

Chairman's Statement



To shareholders,

On behalf of the Board of Directors of Interchina Holdings Company Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (together as "the Group") for the year ended 31 March 2006.

The 21st Century is regarded as the "Era of Water". The gravity and significance of the water problems increasingly became a global consensus, and were placed high priority by the governmental departments of central and all local levels. It is expected that during the "Eleventh Five" Period, investment in environmental protection by the State will amount to RMB 137,500,000, nearly a double to that of the "Tenth Five" Period. Water operations industry will be one of the most rapidly developing industries in China in future. The amount of construction

works and volume of sewage processed by the sewage treatment enterprises will increase significantly. Certain enterprises engaging in water operations that are experienced in construction, operation and management of sewage treatment projects will secure enormous growing opportunities. Therefore, the business development direction of the Group will focus on the environmental protection and water treatment operation projects with development potential, and will continue to implement the previously prescribed corporate development plan, so as to accelerate the construction of the sewage treatment infrastructure.

Since its establishment in 2000, the Group has accumulated vast experiences and recruited professionals in environmental protection and water treatment operations. Coupling with the favorable environment for the development of environmental protection and water treatment operations, the Group's environmental protection and water treatment operation was further expanded. The Group is also endeavoured to consolidate and enhance the cost-effectiveness of its development in the environmental protection and water treatment operations.

The sewage treatment plant locating in the Haigang District of Qinhuangdao City of Hebei Province is the first environmental protection and water treatment operation project of the Group. The Group will obtain the right of price determination with respect to the water processed by the sewage treatment plant in 2007. By then the group will positively revise the charges according to the pricing agreement and the price index, so as to bring more profit to the Group. Moreover, under the "Eleventh Five" Plan, Qinhuangdao City has become a preferred popular district for development and investment. It is expected local environmental protection and water treatment operations will have more room for development.



In addition, the sewage treatment projects in the Ma'anshan City of Anhui Province and Changli City of Hebei Province are under construction in full force. It is expected to officially commence operation in mid 2007. By then these projects will facilitate to improve the liquidity flow and contribute to earnings of the Group.

The Group's acquisition of the Zhuyuan First Sewage Treatment Plant, which possesses large amount of sewage, is still in the process of negotiation. Zhuyuan First Sewage Treatment Plant, which is owned by Shanghai You Lian Enterprise (Holdings) Limited ("You Lian Group"), is located in Pudong New Area, Shanghai City, and is one of the major projects of the municipal development of Shanghai.

The Group terminated the cooperation agreements entered into with the People's Government of Xianyang City in Shaanxi Province and the People's Government of Zhuozhou City in Hebei Province of the PRC with respect to Xianyang Water Supply Project and Zhuozhou Sewage Treatment Project respectively, so as to effectively concentrate its resources in the development of sewage treatment projects at Ma'anshan and Changli.

Apart from the development of environmental protection and water treatment operation, the Group also engages in city development and investment operation so as to achieve diversification. With the rapid growth of economy in China, the demand for the development works in cities and towns also increased continuously. During the past year, the Group's city development and investment operation developed smoothly. The construction works for the Wang Guo Commercial Plaza of the Interchina Mall (Phase One), was near completion and commenced the recruitment of tenants. Interchina Mall is a mega-scale luxurious residential and commercial complex in Changsha.

Moreover, the Group's development project locating at Hongkou District, Shanghai, so as to develop spaces for commercial and financial purposes. The project is situated at a prime geographical location and will become another city development project of tremendous potential for the Group.



In order to finalise and complete the Group's existing city development and investment business development plans, the Group is now negotiating with developers with potentials for possibility to cooperate in various different forms, under the premises of protecting the best interests of the shareholders. It is expected that the shareholders will receive the greatest investment return.

Conclusion

The Group will continue to implement the previously prescribed corporate development plan, rationalise its businesses structure, consolidate and strengthen the development of environmental protection and water treatment operations, so that the Group's resources will be deployed in the most effective manner. Investments being made by the Group will be distinct and visionary, which will facilitate its development into an international enterprise, and will bring about steady and satisfactory profit to the Group and enhance return to shareholders.



Acknowledgement

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

By order of the Board,

Zhang Yang

Chairman

Hong Kong, 20 July 2006