

A golden trophy stands on a reflective surface. The surface is covered with a large, stylized graphic of the year '2003' in white and yellow. The background is a gradient of yellow and green, with a blue sky and a large orange and red ship at the bottom. The ship is a large cargo vessel with a red hull and a white superstructure. The ship is sailing on a blue sea. The overall image is a collage of business and industry-related elements.

GUO XIN GROUP LIMITED



Interim Report 2003

(For the six months ended 31st December 2003)



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Zhang Yang (*Chairman*)
Mr. Lam Cheung Shing, Richard
Mr. Yu Rui

Independent Non-Executive Directors

Mr. Tam Sun Wing
Mr. Tso Shiu Kei, Vincent

AUDIT COMMITTEE

Mr. Tam Sun Wing
Mr. Tso Shiu Kei, Vincent

COMPANY SECRETARY

Mr. Yip Kar Hang, Raymond

HEAD OFFICE AND PRINCIPAL PLACE

Room 4101, 41st Floor
Far East Finance Centre
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Hong Kong

PRINCIPAL BANKERS

International Bank of Asia Limited
The Hongkong and Shanghai Banking
Corporation Limited
Bank of China (Hong Kong) Limited

AUDITORS

Deloitte Touche Tohmatsu

SOLICITORS

Preston Gates & Ellis
To, Lam & Co.

SHARE REGISTRARS

Tengis Limited
G/F, BEA Harbour View Centre
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Wanchai
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REGISTERED OFFICE

Canon's Court
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**Deloitte
Touche
Tohmatsu**

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF GUO XIN GROUP LIMITED

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 4 to 11.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of the group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 31 December 2003.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
18 March 2004

**CONDENSED CONSOLIDATED INCOME STATEMENT**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

	NOTES	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Turnover	3	133,617	1,358
Cost of sales		<u>(127,052)</u>	<u>(408)</u>
Gross profit		6,565	950
Other operating income		797	629
(Loss) gain on disposal of investments in securities		(2,346)	3,121
Unrealised loss in respect of investments in securities		–	(3,985)
Administrative expenses		<u>(9,809)</u>	<u>(8,249)</u>
Loss from operations	4	<u>(4,793)</u>	(7,534)
Finance costs		<u>(3,170)</u>	<u>(4)</u>
Loss before taxation		(7,963)	(7,538)
Taxation	5	<u>–</u>	<u>–</u>
Loss before minority interests		(7,963)	(7,538)
Minority interests		<u>471</u>	<u>–</u>
Net loss for the period		<u>(7,492)</u>	<u>(7,538)</u>
Loss per share	6		
Basic		<u>HK(0.2) cents</u>	<u>HK(0.27) cents</u>



CONDENSED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2003

	NOTES	31.12.2003 HK\$'000 (unaudited)	30.6.2003 HK\$'000 (audited) (restated)
Non-current assets			
Property, plant and equipment	7	1,621	1,344
Investment properties	8	268,868	268,868
Investment securities	9	–	–
Goodwill		84	94
		<u>270,573</u>	<u>270,306</u>
Current assets			
Accounts receivable	10	32,934	–
Prepayments and other receivables		19,589	4,376
Bank balances and cash		4,067	20,747
		<u>56,590</u>	<u>25,123</u>
Current liabilities			
Accounts payable	11	1,213	–
Other payables and accrued charges		4,751	1,286
Amount due to a related company	12	35,738	13,212
Bank loan, secured	13	28,110	15,617
		<u>69,812</u>	<u>30,115</u>
Net current liabilities		<u>(13,222)</u>	<u>(4,992)</u>
		<u>257,351</u>	<u>265,314</u>
Capital and reserves			
Share capital		374,718	374,718
Reserves		(123,861)	(116,369)
		<u>250,857</u>	<u>258,349</u>
Minority interests		1,126	1,597
Non-current liability			
Deferred taxation		5,368	5,368
		<u>257,351</u>	<u>265,314</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Investment property revaluation reserve <i>HK\$'000</i> (restated)	Translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2002	268,618	114,223	–	157	(220,777)	162,221
Shares issued at premium	43,700	4,370	–	–	–	48,070
Shares issue expenses	–	(748)	–	–	–	(748)
Net loss for the period	–	–	–	–	(7,538)	(7,538)
At 31 December 2002	312,318	117,845	–	157	(228,315)	202,005
Shares issued at par	62,400	–	–	–	–	62,400
Share issue expenses	–	(365)	–	–	–	(365)
Surplus arising on revaluation not recognised in condensed income statement	–	–	10,900	–	–	10,900
Net loss for the period	–	–	–	–	(16,591)	(16,591)
At 30 June 2003	374,718	117,480	10,900	157	(244,906)	258,349
Net loss for the period	–	–	–	–	(7,492)	(7,492)
At 31 December 2003	374,718	117,480	10,900	157	(252,398)	250,857



