THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in Baker Group International Holdings Limited (formerly known as Luen Cheong Tai International Holdings Limited) (Provisional Liquidators Appointed), you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, licensed securities dealer or other agent through whom the sale was effected for transmission to the purchaser.

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)

NORTHERN RESOURCES LIMITED

(Incorporated in the British Virgin Islands with limited liability)

RESTRUCTURING OF
BAKER GROUP INTERNATIONAL HOLDINGS LIMITED
(FORMERLY KNOWN AS LUEN CHEONG TAI INTERNATIONAL HOLDINGS LIMITED)
(PROVISIONAL LIQUIDATORS APPOINTED)
INVOLVING, INTER ALIA, CAPITAL RESTRUCTURING, DEBT RESTRUCTURING AND CREDITORS' SCHEMES OF ARRANGEMENT
IN ACCORDANCE WITH SECTION 86 OF THE CAYMAN COMPANIES LAW AND SECTION 166 OF THE COMPANIES ORDINANCE, SUBSCRIPTION FOR NEW SHARES
BY NORTHERN RESOURCES LIMITED,
WHITEWASH WAIVER, CONNECTED TRANSACTION
AND
GENERAL MANDATES TO ISSUE AND TO REPURCHASE NEW SHARES

Financial adviser to Baker Group International Holdings Limited
(Formerly known as Luen Cheong Tai International Holdings Limited)
(Provisional Liquidators Appointed)

ASIAN CAPITAL
(CORPORATE FINANCE) LIMITED
卓亞(企業融資)有限公司

Financial adviser to Northern Resources Limited

DBS Asia Capital

Independent financial adviser to the Independent Shareholders

第一上海
FIRST SHANGHAI GROUP

A letter from First Shanghai, the independent financial adviser to the Independent Shareholders, containing its recommendations to the Independent Shareholders, is set out on pages 51 to 69 of this circular.

A notice convening the EGM to be held at 2:00 p.m. on Monday, 24 November 2003 at 4/F Hutchison House, 10 Harcourt Road, Central, Hong Kong is set out on pages 190 to 198 of this circular. A form of proxy for use at the EGM is enclosed. Regardless of whether you intend to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Delivery of a form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned EGM should you so desire.

29 October 2003

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DEFINITIONS

In this circular, the following expressions have the following meanings:

"Asian Capital"	Asian Capital (Corporate Finance) Limited, a licensed corporation under the SFO and the financial adviser to the Company
"Board"	the board of Directors of the Company
"BOC Application"	the application made by Bank of China (Hong Kong) Limited for the appointment of the Provisional Liquidators to the Company
"Capital Reduction"	the proposed reduction of the share capital of the Company whereby the par value of the existing Shares is reduced from HK$0.10 each to a par value of HK$0.004 each
"Capital Restructuring"	the proposed Capital Reduction, Share Subdivision and Share Consolidation
"Cayman Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Cayman Islands Court"	the Grand Court of the Cayman Islands
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Closing Date"	the date of completion of the Restructuring Proposal
"CMTHK"	China Metal & Technologies (H.K.) Limited, a company incorporated in Hong Kong on 5 March 2003 and a wholly-owned subsidiary of CMTI, is the controlling shareholder holding 88% of the issued share capital of the Investor
"CMTI"	China Metal & Technologies Inc (中金科技股份有限公司), a company incorporated in the PRC and beneficially owned as to 91.92% by NACGC and 8.08% by five other independent third parties in the PRC not connected with NACGC, CMTI, CMTHK, Modern East, the Investor, the Company or any of their respective directors, chief executive or substantial shareholder or any of their respective subsidiaries or associates of any of them (details of which are set out on page 41 of this circular), is the holding company of CMTHK

"Code"	the Hong Kong Code on Takeovers and Mergers
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of The Laws of Hong Kong)
"Company"	Baker Group International Holdings Limited (formerly known as Luen Cheong Tai International Holdings Limited) (Provisional Liquidators Appointed), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
"Company's Assets"	mean all of the Company's properties and assets (whether tangible or intangible) including but not limited to its legal or beneficial, direct or indirect, interests in the Existing Subsidiaries and any claims which the Company may have against any of the Existing Subsidiaries but shall exclude: (a) shares in the issued share capital of each of Finestyle, i.Solution and the Debtor; (b) all of the Company's rights under the Restructuring Proposal; and (c) all amounts owed to or claims by any of the Existing Subsidiaries against Finestyle or i.Solution to the extent it is within the power of appointment of the Provisional Liquidators and subject to all necessary approvals and consents having been obtained, that such amounts and such claims are assigned to the Company
"Completion"	the completion of the Restructuring Proposal
"Creditors"	all the Company's creditors with claims as at the date of the Schemes becoming effective. These are estimated to be approximately HK$145 million in aggregate to the best knowledge of the Provisional Liquidators based on available records as at the Latest Practicable Date
"DBS Asia"	DBS Asia Capital Limited, a deemed licensed corporation under the SFO and the financial adviser to the Investor
"Debt"	HK$25 million which shall be paid by Newco to LCT Eng and Mictech pursuant to the Deed of Sale and Purchase on or before the Repayment Date
"Debt Restructuring"	the proposed restructuring of the indebtedness and liabilities of the Company pursuant to the Restructuring Proposal

