

# BAKER GROUP INTERNATIONAL HOLDINGS LIMITED

(formerly known as Luen Cheong Tai International Holdings Limited)

(Provisional Liquidators Appointed)

(Incorporated in the Cayman Islands with limited liability)

## ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MAY 2003

### RESULTS

The joint and several provisional liquidators (“Provisional Liquidators”) of Baker Group International Holdings Limited (formerly known as Luen Cheong Tai International Holdings Limited) (Provisional Liquidators Appointed) (“Company”) announce that the audited consolidated results of the Company and its subsidiaries (“Group”) for the year ended 31 May 2003 together with the comparative figures for last year were as follows:

	Notes	2003 HK\$'000	2002 HK\$'000
<b>Turnover</b>	2&3	<b>1,523</b>	156,352
Cost of sales		<u>(1,182)</u>	<u>(213,856)</u>
<b>Gross profit/(loss)</b>		<b>341</b>	(57,504)
Other revenue		<b>1</b>	6,156
Administrative expenses		<b>(3,432)</b>	(22,538)
Other operating expenses		<u>—</u>	<u>(8,216)</u>
<b>Loss from operations</b>		<b>(3,090)</b>	(82,102)
Gain on deconsolidation of a subsidiary and gain on restructuring	4	<b>244,332</b>	—
Debt restructuring costs	4	<b>(27,322)</b>	—
Provisions for impairment and write offs		<b>—</b>	(250,303)
Finance costs		<b>*</b>	<u>(13,911)</u>
<b>Profit/(loss) before taxation</b>	3	<b>213,920</b>	(346,316)
Taxation	5	<b>3,400</b>	<u>—</u>
<b>Profit/(loss) for the year</b>		<b><u>217,320</u></b>	<b><u>(346,316)</u></b>
<b>Earnings/(loss) per share</b>	6	<b><u>HK\$ 0.408</u></b>	<b><u>HK\$ (0.730)</u></b>
<b>Dividend per share</b>	7	<b><u>NIL</u></b>	<b><u>NIL</u></b>

\* *The Provisional Liquidators have encountered difficulties in recovering the books and records of the Group and limited information has been made available to them. As a result, certain information in the financial statements of the Group for the year ended 31 May 2003, this announcement and the notes below is not available.*

Unless otherwise defined in this announcement, terms defined in the joint announcement dated 12 June 2003 made by the Company (acting through the Provisional Liquidators) and Northern Resources Limited (“Investor”) shall have the same meanings when used herein.

Notes:

## 1. Basis of Preparation of Financial Statements

### (a) *Going concern*

The financial statements for the year ended 31 May 2003 have been prepared on a going concern basis, as modified by the write-down of assets and liabilities to their estimated recoverable/settlement amounts. In view of the matters discussed in the paragraph headed “Prospects/Restructuring Proposal” as set out in the “Management Discussion and Analysis” section of this announcement, in the opinion of the Provisional Liquidators, the Company and the Group will not be a going concern at the balance sheet date without a successful implementation of the Restructuring Proposal.

Fixed assets and concession rights are stated at the Provisional Liquidators’ best estimate of net realizable value. For presentation purposes, they are shown as non-current assets.

Current assets are stated at the Provisional Liquidators’ best estimate of their respective net realizable values.

Liabilities have been adjusted to anticipated settlement amounts as the Provisional Liquidators consider that preparation of the financial statements on the basis of inclusion of Group liabilities at estimated settlement amounts as set out in the Company’s proposed Debt Restructuring arrangement reflects the probable economic outflows of the Group.

There will also be continuing realization costs as the Provisional Liquidators progress their work.

In the event that the Restructuring Proposal is not successfully implemented, further adjustments may have to be made to reduce the carrying value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify fixed assets and concession rights as current assets.

The consolidated financial statements do not contain statements of cash flows as required by Statement of Standard Accounting Practice (“SSAP”) 15 “Cash Flow Statements” issued by the Hong Kong Society of Accountants (“HKSA”), as there is insufficient information available to prepare such statements.

No information is available to present the Group’s financial information by segment and this is not in accordance with the requirements of SSAP 26 “Segment Reporting”.

No information is available to present the disclosures as required by SSAP 33 “Discontinuing Operations”.

No information is available to present the disclosures as required by SSAP 20 “Related party disclosures”

For the same reason, the financial statements do not contain information pertaining to the Group’s credit risk and ageing of debtors and creditors. This is not in accordance with the requirements of the Listing Rules.

