

Chairman's Statement



To shareholders,

On behalf of the Board of Directors, I am pleased to present the annual report of Interchina Holdings Company Limited ("the Company") and its subsidiaries (together as "the Group" or "Interchina") for the year ended 31 March 2005.

During the year, the Group continued to focus on its environmental protection and water treatment and city development businesses with the aim of expanding our operational scale. The Group is greatly encouraged that its efforts to restructure its business over the past three years began to bear fruits, manifesting as returns from our investment in environmental protection and water treatment, and city development projects. We achieved satisfactory overall performance for the year. The Group achieved organic growth by accelerating construction works and sales of its



projects. At the same time, we also actively explored potential acquisition opportunities. These efforts evidenced our determination to develop into an unique urban development enterprise in China focusing on environmental protection and water treatment business as well as city development business.

Environmental Protection and Water Treatment Operation

Shortage of water supply is a constant concern of China. The average water supply per capita in the country is 2,200 cubic meters, only a quarter of the global average. Of the more than 600 cities in the country, over 400 have insufficient water supply. This phenomenon poses one of the greatest challenges to China's water supply industry. However, the implementation of macroeconomic control measures by the Chinese Government has provided invaluable opportunities for the industry. In recent years, in line with Central Government's policy, construction departments at all levels have been promoting water conservation in cities and accelerating the construction of sewage treatment infrastructure. Such moves have not only helped to ensure the safety of water supply in urban areas, but also fast tracked the commercialization of water supply and treatment operations in China.

Moreover, with the Chinese Government implementing the Water Treatment Pricing Management Solution 《水利工程供水價格管理辦法》 from January last year, instead of the historical water supply pricing model, water supply was for the first time categorized under commercial commodities and charged as such. As water resources started to improve and at the introduction of sewage treatment fees, the usage of and fees for water supply in many places in China grew, driving the commercialization of the industry.



However, 2004 not only saw China's water supply industry moving towards commercialization, but also Interchina achieving major breakthroughs in environmental protection and water treatment. A significant number of water supply and water treatment projects of the Group swung in operation. The sewage treatment plant located in Qinhuangdao City, Hebei Province formally began service and Interchina Aihua (Tianjin) Municipal & Environmental Engineering Co., Ltd. ("IAH") activated its technological platform and started to reap strategic alliance benefits, realizing cross-field development in the environmental engineering arena in China. By forming strategic alliance with North China

Municipal Engineering Design and Research Institute (中國市政工程華北設計研究院), a national level water treatment experts, Interchina can fully utilize its limited resources to develop a full spectrum of diversified water treatment projects.

The Group announced in mid April 2005 to negotiate the acquisition of Zuyuan First Sewage Treatment Plant from Shanghai You Lian Enterprise (Holdings) Limited. With a daily treatment capacity of 1,700,000 tones, the plant is one of the key sewage treatment enterprises with most advanced design in Shanghai and the largest in Asia. Upon the completion of this acquisition, it will mark a major milestone in the Group's development. It evidenced our determination and efforts to invest in the environmental protection and water treatment business, and also enhanced our operation scale and efficiency. We see the acquisition as a shot in the arm to our environmental protection and water treatment business, which will help to groom "Interchina" into a flagship icon and leading brand of water supply industry in China.

City Development and Investment Operation

The urbanization trend in Mainland China is closely related to its rapidly growing economy. Encouraging development of towns and cities is a critical key for driving economic and social development in the rural areas. Extra care has to be given during urbanization to discourage massive and irrational rural-urban migration towards big cities. It is only through well-coordinated efforts that balanced development could be achieved for cities and towns of all sizes and ultimately leading to a steady economic growth for the country.



In view of the opportunities arising from the open up urban development market for private entities, we capitalize our unique business model with a strong quality land reserve supporting our city development projects. During the year, the Group had stepped up its city development investment. It completed the Changsha city development project and booked related returns. In addition, the sale of Interchina Mall commenced. Well-received by the market, more than 700 shop premises were sold. The project will be ready for occupation starting late 2005. In the light



of such favourable market response, the management has considered to replicate the same development mode in Xian. In February 2005, the Group bought four plots of land of total area 378.53 hectares in the New Industrial Park of the Xian Hi-tech Industrial Zone (高新技術產業開發區新型工業園) in Shaanxi Province for exploring the feasibility of building our second Interchina Mall. We strongly believe that our Interchina



Mall, integrating the development of culture, tourism, housing and commerce, can provide not only fresh reference for the development of towns and cities, but also an example in city development in Mainland China.

In November 2004, the Group entered into an agreement with the Economic Development Management Committee (漢中經濟開發區管理委員會) of Hanzhong City, Shaanxi Province, concerning the development of supplementary infrastructure for its Commercial Administrative Tourist Region (Northern Region) (漢中經濟開發區(北區)商貿行政旅遊度假區) by Interchina. The Group has secured priority rights in developing property projects and also the right to use the land for related projects. It is entitled to enjoy the tax benefits granted by the country to overseas investors and enterprises investment in the development of Western China.

Apart from focusing on city development investment in Changsha, Xian and Hanzhong, the management is locating potential sites in different municipalities and cities to boost its land reserve. Through expanding its urban development operation, the Group will strengthen its leading position in the industry.



Conclusion

In the coming year, the Group will step up development of its core business, continuing to ride on the strategic partnership forged. Through boosting our operational scale, we will be able to secure stable regular income and highly profitable returns. Interchina is set to become a world-class enterprise and bring fruitful returns to its shareholders.

Acknowledgement

I would like to take this opportunity to extend my gratitude to all Board members and staff for their continuous efforts and support.

By order of the Board,

Zhang Yang

Chairman

Hong Kong, 4 July 2005