
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold all your shares in Interchina Holdings Company Limited, you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



國 中 控 股 有 限 公 司

INTERCHINA HOLDINGS COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

DISCLOSEABLE TRANSACTION

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
Introduction	3
Agreement	4
Information on CECI	6
Information on CNEP	6
Information on Interchina Water	6
Reason for the Establishment of ZHWT	6
Further Information	7
Appendix – General Information	
Responsibility Statement	8
Directors’ Interests in Securities	8
Directors’ Interests in Contracts	9
Substantial Shareholders	9
Directors’ Interests in Assets	9
Service Contract	9
Litigation	10
Material Changes	10
Miscellaneous	10

DEFINITIONS

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

“Agreement”	an agreement entered into between the Company, Interchina Water, CECI and CNEP on 11 April 2003 for the incorporation of ZHWT;
“associates”	has the meaning ascribed thereto in the Listing Rules;
“Board”	the board of Directors;
“CECI”	中國節能投資公司 (China Energy Conservation Investment Corporation), a state owned enterprise established in the PRC;
“CNEP”	中國環境保護公司 (China National Environmental Protection Corporation), a company established in the PRC, and a wholly owned subsidiary of CECI;
“Company”	Interchina Holdings Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
“Directors”	the executive directors of the Company;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars and cents, the lawful currency in Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Interchina Water”	Interchina Water Treatment Limited (國中水務有限公司), a company incorporated in the British Virgin Islands with limited liability, which is wholly owned by the Company
“Latest Practicable Date”	28 April 2003, being the latest practicable date for ascertaining certain information referred to herein prior to the printing of this circular;

DEFINITIONS

“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“Parties”	the Company, Interchina Water, CECI and CNEP;
“PRC”	The People’s Republic of China, excluding Hong Kong for the purpose of this circular;
“RMB”	Renminbi, the lawful currency of the PRC;
“Securities and Futures Ordinance”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	shares of HK\$0.10 each in the issued share capital of the Company;
“Shareholder(s)”	registered holder(s) of Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“ZHWT”	a sino-foreign equity joint venture to be established in the PRC with limited liability, to be named as 中環水務投資有限公司 (Zhong Huan Water Treatment Investment Company Limited) or such other name as may be permitted by the relevant authority in the PRC; and
“%”	per cent.

Conversion of RMB into HK\$ is based on the exchange rate of RMB1.06 = HK\$1

LETTER FROM THE BOARD



國 中 控 股 有 限 公 司

INTERCHINA HOLDINGS COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

Executive Directors:

Mr. Zhang Yang (*Chairman*)
Mr. Liu Shunxin (*Honorary Chairman*)
Mr. Lam Cheung Shing, Richard
Mr. Chan Wing Yuen, Hubert
Mr. Jack Jiyei Zhang

Registered Office:

45th Floor
Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

Non-executive Directors:

Mr. Hui Ho Ming, Herbert

Independent Non-executive Directors:

Mr. Lee Peng Fei, Allen
Mr. Wu Wai Chung, Michael
Mr. Wong Hon Sum
Ms. Ha Ping

2 May 2003

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

INTRODUCTION

It was announced on 14 April 2003 by the Company that on 11 April 2003 the Company has entered into the Agreement with Interchina Water, CECI and CNEP for the establishment of ZHWT. ZHWT will be principally engaged in activities including investment in the establishment and operation of water plants and sewage treatment plants, development and supply of water protection equipment, development and franchise of sewage treatment technique in PRC. The total investment of ZHWT will be RMB700,000,000 (equivalent to approximately HK\$660,377,358 and the registered capital of ZHWT will be RMB500,000,000 (equivalent to approximately HK\$471,698,113). ZHWT will be owned as to 50% by Interchina Water and 50% by CNEP.

LETTER FROM THE BOARD

The maximum commitment of the Company in the establishment of ZHWT pursuant to the joint venture agreement and the articles of association of ZHWT to be executed by Interchina Water will be RMB350,000,000 (equivalent to approximately HK\$330,188,679) and constitutes a discloseable transaction of the Company under the Listing Rules.

The purpose of this circular is to provide the Shareholders with further information of the establishment of ZHWT.

