,291,319,363</u>	<u>61.23</u>
Total	<u><u>4,274,669,363</u></u>	<u><u>100.00</u></u>	<u><u>5,224,669,363</u></u>	<u><u>100.00</u></u>	<u><u>5,375,219,363</u></u>	<u><u>100.00</u></u>

Notes:

1. An executive Director and deputy chairman of the Company.
2. An independent non-executive Director.
3. Rich Monitor Limited is wholly owned by Mrs. Chu.
4. The percentages are subject to rounding error.

Listing Rules implication

KSL is a licensed corporation to carry on type 1 regulated activities (dealing in securities) under the SFO.

KCF is a licensed corporation to carry on type 6 regulated activities (advising on corporate finance) under the SFO.

Both KSL and KCF, being the placing agent and the financial advisor in respect of the Share Placing and the CN Placing, are indirect wholly-owned subsidiaries of Kingston Financial Group Limited, of which Mrs. Chu is a controlling shareholder. Mrs. Chu is also a substantial shareholder of the Company. Therefore KSL and KCF are connected persons of the Company within the meaning of Rule 14A.11 of the Listing Rules and the Services provided by the KSL and KCF are connected transactions.

LETTER FROM THE BOARD

As the aggregate of the commissions and financial advisory fee payable to KSL and KCF by the Company in respect of the Share Placing and the CN Placing is on normal commercial terms and is less than 5% under the relevant percentage ratios under Rules 14.07 and 14A.32 of the Listing Rules, the connected transactions in respect of the Share Placing and the CN Placing are subject only to the reporting and announcement requirements and are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In compliance with the Listing Rules, the voting of the resolution in respect of the CN Placing will be taken by way of poll at the EGM. Given the shareholding interests of Mrs. Chu in KSL and KCF, Mrs. Chu is considered to have material interest in the CN Placing. Accordingly, Mrs. Chu and her associates will abstain from voting at the EGM in respect of the transactions contemplated under the CN Placing and the Specific Mandate. To the best knowledge of the Directors, save for Mrs. Chu and her associates, none of the Shareholders has a material interest in the transactions contemplated under the CN Placing Agreement as at the Latest Practicable Date.

Shareholders and potential investors should note that the CN Placing is subject to conditions under the CN Placing Agreement to be fulfilled. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

II. REFRESHMENT OF THE EXISTING GENERAL MANDATE

At the annual general meeting of the Company held on 12 August 2011, the Shareholders approved, among other things, an ordinary resolution to grant to the Directors the Existing General Mandate to allot up to 712,533,872 Shares. As at the Latest Practicable Date, 712,000,000 Placing Shares, representing approximately 99.93% of the number of new Shares which are allowed to be allotted, issued and dealt with under the Existing General Mandate, were issued under the Existing General Mandate as a result of Share Placing Agreement dated 13 December 2011, details of the completion of Share Placing are set out in the announcement of the Company dated 30 December 2011. There has not been any refreshment of the Existing General Mandate since the annual general meeting of the Company held on 12 August 2011. It was stated in the Announcement that the net proceeds from the Share Placing of approximately HK\$214.8 million would be used for the development of its nature resources operation and general working capital of the Group. Up to the Latest Practicable Date, a substantial portion of about 95.2% of the such proceeds have been used up. Please refer to the section headed "Fund raising activities of the Company in the past 12 months" in this circular for details.

In order to provide flexible means for the Company to raise funds for its future business development and/or through the issue of new Shares, the Board proposes to grant the Issue Mandate for the Directors to allot, issue and otherwise deal with new Shares with an aggregate nominal amount of not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of EGM. The Issue Mandate is proposed to the Shareholders prior to the Company's next annual general meeting, and therefore, under the Listing Rules, the Issue Mandate will be subject to the Independent Shareholders' approval by way of poll at the EGM.

Notwithstanding that the Company has obtained proceeds of an aggregate of approximately HK\$399.2 million from the recent completion of the disposal of its subsidiary and the Share Placing, a substantial portion of about 92.2% of such proceeds has already been used up and the latest cash position of the Group stood at a relatively low level amidst the need for repaying the short-term bank and other borrowings and satisfying the possible capital requirements under the Group's strategy of

LETTER FROM THE BOARD

investment and business expansion. Please also refer to the section headed “Reasons for the CN Placing and use of proceeds” above for details. In addition, the CN Placing may and may not be approved by the Shareholders and, if so approved, may or may not be successfully completed. As such, the Directors are of the view that issue of new Shares under the Issue Mandate, if granted, should be (a) more effective in terms of both cost and time when compared to other fund-raising alternatives such as open offer and rights issue that require the presence of an underwriter, which would be more difficult to procure under the prevailing uncertain market conditions, and (b) more cost effective when compared to debt financing that would further increase the Group’s debt position and give rise to additional costs and financial burden in terms of interest expense and observance of covenants, if any. Therefore, the Directors consider the Refreshment of Existing General Mandate, which will provide flexibility to the Company in working capital management and capturing potential investment opportunities, is in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, a total of 4,274,669,363 Shares were in issue. Subject to the passing of the proposed resolution for granting the Issue Mandate to the Directors and on the basis that no Shares will be issued or repurchased by the Company prior to the EGM, the Company will be allowed under the Issue Mandate to issue a maximum of 854,933,872 Shares.

The Independent Board Committee, comprising Mr. Ho Yiu Yue, Louis, Mr. Ko Ming Tung, Edward and Mr. Chi Chi Hung, Kenneth, all being the independent non-executive Directors, has been formed to consider the Refreshment of Existing General Mandate. Huntington Asia Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Pursuant to Rule 13.36(4)(a) of the Listing Rules, any controlling shareholders and their associates, or where there are no controlling shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution to approve the Refreshment of Existing General Mandate to be proposed at the EGM. As at the Latest Practicable Date, as the Company has no controlling shareholder, Directors (excluding independent non-executive Directors), namely Mr. Lam Cheung Shing, Richard, Mr. Zhu Yongjun and Mr. Wong Hin Shek, and their associates will abstain from voting in favour of the resolution to approve the Refreshment of Existing General Mandate at the EGM to the extent they hold Shares at the date of the EGM. Save that Mr. Lam Cheung Shing, Richard held 7,700,000 Shares, none of the Directors above held any Shares as at the Latest Practicable Date. Pursuant to Rule 13.39(4) of the Listing Rules, the vote of the Independent Shareholders in respect of the Refreshment of Existing General Mandate at the EGM will be taken by way of poll.

The Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates had indicated that, in the event that they were entitled to vote, they have no intention to vote against the resolution to approve the Refreshment of Existing General Mandate at the EGM.

LETTER FROM THE BOARD

III. THE MASTER AGREEMENT

Master Agreement

Date: 6 January 2012

Parties: (i) the Company
(ii) KCA

KCA is an investment holding company directly and wholly-owned by Kingston Financial Group Limited, a company listed on the main board of the Stock Exchange. The KCA Group is one of the well-established securities brokerage and financial advisory houses in Hong Kong providing a wide range of financial services which include: (i) securities underwriting and placements; (ii) margin and IPO financing; (iii) securities brokerage; (iv) corporate finance advisory services; (v) futures brokerage; and (vi) asset management services.

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 Company): provision of financial services 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.