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

	2003	2002
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(32,118)	(7,027)
Net cash (used in) from investing activities	(19,503)	43,870
Net cash from financing activities	34,941	73,283
	<hr/>	<hr/>
(Decrease) increase in cash and cash equivalents	(16,680)	110,126
Cash and cash equivalents at the beginning of the period	20,747	6,677
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	4,067	116,803
	<hr/>	<hr/>



NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2003, except as described below.

Income taxes

In the current interim period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts have been restated accordingly. As a result of this change in policy, the balance on the Group's investment property revaluation reserve at 30 June 2003 has been decreased by HK\$5,368,000 and the Group's deferred taxation liability at 30 June 2003 has been increased by HK\$5,368,000, which is the effect to the change in financial position for the period ended 30 June 2003.

3. SEGMENT INFORMATION

Business segments

	Trade related operations		Travel related operations		Property investments		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover	131,500	931	419	427	1,698	–	133,617	1,358
Segment results	1,716	(104)	(14)	12	1,647	–	3,349	(92)
Unallocated corporate expenses							(5,796)	(6,578)
(Loss) gain on disposal of investments in securities							(2,346)	3,121
Unrealised loss in respect of investments in securities							–	(3,985)
Loss from operations							(4,793)	(7,534)
Finance costs							(3,170)	(4)
Loss before taxation							(7,963)	(7,538)
Taxation							–	–
Loss before minority interests							(7,963)	(7,538)
Minority interests							471	–
Net loss for the period							(7,492)	(7,538)



4. LOSS FROM OPERATIONS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Loss from operations has been arrived at after charging (crediting):		
Depreciation included in administrative expenses	358	229
Amortisation of goodwill included in administrative expenses	10	–
Interest income	(458)	(479)
Net exchange gain	–	(151)
	<u> </u>	<u> </u>

5. TAXATION

No provision for profits tax has been made in the financial statements as the Group had no assessable profit for the period.

6. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Loss for the purposes of basic loss per share	(7,492)	(7,538)
	<u> </u>	<u> </u>
	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares for the purpose of basic loss per share	3,747,183	2,818,464
	<u> </u>	<u> </u>

7. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$635,000 on acquisition of property, plant and equipment.

8. INVESTMENT PROPERTIES

The Group's investment properties are revalued at 30 June 2003 by Shanghai Real Estate Appraisers Co., Ltd. on an open market basis. In the opinion of the directors, there was no material change in the fair value of the Group's investment properties during the six months ended 31 December 2003.

The Group has pledged certain of its investment properties to secure general banking facilities granted to the Group.

The Group's investment properties are situated in the People's Republic of China (the "PRC") and are held under medium-term leases.

9. INVESTMENT SECURITIES

	31.12.2003 <i>HK\$'000</i>	30.6.2003 <i>HK\$'000</i>
Unlisted investment in Hong Kong, at cost	650	650
Impairment loss recognised	(650)	(650)
	<u> </u>	<u> </u>
	–	–
	<u> </u>	<u> </u>

**10. ACCOUNTS RECEIVABLE**

The Group allows an average credit period of 30 days to its trade customers. The aged analysis of accounts receivable is as follows:

	31.12.2003 <i>HK\$'000</i>	30.6.2003 <i>HK\$'000</i>
1 – 30 days	1,435	–
31 – 60 days	9	–
61 – 90 days	31,490	–
	<u>32,934</u>	<u>–</u>

11. ACCOUNTS PAYABLE

At the balance sheet date, the Group's accounts payable were current within their respective terms of credit and there were no significant overdue amounts.

12. AMOUNT DUE TO A RELATED COMPANY

The amount represents advance from Sourcebase Developments Limited, in which Mr. Zhang Yang, a director of the Company, has a beneficial interest, is unsecured, non-interest bearing and has no fixed terms of repayment.