The Provisional Liquidators have only been able to obtain the management accounts of Finestyle and i.Solution for the seven month period ended 31 December 2002. Accordingly, the Provisional Liquidators have consolidated the results of these two subsidiaries based on the unaudited managements accounts for the period ended 31 December 2002. This is against the requirements of SSAP 32 which states that the difference between reporting dates should be no more than three months. All other active subsidiaries of the Group ceased operations in July 2002.

**(b) *Qualified Representation by Provisional Liquidators***

The powers of the Directors have been suspended following the appointment of the Provisional Liquidators.

As the Provisional Liquidators did not exercise any control over the business, property and affairs of the Group prior to their appointment on 5 September 2002, they do not have the same level of knowledge of the financial affairs of the Company and the Group as the Company's Directors. The accounting staff responsible for maintaining the books and records of the Company, and preparing its financial statements, had left the service of the Company prior to the appointment of the Provisional Liquidators. The Provisional Liquidators have encountered and continue to encounter tremendous difficulties in recovering the books and records of the Company and its subsidiaries. To date, information available to the Provisional Liquidators has been limited and this has resulted in the Provisional Liquidators being unable to provide full disclosures for the year ended 31 May 2003 as is required by the SSAPs issued by the HKSA and the Listing Rules.

**2. Turnover**

The principal activities of the Group are logging operations and holding forest concession rights in the Republic of Suriname. In the year ended 2002, the principal activities of the Group were construction, sale of timber from its timber concessions, trading of machinery and parts, website development, leasing of machinery and vessels and property investment.

Turnover represents the aggregate of sales value of goods supplied to customers. Revenue excludes sales taxes and is after deduction of any trade discounts. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	<b>The Group</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Gross proceeds from machinery and parts sold	*	*
Gross proceeds from timber sold	<b>1,523</b>	*
Gross rentals from machinery, vessels and investment properties	*	*
Revenue from construction contracts	*	*
	<hr/>	<hr/>
	<b><u>1,523</u></b>	<b><u>156,352</u></b>

### 3. Segmental Information

Analysis of the principal activities and geographical locations of the operations of the Group during the financial year are as follows:

The Group	Group's turnover		Contribution to profit/(loss) from ordinary activities before taxation	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<i>(a) Principal activities:</i>				
Construction	*	*	*	*
Machinery, vessels and property rental	*	*	*	*
Websites development	*	*	*	*
Sales of machinery and parts	*	*	*	*
Sales of timber	1,523	*	*	*
	<u>1,523</u>	<u>156,352</u>	<u>213,920</u>	<u>(346,316)</u>
<i>(b) Geographical locations of operations:</i>				
Hong Kong	*	*	*	*
The People's Republic of China	*	*	*	*
The Republic of Suriname	1,523	*	*	*
Others	*	*	*	*
	<u>1,523</u>	<u>156,352</u>	<u>213,920</u>	<u>(346,316)</u>

### 4. Gain on Deconsolidation of a Subsidiary and Gain on Restructuring and Debt Restructuring Costs

On 15 July 2002, the High Court of Hong Kong issued a winding up order against Luen Cheong Tai Construction Company Limited ("LCTC"), a wholly owned subsidiary of the Company. A winding-up petition had been presented by Hennabun Resources Limited against LCTC on 18 February 2002. As a consequence of the loss of control of LCTC, the Company has deconsolidated LCTC as from 1 June 2002. As a result of the Restructuring Proposal, the Company has provided for additional liabilities which are expected to be settled under the proposed Debt Restructuring arrangement.

### 5. Taxation

*(a) Taxation in the consolidated profit and loss account represents:*

	The Group	
	2003 HK\$'000	2002 HK\$'000
Provision for Hong Kong Profits Tax for the year	*	*
Under/(over) provision in respect of prior years	*	*
	<u>*</u>	<u>*</u>
Overseas taxation	*	*
Deferred taxation	*	*
	<u>(3,400)</u>	<u>—</u>

No provision for overseas taxation has been made as the Group's overseas subsidiaries sustained a loss for overseas taxation purposes for the period ended 31 December 2002 and the year ended 31 May 2002.