LETTER FROM THE BOARD

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:

	For the three months ending 31 March 2012 <i>HK\$'000</i>	For the year ending 31 March 2013 <i>HK\$'000</i>	For the year ending 31 March 2014 <i>HK\$'000</i>
Services (including securities placement, underwriting or sub-underwriting, brokerage and margin financing and financial advisory services)	28,000	30,000	30,000

Terms:

the fees for each transaction shall be determined with reference to the prevailing market rate of the relevant type of Services to be provided to the Group, 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, such as the time and means of payment, will be specified in individual contracts governing particular transactions. For reference only, the KCA Group generally requires its customers to settle the services fee by cash immediately upon completion of the transactions for previous engagements.

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 (including independent non-executive Directors) are

LETTER FROM THE BOARD

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:

	For the year ended 31 March 2010 HK\$'000	For the year ended 31 March 2011 HK\$'000	For the nine months ended 31 December 2011 HK\$'000
Services (including securities placement, underwriting or sub-underwriting, brokerage and margin financing and financial advisory services)	400	22,624	13,601 (<i>Note</i>)

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

Save for disclosed above, there was no additional transaction amounts paid and/or payable by the Company to the KCA Group up to the Latest Practicable Date.

Assessment on the proposed Annual Caps

— The expected increasing needs for the Services to support the Group's business expansion plans

The proposed annual caps have been determined by the Directors after assessment on the amount of financial services which may be required for the purposes of supporting the Group's business expansion plans in the coming future up to the financial year ending 31 March 2014, and the determination of the proposed annual caps have been made with reference to, among others, (a) anticipated business expansion of the Group and the possible funding needs for supporting its growth; (b) the possible enlargement of the Company's share capital base from the issue of Conversion Shares arisen from the CN Placing, which may and may not be approved by the Shareholders and successfully completed, and any possible issue of new shares as a result of future equity fund raising and/or payment of consideration in the form of new shares in any future acquisitions; (c) the market capitalization of the Company in line with the growth of the Group's

LETTER FROM THE BOARD

business; (d) the actual Services fees in the two years ended 31 March 2011 and nine months ended 31 December 2011 as set out above; and (e) 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.

The Group adopts a corporate strategy of investment and business expansion and continues to look for potential investment opportunities on an on-going basis with a view to enhancing the Group's asset portfolio, strengthening the foothold of the Group and maximizing Shareholders' benefit. The Directors believe that such corporate strategy will help broaden the asset base and revenue base of the Group and have a positive effect to the earnings of the Group in the near future. The Directors expect that the potentials and the contributions of the various existing and upcoming projects and the continuing organic growth of the Group's businesses will ultimately be reflected in the Company's market capitalization. In 2011, the Group entered into a number of new projects in expanding its core business of environmental protection and water treatment operation. The Group has also recently commenced investment in the mining sector as development of its nature resources operation. Furthermore, the Company has recently entered into agreements in relation to the acquisition of a company in the PRC engaged in sewage water treatment. As at the Latest Practicable Date, the Company has also identified a natural soda water related project in the PRC and is in negotiation with the counterparty, details of which are set out under the sub-heading "Business development and expansion" in the section headed "Reasons for the CN Placing and use of proceeds" above.

In line with the Group's business expansion plan, the Directors estimate that there will be a substantial number of corporate transactions in the future, and therefore, there will be an increasing level of financial advisory services required to make assessments on various projects in many respects including but not limited to financial analysis and corporate compliance. Correspondingly, to cope with the upcoming of potential investments which may materialize in future and the expansion of the existing business, the Directors consider that it is imperative for the Company to prepare itself with sufficient capital for the Group's overall development and the needs for fund raising activities may arise. Accordingly, the Directors expect the Services provided by the KCA Group will substantially increase in the coming years.

— An overview of historical Service fees and expectation on its growth

In determining the proposed Annual Caps, the Directors not only consider the factors above, but also make reference to, amongst others, the amount of historical Services fees paid and/or payable to the KCA Group and the historical market capitalization of the Company which may affect the possible size of any future equity fund raising that may involve placing or underwriting fee which forms a substantial part of the Services fee.

For the two years ended 31 March 2011 and nine months ended 31 December 2011, the aggregate amounts paid and/or payable for the Services provided by the KCA Group were approximately HK\$0.4 million, HK\$22.6 million and HK\$13.6 million, respectively (details of the relevant transactions are set out in the Company's announcements dated 24 July 2009, 28 April 2010, 16 September 2010, and 13 December 2011). The highest annual historical Services fee was approximately HK\$22.6 million and was incurred for the year ended 31 March 2011. During that

LETTER FROM THE BOARD

financial year, the Group had been actively looking for investment opportunities and proceeded with new projects ranging from (a) sewage treatment; (b) construction and operation of water supply projects; (c) exploration, processing and sale of natural soda water; to (d) nature resources mining. In order to support the Group to proceed with the Group's acquisitions and business expansion plans, the Company conducted two fund raising exercises which involved placing of new Shares and placing of convertible notes through KSL as placing agent to raise a total gross proceeds of approximately HK\$781 million. The placing commission for each of the fund raising was charged at an average market rate of 2.5% and amounted to approximately HK\$22.5 million which constituted most of the annual Services fee for that financial year ended 31 March 2011. In the coming years, the Group is also adopting a similar corporate strategy to boost its business and asset portfolios and it is estimated that there will be an increasing number of business expansion plans to take place. Likewise, the Directors consider that it is in the interest of the Company and its Shareholders as a whole to allow for a flexibility of the Group to raise funding as and when necessary for implementation of its growth plan.

For the past 12 months, the highest market capitalization of the Company stood at approximately HK\$6,000 million. In a hypothetical situation that the Company's market capitalization resumes to that level some time in future and that the Board exercised its rights under a general mandate to issue 20% of the outstanding shares at that market capitalization level, then the commission for a placing agent at an average market placing commission rate of 2.5% will amount to approximately HK\$30 million. **Shareholders and potential investors should note that the above hypothetical situation is an assumption for determining the proposed Annual Caps only. There is no assurance on the occurrence of the above situation. Neither the Company has any current plan or intention, nor it is contemplating or in negotiation to carry out such actions.**

As mentioned earlier in this circular, the Company may from time to time requires financial advisory services from KCA Group to provide profession advice on the Group's business plans, especially in the areas of making assessments on new potential projects and corporate compliance issues. Such advisory services also forms part of the Services fees and will likely be increasing in line with the number of potential projects. The Directors are convinced that with the determination of the Company's management on expanding the Group's businesses and strengthening its assets base in the coming years, more efforts have to be spent on looking for more projects and reviewing those potential ones.

— Proposed annual caps for the payment to the KCA Group

Having considered the factors above, 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 (including 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.

LETTER FROM THE BOARD

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 (as at the Latest Practicable Date, the Group is proceeding to the completion of the transaction as detailed in the Company's announcement dated 15 February 2012 and has identified one natural soda water related project in the PRC (please refer to the sub-heading "Business development and expansion" under the section headed "Reasons for the CN Placing and use of proceeds" above); and is proposing the CN Placing. Save for the above, the Group is not contemplating any 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 assure 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 ("**Kingston Financial**"). Mrs. Chu, a substantial shareholder in the Company, is interested in 6,772,269,895 shares of Kingston Financial, representing approximately 56.23% of the issued share capital of the same, and thus has controlling interests in Kingston Financial. Therefore, KCA Group is an associate of Mrs. Chu, a connected person 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.