"Debtor"	a newly incorporated company, to be registered in the British Virgin Islands or such other jurisdiction as the Company, the Investor and the Provisional Liquidators shall agree, whose shares shall be 100% directly owned and controlled by the Company
"Deed of Sale and Purchase"	the deed of sale and purchase to be entered into among the Debtor, Newco, LCT Eng and Mictech pursuant to which LCT Eng and Mictech agree to transfer their respective entire shareholdings in and their respective claims, if any, against Finestyle and i.Solution to the Debtor, in consideration of Newco undertaking to repay the Debt
"Designated Accounts"	the designated bank accounts of Finestyle and i.Solution to be opened by Finestyle with LCT Eng (or its nominees) as one of the co-signatories and opened by i.Solution with Mictech (or its nominees) as one of the co-signatories
"Directors"	directors of the Company
"EGM"	the extraordinary general meeting of the Company to be held at 2:00p.m. on Monday, 24 November 2003 at 4/F Hutchison House, 10 Harcourt Road, Central, Hong Kong for the purpose of passing the relevant resolutions to implement the Restructuring Proposal
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Existing Subsidiaries"	the existing subsidiaries of the Company, other than Finestyle, i.Solution and the Debtor
"Finance Documents"	(a) the share pledge/charge to be granted by the Debtor over its shareholding in Finestyle; and (b) security to be granted by Finestyle over all its assets and undertakings, each in favour of LCT Eng, and (c) a share charge to be granted by the Debtor over its shareholding in i.Solution; and (d) security to be granted by i.Solution over all its assets and undertakings, each in favour of Mictech and in each case to secure the repayment of the Debt by Newco

"Finestyle"	Finestyle Investments (Suriname) N.V., a company incorporated in Suriname and through LCT Eng is a wholly-owned subsidiary of the Company that holds the Forest Concession
"First Shanghai"	First Shanghai Capital Limited, a deemed licensed corporation under the SFO and the independent financial adviser giving advice to the Independent Shareholders in relation to the Restructuring Proposal, the Whitewash Waiver and the transactions contemplated thereunder.
"Forest Concession"	the right to the forestry concession in Suriname, South America held by Finestyle
"Former Shareholders"	Ma Jiaqi and Sheng Hui, the former shareholders of Finestyle and former directors of Finestyle
"Get Nice"	Get Nice (Union) Finance Company Limited, a creditor of the Company
"Goalmark"	Goalmark International Company Limited, a company incorporated in Hong Kong and an overseas wholly-owned subsidiary of NACGC
"Group"	the Company and its subsidiaries
"HK Court"	The Court of First Instance of the High Court of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"i.Solution"	i.Solution Inc., a company incorporated in the British Virgin Islands and through Mictech, is a wholly-owned subsidiary of the Company that operates the Sawmill in Suriname, South America
"Independent Shareholders"	Shareholders who are not involved or interested in the Restructuring Proposal and the Whitewash Waiver other than their interest as a Shareholder. The Provisional Liquidators are not aware of any shareholders who need to abstain from voting at the EGM
"Investor"	Northern Resources Limited, a company incorporated in the British Virgin Islands with limited liability and is beneficially owned as to 88% by CMTHK and 12% by Modern East respectively

"Joint Announcement"	the announcement dated 12 June 2003 jointly made by the Company (acting through the Provisional Liquidators), the Provisional Liquidators and the Investor relating to the Restructuring Proposal
"Latest Practicable Date"	29 October 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
"LCT Eng"	Luen Cheong Tai Engineering Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company. Upon Completion, LCT Eng will become a wholly owned subsidiary of TrustCo
"LCTC"	Luen Cheong Tai Construction Company Limited (In Liquidation), a company incorporated in Hong Kong and a wholly owned subsidiary of the Company. Upon Completion, LCTC will become a wholly owned subsidiary of TrustCo, however, LCTC's liquidation will continue in accordance with the Companies Ordinance
"Listing Agreement"	the listing agreement entered into between the Company and the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mictech"	MicTech International Corporation, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company. Upon Completion, Mictech will become a wholly owned subsidiary of TrustCo
"Modern East"	Modern East Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and is ultimately beneficially owned as to 50% by Mr. Liu Xiangmao and 50% by Mr. Liu Wei
"NACGC"	China National Arts & Crafts (Group) Corporation (中國工藝美術(集團)公司), a PRC state-owned enterprise under the supervision of the State Assets Supervision and Administration Commission (國有資產監督管理委員會)

