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## **INTERCHINA HOLDINGS COMPANY LIMITED**

**國 中 控 股 有 限 公 司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 202)**

### **VERY SUBSTANTIAL DISPOSAL IN RELATION TO DEEMED DISPOSAL OF SUBSIDIARY AND RESUMPTION OF TRADING**

Reference is made to the announcement of the Company dated 25 June 2012.

On 21 June 2012, the board of directors of Heilongjiang Interchina, a subsidiary of the Company with its shares listed on the Shanghai Stock Exchange, the PRC approved a proposal (being the Non-public Share Issue Proposal) in respect of the issue of not more than 160,000,000 Heilongjiang Interchina New Shares at the price of not less than RMB8.03 per Heilongjiang Interchina Share to not more than ten subscribers. The maximum proceeds shall not exceed RMB1,290,000,000. The proposed Non-public Share Issue is subject to the approval of (i) the shareholders of Heilongjiang Interchina; (ii) the CSRC; and (iii) the Shareholders at the EGM. Approval from the shareholders of Heilongjiang Interchina has been obtained on 11 July 2012, Heilongjiang Interchina will submit a formal Non-public Share Issue Proposal to the Shanghai Stock Exchange.

As at the date of this announcement, the Company through Interchina Tianjin indirectly holds approximately 53.77% equity interests in Heilongjiang Interchina. It is expected that upon completion of the Non-public Share Issue, the Group's interest in Heilongjiang Interchina will be diluted to 39.12%, constituting the Deemed Disposal.

As the relevant percentage ratios (as defined in the Listing Rules) exceed 75%, the Deemed Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to Shareholders' approval at the EGM. The EGM will be convened to be held for the Shareholders to consider and, if thought fit, to approve the Non-public Share Issue and the Deemed Disposal. As at the date of this announcement, no Shareholder is required to abstain from voting at the EGM. As more time is required to collate the financial information of Heilongjiang Interchina Group, the circular containing, among other things, further information on the Non-public Share Issue, financial information relating to the Group as well as the Heilongjiang Interchina Group and the notice of EGM will be despatched to the Shareholders on or before 17 August 2012.

Trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on 11 July 2012 at the request of the Company pending the publication of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 13 July 2012.

Reference is made to the announcement of the Company dated 25 June 2012.

### **THE NON-PUBLIC SHARE ISSUE PROPOSAL**

On 21 June 2012, the board of directors of Heilongjiang Interchina, a subsidiary of the Company with its shares listed on the Shanghai Stock Exchange, the PRC approved a proposal (being the Non-public Share Issue Proposal) in respect of the issue of not more than 160,000,000 Heilongjiang Interchina New Shares at the price of not less than RMB8.03 per Heilongjiang Interchina Share to not more than ten subscribers. The maximum proceeds shall not exceed RMB1,290,000,000. Set out below are the proposed principal terms of the Non-public Share Issue:

Number of Heilongjiang Interchina New Shares to be issued : not more than 160,000,000, the exact amount is subject to the limit approved by the shareholders of Heilongjiang Interchina and to be determined with the underwriter. As at the date of this announcement, the underwriter for the Non-public Share Issue has yet been appointed. It is proposed that the Non-public Share Issue will be made on best effort basis.

- Issue price : to be determined based on the principles of price priority from the subscribers after approval from the CSRC has been obtained, which shall be not less than RMB8.03, being 90% of the average closing price of Heilongjiang Interchina Shares as quoted on the Shanghai Stock Exchange for the 20 trading days immediately before the Price Determination Date. In case there is bonus issue of Heilongjiang Interchina Shares, declaration of dividend or capitalisation during the period between the Price Determination Date and the date the Heilongjiang Interchina New Shares are issued, the Issue Price shall be adjusted accordingly.
- Subscribers : to be determined, but tentatively not more than ten subscribers, which might include financial institutions, securities investment and fund management companies, trust investment companies, insurance companies, qualified PRC offshore investors, individuals or other qualified investors under the PRC laws. As at the date of this announcement, Heilongjiang Interchina does not intend to issue any Heilongjiang Interchina New Shares to its or the Company's connected persons
- Lock-up : the Heilongjiang Interchina New Shares issued shall be subject to a lock-up of 12 months from the date of issue

The executive Board resolved that the Company should not participate in the Non-public Share Issue on 9 July 2012. Therefore the Non-public Share Issue constitutes the Deemed Disposal.

