

## 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 (collectively the "Group") for the year ended 31 March 2007.

According to the United Nations, water is in short supply around the world and there will be 2.8 billion people living in regions with water shortage by 2025. Fresh water resource is also decreasing in the PRC. Nevertheless, opportunity arises from the lack of water. Particularly, as the Qualified Domestic Institutional Investor program (QDII) and Qualified Foreign Institutional Investor program (QFII) gradually broadened in 2006, most investors are like fish getting water and investment in the water treatment industry in the PRC has grown tremendously. Furthermore, the central government of the PRC is trying to develop brand names in the water industry. The Group will capture all these opportunities and set up more development plans to achieve a higher yield for our shareholders.

Since the Group was found in 2000, it has focused in development of the environmental protection and water treatment operation. The Group is committed to develop environmental protection and water treatment operation in tandem with urbanisation investment through city development and investment operation with Chinese characteristics. During the process, we will grow our expertise, develop advance technology, train our professionals and endeavor to expand the coverage of our environmental protection and water treatment operation. During the year, the Group accelerated its development pace and has made satisfactory progress. Most of

the projects will be completed and commenced operation by next year and realising earnings rapidly. Accordingly, the Group will focus its investment in water supply and sewage treatment projects with good potential and continue to treat environmental protection and water treatment operation as our core business. We expect the amount of water processed daily by the Group's environmental protection and water treatment operation to increase to 500,000 tonnes, and such operation will be the Group's major and more stable source of revenue.

Since the Group's sewage treatment plant located in the Haigang District of Qinhuangdao in Hebei Province commenced operation in 2004, its operation has been satisfactory and recorded a remarkable turnover. The right of price determination with respect to the plant's water treatment will be obtained as early as the end of this year instead of 2009 originally scheduled. Upon obtaining such right, the Group will have the flexibility to adjust its charges upward according to the price index which will bring more earnings to the Group.



Other water supply development projects have also made encouraging progress. The sewage treatment project in Ma'anshan, Anhui, the PRC has commenced its trial run in May this year while the one in Changli, Hebei, the PRC will commence operation in the first quarter next year. Their aggregate sewage treatment capacity will be up to 100,000 tonnes on average per day. Furthermore, the Group is discussing with the Hanzhong Municipal Government about details on the operation of the water supply project in Hanzhong City of Shaanxi, the PRC. It is expected that the related procedures will be finalized and operation will commence by the end of this year.

In addition, with a view to expand our investment in the environmental protection and water treatment operation, the Group has reached consensus with the Hanzhong Municipal Government on our acquisition of the only water supply Company in Hanzhong City. It is expected that the acquisition will be completed by the end of this year. Such acquisition not only will reaffirm our market positioning in developing our water treatment operation, but will also contribute to the establishment of the Group's brand name.

Besides the existing environmental protection and water treatment project and the above acquisition, as China's economy continues to open up and services provided by its financial market diversifies, the Group has seized the opportunity of the QFII's gradual broadening, and intends to acquire a company in China. Through the Acquisition, the Group will have an additional platform to finance its investment in the environmental protection and water treatment

operation. The Group is now negotiating for such plan to pave the way for further development of the Group.

Since the State has launched macro-economic control measures on real estate developers, our management has concerns about the uncertainties of securing favourable returns from the Group's investment in property development in the PRC. Therefore, directors considered that it was appropriate to reduce its investment in real estate business in the PRC. After a series of business restructuring in this respect, the Group has maintained a balanced development for our city development and investment operation. From now on, the investment of the Group in this aspect will mainly based on the BT investment format, and focus in the aspect of primary land development.

During the year, the Group disposed its entire interests in and shareholders' loan due from a wholly-owned subsidiary, which held property development projects located in Xian and a wholly-owned subsidiary, which held property development projects located in Shanghai. For the aforesaid transactions, the Group can still make favourable returns.

### Conclusion

This year will be a turning point for the Group as we will enter into a harvesting stage for our earlier investment. We intend to continue implementing development strategies established previously and strengthen and expand our environmental protection and water treatment operation. We will also utilise the QFII to reinforce the financing platform for environmental protection and water treatment operation. The Group will recruit professional talents to diversify our investment in order to set a new stage for the Group's development and create more profit for the Group and reward supports from our 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, 15 June 2007