

## PROVISIONAL LIQUIDATORS' REPORT

The joint and several provisional liquidators of the Company (the "Provisional Liquidators") present their report and the audited financial statements for the year ended 30 June 2001.

The Provisional Liquidators, as agents of the Company, prepare this report in accordance with the disclosures requirements of the Companies Ordinance. However, they take no responsibility for the contents of this report and make no representation as to the completeness of the information contained in this report.

### **RESTRUCTURING OF THE GROUP**

On 2 August 2001, the Company entered into a conditional subscription agreement and a conditional restructuring agreement ("Restructuring Agreements") with a new investor, Sourcebase Developments Limited ("Sourcebase"), and with the trustee for the convertible bondholders of the Company respectively. Sourcebase has undertaken to provide and procure the provision of working capital facilities to the Company such that the Group will have sufficient working capital for its operations for 12 months after the completion of the Restructuring Agreements (the "Completion"). As explained in note 2(a) to the financial statements, the financial statements have been prepared on a going concern basis on the basis that the terms set out in the Restructuring Agreements will be implemented in full on Completion.

### **INCOMPLETE BOOKS AND RECORDS**

In light of the incomplete books and records maintained by the Company and its subsidiaries and the lack of supporting documentary evidence relating to the year ended 30 June 2001, the Provisional Liquidators are unable to identify the material factors underlying the Group's results and financial position and therefore are unable to satisfy themselves as to whether the following analyses in respect of the operations performance, liquidity and financial resources of the Group in 2001 reflects a true and fair picture of the Group's operation and financial status.

### **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The activities of the principal subsidiaries are set out in note 12 to the financial statements.

### **RESULTS**

The results of the Group for the year ended 30 June 2001 are set out in the consolidated income statement on page 16. For the year ended 30 June 2001, the Group incurred an operating loss of HK\$68,914,000, up 44% compared to HK\$47,741,000 the same period in the previous year. Turnover for the year was HK\$3,755,000, down 97% compared to HK\$132,516,000 in the previous year. Sale of goods in 2001 accounted for about 95% of the total turnover.

Loss per share for the year amounted to HK1.70 cents, against a loss per share of HK8.26 cents in 2000.

# PROVISIONAL LIQUIDATORS' REPORT

## **MAJOR CUSTOMERS AND SUPPLIERS**

No major customers and suppliers analyses are disclosed as in the opinion of the Provisional Liquidators, in light of the incomplete books and records of the Group for the year ended 30 June 2001, the costs of preparing this information would exceed the value of this information to the members of the Company.

## **BUSINESS REVIEW**

The main activities of the Group in the past include the distribution of brand name air-conditioning systems, audio-visual products and photographic products as an authorized distributor, trading of other electrical consumer products under various brand names mainly in the PRC, manufacture of photographic products and e-business trading.

The Group's financial position began to deteriorate following the Asian financial crisis and a severe downturn in air-conditioning sales in its primary PRC market. This caused a substantial deterioration in the Group's available working capital.

The Group's operations in Hong Kong and the PRC have been adversely constrained for some time and until July 2001, trading orders processed were negligible as a result of its poor financial position and, in particular, the lack of sufficient working capital. The Group is currently engaged in trading of audio-visual products, photographic products and other electrical consumer products primarily in the PRC. The Group also operates an e-commerce platform that offers online airline ticket, hotel and packaged tour reservation services.

## **SEGMENT INFORMATION**

No detailed analyses on segmental information are disclosed as in the opinion of the Provisional Liquidators, in light of the incomplete books and records of the Group for the year ended 30 June 2001, the costs of preparing this information would exceed the value of this information to the members of the Company.

## **LIQUIDITY AND FINANCIAL RESOURCES**

Net cash outflow from operating activities was HK\$77.9 million for the reported year, compared with a net cash outflow of HK\$26.6 million in the previous year. Bank balances at the year end amounted to HK\$29.9 million, compared with a balance of HK\$7.9 million at the prior year end.

The debt ratio as at 30 June 2001 was 7.12. The current ratio as at the same date was 0.14.

# PROVISIONAL LIQUIDATORS' REPORT

## **PROSPECTS**

The Provisional Liquidators, on behalf of the Company, entered into the Restructuring Agreements with Sourcebase and the trustee of the convertible bondholders of the Company on 2 August 2001. Details of this can be found in the circular of the Company dated 22 October 2001 (the "Circular"). The restructuring proposal has been structured to ensure that the Company's operations will be normalised promptly, new income streams will be secured through the management of Sourcebase, and the financial health of the Company will be restored with the total indebtedness to all its creditors to be released and discharged in its entirety upon Completion.