13. BANK LOAN, SECURED

The amount bears interest at prevailing market rate, repayable within one year and is secured by certain of the Group's investment properties.

14. OPERATING LEASE COMMITMENTS**The Group as lessee**

At the balance sheet date, the Group had commitments for future minimum lease payments of HK\$861,000 (at 30.6.2003: HK\$717,000) in respect of office premises which fall due within one year.

Leases are mainly negotiated for an average term of one year and rentals are fixed for an average of one year.

The Group as lessor

Property rental income earned during the period was HK\$1,698,000 (2002: Nil).

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	31.12.2003 <i>HK\$'000</i>	30.6.2003 <i>HK\$'000</i>
Within one year	<u>–</u>	<u>1,698</u>

The lease is negotiated for an average term of one year.

**15. RELATED PARTY TRANSACTIONS**

Apart from the amount due to a related company disclosed in the balance sheet, the Group entered into the following related party transactions:

	Related companies in which Mr. Zhang Yang is the controlling shareholder	
	2003	2002
	HK\$'000	HK\$'000
Service income from the travel agency business	<u>356</u>	<u>253</u>
Commission and brokerage charges	<u>-</u>	<u>(188)</u>

These transactions were transacted at prices agreed between the parties and in accordance with the relevant agreements governing the transactions.



INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover for the six months ended 31 December 2003 amounted to HK\$133,617,000 (2002: HK\$1,358,000), representing an increase of 97.4 times over the corresponding period last year. Such increase is mainly attributable to the trade related operations in the PRC. Despite the significant growth in turnover during the Period, there was a loss attributable to shareholders amounting to HK\$7,492,000 (2002: HK\$7,538,000), representing a decrease of 0.6% over the corresponding period last year. This is mainly due to a lower gross profit ratio under the intensive market competition and the higher operating costs and financing costs compared with the corresponding period last year.

As at 31 December 2003, the total assets and net assets of the Group were HK\$327,163,000 (30 June 2003: HK\$295,429,000) and HK\$250,857,000 (30 June 2003 restated: HK\$258,349,000) respectively, representing an increase of 10.7% and a decrease of 2.9% respectively as compared with those as at 30 June 2003.

As at 31 December 2003, the Group's outstanding bank borrowings amounted to HK\$28,110,000 (30 June 2003: HK\$15,617,000), which were repayable within one year. The gearing ratio (total borrowings/total assets) was 8.6%.

As the Group's business operations were mainly in the PRC and Hong Kong and there were no significant fluctuations in the exchange rate of Renminbi against Hong Kong Dollar during the Period, the Group was not exposed to any material risk in foreign exchange fluctuations and there was no corresponding provision made for hedging. The Group had neither used any financial instruments for hedging purposes, nor used any instruments for hedging against foreign currency investments.

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

Trade Related Operations

During the Period, the turnover of the Group's trade related operations was HK\$131,500,000 (2002: HK\$931,000), representing an increase of 140.2 times over the corresponding period last year. The increase is mainly attributable to the trade related operations in the PRC. As the management believes that the PRC economy will sustain its growth in the future, the Group has invested aggressively to expand its trade related operations in the PRC since last year, in order to strengthen the existing trade related operations.



Travel Related Operations

During the Period, the Group recorded a turnover of HK\$419,000 (2002: HK\$427,000), representing a decrease of 1.9% over the corresponding period last year. Although the number of visitors to Hong Kong and the PRC declined drastically during the outbreak of the Severe Acute Respiratory Syndrome (SARS), the turnover of the Group's travel related operations had been recovering significantly since October 2003, following the launch of the individual visit scheme for mainland Chinese to Hong Kong. The rise in turnover covered the loss suffered during the outbreak of SARS.

Property Investments

The premium properties acquired by the Group in Yangpu District, Shanghai last year are being leased as self-operated serviced apartments, generating a revenue of HK\$1,698,000 to the Group during the Period. This investment brought a steady rental income and return to the Group.

PROSPECTS

Trade Related Operations

According to the National Bureau of Statistics of China, the PRC's Gross Domestic Product ("GDP") grew by 9.1% in 2003 over last year, a record high since 1997. The National Bureau of Statistics of China forecasted that the PRC economy will continue its rapid development and will sustain its growth rate at 7% or above in 2004. The development of the Group's trade related operations will benefit from the continuously rapid growth of the PRC economy.