AGREEMENT

Date : 11 April 2003

Parties : (1) The Company;
(2) Interchina Water;
(3) CECI; and
(4) CNEP

Incorporation of ZHWT : The Parties agreed to establish ZHWT in PRC, which will be owned as to 50% by Interchina Water and as to 50% by CNEP.

The business scope of ZHWT, subject to the approval of PRC government, is to engage in activities including investment in the establishment and operation of water plants and sewage treatment plants, development and supply of water protection equipment, the development and franchise of sewage treatment technique in PRC.

The Parties agreed that Interchina Water and CNEP shall further negotiate and enter into a joint venture agreement, an articles of association of ZHWT and other related documents for the establishment of ZHWT within 3 months of the signing of the Agreement (or such other date as agreed by all Parties in writing) and thereafter within the shortest practicable time to complete the relevant procedure for establishment of ZHWT and grant of necessary licence and permit by PRC authorities for the carrying on its business scope.

The board of directors of ZHWT will comprise 4 directors. Interchina Water shall be entitled to nominate two directors of ZHWT, and one of them shall be the vice chairman of the board of directors of ZHWT. CNEP shall be entitled to nominate the remaining two

LETTER FROM THE BOARD

directors of ZHWT, and one of them shall be the chairman of the board of directors of ZHWT. No casting vote has been given to the chairman of the board of directors of ZHWT under the Agreement.

Capital Structure : The total investment of ZHWT will be RMB700,000,000 (equivalent to approximately HK\$660,377,358 and the registered capital of ZHWT will be RMB500,000,000 (equivalent to approximately HK\$471,698,113).

The contribution to be made by Interchina Water to the registered capital of the Company will be RMB250,000,000 (equivalent to approximately HK\$235,849,056) and will be paid in cash by Interchina Water with fund from the Company. The payment will be funded by internal resources of the Company.

The remaining part of the registered capital of the Company in the sum of RMB250,000,000 (equivalent to approximately HK\$235,849,056) will be contributed and paid by CECI and CNEP in cash.

The amount of contribution was determined after arm's length negotiations between the Parties by reference to the intended business scope of ZHWT and the proportion of shareholding to be held by Interchina Water. The Directors consider that the Agreement is of normal commercial terms and in the ordinary and usual course of business of the Group and is fair and reasonable and are in the best interest of the Group.

The Company will account for its interest in ZHWT using equity accounting method.

Termination : The grounds for termination of the Agreement include, inter alia, if any Parties shall fail to obtain approval (if required) to the transactions contemplated under the Agreement or if the joint venture agreement, an articles of association of ZHWT and other related documents for the establishment of ZHWT shall not be approved by the PRC authorities, within 6 months of the signing of the Agreement. In the event of termination of the Agreement due to the establishment of ZHWT cannot be proceeded, the Parties shall enter into good faith negotiation to seek a possible resolution.

LETTER FROM THE BOARD

INFORMATION ON CECI

CECI is a state owned enterprise established by the PRC government in Beijing and directly managed by 中央企業工委 (China Enterprises Affairs Commission). CECI is not a connected person (as defined in the Listing Rules) to the Company.

The business carried on by CECI group is a combination of investment, entrepreneur, consultancy and foreign trade. CECI is empowered with the investment rights and foreign trade rights and provide premier consultancy services. CECI is principally engaged in implementation of state policy of resources conservation and environmental protection, development of projects for energy conservation, environmental protection and related high technology with state fund, management of state fund for construction and operation of facilities and infrastructure for energy conservation and environmental protection projects and issuance of government bonds in PRC.

INFORMATION ON CNEP

CNEP is a company established in PRC and is wholly owned by CECI. CNEP is not a connected person (as defined in the Listing Rules) to the Company.

CNEP is principally engaged in the provision of whole range services including contracting, consultancy, trading, operation and management services for projects of industrial sewage treatment, cities sewage treatment, water supply and water purification, etc. in PRC. CNEP has been granted with licence for provision of premier consultancy services, licence for operation of environmental protection facilities, and right to provide package facilities and specified construction plans.

INFORMATION ON INTERCHINA WATER

Interchina Water is a company incorporated in the British Virgin Islands with limited liability on 22 May 2001 and is wholly-owned by the Company. Interchina Water is principally engaged in water treatment projects in PRC. One of the existing projects engaged by Interchina Water is development project of a sewage treatment plant in Haigang District, Qinhuangdao City of Hebei Province of the PRC.