**(b) Taxation in the consolidated balance sheet represents:**

	<b>The Group</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Provision for Hong Kong Profits Tax for the year	*	*
Balance of Hong Kong Profits Tax recoverable relating to prior years	*	*
	<hr/>	<hr/>
Tax recoverable — Hong Kong Profits Tax	*	*
Tax payable — overseas taxation	*	5,536
	<hr/>	<hr/>
	<hr/>	<hr/>
	—	5,536
	<hr/>	<hr/>
Representing:		
Tax payable	*	5,536
Tax recoverable	*	—
	<hr/>	<hr/>
	<hr/>	<hr/>
	—	5,536
	<hr/>	<hr/>

**6. Earnings/(Loss) Per Share**

**(a) Basic earnings/(loss) per share**

The calculation of basic earnings/(loss) per share is based on the earnings/(loss) attributable to shareholders of HK\$217,320,000 (2002: loss of HK\$346,316,000) and the weighted average of 532,554,501 (2002: 474,217,000) ordinary shares in issue during the year.

**(b) Diluted earnings/(loss) per share**

Diluted earnings/(loss) per share for each of the years ended 31 May 2003 and 2002 is not shown as the potential ordinary shares are anti-dilutive.

**7. Dividends**

The Provisional Liquidators do not recommend the payment of a final dividend for the year ended 31 May 2003 and no dividend was declared in the prior year.

**SUMMARY OF AUDITORS' REPORT**

The Company's auditors were unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 May 2003 and of the profit and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the Companies Ordinance on the basis set out below:

“We have audited the financial statements which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. Provisional Liquidators are currently appointed to the Company, and they have been unable to obtain and are therefore unable to provide all the relevant information in this regard.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you.

## **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the HKSA, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as set out in detail in the following paragraphs.

Dealing in the Company's shares on the Stock Exchange has been suspended since 26 August 2002. On 5 September 2002, the High Court of Hong Kong ("the Court") appointed Mr. Yeo Boon Ann and Mr. Stephen Liu Yiu Keung, both of Messrs. Ernst & Young Transactions Limited as Provisional Liquidators of the Company.

On 27 May 2003, the Provisional Liquidators, the Company and the Investor, a company incorporated in the British Virgin Islands with limited liability and ultimately beneficially owned as to 88% by China National Arts & Crafts (Group) Corporation, a PRC state-owned enterprise and 12% by Modern East Holdings Limited entered into a Restructuring Agreement. The Restructuring Agreement sets out the framework for implementation of the Restructuring Proposal. If completed, the Restructuring Proposal will result in the restructuring of both the indebtedness of the Company and certain of its subsidiaries and the Company's share capital, and will also result in a change in the identity of the Company's controlling shareholder.

The Restructuring Proposal is subject to the approval of all relevant parties, including the regulatory authorities, creditors and shareholders. The implementation of the Restructuring Proposal is also subject to the grant of a whitewash waiver from the Executive under the Code from the obligation to make a general offer for all the shares in the Company not already owned by the Investor and parties acting in concert with it.

The Listing Rules require, inter alia, that companies whose shares are listed on the Stock Exchange submit audited financial statements to shareholders within four months of the balance sheet date. However, the audit of the final results of the Company and its subsidiaries for the year ended 31 May 2003 was necessarily delayed while the Restructuring Proposal was being finalised.

We were appointed auditors on 4 July 2003 which was subsequent to the end of the Company's financial year. The Provisional Liquidators were appointed on 5 September 2002 pursuant to an Order of the Court. Upon the appointment of the Provisional Liquidators, the powers of the directors were suspended with regard to the affairs and the business of the Company. The Provisional Liquidators were not able to provide us with all the information that we required in relation to our audit for the year ended 31 May 2003. In consequence, we were unable to carry out all of the auditing procedures necessary to obtain adequate assurance regarding the assets and liabilities at 31 May 2003, and the income and expenses appearing in the financial statements for the year then ended. There were no satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the accuracy and completeness of the assets, liabilities, income and expenses of the Company and the Group.

The financial statements do not contain a statement of cash flows. This is not in accordance with the requirements of SSAP 15 "Cash flow statements".

The financial statements do not contain information relating to related party transactions. This is not in accordance with the requirements of SSAP 20 "Related party disclosures", and section 161 of the Companies Ordinance.

The financial statements do not contain the Group's financial information by segment. This is not in accordance with the requirements of SSAP 26 "Segment reporting".

The financial statements do not contain the disclosures required by SSAP 33 "Discontinuing operations".

The financial statements do not contain information pertaining to the Group's credit risk and ageing of debtors and creditors. This is not in accordance with the requirements of the Listing Rules.