The proposed Non-public Share Issue is subject to the approval of (i) the shareholders of Heilongjiang Interchina; (ii) the CSRC; and (iii) the Shareholders at the EGM. Approval from the shareholders of Heilongjiang Interchina has been obtained on 11 July 2012. Heilongjiang Interchina will submit a formal Non-public Share Issue Proposal to the Shanghai Stock Exchange.

The Directors consider that the terms of the Non-public Share Issue are fair and reasonable and are on normal commercial terms, which are in the interests of the Company and the Shareholders as a whole.

## USE OF PROCEEDS

The net proceeds from the proposed Non-public Share Issue is expected to be not more than RMB1,242,000,000 which Heilongjiang Interchina plans to apply in the following manner:

- (a) as to approximately RMB495,000,000 for the Beijing TDR Acquisition, details of which are set out in the announcement of the Company dated 27 June 2012;
- (b) as to approximately RMB34,300,000 for the Huaibei Zhonglian Acquisition;
- (c) as to approximately RMB422,700,000 for the development of the existing water projects of Heilongjiang Interchina;
- (d) as to approximately RMB100,000,000 for increase in the registered capital of Beijing TDR;
- (e) as to approximately RMB45,000,000 for increase in the registered capital of Beijing Zhongkei;
- (f) as to approximately RMB45,000,000 as registered capital of Interchina CAS Ecological Scientific Innovation; and
- (g) the balance of RMB100,000,000 as general working capital of Heilongjiang Interchina Group.

## INFORMATION OF HEILONGJIANG INTERCHINA

Heilongjiang Interchina is principally engaged in sewage and water treatment operation, construction of sewage and water treatment plants, the provision of technical services that is related to sewage treatment in the PRC. As at 31 March 2012, Heilongjiang Interchina operate 9 sewage treatment projects, 3 water supply projects and a construction company. The aggregate daily processing capacity of Heilongjiang Interchina reached approximately 1,237,500 tonnes.

Set out below is a summary of the unaudited consolidated financial information of Heilongjiang Interchina for the two years ended 31 March 2012, which was prepared in accordance with PRC accounting standard and adjusted in accordance with HKFRSs by the Company:

	<b>For the year ended 31 March 2011 HK\$ (unaudited)</b>	<b>For the year ended 31 March 2012 HK\$ (unaudited)</b>
Profit before taxation	110,110,000	92,957,000
Profit after taxation	72,670,000	83,070,000

According to the unaudited consolidated statement of financial position of Heilongjiang Interchina as at 31 March 2011 and 2012, the net assets value of Heilongjiang Interchina was approximately HK\$1,542,116,000 and HK\$1,757,965,000 respectively.

Set out below is the audited consolidated financial information of Heilongjiang Interchina for the two years ended 31 December 2011 prepared in accordance with PRC accounting standard:

	<b>For the year ended 31 December 2010</b>	<b>For the year ended 31 December 2011</b>
	<i>RMB</i>	<i>RMB</i>
	<i>(audited)</i>	<i>(audited)</i>
Profit before taxation	92,455,438.63	78,743,078.27
Profit after taxation	82,686,064.59	69,785,089.21

The audited consolidated net assets value of Heilongjiang Interchina as at 31 December 2010 and 2011 were RMB678,600,047.52 and RMB1,201,855,760.54 respectively.

## **LISTING RULE IMPLICATIONS**

As at the date of this announcement, the Company through Interchina Tianjin indirectly holds approximately 53.77% equity interests in Heilongjiang Interchina. It is expected that upon completion of the Non-public Share Issue, the Group's interest in Heilongjiang Interchina will be diluted to 39.12%, constituting the Deemed Disposal. The executive Board resolved that the Company should not participate in the Non-public Share Issue on 9 July 2012.

As the relevant percentage ratios (as defined in the Listing Rules) exceeds 75%, the Deemed Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to Shareholders' approval at the EGM. The EGM will be convened to be held for the Shareholders to consider and, if thought fit, to approve the Non-public Share Issue and the Deemed Disposal. As more time is required to collate the financial information of Heilongjiang Interchina Group, the circular containing, among other things, further information on the Non-public Share Issue, financial information relating to the Group as well as the Heilongjiang Interchina Group and the notice of EGM will be despatched to the Shareholders on or before 17 August 2012.