"Newco"	a newly incorporated company outside the Group to be registered in the British Virgin Islands (or such other jurisdiction as the Investor may consider appropriate) whose shares shall be solely owned by the Investor
"New Share(s)"	shares of par value HK$0.01 each in the share capital of the Company upon the Capital Restructuring becoming effective
"Petitioner"	Showa Leasing (Hong Kong) Limited, a financial institution incorporated in Hong Kong
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Prime Lending Rate"	the HK$ prime lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time
"Proposed Directors"	Mr. Pan Fengqiang, Mr. Wang Baoping, Mr. Peng Jianguo, Mr. Liu Xiangmao, Mr. Liu Wei, Mr. Huang Baozhong and Mr. Lau Chi Wah, Alex, the appointment of whom will be subject to approval by the Shareholders at the EGM
"Provisional Liquidators"	collectively in Hong Kong and the Cayman Islands, Messrs. Stephen Liu Yiu Keung and Yeo Boon Ann of Ernst & Young Transactions Limited and in the Cayman Islands only, Mr. Don Wayne Ebanks of E&Y Restructuring, Ltd., the joint and several provisional liquidators of the Company
"Relevant Period"	the period commencing from 13 December 2002 (i.e. the date of the commencement of the six month period prior to the date of the Joint Announcement) and ending on the Latest Practicable Date
"Repayment Date"	the date for repayment of the Debt by Newco pursuant to the Deed of Sale and Purchase, which shall be the date which is 18 months from the Closing Date
"Restructuring Agreement"	the conditional agreement dated 27 May 2003 entered into among the Company, the Provisional Liquidators and the Investor in relation to the Restructuring Proposal, as amended by a supplemental agreement to be executed the material terms of which have been agreed and disclosed in this circular

"Restructuring Proposal"	the proposed restructuring of the Company through the Capital Restructuring, the Debt Restructuring involving the Schemes and the Subscription contemplated under the Restructuring Agreement, the Subscription Agreement, the Deed of Sale and Purchase and the Finance Documents as well as the entering into of the Working Capital CB Subscription Agreement
"Sawmill"	the sawmill in Suriname, South America, which is operated by i.Solution and which, for the avoidance of doubt, shall not include the land on which the Sawmill is situated
"Scheme Administrators"	such persons appointed as scheme administrators pursuant to the terms of the Schemes
"Scheme(s)"	the schemes of arrangement pursuant to section 86 of the Cayman Companies Law and section 166 of the Companies Ordinance respectively between the Company and the Creditors, with or subject to any modification thereof or addition thereto or condition as may be approved or imposed by the Cayman Islands Court and/or the Hong Kong Court
"SFC"	the Securities and Futures Commission in Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Consolidation"	the consolidation of every five Shares of par value of HK$0.004 each into two new Shares of par value of HK$0.01 each (each a "New Share") immediately upon the Capital Reduction and the Share Subdivision becoming effective
"Share Subdivision"	the subdivision of every unissued Share into 25 Shares of HK$0.004 each
"Shareholders"	the shareholders of the Company
"Share(s)"	ordinary share(s) of par value HK$0.10 each in the existing share capital of the Company
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"Subscription"	the subscription for 4,500,000,000 New Shares pursuant to the Subscription Agreement

"Subscription Agreement"	the conditional agreement dated 27 May 2003 entered into between the Company and the Investor setting out the terms and conditions upon which the Investor shall subscribe, and the Company shall issue and allot, 4,500,000,000 New Shares representing approximately 90.71% of the enlarged issued share capital of the Company immediately upon completion of the Restructuring Proposal for cash of HK$45,000,000
"TrustCo"	a newly incorporated company, to be registered in the British Virgin Islands, or such other jurisdiction as the Provisional Liquidators think fit, whose share capital shall be legally owned by the Scheme Administrators and beneficially owned by the scheme creditors
"Whitewash Waiver"	a waiver by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Code from the obligation of the Investor and parties acting in concert with it to make a general offer for all the New Shares of the Company not already owned or agreed to be acquired by them upon Completion
"Working Capital Convertible Bond"	the zero coupon convertible note to be issued by the Company to the Investor with the right to convert the principal amount of the working capital of not less than HK$5 million but up to HK$10 million provided by the Investor to the Company into New Shares at the initial conversion price of HK$0.01 per New Share (subject to adjustments)
"Working Capital CB Subscription Agreement"	the subscription agreement in respect of the Working Capital Convertible Bond to be entered into between the Company and the Investor after Completion
"HK$" and "cents"	Hong Kong dollars and cents, the lawful currency of Hong Kong

	2003
Latest time for lodging forms of proxy for the EGM	2:00 p.m. on Saturday, 22 November
Creditors' meeting	10:00 a.m. on Monday, 24 November
EGM *(Note 2)*	2:00 p.m. on Monday, 24 November
Publication of announcement of results of the Creditors' meeting and the EGM	Tuesday, 25 November

The following events are conditional on, amongst other things, the results of the EGM, the availability of the HK Court and the Cayman Islands Court.