We were not appointed as auditors of any of the subsidiaries of the Company since at the date of our appointment only Finestyle and i.Solution had any operations and these companies were already being audited by a firm of Certified Public Accountants in Suriname. However, the audits for Finestyle and i.Solution for the years ended 31 May 2002 and 2003 have not been completed as of the date of these financial statements. The Provisional Liquidators have only been able to obtain the unaudited management accounts of Finestyle and i.Solution for the seven month period ended 31 December 2002. Accordingly, the Provisional Liquidators have consolidated the results of these two subsidiaries based on the unaudited managements accounts for the period ended 31 December 2002. This is against the requirements of SSAP 32 which states that the difference between reporting dates of a holding company and its subsidiaries should be no more than three months. All other active subsidiaries of the Group ceased operations in July 2002. We were unable to satisfy ourselves as to whether proper books of account were maintained by the subsidiaries during the years ended 31 May 2002 and 2003. The Group consolidation includes subsidiaries on the basis of unaudited information. Accordingly, we have been unable to establish whether the amounts consolidated fairly reflect the position as at 31 May 2003 and the results for the year then ended of the Group. As we have not had access to the books and records of the Group, we have been unable to determine whether opening balances were appropriately brought forward at 1 June 2002.

In addition to the general limitation on the scope of our work as referred to in the paragraphs above, we were unable to specifically ascertain the following:

- (i) the completeness, accuracy and existence of the following amounts included in the financial statements in respect of the Company's subsidiaries, Finestyle and i.Solution, since these amounts are included in the consolidated financial statements based on unaudited management accounts for the seven month period ended 31 December 2002 — property, plant and equipment of HK\$14,041,000 (US\$1,800,145); current assets of HK\$1,663,000 (US\$213,180), including inventories carried at HK\$601,000 (US\$77,000); current liabilities of HK\$1,638,000 (US\$210,025); income of HK\$1,523,000 (US\$195,269) and loss before taxation of HK\$2,980,000 (US\$382,091); and
- (ii) the completeness, accuracy and existence of capital commitments and contingent liabilities of the Group.

### **FUNDAMENTAL UNCERTAINTIES RELATING TO THE BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The Provisional Liquidators were only appointed on 5 September 2002 pursuant to an Order of the Court, they are therefore not in a position to represent that all transactions entered into in the name of the Company and its subsidiaries during the period from 1 June 2002 to 31 May 2003 have been included in the financial statements.

The consolidated financial statements show net shareholders' funds of HK\$23,684,000 as at 31 May 2003. The consolidated financial statements have been prepared on a going concern basis as modified by the write-down of assets to their estimated recoverable amounts and the inclusion of liabilities at estimated settlement amounts. Liabilities have been included at the proposed settlement amounts as set out in the proposed Debt Restructuring since the Provisional Liquidators consider that preparation of the financial statements on the basis of inclusion of Group liabilities at estimated settlement amounts as set out in the Company's proposed Debt Restructuring arrangement reflects the probable economic outflows of the Group. In the opinion of the Provisional Liquidators, the Group and the Company would not be a going concern at the balance sheet date if the Restructuring Proposal is not successfully implemented.

If the Restructuring Proposal is not successfully implemented, adjustments might have to be made to further reduce the value of assets to revised recoverable amounts, to provide for any further liabilities which might arise and to reclassify fixed assets as current assets. In our audit report on the financial statements of the Company for the year ended 31 May 2002, we were unable to form an opinion as to whether the Group liabilities as included in those financial statements were complete and accurate.

We consider that appropriate disclosures have been made in the financial statements concerning this situation, but we also consider that the uncertainties surrounding the circumstances under which the financial statements have been prepared are such that they form part of our overall disclaimer on the view given by the financial statements for the year ended 31 May 2003.

## **QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS**

Because of the significance of the possible effects of the various limitations in evidence available to us, as set out in the Basis of Opinion section of our report above, we are unable to form an opinion as to whether the financial statements present fairly the state of affairs of the Company and the Group as at 31 May 2003 and of the Group's profit for the year then ended. The financial statements do not contain all the disclosures required by the Hong Kong Companies Ordinance, as required by the Listing Rules and the HKSA SSAPs since the Provisional Liquidators were not able to obtain from the Company and its directors all the information required to prepare the financial statements or that we required in relation to our audit.

The financial statements do not contain a statement of cash flows. This is not in accordance with the requirements of SSAP 15 "Cash flow statements". In our opinion information about the Group's cash flows is necessary for a proper understanding of the Group's state of affairs and profit.