## **FINANCIAL EFFECT**

Upon completion of the Non-public Share Issue, Heilongjiang Interchina will cease to be a subsidiary of the Company but instead will become an associate of the Company. Subject to review by auditors, it is estimated that there will be a gain of approximately HK\$888,014,000 from the Deemed Disposal, which is based on:

- (a) the derecognition of the total net assets of Heilongjiang Interchina Group upon completion of the Non-Public Share Issue, which is calculated by using
  - (i) the net assets of Heilongjiang Interchina of approximately HK\$1,044,477,000 as at 31 March 2012 attributable to the Company (being the net assets of Heilongjiang Interchina of approximately HK\$1,757,965,000 as at 31 March 2012 less the non-controlling interest of Heilongjiang Interchina of HK\$713,488,000); minus

- (ii) the amount of exchange reserve (based on the audited consolidated financial statements of the Company as at 31 March 2012) of approximately HK\$42,987,000 to be released upon completion of the Deemed Disposal; but adding to it;
  - (iii) the amount of attributable goodwill (based on the audited consolidated financial statements of the Company as at 31 March 2012) of approximately HK\$387,866,000 recognised at the time of acquisition of Heilongjiang Interchina in 2009; and
- (b) the recognition of 39.12% equity interests in Heilongjiang Interchina as an associate of the Company by way of equity method upon completion of the Non-public Share Issue, which is based on the estimated market capitalisation of Heilongjiang Interchina of HK\$2,277,370,000 upon completion of the Non-public Share Issue attributable to the Company, representing 39.12% of the estimated market capitalisation of Heilongjiang Interchina of HK\$5,821,500,000 upon completion of the Non-public Share Issue (calculated using the maximum total issued Heilongjiang Interchina Shares multiplied by the Issue Price and the Company's shareholding percentage upon completion of the Non-public Share Issue).

However, it should be noted that the estimated market capitalisation of Heilongjiang Interchina upon completion of the Non-public Share Issue is calculated based on the enlarged total issued number of Heilongjiang Interchina Shares of 587,225,000, representing the issued total number of Heilongjiang Interchina Shares of 427,225,000 as at the date of this announcement plus the maximum number of 160,000,000 Heilongjiang Interchina New Shares to be issued under the Non-public Share Issue at the Issue Price. The actual gain to be recognised by the Company shall be calculated by reference to the financial position of Heilongjiang Interchina at the time of completion of the Non-public Share Issue, the actual number of Heilongjiang Interchina New Shares to be issued under the Non-public Share Issue and the actual amount of Issue Price.

The gain on the Deemed Disposal is a non-cash transaction and no proceeds will be received by the Company in relation thereto.

## **REASONS FOR THE NON-PUBLIC SHARE ISSUE AND DEEMED DISPOSAL**

The Group is principally engaged in environmental and water treatment operation, securities and financial operation, property investment and natural resources development. The cessation of securities and financial operation is underway and is subject to the approval from the Securities and Futures Commission. The Group's previous operation of supply and procurement ceased in April 2012.

Heilongjiang Interchina is principally engaged in sewage and water treatment operation, construction of sewage and water treatment plants, the provision of technical services that is related to sewage treatment in the PRC. As set out in the announcement of the Company dated 27 June 2012, Heilongjiang Interchina had entered into the Beijing TDR Acquisition which required funding for completion. Meanwhile, Heilongjiang Interchina was also looking for other funding for its growth and expansion.

After considering the financial market and other finance options such as bank borrowing, the Directors consider that the Non-public Share Issue represent an optimal option to the Group. While it can provide the capital funding to Heilongjiang Interchina for the Beijing TDR Acquisition, Huaibei Zhonglian Acquisition and to further expand its existing projects on hand and other environmental related projects, the Company is not required to have any immediate cash outlay. In order to maintain the 53.77% interest in Heilongjiang Interchina, the Company will need to commit approximately RMB690,800,000 (equivalent to approximately HK\$853,000,000), which the Directors consider will increase the financial burden of the Company. The cash on hand of the Group amounted to HK\$398,751,000 as at 31 March 2012. Considering the financial market in Hong Kong, the Directors consider it difficult to raise sufficient fund to meet subscription commitment of Heilongjiang Interchina should the Company participate in the Non-public Share Issue.

Accordingly, the Directors consider that the Deemed Disposal is in the best interests of the Company and the Shareholders as a whole, and that its terms are fair and reasonable, having reached after arm's length negotiations.