	2003
HK Court hearing of petition to sanction the Scheme	Friday, 28 November
Cayman Islands Court hearing of petition to sanction the Scheme	Thursday, 4 December
Completion	Wednesday, 10 December
Publication of announcement of Completion	Thursday, 11 December
Resumption of trading in the New Shares *(Note 3)*	9:30 a.m. on Thursday, 11 December
Existing counter for trading in board lots of 2,000 Shares of HK$0.10 each temporarily closes	9:30 a.m. on Thursday, 11 December
Temporary counter for trading in the New Shares, in board lots of 800 New Shares of HK$0.01 each in the form of existing certificate(s) for existing Shares opens	9:30 a.m. on Thursday, 11 December
First day of free exchange of existing yellow share certificates for new light blue share certificates	Thursday, 11 December

	2003
Existing counter for trading in the New Shares, in board lots of 10,000 New Shares of HK$0.01 each in the form of new share certificate(s) for the New Shares re-opens	9:30 a.m. on Monday, 29 December
Parallel trading commences	9:30 a.m. on Monday, 29 December
First day of operation of odd lot trading facility	Monday, 29 December
	2004
Temporary counter for trading in the New Shares, in board lots of 800 New Shares of HK$0.01 each in the form of existing share certificate(s) closes	4:00 p.m. on Tuesday, 20 January
Parallel trading ends	Tuesday, 20 January
Last day of operation of odd lot trading facility	Tuesday, 20 January
Last day of free exchange of existing yellow share certificates for new light blue share certificates	Tuesday, 27 January

Notes:

1. All time references contained in this circular refer to Hong Kong time.

2. The date of the EGM is subject to any change to the date of the Creditors' meeting, but in any event shall fall after the Creditors' meeting. Further announcement will be made in this connection as and when appropriate.

3. ***Trading in the Shares of the Company has been suspended since 9:30 a.m. on Monday, 26 August 2002 and will continue to be suspended on Completion until sufficient public float has been restored according to the requirement as stipulated under Rule 8.08 of the Listing Rules. Further announcement will be made as and when appropriate.***

29 October 2003

To the Shareholders,

Dear Sirs,

**RESTRUCTURING OF
BAKER GROUP INTERNATIONAL HOLDINGS LIMITED
(FORMERLY KNOWN AS LUEN CHEONG TAI
INTERNATIONAL HOLDINGS LIMITED)
(PROVISIONAL LIQUIDATORS APPOINTED)
INVOLVING, INTER ALIA, CAPITAL RESTRUCTURING, DEBT
RESTRUCTURING AND CREDITORS' SCHEMES OF ARRANGEMENT
IN ACCORDANCE WITH SECTION 86 OF THE CAYMAN COMPANIES
LAW AND SECTION 166 OF THE COMPANIES ORDINANCE,
SUBSCRIPTION FOR NEW SHARES BY
NORTHERN RESOURCES LIMITED,
WHITEWASH WAIVER, CONNECTED TRANSACTION AND
GENERAL MANDATES TO ISSUE AND
TO REPURCHASE NEW SHARES**

1. INTRODUCTION AND BACKGROUND

The Provisional Liquidators and the Investor jointly announced on 12 June 2003 that the Restructuring Agreement regarding the Restructuring Proposal for the Company was signed on 27 May 2003.

The Company was incorporated in the Cayman Islands on 20 July 1998. As disclosed in the Company's audited financial statements for the year ended 31 May 2002, the Group was principally engaged in construction, forest exploitation and timber trading as well as online commerce business activities and the financial position of the Group drastically deteriorated during the 12 month period from 31 May 2001 to 31 May 2002.

On 3 June 2002, a winding up petition was presented against the Company by the Petitioner with a claim of approximately HK$ 3.9 million. Prior to the first hearing of such petition, an application was made by Bank of China (Hong Kong) Limited, a creditor of the Company, for the appointment of provisional liquidators to the Company. The BOC Application was supported by seven other creditors of the Company, including the Petitioner, with total claims of approximately HK$97.8 million as at 30 November 2001. Based on the audited financial statements of the Company for the year ended 31 May 2002, the total liability of the Group was approximately HK$287.2 million. Upon hearing the BOC Application on 5 September 2002, the HK Court made an Order for the appointment of Messrs Stephen Liu Yiu Keung and Yeo Boon Ann of Ernst & Young Transactions Limited as Provisional Liquidators of the Company in Hong Kong.

According to the terms of the Order appointing the Provisional Liquidators, the Provisional Liquidators have the power to, inter alia, formulate and carry out a restructuring of the business of the Company, or its subsidiaries, associated companies, joint ventures or other entities in which the Company holds an interest. On 13 August 2003, the Cayman Islands Court made an order for the appointment of Messrs. Stephen Liu Yiu Keung, Yeo Boon Ann and Don Wayne Ebanks as Provisional Liquidators of the Company in the Cayman Islands.

After taking into consideration the current financial position of the Group and other alternative restructuring proposals received by the Company, the Provisional Liquidators are of the view that the Restructuring Proposal represents the best available option to the Company, its Creditors and Shareholders having regard to all factors including the potential returns to both the Creditors and Shareholders, the availability of alternatives for the Creditors to recover their debts and the time required to conclude the Restructuring Proposal. On 27 May 2003, the Provisional Liquidators and the Investor entered into the Restructuring Agreement. On 16 June 2003, the HK Court ordered that the hearing of the winding-up petition of the Company be adjourned to 5 January 2004 to allow more time for the Company to proceed with the Restructuring Proposal and prepare the Schemes. The meeting of the Creditors will be held on Monday, 24 November 2003 for the Creditors to approve the Schemes.