Mrs. Chu has become a substantial shareholder of the Company since 9 October 2011. Since the date thereof, save for:

- (a) the Share Placing Agreement and the CN Placing Agreement in relation to the appointment of KSL as the placing agent on 13 December 2011;
- (b) the financial adviser mandate in relation to the appointment of the KCF as the financial adviser for the Share Placing and the CN Placing on 13 December 2011; and
- (c) the Master Agreement with KCA on 6 January 2012,

LETTER FROM THE BOARD

the Company and the KCA Group had not entered into any other written agreement regarding the provision of financial services which have been connected transactions.

Nevertheless, the Company and the parties to the Master Agreement had established other business and shareholding relationships in the past as set out below.

In respect of business relationship, KCF and KSL, being the associates of Mrs. Chu, had been appointed as the financial adviser and the placing agent in relation to placing of new shares (details set out in the Company's announcement dated 28 April 2010), placing of convertible notes (details set out in the Company's announcement dated 16 September 2010). Moreover, an associate of Mrs. Chu had provided a short-term financing to the Company in September 2010 and the Company had fully repaid it in October 2010.

In respect of shareholding relationship, according to the information of Disclosure of Interest on the Stock Exchange website, Mrs. Chu, through KSL, being her associate, held certain derivative interests entitled for 180,000,000 shares of the Company on 10 September 2010 and ceased such interest on 27 September 2010. The Company's knowledge on such derivative interest is solely based on the information of Disclosure of Interest on the Stock Exchange website. The Directors confirm that such derivative is not issued by the Group. Subsequently, from 9 October 2011 and up to the Latest Practicable Date, Mrs. Chu, through its wholly owned company, namely Rich Monitor Limited, held 1,033,300,000 Shares, and has become a substantial shareholder of the Company since then.

Save for disclosed above, to the best knowledge of the Directors, the Company has no other business and shareholding relationship with Mrs. Chu and her associates in the past two years since 1 January 2010.

Listing Rules Implication

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.

LETTER FROM THE BOARD

IV. 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.

As at the Latest Practicable Date, there were 150,550,000 outstanding options entitling the holders thereof to subscribe for up to an aggregate of 150,550,000 Shares, representing approximately 3.52% of the issued share capital of the Company as at the Latest Practicable Date. Save as disclosed above, the Company has no outstanding options, warrants or convertible securities to subscribe for any Shares.

EGM

A notice convening the EGM is set out on pages 50 to 53 of this circular. The EGM will be held for the purpose of considering and, if thought fit, approving, among other things, (i) the CN Placing Agreement (including the allotment and issue of the Conversion Shares), (ii) the Refreshment of Existing General Mandate, (iii) the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder.

The CN Placing is subject to, among other things, the passing of a ordinary resolution by the Shareholders approving the same at the EGM. Given the shareholding interests of Mrs. Chu in KSL and KCF, Mrs. Chu is considered to have material interest in the CN Placing. Accordingly, Mrs. Chu and her associates will abstain from voting at the EGM in respect of the transactions contemplated under the CN Placing and the Specific Mandate.

The Refreshment of Existing General Mandate is subject to, among other things, the approval by the Independent Shareholders at the EGM. Pursuant to Rule 13.36(4)(a) of the Listing Rules, any controlling shareholder and their associates, or where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolutions relating to the Refreshment of Existing General Mandate. As at the Latest Practicable Date, as the Company has no controlling shareholder, Directors (excluding independent non-executive Directors), namely Mr. Lam Cheung Shing, Richard, Mr. Zhu Yongjun and Mr. Wong Hin Shek, and their associates will abstain from voting in favour of the resolution to approve the Refreshment of Existing General Mandate at the EGM to the extent they hold Shares at the date of the EGM. Save that Mr. Lam Cheung Shing, Richard held 7,700,000 Shares, none of the Directors above held any Shares as at the Latest Practicable Date.

The Master Agreement is subject to, among other things, the approval by the Independent Shareholders 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).

The voting of the Shareholders and the Independent Shareholders at the EGM must be taken by way of poll.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the office of the Company's share registrar, Tricor

LETTER FROM THE BOARD

Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish.

Recommendation

The Board considers that the terms of CN Placing and the Master Agreement (including the Annual Caps) are on normal commercial terms and are fair and reasonable. The Board also considers that the entering into of the CN Placing Agreement, the proposed Refreshment of Existing General Mandate and the Master Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that the Shareholders and the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the CN Placing Agreement (including the allotment and issue of the Conversion Shares), the Refreshment of Existing General Mandate and the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder at the EGM.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 28 to 29 of this circular which contains the recommendation from the Independent Board Committee to the Independent Shareholders concerning the Refreshment of Existing General Mandate and the terms of the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder; and (ii) the letter from the Independent Financial Adviser set out on pages 30 to 45 of this circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Refreshment of Existing General Mandate and the terms of the Master Agreement and the Annual Caps and the principal factors considered by the Independent Financial Adviser in arriving at its recommendation.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



INTERCHINA HOLDINGS COMPANY LIMITED

國 中 控 股 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 202)

17 February 2012

*To the Independent Shareholders
in relation to the Refreshment of Existing
General Mandate and the Independent
Shareholders in relation to the
Master Agreement*

Dear Sir or Madam,

REFRESHMENT OF EXISTING GENERAL MANDATE AND CONTINUING CONNECTED TRANSACTIONS

We refer to this circular dated 17 February 2012 issued by the Company of which this letter forms part. Terms defined in this circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider (i) the Refreshment of Existing General Mandate; (ii) the terms of the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder to advise you as to whether, in our opinion, are fair and reasonable so far as the relevant Independent Shareholders are concerned.

We wish to draw your attention to (i) the letter from the Board; (ii) the letter from Huntington Asia Limited, the Independent Financial Adviser appointed; and (iii) the additional information set out in the appendix to this circular.

Having considered the opinion of Huntington Asia Limited and, in particular, the factors, reasons and recommendations as set out in the letter from Huntington Asia Limited on pages 30 to 45 of this circular, we consider that (i) the Refreshment of Existing General Mandate is fair and reasonable and in the interest of the Company and its Shareholders as a whole; (ii) the terms of the Master Agreement (including the Annual Caps) for the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the entering into of the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder is conducted in ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the relevant Independent

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Shareholders to vote in favour of the relevant resolutions which will be proposed at the EGM to approve the Refreshment of Existing General Mandate and the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee of

Interchina Holdings Company Limited

Ho Yiu Yue, Louis

Ko Ming Tung, Edward

Chi Chi Hung, Kenneth

Independent non-executive Directors

LETTER FROM HUNTINGTON ASIA LIMITED

Set out below is a full text of the letter of advice from the Independent Financial Adviser, Huntington Asia Limited to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Agreement, which has been prepared for the purpose of incorporation into this circular.



Room 1905, 19/F
COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

17 February 2012

The Independent Board Committee and the Independent Shareholders

Dear Sirs,

(1) REFRESHMENT OF THE GENERAL MANDATE; AND (2) CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the fairness and the reasonableness of (i) the Refreshment of the Existing General Mandate; and (ii) the terms of the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) as contained in the circular of the Company dated 17 February 2012 (the “**Circular**”), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As set out in the Letter from the Board, the Board announced on 13 December 2011, among other things, the Company entered into the Share Placing Agreement and CN Placing Agreement with KSL, the placing agent in relation to the Share Placing and CN Placing, pursuant to which (i) the Company has conditionally agreed to place a maximum of 712,000,000 Placing Shares through KSL, on the best effort basis, to not less than six placees; and (ii) the Company has conditionally agreed to place Convertible Notes of up to a principle amount of HK\$294,500,000 through KSL. Upon completion of the Share Placing on 30 December 2011, the Existing General Mandate has been substantially utilized. In order to provide flexible means for the Company to raise funds for its future business development and/or through the issue of new Shares, the Board proposes to refresh the Existing General Mandate and grant of the Issue Mandate.