According to the "Letter from the Investor" of the Circular, Sourcebase intends that, upon Completion, the Company will continue to engage in the existing businesses such as distribution of brandname air-conditioning systems, audio-visual and photographic products, trading of electrical and other consumer products as well as manufacturing of photographic products and the operation of an e-commerce business. Sourcebase will first seek to re-establish the Group's trading relationship with those Asian trading concerns which have previously supplied goods to the Group, followed by securing distribution arrangements with major national and provincial wholesalers in the PRC.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in the property, plant and equipment of the Group and the Company during the year are set out in note 10 to the financial statements.

## **SHARE CAPITAL AND WARRANTS**

Details of movements in the share capital and warrants of the Company during the year are set out in note 15 to the financial statements.

## **FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the past five years is set out on page 38.

## **RESERVES**

Details of movements in the reserves of the Group and the Company during the year are set out in note 16 to the financial statements.

## PROVISIONAL LIQUIDATORS' REPORT

### **DIRECTORS**

The directors of the Company during the year and up to the date of this report are:

#### **Executive directors:**

Mr. Yeung Kwok Fan	
Mr. Wu Ming Fat, Simon	
Mr. Sun Tak Yan, Desmond	(appointed on 27 October 2000)
Mr. Zhang Hua	(appointed on 30 October 2000)
Mr. Yeung Ming Kwong	(appointed on 15 November 2000)
Mr. Liu Kin Sun	(appointed on 27 October 2000 and resigned on 10 February 2001)
Madam Wu Yung	(resigned on 27 October 2000)
Mr. Wong Hei Chiu	(resigned on 30 December 2000)

#### **Independent non-executive directors:**

Ms. Lo Miu Sheung, Betty	(appointed on 13 January 2001)
Mr. Yeung Wai Hung, Peter	(appointed on 15 November 2000 and resigned on 15 December 2000)
Mr. Goh Gen Cheung	(resigned on 27 October 2000)
Mr. Nie Qing Ping	(resigned on 27 October 2000)

Save as those described in the section of "Profile of Directors and Senior Management" on page 10 of this annual report, the Provisional Liquidators, to their best knowledge having made all reasonable enquiries, obtain no further biographical details of its directors and senior management of the Company.

Upon Completion, three new executive directors and two new independent non-executive directors will be appointed to the Company and all existing directors of the Company will be removed.

The directors of the Company, including the executive and independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with clauses 87 (1) and 87(2) of the Company's Bye-laws.

No director being proposed for appointment at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## PROVISIONAL LIQUIDATORS' REPORT

### DIRECTORS' INTERESTS IN SHARES

At 30 June 2001, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Number of shares held	
	Personal interests	Corporate interests
Mr. Yeung Kwok Fan	–	448,800,000

Mr. Yeung Kwok Fan and Madam Wu Yung, who is the wife of Mr. Yeung Kwok Fan, have 70% and 30% beneficial interest respectively in Luck Bingo Investment Limited, which was in turn interested in 448,800,000 shares in the Company as at 30 June 2001.

According to the shareholding structure of Liuzhou Wuling Holdings Limited ("Liuzhou") as shown in the circular of the Company dated 29 September 2000 (such shareholding structure is set out under the section headed "SUBSTANTIAL SHAREHOLDERS" below), Mr. Yeung Ming Kwong, Mr. Sun Tak Yan, Desmond and Mr. Wu Ming Fat, Simon, who are directors of the Company, are indirectly interested in the shares of the Company, through their shareholdings in Liuzhou.

Save as disclosed above, none of the directors or their associates had any interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors or their spouses or children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such right during the year.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company has an executive share option scheme adopted on 23 December 1996 under which executive directors and employees of the Company or any of its subsidiaries may be granted options to subscribe for shares in the Company.

To the best knowledge of the Provisional Liquidators after having made all reasonable enquiries, the Company currently has 5,000 outstanding share options which are exercisable at a price of HK\$0.27904 up to 22 December 2006 for each of the shares in the Company, and the Provisional Liquidators do not know whether the current directors of the Company hold any of the share options which remained outstanding as at 30 June 2001.

## PROVISIONAL LIQUIDATORS' REPORT

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (continued)**

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or the chief executive, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

### **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### **SUBSTANTIAL SHAREHOLDERS**

As at 30 June 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholder has interested in 10% or more in the issued share capital of the Company:

<b>Name</b>	<b>Number of shares held</b>	<b>%</b>
Liuzhou	1,938,000,000	39.9

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 30 June 2001.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Bye-Laws, although there are no restrictions against such rights under the laws in Bermuda.

## PROVISIONAL LIQUIDATORS' REPORT

### **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

Since the Provisional Liquidators were appointed to the Company on 16 February 2001, the Provisional Liquidators do not know whether the Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### **POST BALANCE SHEET EVENTS**

Details of the post balance sheet events are set out in note 2(a) to the financial statements.

Yours faithfully,

For and on behalf of

**WAH LEE RESOURCES HOLDINGS LIMITED**

**Nicholas Timothy Cornforth Hill**

**Wong Tak Man, Stephen**

**R. Craig Christensen**

*Joint & Several Provisional Liquidators*

3 December 2001