

MANAGEMENT DISCUSSION AND ANALYSIS

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. 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, details of which are set out in the circular dated 22 October 2001. Upon approval of the Restructuring Agreements by the independent shareholders at a special general meeting of the Company held on 13 November 2001 and its subsequent completion on 10 December 2001, the winding-up petition was withdrawn and the Provisional Liquidators were released and discharged on 10 December 2001.

Concurrent with the completion of the restructuring, Sourcebase subscribed for 5,500,000,000 shares of the Company at its nominal value of HK\$0.01 each in cash for an aggregate amount of HK\$55,000,000. The proceeds were used for the settlement of creditors’ indebtedness and as working capital of the Group. The Group’s financial position is improved substantially. The Group has sufficient working capital for its operation after the completion of restructuring, and also for the development and expansion in the future.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at the Annual General Meeting of the Company held on 17 April 2002, the name of the Company was changed from Wah Lee Resources Holdings Limited to Guo Xin Group Limited. The change marks a new era for the Group.

FINANCIAL REVIEW

The Group’s turnover for the year ended 30 June 2002 amounted to HK\$19,937,000 (2001: HK\$3,755,000), representing an increase of 4.3 times as compared with last year. Profit attributable to the shareholders amounted to HK\$125,032,000 (2001: loss of HK\$60,529,000). The turnaround was mainly attributable to the gain of HK\$138,897,000 arising from the waivers of creditors’ indebtedness after the completion of restructuring of the Group in December 2001.

As at 30 June 2002, total assets and net assets of the Group were HK\$163,097,000 (2001: HK\$29,877,000) and HK\$162,221,000 (2001: net liabilities HK\$182,968,000) respectively, representing an increase of HK\$133,220,000 and HK\$345,189,000 respectively as compared with last year.

The cashflow position of the Group remained solid. As at 30 June 2002, the Group’s cash on hand and bank deposits totalled approximately HK\$6,677,000 (2001: HK\$29,877,000). The



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Group's net current assets were HK\$160,805,000 (2001: net current liabilities HK\$182,968,000), which increased significantly as compared with last year. The current ratio was 184.6 times (current assets/current liabilities).

On the other hand, as at 30 June 2002, the Group's consolidated shareholders' equity was HK\$162,221,000, compared with negative HK\$182,968,000 last year. In other words, the Group's financial position improved significantly this year.

The management believes that the existing financial resources are sufficient for its future expansion plan. If the Group requires additional funding to capture business opportunities that may arise in the future, the management believes that the Group will be able to obtain financing at favorable terms or attract strategic investors.

The Group continued to adopt a prudent policy on financial risk management and had no material exposure to fluctuation in exchange rate, and thus no related hedging made. During the year, the Group did not use any financial instruments for hedging purpose, nor any foreign currency investments were hedged by any hedging instruments.

BUSINESS REVIEW

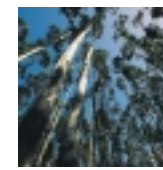
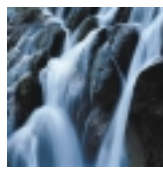
Trading Operations

China Operations

To couple with the economic growth in the PRC, the Group actively explore business opportunities therefrom to complement its operations in Hong Kong. During the year, the Group set up a wholly owned subsidiary – 國欽國際貿易(上海)有限公司(「國欽」) with investment of US\$20,000,000 in Shanghai to help develop its China trading operations. During this year, the Group has started nonferrous metal futures trading in Shanghai, making use of the value-protection characteristic of the nonferrous metal futures market to achieve synergy of capital and assets in order to strengthen its competitiveness in the market.

Hong Kong Operations

Upon completion of restructuring, the Group has been actively re-establishing trading relationships with its existing and potential customers. During the year, the Group focused on the trading of consumer goods in Hong Kong, including sports merchandise, photographic equipment, and brand-name audio-visual products. Simultaneously, the Group expanded its operation into commodity



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futures trading in the PRC in order to increase the overall return of the trading business. The Group recorded a turnover of HK\$17,536,000 during the year (2001: HK\$3,575,000), an increase of 3.9 times compared with last year.

Travel Related Operations

The Group has been developing its travel related operations including online air ticket booking and hotel reservation service since 2000. It recorded a revenue of HK\$705,000 this year (2001: HK\$180,000), representing a rise of 2.9 times over last year. To couple with the development of tourism industry both in Hong Kong and the PRC, the Group endeavoured to enrich its website contents in order to attract more tourists, and to establish a solid foundation for the challenging but optimistic future.

Liquidity and Financial Resources

As at 30 June 2002, the Group's cash on hand and bank deposits totalled HK\$6,677,000, composing of HK\$4,673,000 and RMB2,124,000. Besides, on 19 June 2002, a deposit of RMB160,000,000 was placed with an asset management company incorporated in the PRC for a term of one month with an annual investment return of 6 percent. The deposit was repaid in full upon maturity. As at 30 June

2002, there was no outstanding loan (2001: HK\$203,003,000) and committed borrowing facility.

Prospects

Details of the prospects of the Group can be referred to the relevant section in Chairman's Statement on page 3 to 4.

Capital Commitment and Contingent Liabilities

As at 30 June 2002, the Group has no material capital commitment and contingent liabilities.

Charge of Group Assets

Neither the Company nor any of its subsidiaries has any charge of the assets as at 30 June 2002.

Employee Remuneration Policy

As at 30 June 2002, the Group had a total of 15 employees in the PRC and Hong Kong. The staff costs for the year amounted to HK\$3,850,000 (2001: HK\$2,669,000). In order to remain competitive, the salary and bonus of the staff are based on their individual performance.