ANNOUNCEMENT
IN RELATION TO ESTABLISHMENT OF A PRC ENTITY
FOR POSSIBLE ACQUISITION OF MINING RIGHT
IN ZHONGXIANG CITY, HUBEI PROVINCE
AND
RESUMPTION OF TRADING

The Directors announce that the Company entered into a memorandum of understanding with Zhongxiang City People Government on 8 June 2006 pursuant to which the Company agreed to establish Guo Xin WFOE and Zhongxiang City People Government agreed Guo Xin WFOE to acquire a controlling equity interest in Phosphate Mine Company which will have the Mining Right, and to engage in the Phosphate Fertilizers Production. The registered capital of and total investment in Guo Xin WFOE is RMB100 million (equivalent to approximately HK$96,805,421).

The Company and Zhongxiang City People agreed to form a working group within one month after the signing of the Memorandum for finalizing a formal agreement on the details of the Investment. The Company considers that the Investment is likely to constitute a major transaction for the Company under the Listing Rules and will be subject to the approval of the Shareholders at the SGM. Further announcement in compliance with the Listing Rules will be made by the Company as and when appropriate.

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 9 June 2006 pending release of an announcement on a major transaction of the Company. For the reason aforesaid, the Company considers it is at this stage appropriate to release this announcement instead of an announcement on a major transaction. Application has been made by the Company for the resumption of trading in the Shares with effect from 9:30 a.m. on 13 June 2006.

Shareholders and potential investors of the Shares should note that the completion of the Investment is subject to a number of conditions. Shareholders and potential investors of the Shares should exercise caution when dealing in the Shares.

THE MEMORANDUM

Date
8 June 2006

Parties
(1) The Company
(2) Zhongxiang City People Government

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, Zhongxiang City People Government is a third party independent of the Group and its connected persons (as defined in the Listing Rules).

Establishment of Guo Xin WFOE

Under the Memorandum, the Company agreed to establish Guo Xin WFOE. The registered capital of and the total investment in Guo Xin WFOE is RMB100 million (equivalent to approximately HK$96,805,421), of which RMB80 million (equivalent to approximately HK$77,444,337) will be used for installation of Refining Facilities in Pengjiawan Factory.
District and the remaining RMB20 million (equivalent to approximately HK$19,361,084) will be used as general working capital of Guo Xin WFOE.

The amount of RMB100 million registered capital of Guo Xin WFOE will be funded by the Group’s internal resources (comprising cash and bank balances, cashflow from operations).

Assets to be acquired

Under the Memorandum, Zhongxiang City People Government agreed to establish Phosphate Mine Company and procure Phosphate Mine Company to be granted with the Mining Right solely. Upon Phosphate Mine Company having obtained the Mining Right, Guo Xin WFOE will acquire a controlling equity interest in Phosphate Mine Company at a consideration to be calculated by reference to the Mining Right Government Fee paid by Phosphate Mine Company to NLRMS, subject to further discussion by the Company and Zhongxiang City People Government. Further announcement will be made by the Company upon agreement of the percentage of the controlling equity interest in Phosphate Mine Company to be acquired by Guo Xin WFOE.

In addition to the acquisition of the controlling equity interest in Phosphate Mine Company, Guo Xin WFOE will also be engaged in the production of approximately 64% pure diammonium phosphate binary compound phosphate fertilizers by refining the phosphate rocks to be obtained from Zu Bao Fo Mine.

The consideration to be payable by Guo Xin WFOE for the acquisition of a controlling equity interest in Phosphate Mine Company by reference to the Mining Right Government Fee payable by Phosphate Mine Company to NLRMS was determined after arm’s length negotiations. The Directors consider that such basis, having taken into account of the principal assets of Phosphate Mine Company will be the Mining Right, is fair and reasonable and in the best interests of the Company.

Conditions

Guo Xin WFOE will only proceed to the acquisition of a controlling equity interest in Phosphate Mine Company and installation of Refining Facilities in Pengjiawan Factory District on the condition that Phosphate Mine Company becomes the sole holder of the Mining Right. The Investment is also subject to the Company having complied with the requirements of the Listing Rules including to obtain the approval of the Shareholders at the SGM. However, there is no term agreed by the parties to the Memorandum that both parties shall not have claim against the other party should either party thereto fail to fulfill the conditions. The parties will discuss on the settlement arrangement if no formal agreement is entered into in due course.

As informed by Zhongxiang City People Government, the right to exploit not less than 29 million tons of phosphate rocks in Zu Bao Fo Mine is ready for grant to Phosphate Mine Company. Zhongxiang City People Government is in the course of negotiating with individual licensees who collectively have existing rights to exploit 3 million tons of phosphate rocks in Zu Bao Fo Mine, with an aim to consolidate such right in Phosphate Mine Company, so that Phosphate Mine Company will obtain the right to exploit up to 32 million tons of phosphate rocks and become the only entity which has the mining right of phosphate rocks in Zu Bao Fo Mine.

Formal Agreement

The Company and Zhongxiang City People Government agreed to form a working group within one month after the signing of the Memorandum for finalizing a formal agreement in relation to the Investment. Further announcement in accordance with the Listing Rules will be made by the Company as and when appropriate.