It is expected that the Group's trade related operations will continue to benefit from the enormous PRC market and its growth. With the successful accession of the PRC to the World Trade Organisation and given that Hong Kong and the PRC governments have entered into the Closer Economic Partnership Arrangement ("CEPA"), greater benefits will be enjoyed by the Group in the near future.

The Group will continue to develop and expand its trade related operations in Hong Kong and PRC. In addition, the Group will proactively identify and establish closer relationships with its business partners and potential customers, in order to greatly enhance shareholders' value.

Travel Related Operations

With the arrangement of the CEPA, the economic activities between Hong Kong and PRC will become more vibrant. Together with the increased number of individual visitors from PRC to Hong Kong, it will pose a positive effect on the development of the Group's travel related operations. Besides, Hong Kong's travelling industry has been recovering gradually from the setback of SARS. In December 2003, the number of visitors to Hong Kong rose to 1,793,000, while the average occupancy rate of hotels in Hong Kong reached 87%. As a result, the prospects for the Group's travel related operations are likely to remain prosperous.

To cope with the rapid development of tourism in Hong Kong and the PRC, the Group will continue to identify suitable opportunities, expand the scope of the operations, enhance the contents of its website, and provide a full range and diversified tourism services to travellers. Accordingly, the return for capital investment will be increased.



Property Investments

The Shanghai government is putting aggressive efforts to develop its tourism industry. The tourism industry is restructuring and expanding, and the demand for hotels and self-operated serviced apartments is increasing. As such, the demand for premium properties is likely to be increased from the booming Shanghai property market. It is expected that the Group's property investments in Shanghai will benefit from the general increase in rental price and the enormous potential for value appreciation.

Pursuant to a resolution passed by the shareholders at the general meeting on 13 March 2003, the Group will engage in property development and investment. The Group will actively seek suitable investment properties to enhance the returns on capital investments.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, the Group's cash on hand and deposits in banks and other financial institutions totalled approximately HK\$4,067,000 (30 June 2003: 20,747,000), representing a decrease of HK\$16,680,000 as compared with the balances at 30 June 2003. Approximately 4.4% of the deposits was denominated in Hong Kong dollar with the balance in Renminbi. The Group's net current liabilities amounted to HK\$13,222,000 (30 June 2003: HK\$4,992,000).

As at 31 December 2003, the Group's bank borrowings were US\$3,600,000, bearing interest at floating rates and repayable within one year. These bank borrowings were secured by the Group's investment properties.

CONTINGENT LIABILITIES

As at 31 December 2003, the Group did not have any material contingent liabilities.

PLEDGE ON THE GROUP'S ASSETS

As at 31 December 2003, part of the Group's investment properties with a carrying value of HK\$59,089,000 (30 June 2003: HK\$32,018,000) were pledged to secure bank borrowings.

EMPLOYEE REMUNERATION POLICY

As at 31 December 2003, the Group had a total of 34 employees in the PRC and Hong Kong. The staff costs for the Period amounted to HK\$4,903,000 (2002: HK\$4,337,000). In order to remain competitive, the salary and bonus of the staff are based on their individual performance.



DIRECTORS' INTEREST IN SHARES

As at 31 December 2003, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise required to notify to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies ("Model Code") were as follows:

LONG POSITIONS IN THE COMPANY'S SHARES

Directors	Personal interest	Corporate Interest	Percentage of entire issued capital
Mr. Zhang Yang	–	750,000,000 (Note)	20.015%

Note: The ordinary shares were held through Sourcebase Developments Limited, a company beneficially owned by Mr. Zhang Yang.

SHARE OPTION SCHEME

The Company has an executive share option scheme adopted on 17 April 2002 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.

As at 31 December 2003, none of the Directors of the Company hold any of the share options.

Save as disclosed above, as at 31 December 2003, none of the Directors, chief executives and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise required to notify to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, other than Directors' Interests in Shares as disclosed above, no other person had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.



AUDIT COMMITTEE

The Audit Committee has reviewed the interim report of the Group for the Period. The Committee has held regular meetings since its formation, at a frequency of at least twice a year.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of information that would reasonably indicate that the Company was not for any part of the accounting period covered by this interim report, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

By order of the Board

Zhang Yang

Chairman

Hong Kong, 18 March 2004