

INTERCHINA HOLDINGS COMPANY LIMITED

Review of Operations and Prospects

Business Review

As a result of the Asian financial turmoil in 1997 and its negative impact on the Hong Kong and the PRC property markets, Burlingame with its core business in property investment and development had reported significant exceptional losses. In addition, due to the over expansion and excessive financial leverage, Burlingame faced considerable difficulties in meeting its debt obligations since 1998. As at 31 March 2000, Burlingame had a net deficit in shareholders' equity of approximately HK\$437,316,000 and a total indebtedness of approximately HK\$1,225,451,000.

In order to protect the benefit of Burlingame's shareholders and creditors, Burlingame began to undergo a restructuring plan at the end of 1998. The restructuring plan included rearrangement of Burlingame's debts and capital structure and searching for new investors to solve the financial difficulties of Burlingame. A restructuring agreement was entered into on 5 November 1999 and the restructuring was completed on 30 August 2000. The restructuring included a one-to-one share swap with the shareholders of Burlingame for the Company to replace the listing position of Burlingame and the capital injection by Classic Jester Resources Limited and Wealth Land Development Corp. (together the "New Investors") by subscription of 3,000,000,000 shares of the Company. The restructuring also included issuance of the Company's shares to satisfy part of liabilities due to the Hong Kong Bank Creditors and a series of debt rearrangements and compromise.

After the successful restructuring, the Group's financial position has been greatly improved. The gearing ratio (total borrowings over total assets) has been reduced from 136% as at 31 March 2000 to 48% as at 30 September 2000 while the shareholders' equity increased from a deficit of HK\$437,316,000 to a positive value of HK\$288,441,000.

During the Period, the turnover and profit from operations of the Group remained at the level of HK\$14,349,000 (1999: HK\$15,474,000) and HK\$9,383,000 (1999: HK\$9,957,000) respectively, which mainly derived from property rental income in Hong Kong and the PRC. The Group recorded a huge net profit of HK\$395,635,000 for the Period (1999: net loss of HK\$42,363,000), which mainly comprised the gain arising from the waiver of liabilities amounted to HK\$401,951,000 by the Hong Kong Bank Creditors in relation to the restructuring. After the restructuring, the Company started to actively strengthen the Group's original business and explore the high growth investment projects for further diversification.

Prospects

The restructuring helps the Group to recruit new experienced management talent from diverse industries, including the shareholders of the New Investors, Mr. He Xuechu and Mr. Zhang Yang, who have been appointed as the Executive Directors of the Company. They have provided valuable and professional advice to the Group for determination of its future development direction. From that, we will reposition our business in respect of scope and geographical focus and prepare to adopt an aggressive but pragmatic approach to navigate into the challenging yet optimistic future. The existing property investment business in Hong Kong and the PRC will be strengthened and rationalized. At the same time, we will identify and capitalize on viable investment and business

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opportunities in Hong Kong and the PRC. We will make use of our funding channels in Hong Kong for investment in the high growth industries in Hong Kong and the PRC. In addition, we will also explore capital funding channels in the PRC for investments therein.

The implementation of the Third Generation Automatic Order Matching and Execution System (“AMS/3”) in the stock market of Hong Kong further link up Hong Kong stock market to the global customers and will generate a higher volume of transactions. In face of transformation of securities industry brought by technology innovation and couple with the Group’s strong connection and experience in the PRC, the Group is considering to capture this potential by facilitating investment opportunities for high net worth individuals through an establishment of securities business in Hong Kong.

Looking forward, we shall remain committed to strengthen and grow our businesses in order to create wealth for our shareholders.

Liquidity and Financial Resources

As at 30 September 2000, the Group had deposits in banks and other financial institutions amounted to HK\$221 million. On the same day, the Group had a total borrowings of approximately HK\$447 million, which mainly comprised secured bank loans of approximately HK\$389 million repayable within one year. The bank loans are secured by the properties in Hong Kong and the PRC with carrying value of approximately HK\$578 million.

We have commenced negotiations with the banks for arranging refinancing of the properties under mortgages. In addition, we will also consider to dispose of some of the properties gradually when their market values reach a level considered to be satisfactory. The borrowings repayable within one year will be substantially reduced after the above arrangements.