Since the publication of the Joint Announcement and with a view to further enhancing the financial position of the Group post Completion, the Provisional Liquidators and the Investor agreed that the Deed of Sale and Purchase and the Finance Documents will be entered into as part of the Restructuring Proposal in place of the subscription agreement in respect of the HK$25 million zero coupon convertible note to be issued by the Company to the Investor. Further details of the Deed of Sale and Purchase and the Finance Documents are set out in the section headed "2. The Restructuring Proposal — (E) The Debt" as set out on page 17 of this circular.

The entering into of the Deed of Sale and Purchase and the Finance Documents has the effect of reducing the liabilities of the Group by HK$25 million and improving the net tangible assets of the Group by the same amount as compared with what the liabilities of the Group would have been in the absence of the Deed of Sale and Purchase. The execution of the Deed of Sale and Purchase and the Finance Documents will constitute a connected transaction of the Company within the meaning of Chapter 14 of the Listing Rules and is subject to the approval of the Independent Shareholders at the EGM. The Finance Documents should not be considered in isolation and should be considered in conjunction with the Deed of Sale and Purchase, the effect of which is the assumption by Newco of HK$25 million, an amount which would have been the Group's liability, which is in the interests of the Company and the Group upon Completion. The effect of such connected transaction has been reflected in the audited financial statements of the Group for the financial year ended 31 May 2003 and the advice from First Shanghai to the Independent Shareholders in this regard is set out in its letter on pages 51 to 69 of this circular.

The Restructuring Proposal, if successfully implemented, will, amongst other things result in:

(a) a Capital Restructuring of the share capital of the Company whereby the par value of the Shares in issue will be reduced from HK$0.10 each to a par value of HK$0.01 each through the Capital Reduction, the Share Subdivision and the Share Consolidation;

(b) all the scheme creditors of the Company discharging and waiving their outstanding claims against the Company pursuant to the Schemes;

(c) the disposal of all of the Company's Assets and the assignment of all of the Company's claims against the Existing Subsidiaries to TrustCo;

(d) the Investor holding a controlling interest of approximately 90.71% in the enlarged issued share capital of the Company immediately upon Completion; and

(e) the resumption of trading in the New Shares of the Company if and when sufficient public float is restored after the implementation of the Restructuring Proposal.

The purpose of this circular is to provide you with further information in relation to the Restructuring Proposal, to set out the advice of First Shanghai to the Independent Shareholders in respect of the Restructuring Proposal, the Whitewash Waiver, the Deed of Sale and Purchase, the Finance Documents and the transactions contemplated thereunder and to give you notice of the EGM at which resolutions will be proposed to seek your approval of the following:

(i) the Capital Restructuring;

(ii) the Restructuring Proposal;

(iii) the entering into of the Working Capital CB Subscription Agreement;

(iv) the issuance of approximately 248.05 million New Shares to the Scheme Administrators or their nominees;

(v) the disposal of all the Company's Assets including, but not limited to, the Existing Subsidiaries and the assignment of all of the Company's claims against the Existing Subsidiaries to TrustCo;

(vi) the execution of the Deed of Sale and Purchase and the Finance Documents by certain subsidiaries of the Company;

(vii) the Whitewash Waiver;

(viii) the general mandate to allot, issue and deal with additional New Shares;

(ix) the general mandate to repurchase New Shares of the Company;

(x) the authorization of extension of the general mandate to allot New Shares;

(xi) the appointment of the Proposed Directors;

(xii) the ratification of the appointment of Messrs. Moore Stephens as the auditors of the Company; and

(xiii) the removal of the existing Directors.

The ordinary resolutions numbered 2 and 7 set out in the Notice of the EGM in relation to the Subscription and the Whitewash Waiver respectively will be approved by way of a poll of the Independent Shareholders at the EGM.

The notice of the EGM is set out on pages 190 to 198 of this circular.

2. THE RESTRUCTURING PROPOSAL

The Restructuring Proposal involves, amongst other things, the Capital Restructuring, the Debt Restructuring through the Schemes, the Subscription and the subscription for the Working Capital CB.

(A) Capital Restructuring

The existing authorised share capital of the Company is HK$1,000,000,000 divided into 10,000,000,000 Shares, of which 532,554,501 Shares of par value of HK$0.10 each have been issued and credited as fully paid up. Under the Restructuring Proposal, the Company's share capital will be reorganised in the following manner:

(a) Capital Reduction

The par value of each of the Shares of HK$0.10 each in issue will be reduced by HK$0.096 per Share so that the par value of each of the 532,554,501 Shares in issue will be reduced to HK$0.004 each.

(b) Unissued Share Subdivision

Each of the unissued Shares of HK$0.10 each will be sub-divided into 25 Shares of HK$0.004 each.

(c) Share Consolidation

Every five Shares of par value of HK$0.004 each will be consolidated into two new Shares of par value of HK$0.01 each. After the Share Consolidation, the issued share capital will comprise 213,021,800 New Shares.

Immediately after the Capital Reduction and the Share Consolidation becoming effective, the authorized share capital of the Company will be HK$1,000 million divided into 100,000 million New Shares, comprising 213,021,800 issued New Shares and 99,786,978,200 unissued New Shares.

