

MANAGEMENT DISCUSSION AND ANALYSIS AND DIRECTORS' REPORT

The new directors, which were appointed to the Board on 10 December 2001 (the "Directors"), of Wah Lee Resources Holdings Limited (the "Company") present the directors' report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 30 June 2000.

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 2000, the Directors are unable to represent as to the accuracy and completeness of the information contained in this report which has been prepared according to the best knowledge of the Directors.

RESTRUCTURING OF THE GROUP

As a result of the Company's poor financial position, joint and several provisional liquidators of the Company (the "Provisional Liquidators") were appointed on 20 April 2000 and a financial restructuring of the Company was implemented and completed on 27 October 2000. Details of the restructuring are set out in the circular dated 29 September 2000. Upon successful completion of the restructuring, the winding-up petition was withdrawn and the Provisional Liquidators were released and discharged. However, another winding-up petition was submitted by the trustee for the convertible bondholders of the Company on 15 February 2001. As a result, pursuant to the Order of the Supreme Court of Bermuda dated 16 February 2001, the Provisional Liquidators were appointed again on the same date.

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. The proposals under the Restructuring Agreements were for debt restructuring involving creditors' schemes of arrangements, subscription of new shares and warrants, whitewash waiver and creeper authorisation and the details are set out in the circular dated 22 October 2001. After the Restructuring Agreements were approved by the independent shareholders at a special general meeting held by the Company on 13 November 2001 and subsequently completed on 10 December 2001, the winding-up petition was withdrawn and the Provisional Liquidators were released and discharged on 10 December 2001.

BUSINESS REVIEW

The main activities of the Group 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 People of Republic China ("PRC") and manufacturing of photographic products.

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.

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LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash on hand and deposits held in banks totalled approximately HK\$7,899,000 (1999: HK\$36,333,000), representing a decrease of 78.26% compared with that as at 30 June 1999.

As at 30 June 2000, the total assets of the Group were approximately HK\$55,666,000 (1999: HK\$153,801,000), representing a decrease of 63.81% as compared with that as at 30 June 1999. The Group's outstanding borrowings was HK\$273,984,000 (1999: HK\$267,357,000), representing an increase of 2.48% as compared with that as at 30 June 1999. The gearing ratio was 4.92 (total borrowings/total assets) whereas the current ratio was 0.043 (current assets/current liabilities).

PROSPECTS

After the completion of the Restructuring Agreements on 10 December 2001, the creditors' indebtedness due by the Company were released and discharged in its entirety. The company has sufficient working capital to restore its normal operations. Details of the updated development of the Company can be referred to the interim report for the six months ended 31 December 2001.

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 2000 are set out in the consolidated income statement on page 16. The Group's turnover for the year ended 30 June 2000 amounted to HK\$134,605,000 (1999: HK\$1,232,447,000), representing a decrease of 89.08% as compared with the same period last year. Loss for the year amounted to HK\$66,508,000 (1999: HK\$385,944,000), representing a decrease of 82.77% as compared to the same period last year.

Loss per share for the year amounted to HK\$8.26 cents, against a loss per share of HK\$49.22 cents in 1999.

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DIVIDEND

The Board does not recommend the payment of any dividend.

MAJOR CUSTOMERS AND SUPPLIERS

No major customers and suppliers analyses are disclosed as in the opinion of the Directors as a result of the incomplete books and records of the Group for the year ended 30 June 2000.

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 40.

SEGMENT INFORMATION

No detailed analyses on segmental information are disclosed as a result of the incomplete books and records of the Group for the year ended 30 June 2000.

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.

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DIRECTORS

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

Executive directors:

Mr. Zhang Yang	(appointed on 10 December 2001)
Mr. Lam Cheung Shing, Richard	(appointed on 10 December 2001)
Mr. Jiang Feng	(appointed on 10 December 2001)
Mr. Yeung Kwok Fan	(removed on 11 December 2001)
Mr. Yeung Ming Kwong	(appointed on 15 November 2000 and removed on 11 December 2001)
Mr. Zhang Hua	(appointed on 30 October 2000 and removed on 11 December 2001)
Mr. Sun Tak Yan, Desmond	(appointed on 27 October 2000 and removed on 11 December 2001)
Mr. Liu Kin Sun	(appointed on 27 October 2000 and resigned on 10 February 2001)
Mr. Wu Ming Fat, Simon	(appointed on 7 March 2000 and removed on 11 December 2001)
Mr. Wong Hei Chiu	(resigned on 30 December 2000)
Madam Wu Yung	(resigned on 27 October 2000)
Mr. Li Wing Kei, Ricky	(resigned on 11 August 1999)

Independent non-executive directors:

Mr. Tam Sun Wing	(appointed on 14 December 2001)
Mr. Tso Shiu Kei, Vincent	(appointed on 14 December 2001)
Mr. Yeung Wai Hung, Peter	(appointed on 15 November 2000 and resigned on 15 December 2000)
Ms. Lo Miu Sheung, Betty	(appointed on 13 January 2001 and removed on 11 December 2001)
Ms. Lam Shuet Ching, Gloria	(appointed on 8 December 1998 and resigned on 9 September 1999)
Mr. Goh Gen Cheung	(resigned on 27 October 2000)
Mr. Nie Qing Ping	(resigned on 27 October 2000)

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.

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DIRECTORS' INTERESTS IN SHARES

At 30 June 2000, 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	–	204,020,000

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 Lucky Bingo Investment Limited which was in turn interested in 204,020,000 shares in the Company as at 30 June 2000.

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.

Details of options granted to the directors and the number of options remained outstanding as at 30 June 2000 were as follows:

Name	Number of share options
Mr. Yeung Kwok Fan	40,500,000
Madam Wu Yung	42,900,000
Mr. Wong Hei Chiu	31,800,000
	<u>115,200,000</u>

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.

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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

Save 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 2000.

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.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

Since the Directors were appointed to the Company on 10 December 2001, the Directors were unable to represent 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 (the "Listing Rules").

POST BALANCE SHEET EVENTS

Details of the post balance sheet events are set out in note 20 to the financial statements.

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AUDITORS

Messrs. Ernst & Young resigned as auditors of the Company on 6 December 2001 and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company on 11 December 2001.

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

By Order of the Board

ZHANG YANG

Chairman

Hong Kong, 8 March 2002