As the Issue Mandate is put forward to the Shareholders prior to the Company's next annual general meeting, it will be subject to the approval from the Independent Shareholders at the EGM pursuant to Rule 13.36(4) of the Listing Rules. As at the Latest Practicable Date, the Company has no controlling Shareholder. The Executive Directors, namely Mr. Lam Cheung Shing, Richard, Mr. Zhu Yongjun and Mr. Wong Hin Shek, will abstain from voting in favour of the resolution to approve the granting of the Issue Mandate and have no intention to vote against the resolution to approve the

LETTER FROM HUNTINGTON ASIA LIMITED

granting of the Issue Mandate at the EGM pursuant to Rule 13.36(4)(a) of the Listing Rules. Save for Mr. Lam Cheung Shing, Richard who held 7,700,000 Shares, none of the Directors held any Shares as at the Latest Practicable Date.

On 6 January 2012, the Company has entered into the Master Agreement with KCA to provide financial services to the Group for a fixed term commencing from the date of the Master Agreement up to 31 March 2014 (both days inclusive).

As at the date of the Master Agreement, KCA is a direct wholly-owned subsidiary of Kingston Financial Group Limited (“**Kingston Financial**”). Mrs. Chu, a substantial shareholder of the Company, is interested in 6,772,269,895 shares of Kingston Financial, representing approximately 56.23% of the issued share capital of the same, and thus has controlling interests, in Kingston Financial Group Limited. Therefore, KCA Group is an associate of Mrs. Chu, a connected person of the Company. Accordingly, the transactions contemplated under the Master Agreement (including the Annual Caps), which were entered into between the Company and the associate of its connected persons, constitute continuing connected transactions of the Company under the Listing Rules. Pursuant to Rule 14A.52 of the Listing Rules, Mrs. Chu and her associates will abstain from voting on the relevant resolution in relation to the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder, and none of the Directors have a material interest in the transaction and are not required to abstain from voting at the EGM.

As 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 transaction 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.

The Independent Board Committee, comprising Mr. Ho Yiu Yue, Louis, Mr. Ko Ming Tung, Edward and Mr. Chi Chi Hung, Kenneth, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the refreshment of the Existing General Mandate and the terms of Master Agreement (including the Annual Caps) and the transactions contemplated thereunder are on normal commercial terms, whether they are fair and reasonable so far as the Independent Shareholders are concerned and whether they are in the interests of the Company and the Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and facts supplied and the opinions expressed by the Directors and management of the Company. We have assumed that the information and representations contained or referred to in the Circular were true and accurate at all time they were prepared or made and will continue to be so up to the date of the EGM. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and were made based on honestly held opinion.

We have no reason to believe that any information and representation relied on by us in forming the opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us as untrue, inaccurate or

LETTER FROM HUNTINGTON ASIA LIMITED

misleading. We have not, however, conducted any independent investigation into the business position or future prospects of the Group, nor have carried out any independent verification of the information provided by the Directors and management of the Company.

PRINCIPAL FACTORS CONSIDERED

In arriving at our recommendation to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

I. Refreshment of the General Mandate

Background of and reasons for the refreshment of the Existing General Mandate

At the annual general meeting of the Company held on 12 August 2011, the Shareholders approved, among other things, an ordinary resolution to grant to the Directors the Existing General Mandate to allot up to 712,533,872 Shares. As at the Latest Practicable Date, 712,000,000 Placing Shares, representing approximately 99.93% of the number of new Shares which are allowed to be allotted, issued and dealt with under the Existing General Mandate, were issued under the Existing General Mandate as a result of the Share Placing Agreement dated 13 December 2011, details of the completion of Share Placing are set out in the announcement of the Company dated 30 December 2011. There has not been any refreshment of the Existing General Mandate since the annual general meeting of the Company held on 12 August 2011.

The Board proposes to grant the Issue Mandate for the Directors to allot, issue and otherwise deal with the new Shares with an aggregate nominal amount of not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing the relevant resolution(s) at the EGM. The Issue Mandate is proposed to the Shareholders prior to the Company's next annual general meeting, and therefore, under the Listing Rules, the Issue Mandate will be subject to the Independent Shareholders' approval by way of poll at the EGM.

As at the Latest Practicable Date, a total of 4,274,669,363 Shares were in issue. Subject to the passing of the proposed resolution for granting the Issue Mandate to the Directors and on the basis that no Shares will be issued or repurchased by the Company prior to the EGM, the Company will be allowed under the Issue Mandate to issue a maximum of 854,933,872 Shares.

The Directors consider that the Refreshment of the Existing General Mandate would provide flexibility to the Company for raising funds for its future business development and/or any investment opportunity to be identified by the Company.

Capital requirement of the Company

According to the China Water Industry Analysis Report (2nd Quarter 2011) (“中國供排水行業分析報告(2011年2季度)”) conducted by China Economic Information Network (<http://www.cei.gov.cn>), the State Information Centre of the PRC issued in August 2011, the sewage water treatment industry has been increasing rapidly due to the industrialisation and

LETTER FROM HUNTINGTON ASIA LIMITED

urbanization of the cities in the PRC. According to the National Bureau of Statistics of China, the total fixed investment in the water industry in the PRC has increased to approximately RMB34.1 billion in 2011, representing an increase of approximately 16.3% from 2010.

The expansion in the water industry is anticipated to be significant and as further mentioned in the opinion on Major Science and Technology Program for Water Pollution Control and Treatment (“關於水體污染控制與治理科技重大專項十二五實施計劃和2011年度計劃綜合平衡的意見”) issued by the National Development and Reform Commission, the Ministry of Science and Technology and the Ministry of Finance of the PRC on 17 May 2011, the modernization of the technology, the equipment, the investment, the maintenance and the control of the sewage water treatment industry has become the core policies to be implemented under the “Twelfth-Five Year Plan”.

Also, we have obtained and reviewed the list of projects under construction from the Company, and were advised by the Company that the current status of the Company’s projects under construction are as follows:

**Project under construction
(as at 30 September 2011)**

Status

- | | |
|---------------------------------------|---|
| 1. Hanzhong Shimen Water Supply Plant | Expected to be completed by mid of 2012 |
| 2. Xiangtan Water Supply Plant | Expected to be completed by end of 2012 |
| 3. Hekou Wastewater Treatment Plant | Expected to be completed by end of 2012 |

We had been further advised by the Company that the above projects under construction are considered at an initial stage and is anticipated to incur substantial funding need. Having considered the above, among others, (i) our understanding of the water industry; and (ii) our discussion with the Company, we consider that there will be increasing development opportunities for the Company to expand its foothold in the water supply and treatment industry which is anticipated to have more development prospects, and the then funding requirement of the Company will correspondingly increase.