(B) Debt Restructuring

The total claims of the Creditors as at the Latest Practicable Date including contingent liabilities of the Company as described in the section headed "8. Material Litigation" of Appendix IV to this circular are estimated to be approximately HK$145 million in aggregate to the best knowledge of the Provisional Liquidators based on available records. Such claims will be subject to formal adjudication by the Scheme Administrators once the Schemes are implemented. As at the Latest Practicable Date, the Provisional Liquidators are not aware of any Creditor that is also a Shareholder.

The Debt Restructuring will be effected as part of the Schemes. It is proposed that all outstanding debts of the Company amounting to approximately HK$145 million in aggregate to the best knowledge of the Provisional Liquidators based on available records as at the Latest Practicable Date will be repaid and compromised as full and final settlement in the following manner:

(a) cash payment of HK$45 million upon Completion, subject to the payment therefrom of the restructuring costs estimated to be HK$15 million, will be applied towards repaying the outstanding debts of the Company;

(b) 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; and

(c) cash payment of the proceeds (if any) from the realization of all the Company's assets (excluding (a) shares in Finestyle, i.Solution and the Debtor; (b) all of the Company's rights under the Restructuring Proposal; and (c) all amounts owed to or claims by any of the Existing Subsidiaries against Finestyle or i.Solution to the extent that such amounts and such claims are assigned to the Company) which will be transferred to TrustCo for the benefit of the scheme creditors as described in the section headed "(F) Other Terms" below.

(C) Subscription

On the Closing Date, the Investor will subscribe or procure subscribers to subscribe for 4,500 million New Shares, representing approximately 90.71% of the enlarged issued share capital of the Company immediately upon Completion, at HK$0.01 each, for HK$45 million, to be satisfied in cash.

Out of the subscription proceeds of HK$45 million (as referred to in the section headed "(B) Debt Restructuring (a)" above), after deducting the costs and expenses for implementing the Restructuring Proposal, the remaining amount will be paid to the Scheme Administrators for distribution to the scheme creditors and to meet the costs of the Scheme. As at the Latest Practicable Date, the estimated costs for implementing the Restructuring Proposal are approximately HK$15 million.

(D) Working Capital Convertible Bond

To obtain the necessary funding for the Company's capital requirements, the Company will, within a period of 3 months after the Closing Date, enter into a subscription agreement with the Investor pursuant to which the Company will issue the Working Capital Convertible Bond, which will give the Investor a right to convert the principal amount of not less than HK$5 million but up to HK$10 million into New Shares at an initial conversion price of HK$0.01 per New Share (subject to adjustments) within 24 months from the date of issue. Further details of the Working Capital Convertible Bond are contained in Appendix II to this circular.

The Investor has undertaken to the Company and the Stock Exchange that it will not exercise the conversion rights attaching to the Working Capital Convertible Bond if such conversion would result in the public float of the issued share capital of the Company from time to time falling below 25%, which is the minimum public float requirement as stipulated under Rule 8.08 of the Listing Rules. The Company and the Proposed Directors have also undertaken to the Stock Exchange that they will not issue New Shares to the extent that the 25% minimum public float requirement as stipulated under Rule 8.08 of the Listing Rules is not met.

The Proposed Directors have undertaken to the Stock Exchange, subject to Completion, to notify the Stock Exchange any dealings by connected persons (as defined under the Listing Rules) of the Company from time to time in the Working Capital Convertible Bond immediately upon the Company becoming aware of such dealings.

(E) The Debt

Since the publication of the Joint Announcement and with a view to further enhancing the financial position of the Group post Completion, the Provisional Liquidators and the Investor agreed that the Deed of Sale and Purchase and the Finance Documents will be entered into as part of the Restructuring Proposal in place of the original proposed subscription agreement in respect of the HK$25 million zero coupon convertible note to be issued by the Company to the Investor as referred to in the Joint Announcement.

Under the original proposed arrangement as referred to in the Joint Announcement, the Group would have continued to owe HK$25 million to the scheme creditors following Completion. The entering into of the Deed of Sale and Purchase and the Finance Documents has the effect of reducing the liabilities of the Group by HK$25 million and improving the net tangible assets of the Group by the same amount as compared with what the liabilities of the Group would have been in the absence of the Deed of Sale and Purchase. The execution of the Deed of Sale and Purchase and the Finance Documents will constitute a connected transaction of the Company within the meaning of Chapter 14 of the Listing Rules and is subject to the approval of the Independent Shareholders at the EGM. The Finance Documents should not be considered in isolation and should be considered in conjunction with the Deed of Sale and Purchase, the effect of which is the assumption by Newco of HK$25 million, an amount which would have been the Group's liability, which is in the interests of the Company and the Group upon Completion. The effect of such connected transaction has been reflected in the audited financial statements of the Group for the financial year ended 31 May 2003 and the advice from First Shanghai to the Independent Shareholders in this regard is set out in its letter on pages 51 to 69 of this circular.

The proceeds from the repayment of the Debt will be distributed to the creditors of LCT Eng (which will include TrustCo) and creditors of Mictech (which include LCT Eng, the Company and i.Solution) via a voluntary liquidation of LCT Eng and Mictech.