## **GENERAL**

The EGM will be convened to be held for the Shareholders to consider and, if thought fit, to approve the Non-public Share Issue and the Deemed Disposal. As at the date of this announcement, no Shareholder is required to abstain from voting at the EGM. As more time is required to collate the financial information of Heilongjiang Interchina Group, the circular containing, among other things, further information on the Non-public Share Issue, financial information relating to the Group as well as the Heilongjiang Interchina Group and the notice of EGM will be despatched to the Shareholders on or before 17 August 2012.

## **RESUMPTION OF TRADING**

Trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on 11 July 2012 at the request of the Company pending the publication of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 13 July 2012.

## **DEFINITIONS**

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

- |                           |  |
|---------------------------|--|
| “Beijing TDR”             | Beijing TDR Enviro-Tech Co., Ltd (北京天地人環保科技有限公司), a company established in the PRC   |
| “Beijing TDR Acquisition” | the acquisition of an aggregate of 90% of equity interest of Beijing TDR pursuant to the Sale and Purchase Agreement, details of which are set out in the announcement of the Company dated 27 June 2012 |

“Beijing Zhongkei”	北京中科國益環保工程有限公司 (Beijing Zhongke Guoyi Environmental Protection Engineering Company Limited*), a company established in the PRC and is a 90% owned subsidiary of Heilongjiang Interchina as at the date of this announcement
“Board”	the board of Directors
“Company”	Interchina Holdings Company Limited, a company incorporated in Hong Kong with limited liabilities, the issued Shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it in Rule 1.01 of the Listing Rules and as extended under Rule 14A.11 of the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deemed Disposal”	the reduction of the Company’s interest in the capital of Heilongjiang Interchina from approximately 53.77% to 39.12% upon completion of the Non-public Share Issue in full
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to be held to approve the Non-public Share Issue and the Deemed Disposal
“Group”	the Company and its subsidiaries
“Heilongjiang Interchina”	Heilongjiang Interchina Water Treatment Company Limited, a company established in the PRC and it’s a shares are listed on the Shanghai Stock Exchange
“Heilongjiang Interchina Board”	the board of directors of Heilongjiang Interchina
“Heilongjiang Interchina Group”	Heilongjiang Interchina and its subsidiaries
“Heilongjiang Interchina New Share(s)”	the new domestic shares (A shares) of RMB1.00 each in the share capital of Heilongjiang Interchina to be issued by Heilongjiang Interchina under the Non-public Share Issue
“Heilongjiang Interchina Share(s)”	the shares of RMB1.00 each in the share capital of Heilongjiang Interchina



“Huaibei Zhonglian Acquisition”	the acquisition of the entire equity interest of 淮北中聯環水環境有限公司 (Huaibei Zhonglian Huanshui Environmental Company Limited*) at the consideration of RMB34,300,000
“Interchina CAS Ecological Scientific Innovation”	國中中科環境科技創新有限責任公司 (Interchina CAS Ecological Scientific Innovation Co. Limited*), a company to be established under the strategic cooperation framework agreement entered into between Heilongjiang Interchina and Research Centre for Eco-Environmental Sciences, Chinese Academy of Sciences dated 31 May 2012
“Interchina Tianjin”	Interchina (Tianjin) Water Treatment Company Limited, a company established in the PRC and is a wholly owned subsidiary of the Company
“Issue Price”	the proposed issue price of not less than RMB8.03 per Heilongjiang Interchina New Share under Non-public Share Issue
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-public Share Issue”	the proposed non-public offering of Heilongjiang Interchina New Shares to not more than ten subscribers at the Issue Price
“Non-public Share Issue Proposal”	the proposal submitted to the Shanghai Stock Exchange regarding the Non-public Share Issue
“PRC” or “China”	the People’s Republic of China (which for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Price Determination Date”	21 June 2012, being the day of Heilongjiang Interchina Board’s resolutions approving the Non-public Share Issue
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement entered into between Heilongjiang Interchina and the vendors dated 21 June 2012 in respect of the acquisition of an aggregate of 90% of equity interest of Beijing TDR
“Share(s)”	ordinary share(s) of HK\$0.1 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

\* For identification purposes only

“%” per cent.

*Conversion of RMB into HK\$ is based on the exchange rate of RMB0.81 = HK\$1.00.*

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

Hong Kong, 12 July 2012

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