Status of proceeds from Disposal and Share Placing

The Group has recently undergone (i) the completion of disposal of a subsidiary, details of which are set out in the Company’s announcements dated 26 August 2011 and 28 October 2011 (“**Disposal**”); and (ii) the completion of the Share Placing, details of which are set out in the Company’s announcements dated 13 and 30 December 2011.

LETTER FROM HUNTINGTON ASIA LIMITED

According to the Company's announcements and our discussion with the Company in respect of the Disposal, net proceeds of HK\$184.4 million has been fully utilized per below:

Actual use of proceeds	HK\$ in million	% to Net Proceeds
To finance sewage treatment project of Shandong Hekou Lanse Economic Development Zone in the PRC	82.1	44.5%
To apply water supply plant project of the Xiangtan Jiuhua Demonstration Zone	81.6	44.3%
General working capital	20.7	11.2%
Total	184.4	100.0%

According to the Company's announcements and our discussion with the Company in respect of the Share Placing, net proceeds of HK\$214.8 million has been fully utilized per below:

Actual use of proceeds	HK\$ in million	% to Net Proceeds
To settle the acquisition of Universe Glory Limited (“UGL”) in relation to the development of natural resources operation	127.3	59.3%
Capital expenditure for UGL	7.6	3.5%
To pay the repayment of bank borrowings	52.0	24.2%
To use for general working capital of the Group	17.6	8.2%
To reserve for general working capital of the Group	10.3	4.8%
Total	214.8	100.0%

According to the section headed “Reasons for the CN Placing and use of proceeds” in the Letter of the Board, the Board intends to apply the net proceeds obtained from the CN Placing (i) as to HK\$143.3 million for general working capital (of which approximately HK\$130.0 million will be applied for repayment of the Group's borrowings and approximately HK\$13.3 million will be reserved for other general working capital purpose, such as payment of staff costs, administrative costs, accounts payables incurred from business operation, and other business operation costs, etc.; and (ii) as to HK\$143.3 million for potential investment in new projects in relation to environmental protection and water treatment operation.

Save as disclosed above, the Company has not conducted any equity fund raising activities during the past twelve months prior to the Latest Practicable Date.

LETTER FROM HUNTINGTON ASIA LIMITED

Flexibility in financing

We also noted from the 2011 interim report of the Company that, as at 30 September 2011, the Company had an aggregate of bank and other borrowings of approximately HK\$2,107 million, in which approximately HK\$1,677 million would become due within one year and approximately HK\$430 million was of non-current nature. Out of the debts, approximately HK\$1,710 million were secured by intangible assets, other financial assets, and investment properties of the Company in the PRC and Hong Kong, and the Company's 53.77% interest in shares of Heilongjiang Interchina Water Treatment Co., Ltd., an indirectly owned subsidiary of the Company which its shares are listed on the Shanghai Stock Exchange (“**Heilongjiang Interchina**”).

In view of the borrowings, the Group recorded a soaring finance cost of approximately HK\$83.0 million as at 30 September 2011, representing about a 1.5-times increase from HK\$33.3 million in the previous financial year. The Board has been taking actions to reduce the Group's debt position in order to lower the interest expenses. As at 31 January 2012, the Company has repaid debts of approximately HK\$231.0 million since 1 October 2011, in which, approximately HK\$52.0 million from the proceeds of the Share Placing and approximately HK\$179.0 million from the internal resources of the Group.

As at 31 January 2012, the Group had an unaudited cash and balance of approximately HK\$454.6 million and an outstanding bank and other borrowings of approximately HK\$1,876 million.

According to the Letter from the Board, the Group will look for investment opportunities on an on-going basis. As disclosed in the Company's announcement dated 15 February 2012, Heilongjiang Interchina entered into a sale and purchase agreement in relation to the acquisition of an aggregate of 10% equity interest in a company established in the PRC (the “**Target Company**”) and an option agreement for the acquisition of a further aggregate of 90% equity interest in the Target Company at an aggregate consideration of approximately HK\$80.2 million. In the event the said option is exercised, the aggregate exercise price would amount to approximately HK\$611.1 million. (the “**Acquisition**”) The Target Company is principally engaged in the development of the treatment technology and technique and the production of equipment/construction of facility for sewage water treatment purpose. Details of the transactions are set out in the Company's announcement dated 15 February 2012.

As at the Latest Practicable Date, the Group has identified a new project in the PRC related to exploration, processing/production and sale of natural soda water. The Company is in negotiation stage with the counterparty whereas no definitive agreements nor terms have been entered into as at the Latest Practicable Date. According to the Letter of the Board, the Directors preliminarily estimate that the Group's investment size for this project, if realized, would reach above HK\$60 million. The Directors consider that the above projects, will be beneficial for the Group to become a leading domestic water business enterprise and therefore intend to use 50% of the proceeds from the CN Placing for the preparation of the above projects, if realized, and any possible investment opportunities. As at the Latest Practicable Date, save for the projects aforementioned, no other specific investment opportunities have been identified by the Group.

LETTER FROM HUNTINGTON ASIA LIMITED

Based on the above, we consider it is prudent and reasonable for the Board to have financial flexibility to raise fund by equity financing and utilize the Issue Mandate for the acquisition of potential business and/or investment opportunities in the future.

Other financing alternatives

As advised by the Directors, the Company considered other financing alternatives to raise funds such as bank borrowings, debt financing, and pro-rata equity financing such as open offer and rights issue to meet its financing requirements arising from the future development of the Company. However, the Directors are of the view that the ability of the Company to obtain bank borrowings usually depends on the Company's profitability, financial position and the then prevailing economic and market conditions. Furthermore, such alternative may be subject to lengthy due diligence and negotiations with the banks, which will be very costly and time consuming. Also, the Directors also consider that debt financing will usually incur interest burden on the Company and will incur further time cost and unduly financial stress to the Company, as compared to equity financing, such as placing of new Shares, for the Company to obtain additional funding. The Company has confirmed that they would exercise due and careful consideration when choosing the best financing method available to the Company.

The Company represented that the issue of new Shares under the Issue Mandate is more effective, (a) in terms of both cost and time when compared to other fund-raising alternatives such as open offer and rights issue that requires the presence of an underwriter, which would be more difficult to procure under the prevailing uncertain market conditions; and (b) more cost effective when compared to debt financing that would further increase the Group's debt position and gives rise to additional costs and financial burden in terms of interest expense and observance of covenants.

We have reviewed and compared the timing required for transactions completion between placing of new shares, open offer and rights issue and noted that from recent transactions that completion of open offer and rights issue generally take place a month more than completion of a placing. We are of the view that other fund-raising alternatives such as open offer and rights issue may not be practicable as the time required for such exercise is relatively long and the Company may have difficulty in securing an underwriter for such an issue under the uncertain condition in the securities market in Hong Kong.

Based on the above, we concur with the Directors' view that the proposal of the grant of Issue Mandate which will provide flexibility to the Company in working capital management and capture potential investment opportunities is in the interest of the Company and the Shareholders as a whole.