The Debt will accrue quarterly interest for the first 12 months at the Prime Lending Rate minus 2% per annum, and quarterly interest for the remaining 6 months at the Prime Lending Rate per annum. Repayment of the Debt under the Deed of Sale and Purchase will be secured by the Finance Documents pursuant to which charges over the Debtor's 100% shareholdings in Finestyle and i.Solution (being the only remaining operating subsidiaries of the Group upon Completion), as well as fixed and floating charges over the assets from time to time of Finestyle and i.Solution will be created in favour of LCT Eng and Mictech.

The Debtor will undertake to LCT Eng and Mictech that until the Debt and interest thereon shall have been paid in full, the Debtor shall not receive any cash amount or other asset (whether in cash, in specie, by way of share issue or otherwise, and whether by way of interest, repayment of principal, dividend or otherwise) from or for the account of Finestyle or i.Solution, and should the Debtor receive any amount or asset contrary to such undertaking, such amount or asset shall be held by the Debtor on trust for LCT Eng and Mictech.

The execution of the Deed of Sale and Purchase and the Finance Documents as security for the repayment of the Debt owed by Newco, a wholly-owned subsidiary of the Investor and hence, a connected person of the Company, will constitute a connected transaction of the Company within the meaning of Chapter 14 of the Listing Rules. The execution of the Deed of Sale and Purchase and the Finance Documents requires the approval of the Independent Shareholders at the EGM. The advice of First Shanghai in this regard is set out in its letter on pages 51 to 69 of this circular.

Pursuant to the Deed of Sale and Purchase, LCT Eng and Mictech shall acknowledge and agree that, subject to certain limited exceptions, the Company, the Investor, the shareholders of the Investor, the controlling shareholders of the Company and their respective directors and associates (as defined under the Listing Rules) (other than Newco) shall not have any liability with respect to the obligations of the Debtor, Finestyle or i.Solution under the Deed of Sale and Purchase and the Finance Documents.

The Company shall undertake to LCT Eng and Mictech that it shall not, until the Debt (including any interest accrued thereon) has been repaid in full, transfer or otherwise dispose of or encumber any of its shares in the share capital of the Debtor or enter into or be party to any arrangement which may have the effect of it ceasing to own 100% of the beneficial interest of the shareholdings in the Debtor.

The Debtor shall undertake to LCT Eng and Mictech that it shall not, until the Debt (including any interest accrued thereon) has been repaid in full, issue any new shares in its share capital to any person which may result in the Company ceasing to own 100% of the beneficial interest of the shareholdings in the Debtor.

The Debtor shall procure that any payment, income and receivables which are received or become due and payable to Finestyle and i.Solution incidental to the operation of the Forestry Concession and the Sawmill during the period between the Closing Date and the Repayment Date shall be paid into the Designated Accounts to be applied for the operation of the Forest Concession and/or the Sawmill.

The Debtor shall undertake to LCT Eng and Mictech to procure that one person nominated by LCT Eng be appointed to the board of directors of Finestyle and that one person nominated by Mictech be appointed to the board of directors of i.Solution at all times until the Debt (including any interest accrued thereon) is repaid in full.

In the event that actions have been taken by LCT Eng and Mictech to enforce the charges as aforesaid due to Newco's failure to repay the Debt on the Repayment Date, the shareholding interests in Finestyle and i.Solution and their respective assets will be foreclosed and the Company will be deprived of its major assets. If that happens, and assuming that the major operating subsidiaries of the Company at that time remain to be Finestyle and i.Solution, there may arise a possibility that the Company may experience difficulties in complying with paragraph 38 of the Listing Agreement.

Paragraph 38 of the Listing Agreement requires an issuer to carry out a sufficient level of operations or have tangible assets of sufficient value and/or intangible assets for which a sufficient potential value can be demonstrated to the Stock Exchange to warrant the continued listing of the issuer's securities on the Stock Exchange. The Stock Exchange may suspend dealings in any securities or cancel listing of any securities if the requirements set out in paragraph 38 of the Listing Agreement are not met.

(F) Other Terms

On or before Completion, but subject to the satisfaction or waiver of all the conditions precedent to Completion; (a) the Company shall transfer all of its assets including any claims the Company may have against LCT Eng or Mictech (except for the Company's shareholdings in Finestyle, i.Solution and the Debtor) to TrustCo; (b) to the extent that it is within the power of appointment of the Provisional Liquidators and subject to all necessary approvals/consents having been obtained, all the subsidiaries of the Company, save for Finestyle, i.Solution and the Debtor, shall assign their claims (if any) against Finestyle and/or i.Solution to the Company; and (c) the Company shall procure that the entire issued share capital of each of Finestyle and i.Solution be transferred to Debtor.