REASON FOR THE ESTABLISHMENT OF ZHWT

The Group is principally engaged in the investment in environmental and water treatment operation and city development and investment operation as well as property investment and development in Hong Kong and PRC.

LETTER FROM THE BOARD

The establishment of ZHWT signifies expert cooperation between CECI and the Group in environmental and water treatment operation with an aim to achieve ZHWT a leading enterprise in the PRC and a reputation for providing high quality services and advance techniques in environmental and water treatment operation in the PRC. ZHWT will also allow the Group to extend its investment in water supply and sewage treatment projects from its existing operation in Shaanxi Province of the PRC through Interchina Aihua (Tianjin) Municipal & Environmental Engineering Co., Ltd. (國中愛華(天津)市政環境工程有限公司) to other province of the PRC. The Directors are of the view that, with the fast pace of cities development in PRC, expansion of investment in environmental and water treatment operation will further achieve the Group's short term and medium term profit growth. The Directors consider the terms of the establishment of ZHWT to be fair and reasonable and are in the best interest of the Group. In addition, as a result of the completion of the transactions contemplated under the Agreement, there is no adverse effect on the assets and liabilities of the Group.

FURTHER INFORMATION

Your attention is drawn to the additional information set out in the Appendix.

Yours faithfully,
On behalf of the Board
Yip Kar Hang, Raymond
Company Secretary

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' INTERESTS IN SECURITIES

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executives of the Company in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance) which require notification to the Company and the Stock Exchange pursuant to Section 341 of the Securities and Futures Ordinance (including interests or short positions which any such Director or chief executive is deemed or taken to have under Sections 344 or 345 of the Securities and Futures Ordinance) or which are required pursuant to Sections 352 of Securities and Futures Ordinance to be entered into the register maintained by the Company under Section 352 of Securities and Futures Ordinance or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Nature of interests	Number of Shares
Zhang Yang	Corporate	1,612,025,000 (Note)
Jack Jiyei Zhang	Personal	5,000

Note: The ordinary shares were held through Wealth Land Development Corp., a company beneficially and wholly owned by Mr. Zhang Yang.

As at the Latest Practicable Date, the following Directors had interests in respect of options granted under the share option scheme adopted by the Company on 25 July 2000:

Name of Directors	Date of grant	Exercise Price (HK\$)	Number of Share Options outstanding
Zhang Yang	29 March 2001	0.161	109,000,000

Save as disclosed above, none of the Directors or their associates had any interests in the equity and debt securities of the Company or any of its associated corporations as defined in Securities and Futures Ordinance as at the Latest Practicable Date.

3. DIRECTORS' INTERESTS IN CONTRACTS

None of the directors is materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular and which is significant in relation to the business of the Group.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of Securities and Futures Ordinance, and so far as is known to the Directors, the shareholders who were directly or indirectly interested in 5 per cent. or more of the issued share capital of the Company carrying rights to vote in all circumstances at general meetings of the Company together with the number of shares in which they were deemed to be interested were :

Name	Number of Shares	Percentage of holding
Wealth Land Development Corp. <i>(Note)</i>	1,612,025,000	35.08%

Note: Wealth Land Development Corp. is wholly owned by Mr. Zhang Yang, a Director.

5. DIRECTORS' INTERESTS IN ASSETS

None of the directors has or has had any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 30 September 2002, being the date to which the latest published interim financial report of the Company were made up.

6. SERVICE CONTRACT

There is no service contract between any proposed Directors and members of the Group which does not expire or is not determinable by the employer within one year without payment of compensation other than statutory compensation.

7. LITIGATION

No member of the Group is engaged in any litigation or arbitration of material importance and the Directors are not aware of any litigation or claims of material importance pending or threatened against any member of the Group.

8. MATERIAL CHANGES

Save as disclosed in the interim financial report to Shareholders for the six months ended 30 September 2002, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 30 September 2002, the date to which the latest published interim financial report of the Company were made up.

9. MISCELLANEOUS

- (a) The registered office of the Company is at 45th Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.
- (b) The Share Registrars is Tengis Limited at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (c) The secretary of the Company is Mr. Yip Kar Hang, Raymond, who is a member of the American Institute of Certified Public Accountants and the Hong Kong Society of Accountants.
- (d) The English text of this circular shall prevail over the Chinese text.