LETTER FROM HUNTINGTON ASIA LIMITED

Potential dilution to the shareholding of the public Shareholders

The table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon completion of full conversion of the Convertible Notes; (iii) upon completion of full conversion of the Convertible Notes and full exercise of the outstanding options; and (iv) upon full utilization of the Issue Mandate (assuming no Shares are issued or repurchased by the Company prior to the EGM);

Shareholders	Shareholding structure as at the Latest Practicable Date		Upon completion of full conversion of the Convertible Notes		Upon completion of full conversion of the Convertible Notes and full exercise of the outstanding options		Shareholding structure upon full utilization of the Issue Mandate (subject to the passing of the proposed resolution for the refreshment of Existing General Mandate and assuming no Shares are issued or repurchased by the Company prior to the EGM)	
	Number of Shares	%	Number of Shares	Approx. %	Number of Shares	Approx. %	Number of Shares	%
Mr. Lam Cheung Shing, Richard	7,700,000	0.18	7,700,000	0.15	49,900,000	0.93	7,700,000	0.15
Mr. Zhu Yongjun (Note 1)	—	—	—	—	47,200,000	0.88	—	—
Mr. Ho Yiu Yue, Louis (Note 2)	—	—	—	—	3,500,000	0.07	—	—
Rich Monitor Limited (Note 3)	1,033,300,000	24.17	1,033,300,000	19.78	1,033,300,000	19.22	1,033,300,000	20.14
Public Shareholders								
Noteholders	—	—	950,000,000	18.18	950,000,000	17.67	—	—
Other Public Shareholders	3,233,669,363	75.65	3,233,669,363	61.89	3,291,319,363	61.23	3,233,669,363	63.04
Shares to be issued under the Issue Mandate	—	—	—	—	—	—	854,933,872	16.67
	<u>4,274,669,363</u>	<u>100.00</u>	<u>5,224,669,363</u>	<u>100.00</u>	<u>5,375,219,363</u>	<u>100.00</u>	<u>5,129,603,235</u>	<u>100.00</u>

Notes:

1. An executive Director and deputy chairman of the Company.
2. An independent non-executive Director.
3. Rich Monitor Limited is wholly owned by Mrs. Chu.
4. The percentages are subject to rounding up.

As illustrated in the table above, assuming no Shares are issued or repurchased by the Company during the period between the Latest Practicable Date and the date of the EGM, the shareholding of existing public Shareholders will decrease from approximately 75.65% as at the Latest Practicable Date to approximately 63.04% of the then issued enlarged share capital of the Company issued under the Issue Mandate. Such potential dilution to the shareholding of the public Shareholders represents a dilution of approximately 12.61%.

LETTER FROM HUNTINGTON ASIA LIMITED

Taken into the consideration that (i) the Refreshment of the General Mandate will provide financial flexibility to the Company; and (ii) the shareholding of all existing public Shareholders will be diluted proportionately to their respective shareholdings upon utilization of Issue Mandate, we consider that the potential dilution effect to the shareholdings of the Independent Shareholders upon utilization of the Issue Mandate to be acceptable.

Taken into consideration that (i) capital requirement of the Company; (ii) the proceeds from the completion of Disposal and Share Placing has been substantially utilized; (iii) the need of the Company to repay its bank and other borrowings; (iv) the possible capital requirements under the Group's strategy of investment and business expansion; (iv) the CN Placing may or may not be approved by the Shareholders and, if so approved, may or may not be successfully completed, coupled with the time and costs required by other financing alternatives to raise funds such as bank borrowings, debt financing, and other fund-raising alternatives such as open offer and rights issue, we are of the view that the Refreshment of Existing General Mandate is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

II. Continuing Connected Transactions

(a) *Master Agreement*

Background of the Master Agreement

On 6 January 2012, the Company has entered into the Master Agreement with KCA Group that the Company may engage the KCA Group to provide financial services including securities placement, underwriting or sub-underwriting, brokerage, margin financing and financial advisory services and the transactions contemplated under the Master Agreement commencing from the date of the Master Agreement up to 31 March 2014 (both days inclusive), of which the proposed 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.

Principal terms of the Master Agreement

Date : 6 January 2012

Parties : (i) the Company
(ii) KCA

KCA is an investment holding company directly and wholly-owned by Kingston Financial Group Limited, a company listed on the main board of the Stock Exchange. The KCA Group is one of the well-established securities brokerage and financial advisory houses in Hong Kong providing a wide range of financial services which include: (i) securities underwriting and placements; (ii) margin and IPO financing; (iii) securities brokerage; (iv) corporate finance advisory services; (v) futures brokerage; and (vi) asset management services.

LETTER FROM HUNTINGTON ASIA LIMITED
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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 ("**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 each of the three months ending 31 March 2012 and for each of the two years ending 31 March 2014 shall not exceed the following:

	For the three months ending 31 March 2012 HK\$'000	For the financial year ending 31 March 2013 HK\$'000	For the financial year ending 31 March 2014 HK\$'000
Services (including securities placement, underwriting or sub-underwriting, brokerage and margin financing and financial advisory services)	28,000	30,000	30,000

LETTER FROM HUNTINGTON ASIA LIMITED

Terms : the fees for each transaction shall be determined with reference to the prevailing market rate of the relevant type of Services to be provided to the Group and 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, such as the time and means of payment, will be specified in individual contracts governing particular transactions. For reference only, the Company is generally required to settle the services fee by cash immediately upon completion of the transactions for previous engagements.

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.

For our due diligence purpose, we have reviewed all of the Group's mandate letters entered with KCA Group and the Independent Third Party regarding their engagement of providing financial services to the Company for the two financial years ended 31 March 2011 and nine months ended 31 December 2011. We noted that the mandates under review indicated that similar terms and clauses were offered to and from the KCA Group and the Independent Third Party.

Reasons for the Master Agreement

According to the Letter from the Board, the Directors consider that it is 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. As at the Latest Practicable Date, the Group is proceeding to the completion of the Acquisition and has identified a new natural soda water related project in the PRC as described in the sub-section headed "Flexibility in financing" under the section headed "Refreshment of the General Mandate" above and is proposing the CN Placing. Save as aforesaid, the Group is not contemplating any 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

LETTER FROM HUNTINGTON ASIA LIMITED

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 assure 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.

Pursuant to the terms of Master Agreement, the Directors consider that the terms of the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder are made on arm's length basis, in the benefits of the Group and on normal commercial terms, which are no less favourable than terms available to the Independent Third Parties. The Directors (including 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. In view of the abovementioned reasons, we concur with the Director's view that it is the best interest of the Group and the Independent Shareholders to enter the Master Agreement.

(b) Annual Caps

As stated in the Letter from the Board, the Directors after assessment on the amount of financial services which may be required for the purposes of supporting the Group's business expansion plans in the period from now up to the financial year ending 31 March 2014, and the determining of the proposed Annual Caps have been made with reference to, among others, (a) the anticipated business expansion of the Company and the possible funding needs for supporting its growth; and (b) the possible enlargement of the Company's share capital base from the issue of Conversion Shares arisen from the CN Placing, which may or may not be approved by the Shareholders and successfully completed, and any possible issue of new shares as a result of future equity fund raising and/or payment of consideration in the form of new shares in any future acquisitions; (c) the market capitalization of the Company in line with the growth of the Group's business; (d) the actual Services fees in the two years ended 31 March 2011 and nine months ended 31 December 2011; and (e) 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. In coming up with the final proposed annual caps, the Directors not only consider the factors above, but also refer to the amount of historical Services fees paid and/or payable to the KCA Group as well as the historical market capitalization of the Company. Therefore, the Directors proposed the Annual Caps for the three months ending 31 March 2012 and each of the two years ending 31 March 2013 and 2014 to be approximately HK\$28 million, HK\$30 million and HK\$30 million respectively.