INFORMATION ON ZU BAO FO MINE

Zhongxiang City People Government is the local government of Zhongxiang City, Hubei Province. It is estimated by Zhongxiang City People Government that the phosphate rocks storage in Zu Bao Fo Mine reaches 32 million tons. The Mining Right entitles the owner an exclusive right to exploit up to 32 million tons and in any event not less than 29 million tons of phosphate rocks in Zu Bao Fo Mine with a license period of 60 years, and Guo Xin WFOE will be able to obtain 500,000 tons of phosphate rocks annually, which quality may produce 200,000 tons of approximately 64% pure diammonium phosphate binary compound phosphate fertilizers.

REASONS FOR ENTERING INTO THE MEMORANDUM

The Group is principally engaged in the operation of trading of consumer goods, provision of travel related services and property related business.

It is the long term strategy to progressively identifying new business opportunities to form solid foundation for strengthening the Group’s further operating profits and as a result, enhancing the earning base and investment value of the Group, so as to contribute the best returns to the Shareholders. The Directors consider the shortage of resources globally, in particular, phosphate rock in the PRC is scare in supply, and believe that the room for phosphate price increment is enormous. Further, the Directors consider that the PRC government has carried out certain favourable measures for peasants, such as demolishing agricultural taxes and providing more subsidies for peasants cultivating food crops in order to raise food productivity, therefore it is expected that the demand for phosphate fertilizers will be on the rise. Hence it is a good business opportunity to invest in resources industry by way of the Investment. The Directors consider that the terms
and conditions of the Memorandum are fair and reasonable and the Investment is in the best interest of the Company and its Shareholders as a whole.

GENERAL
The Company and Zhongxiang City People agreed to form a working group within one month after the signing of the Memorandum for finalizing a formal agreement on the details of the Investment. The Company considers that the Investment is likely to constitute a major transaction for the Company under the Listing Rules. Further announcement in compliance with the Listing Rules will be made by the Company as and when appropriate.

SUSPENSION AND RESUMPTION OF TRADING
At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 9 June 2006 pending release of an announcement on a major transaction of the Company. For the reason aforesaid, the Company considers it is at this stage appropriate to release this announcement instead of an announcement on a major transaction. Application has been made by the Company for the resumption of trading in the Shares with effect from 9:30 a.m. on 13 June 2006.

DEFINITIONS
“Board” the board of Directors
“Company” Guo Xin Group Limited, a company incorporated in Bermuda with limited liability, which Shares are listed on the Stock Exchange
“Directors” the directors of the Company
“Guo Xin WFOE” a wholly foreign owned enterprise to be established by the Company for the purpose of the Investment
“Group” the Company and its subsidiaries
“HK$” Hong Kong dollars
“Hong Kong” the Hong Kong Special Administrative Region of the PRC
“Zhongxiang City People Government” 湖北省鍾祥市人民政府 (Hubei Province Zhongxiang City People Government)
“Investment” the establishment of Guo Xin WFOE for the purpose of acquisition of a controlling equity interest in Phosphate Mine Company which will be the sole holder of the Mining Right
“Listing Rules” The Rules Governing the Listing of Securities on the Stock Exchange
“Memorandum” a memorandum of understanding entered into between the Company and Zhongxiang City People Government on 8 June 2006 in relation to the Investment
“Mining Right” an exclusive mining right of up to 32 million tons and in any event not less than 29 million tons of phosphate rocks in Zu Bao Fo Mine with a license period of 60 years
“Mining Right Government Fee” the fee payable by Phosphate Mine Company to NLRMS for the grant of the Mining Right
“NLRMS” 湖北省國土資源管理部門 (Hubei Province Nation Land Resources Management Sector), a PRC government authority
“Pengjiawan Factory District” 湖北省鍾祥市磷礦鎮彭家灣湖北華毅化工有限公司廠區 (Hubei Province Zhongxiang City Phosphate Mining Town Pengjiawan Hubei Huayi Chemical Company Limited Factory District)
“Phosphate Fertilizers Production” the production of approximately 64% pure diammonium phosphate binary compound phosphate fertilizers by refining the phosphate rocks to be obtained from Zu Bao Fo Mine
“PRC” The People’s Republic of China
“Refining Facilities” facilities to be installed for refining the phosphate rocks obtained from Zu Bao Fo Mine into approximately 64% pure diammonium phosphate binary compound phosphate fertilizers
“RMB” Reminbi
“SGM” special general meeting of the Company to be held to consider and to approve the Investment
“Shares” share(s) of HK$0.10 each in the capital of the Company
“Shareholders” the shareholders of the Company
“Stock Exchange” The Stock Exchange of Hong Kong Limited
“Phosphate Mine Company” 鍾祥磷礦公司 (Zhongxiang Phosphate Mine Company), a company to be established by Zhongxiang City People Government
“Zu Bao Fo Mine” 磷礦鎮朱堡埠礦區(Zu Bao Fo Mining District in Phosphate Mining Town) in Zhongxiang City, Hubei Province

Conversion of RMB into HK$ is based on the exchange rate of RMB1.033 = HK$1.00.

By Order of the Board of
Guo Xin Group Limited
Lam Cheung Shing, Richard
Director

Hong Kong, 12 June 2006

As at the date of this announcement, the Board consists of Mr. Zhang Yang and Mr. Lam Cheung Shing, Richard (both being executive Directors), and Mr. Tam Sun Wing, Mr. Ko Ming Tung, Edward and Mr. Ng Ge Bun (all being independent non-executive Directors).

* For identification purpose only

Please also refer to the published version of this announcement in The Standard.