As the Provisional Liquidators were not able to obtain all the information that we required in relation to our audit, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit and we were unable to determine whether proper books of account have been maintained."

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

The Company is incorporated in the Cayman Islands and its shares are listed on the Stock Exchange. However, dealings in the Company's shares on the Stock Exchange have been suspended since 26 August 2002.

The principal activities of the Group were construction work, forest exploitation and timber trading and online commerce. The current principal operating business of the Group is timber logging and trading in Suriname.

The Group's financial position began to deteriorate following the Asian financial crisis and the weakness of Hong Kong's property market. This caused a substantial deterioration in the Group's available working capital. The Group's operations have been adversely constrained for some time and the Group is currently principally engaged in managing its forest concession rights in Suriname, South America.

On 5 September 2002, the High Court of Hong Kong appointed Mr. Yeo Boon Ann and Mr. Stephen Liu Yiu Keung both of Ernst & Young Transactions Limited as the Provisional Liquidators of the Company.

### **Prospects/Restructuring Proposal**

On 27 May 2003, a Restructuring Agreement was signed between the Company (acting through the Provisional Liquidators), the Provisional Liquidators and the Investor. The Restructuring Agreement sets out the framework for the implementation of the Restructuring Proposal. If completed, the Restructuring Proposal will result in the restructuring of both the indebtedness of the Company and certain of its subsidiaries and the Company's share capital, and also result in a change in the identity of the Company's controlling shareholder. Details of the Restructuring Proposal are set out in a joint announcement dated 12 June 2003 made by the Company (acting through the Provisional Liquidators) and the Investor.

The Restructuring Proposal is subject to the approval of all parties, including the relevant regulatory authorities, creditors and shareholders. The implementation of the Restructuring Proposal is also subject to the grant of a whitewash waiver by the Executive under the Code from the obligation to make a general offer for all the shares in the Company not already owned by the Investor and parties acting in concert with it.

Under the terms of the Restructuring Proposal, the Company's share capital will be restructured, inter alia, by way of a capital reduction of the existing issued share capital of the Company from HK\$0.10 each to a par value of HK\$0.01, a share consolidation and increase in authorised share capital.

The Restructuring Proposal also sets out the compromise of indebtedness owing by the Company to all of its creditors (including its contingent liabilities). The Debt Restructuring will be affected as part of the Schemes. It is proposed that all outstanding debts of the Company will be repaid and compromised as full and final settlement in the following manner:

- (i) cash payment of HK\$45 million upon Completion, subject to the payment therefrom of the restructuring costs, will be applied towards repaying the outstanding debts of the Company;
- (ii) issue of 248,053,000 New Shares, representing approximately 5% of the enlarged issued share capital of the Company immediately upon Completion, by the Company at par value of HK\$0.01 per New Share to the Scheme Administrators (or their nominees) on trust for the unsecured creditors and the secured creditors (in respect of the unsecured portion of their debts) of the Company on a pro rata basis. The Scheme Administrators shall undertake that they shall (or shall procure their nominees) not dispose of such New Shares for a period of one (1) year from the date of Completion;
- (iii) the undertaking by a wholly owned subsidiary of the Investor outside the Group to pay HK\$25,000,000 to Luen Cheong Tai Engineering Limited ("LCT Engineering") for the acquisition by the Debtor of Finestyle and i.Solution pursuant to a deed of sale and purchase. Payments made to LCT Engineering will be distributed to its creditors, which will include the newly incorporated company referred to in paragraph (iv) below, via a voluntary liquidation of LCT Engineering; and
- (iv) cash payment of the proceeds (if any) from the realization of the Company's assets (other than Finestyle, i.Solution and the Debtor) which will be transferred to a newly incorporated company controlled by the Scheme Administrators.

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

The Provisional Liquidators were appointed to the Company on 5 September 2002. Consequently, the Provisional Liquidators are not aware of whether the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## **CODE OF BEST PRACTICE**

The Provisional Liquidators were appointed to the Company on 5 September 2002. Consequently, the Provisional Liquidators have no knowledge as to whether the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the financial year.

**PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE**

All the information of the annual results of the Group for the year ended 31 May 2003 required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

For and on behalf of  
**Baker Group International Holdings Limited**  
**(formerly known as Luen Cheong Tai International Holdings Limited)**  
**(Provisional Liquidators Appointed)**  
**Yeo Boon Ann**  
**Stephen Liu Yiu Keung**  
*Joint and Several Provisional Liquidators*

Hong Kong, 24 October 2003

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