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In assessing the fairness and reasonableness of the proposed Annual Caps, we have (i) reviewed and were informed that the terms of engagement with KCA Group are in line with the Independent Third Party; (ii) noted the amounts of commission paid by the Group to KCA Group in relation to the placing exercises for the two years ended 31 March 2011 and nine months ended 31 December 2011 were 2.5% which is in line with the average market rate; (iii) reviewed and discussed with the Company regarding the assumptions and bases adopted for the determination of the proposed Annual Caps.

(i) Historical Financial Services fees paid

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 for the transactions were approximately:

Services (including securities placement, underwriting or sub-underwriting, brokerage and margin financing and financial advisory services)	For the year ended 31 March		For the nine months ended 31 December
	2010	2011	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Paid and/payable to KCA Group	400	22,624 ³	13,601 ¹
Paid to other financial adviser ²	—	1,500	—

Note:

1. Out of which includes approximately HK\$8 million falling to be payable upon completion of CN Placing.
2. Other financial adviser is an Independent Third Party.
3. Resulting from the placing commission for each of the fund raising was charged at an average market rate of 2.5% and amounted to approximately HK\$22.6 million which constituted most of the annual Services fee paid to KCA Group for the financial year ended 31 March 2011 as per the Company's announcements dated 28 April 2010 and 16 September 2010.

The Group has, from time to time, engaged the KCA Group to provide Services to the Group. Save for the abovementioned, there was no additional transaction amounts paid and/or payable by the Company to the KCA Group up to the Latest Practicable Date.

LETTER FROM HUNTINGTON ASIA LIMITED

(ii) Basis of the proposed Annual Cap

We have enquired the Company for the basis of determination of the proposed Annual Caps and understand that the Group has adopted a corporate strategy of investment and expansion and continues to look for potential investment opportunities on an on-going basis with a view to enhancing the Group's asset portfolio and strengthening the foothold of the Group in the industry in order to maximizing Shareholders' benefit. The Directors believe such corporate strategy will help broaden the asset base and revenue base of the Group and have a positive effect to the Group's value. It is expected that the contributions from the investments in various projects and the organic growth of the Group's businesses will be reflected in the Company's market capitalization in long run. The Group has always been looking for investment opportunities of which the Directors consider appropriate on an on-going basis. For the past year, the Group has entered into a number of new projects in expanding its core business of environmental protection and water treatment operation. The Group has also recently commenced investment in the mining sector as development of its nature resources operation. Furthermore, as at the Latest Practicable Date, the Company is proceeding to the completion of the Acquisition and has identified a new natural soda water related project in the PRC, details of which are set out in the sub-section headed "Flexibility in financing" under section "Refreshment of the General Mandate" above.

In line with the Group's business expansion, the Directors estimate that there may be a substantial number of corporate transactions in the near future, and therefore, it is anticipated that there will be an increasing level of financial advisory services required to make assessments on various projects in many respects including but not limited to corporate compliance. Correspondingly, with the upcoming of potential investments which may become materialized in future, the Directors consider that it is imperative for the Company to prepare itself with sufficient capital for the Group's overall development and the needs of fund raising activities may arise. Accordingly, the Directors expect the Services provided by the KCA Group will increase in the coming years.

For the past 12 months and up to 31 January 2012, the highest market capitalization of the Company stood at approximately HK\$6,000 million. In a hypothetical situation where the Company's market capitalization may resume to such level and that the Board exercised its rights under a general mandate to issue 20% of the outstanding shares at that market capitalization level, the then commission for a placing agent at an average market placing commission rate of 2.5% will amount to approximately HK\$30.0 million. Shareholders and potential investors should note that the above hypothetical situation is an assumption for determining the proposed Annual Caps only. There is no assurance on the occurrence of the above situation. Neither the Company has any current plan or intention, nor it is contemplating or in negotiation to carry out such actions.

LETTER FROM HUNTINGTON ASIA LIMITED

(iii) The recovery of the securities market in Hong Kong

According to the available information published by the Securities and Futures Commission (“SFC”) on its website, we noted that (i) the average daily turnover of Hong Kong securities market has increased from approximately HK\$62,319 million in 2009 to approximately HK\$72,419 million in the third quarter of 2011, representing an increase of approximately 16.47%; (ii) there were 73 and 113 companies newly listed on the Stock Exchange and with capital newly raised on the Stock Exchange of approximately HK\$248.2 billion and approximately HK\$449.5 billion for each of 2009 and 2010 respectively, representing a substantial increase of approximately 81.1%; and (iii) approximately HK\$393.9 billion and approximately HK\$409.2 billion of capital raised through the secondary fund-raising markets on the Stock Exchange for each of 2009 and 2010 respectively, representing an increase of approximately 3.9% during the same period. We have observed that since the global economy crisis in the second half of 2008, the securities market in Hong Kong has been steady recovering which this can be reflected from the average daily turnover and both primary and secondary fund raising activities on the Stock Exchange. Given also the recent economy and market sentiment which have been recovered as compared to the period of global financial crisis in 2008 and our discussion with the Directors, the Directors are optimistic about the economy in Hong Kong and the future business development of the Company in the short to medium run and Services required from the KCA Group may increase in the next three years.

Having considered the aforementioned basis, coupled with (i) the Group’s corporate strategy of possible business expansion and future investment opportunities in particular the Acquisition and the identified new natural soda water related project in the PRC, which the Directors preliminary estimate that the Group’s investment size for this project, if realized, would reach above HK\$60 million; (ii) the prevailing securities market conditions in Hong Kong; and (iii) calculations and consistency of the basis of the proposed Annual Cap for the three months ended 31 March 2012 and the two years ended 31 March 2013 and 2014 to be an expected reflection of the Company’s value on its market capitalization in the future, we are of the view that the proposed Annual Caps for the aggregate payment to the KCA Group under the Master Agreement of 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, are therefore fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Shareholders should note that as the proposed Annual Caps are relating to future events and are estimated based on assumptions which may or may not remain valid for the entire period up to 31 March 2014, therefore they do not represent forecasts of revenue to be generated from the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder. Consequently, we express no opinion as to how closely the actual revenue to be generated and/or actual cost to be spent under the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder which will correspond with the Annual Cap.

LETTER FROM HUNTINGTON ASIA LIMITED

The continuing connected transactions are also subject to the Company's auditors annual review on, inter alia (i) if the relevant transactions have been approved by the Directors; (ii) if they are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Company; and (iii) if transactions have been entered into in accordance with the relevant agreements governing the transactions; and (iv) have not exceeded the cap disclosed. Given the above, we consider that there are existed appropriate procedures and arrangements to ensure that the continuing connected transactions will be conducted on terms of relevant agreements and in compliance with the Listing Rules.

RECOMMENDATION

Refreshment of the General Mandate

Having considered the above principal factors and reasons, we are of the opinion that the grant of Issue Mandate is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Continuing Connecting Transaction

Having considered the above principal factors and reasons, we are of the opinion that (i) the terms of the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Master Agreement (including the Annual Caps) and the transactions contemplated thereunder is conducted in ordinarily and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholder to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Refreshment of Existing General Mandate, the Continuing Connected Transactions and Annual Caps, we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
Huntington Asia Limited
Helen Zee
Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in the Listing Rules:

Long positions in the Shares

Name of Director	Number of shares and underlying shares held, capacity and nature of interest			Approximate percentage of the issued share capital of the Company
	Beneficial owner	Equity derivatives (Note 1)	Total interest	
Lam Cheung Shing, Richard	7,700,000	42,200,000	49,900,000	1.17%
Zhu Yongjun	—	47,200,000	47,200,000	1.10%
Ho Yiu Yue, Louis	—	3,500,000	3,500,000	0.08%

Note:

- (1) These represent the interests in share options granted to the Directors as beneficial owner under a share option scheme of the Company adopted on 2 September 2002.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of SFO, and so far as is known to any Director or chief executive or the Company, the following persons had, or were deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholders	Number of shares of the Company		No. of underlying shares of the Company	Total	Approximate percentage of shareholding
	Personal Interests	Corporate Interests			
Rich Monitor Limited (Note)	—	1,033,300,000	—	1,033,300,000	24.17%

Note: Rich Monitor Limited is wholly owned by Mrs. Chu. Mrs. Chu, is deemed to be interest in these 1,033,300,000 Shares.

Save as disclosed in this section (b), the Directors and chief executive of the Company are not aware of any person who has an interest or short position in the Shares, or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 Part XV of the SFO.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered, or proposed to enter, into a service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation, other than statutory compensation.

4. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

5. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any member of the Group.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm there is no material adverse change in the financial and trading position of the Company since 31 March 2011, being the date to which the latest published audited financial statements of the Company were made up.

7. MISCELLANEOUS

- (1) So far as is known to the Directors, as at the Latest Practicable Date, there was (i) no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder, whereby he/she/it has or may have temporarily or permanently passed control over the exercise of the voting rights in respect of his/her/its Shares to a third party, either generally or on a case-by-case basis.
- (2) So far as is known to the Directors, as at the Latest Practicable Date, there was no discrepancy between any Shareholder's beneficial shareholding interest in the Company as disclosed in this circular and the number of Shares in respect of which it will control or will be entitled to exercise control over the voting rights at the EGM.
- (3) As at the Latest Practicable Date, there was no contract or arrangement subsisting as at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the business of the Group.
- (4) As at the Latest Practicable Date, none of the Directors had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to, or which are proposed to be acquired, disposed of or leased to, the Company or any of its subsidiaries since 31 March 2011, the date to which the latest published audited accounts of the Group were made up.

8. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the professional adviser who has given its opinion or advice or report which is contained in this circular:

Name	Qualification
Huntington Asia Limited	a licensed corporation to conduct type 6 (advising on corporate finance) regulated activity under the SFO

Huntington Asia Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Huntington Asia Limited was not interested in any Share or share in any member of the Group nor did it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Share or share in any member of the Group.

9. GENERAL

- (a) The qualified accountant and secretary of the Company is Mr. LAU Chi Lok, who is a fellow member of the Australian Society of Certified Practising Accountants and a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The Company's branch share registrars and transfer office in Hong Kong is Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (c) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Room 701, 7/F, Aon China Building, 29 Queen's Road, Central, Hong Kong during normal business hours between the period from the date of this circular up to and including the date of the EGM:

- (a) the Master Agreement;
- (b) the letter from the Independent Board Committee, the text of which is set out on pages 28 to 29 of this circular;
- (c) the letter from Huntington Asia Limited, the text of which is set out on pages 30 to 45 of this circular; and
- (d) the consent letter of Huntington Asia Limited referred to in the section headed "QUALIFICATION AND CONSENT OF EXPERT" in this appendix.

NOTICE OF EGM



INTERCHINA HOLDINGS COMPANY LIMITED

國 中 控 股 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 202)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the shareholders (the “**EGM**”) of Interchina Holdings Company Limited (the “**Company**”) will be held at 3/F., Nexxus Building, 77 Des Voeux Road Central, Hong Kong on Tuesday, 6 March 2012 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTION

1. “**THAT**

- (a) the placing agreement dated 13 December 2011 (the “**CN Placing Agreement**”) entered into between the Company as issuer and Kingston Securities Limited as placing agent in relation to the convertible notes in a maximum aggregate principal amount of HK\$294,500,000 (the “**Convertible Notes**”) (a copy of which marked “**A**” has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification) and all transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) conditional upon, among others, the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, such number of new Shares (as hereinafter defined) upon conversion of all or any part of the Convertible Notes in accordance to the terms and conditions attaching thereto (the “**Conversion Shares**”), the issue and allotment of the Conversion Shares, pursuant to and subject to the exercise of the conversion rights attached to the Convertible Notes in CN Placing Agreement, be and are hereby approved; and
- (c) the directors of the Company (the “**Directors**”) be and are hereby authorised to exercise all the powers of the Company and take all steps as might in his opinion be desirable, necessary or expedient in connection with the implementation of the transactions contemplated under the CN Placing Agreement as well as in relation to the issue and allotment of the Conversion Shares, including, without limitation to, the execution, amendment, supplement, delivery, submission and implementation of any further documents or agreements.”

NOTICE OF EGM

2. **“THAT:**

- (a) the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and otherwise deal with the shares in the capital of the Company (the “Shares”) and to make or grant offers, agreements and options, as approved by the shareholders of the Company at the annual general meeting held on 12 August 2011, to the extent not already exercised be and is hereby revoked (but without prejudice to any valid exercise of such general mandate prior to the passing of this resolution);
- (b) subject to paragraph (d) of this Resolution below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional Shares, and to make or grant offers, agreements and options which would or might require the exercise of such powers, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (c) the approval in paragraph (b) of this Resolution above shall be in addition to any other authorisations given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (d) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (b) of this Resolution above, otherwise than pursuant to:
 - (i) a Rights Issue (as hereinafter defined);
 - (ii) the exercise of rights subscription or conversion under terms of any warrants issued by the Company or any securities which are convertible into Shares;
 - (iii) the exercise of any option under the share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares; and
 - (iv) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on the Shares in accordance with the articles of association of the Company in force from time to time,

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this resolution; and

NOTICE OF EGM

(e) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the articles of association of the Company to be held; or
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means the allotment, issue or grant of Shares pursuant to an offer of Shares open for a period fixed by the Directors to holders of Shares or any class thereof on the register of members on a fixed record date in proportion to their then holdings of such Shares or class thereof (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or stock exchange in any territory outside Hong Kong).”

3. **“THAT:**

- (a) the agreement dated 6 January 2012 (“**Master Agreement**”) between the Company and Kingston Capital Asia Limited (a copy of which marked “**B**” is produced to the meeting and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) the cap amounts in relation to the transactions contemplated under the Master Agreement for the three months ending 31 March 2012 and two financial years ending 31 March 2014 respectively and are hereby approved; and
- (c) the Directors be and are hereby authorised to do all such further acts and things and sign, seal, execute and deliver all such documents and take all such actions which in their absolute discretion consider necessary, desirable or expedient to implement and/or give full effect to the Master Agreement and the transactions contemplated thereunder and the cap amounts referred to in (b) of this Resolution above.”

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

Hong Kong, 17 February 2012

NOTICE OF EGM

Registered office:

Room 701, 7/F
Aon China Building
29 Queen's Road Central
Hong Kong

Notes:

1. A shareholder entitled to attend and vote at the above meeting may appoint one or more than one proxy to attend and to vote in his stead. A proxy need not be a shareholder of the Company.
2. Where there are joint registered holders of any share of the Company (the "**Share**"), any one such persons may vote at the meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company's share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting.
4. As at the date of this notice, 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.