3. CONDITIONS PRECEDENT TO THE RESTRUCTURING PROPOSAL

Completion will be subject to, amongst others, the fulfillment of the following:

(a) the sanction of the Capital Reduction and the Schemes by the Courts of the relevant jurisdictions;

(b) all necessary steps having been taken to transfer all of the Existing Subsidiaries and the Company's Assets to TrustCo to be held on trust for the benefit of the scheme creditors;

(c) all necessary resolutions having been passed by the Shareholders and the Creditors or, as the case may be, the Independent Shareholders approving the Restructuring Proposal, the Whitewash Waiver, the Deed of Sale and Purchase, the Finance Documents and the transactions contemplated thereunder in accordance with the Companies Ordinance, the Cayman Companies Law, the Listing Rules and the Code;

(d) the granting of the approval by the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Shares (including those to be issued pursuant to the exercise of the conversion rights under the Working Capital Convertible Bond) to be issued under the Restructuring Proposal by no later than the date when the New Shares resume trading on the Stock Exchange;

(e) a waiver granted by the Executive in respect of any obligations on the Investor and parties acting in concert with it to make a general offer in compliance with Rule 26 of the Code for any of the securities of the Company after Completion as a result of the Subscription;

(f) all necessary waivers, consents, legal opinions, confirmations and approvals including but not limited to those from the Stock Exchange, the SFC and any other relevant regulatory authorities and relevant parties, which are required for the implementation of the Restructuring Proposal having been obtained; and

(g) an order of the HK Court discharging and releasing the Provisional Liquidators on and from the Closing Date.

Save for conditions (c),(d) and (e) above which cannot be waived, the Investor and the Provisional Liquidators may agree to amend or waive any conditions precedent set out in the Restructuring Agreement. Further announcement will be made in this connection as and when appropriate. If any of the conditions precedent set out in the Restructuring Agreement has not been satisfied or waived on or prior to 31 December 2003, or such later date as may be extended pursuant to the terms of the Restructuring Agreement, the Restructuring Agreement may be terminated by written notice from any party thereto to the other parties.

4. EFFECTS OF THE RESTRUCTURING PROPOSAL

(A) Share Capital

The proposed changes to the share capital of the Company are illustrated in section 1 of Appendix I to this circular.

(B) Shareholding Structure

The expected changes in the shareholding of the Company upon Completion will be as follows:

			Upon completion of the Restructuring Proposal			
	Existing (million Shares)	% of the existing issued share capital	Before conversion of the Working Capital Convertible Bond (million New Shares)	% of the issued share capital upon Completion of the Restructuring Proposal	Upon full conversion of the Working Capital Convertible Bond (million New Shares) *(Note 1)*	% of the issued share capital upon full conversion of the Working Capital Convertible Bond *(Note 1)*
Investor and parties acting in concert with it	—	—	4,500.00	90.71	5,500.00 *(Note 5)*	92.26
Creditors	—	—	248.05	5.00	248.05	4.16
Existing Shareholders						
— Enson Group Limited *(Note 2)*	60.42	11.35	24.17	0.49	24.17	0.41
— Joyful Holdings Limited *(Note 3)*	60.42	11.35	24.17	0.49	24.17	0.41
— Mr. Chan Kai Yiu *(Note 4)*	7.43	1.40	2.97	0.06	2.97	0.05
— Other Shareholders	404.28	75.90	161.71	3.25	161.71	2.71
Total	532.55	100.00	4,961.07	100.00	5,961.07	100.00

Note 1 — The Investor has undertaken to the Company and Stock Exchange that it will not exercise the conversion rights attaching to the Working Capital Convertible Bond if such conversions would result in the public float of the issued share capital of the Company from time to time falling below 25%, the minimum public float requirement as stipulated under Rule 8.08 of the Listing Rules. The Company and the Proposed Directors have also undertaken to the Stock Exchange that they will not issue New Shares to the extent that the 25% minimum public float requirement as stipulated under Rule 8.08 of the Listing Rules is not met.

Note 2 — Mr. Chan Man Chuen, a director of the Company and his family members, are the discretionary objects of a capital trust which beneficially owned all the class A shares (holders of class A shares are entitled to exercise all voting rights of Enson Group Limited) of Enson Group Limited. (Source: circular of the Company dated 19 August 2002)

Note 3 — Mr. Vong Pak Cheong, a director of the Company and his family members, are the discretionary objects of a capital trust which beneficially owned all the class A shares (holders of class A shares are entitled to exercise all voting rights of Joyful Holdings Limited) of Joyful Holdings Limited. (Source: circular of the Company dated 19 August 2002)

Note 4 — These Shares are beneficially owned by Gainful International Inc., which is ultimately beneficially owned by Mr. Chan Kai Yiu, a director of the Company. (Source: based on the Directors'/Chief Executives' Notifications Report (A) as appeared in the Securities (Disclosure of Interests) Daily Summaries dated 27 June 2001, Mr. Chan Kai Yiu claimed to be the ultimate beneficial owner of these Shares)

Note 5 — Assuming that the principal amount of the Working Capital Convertible Bond is HK$10,000,000 and is converted into New Shares at HK$0.01 per New Share.

As shown from the above shareholding table, the Investor together with parties acting in concert with it will be interested in approximately 90.71% of the enlarged issued share capital of the Company immediately upon Completion. On 27 October 2003, the Investor made an application to the Executive for a waiver from the obligations under Rule 26 of the Code to make a general offer for all the securities of the Company other than those already held by the Investor together with parties acting in concert with it. The Executive has indicated that it will grant the Whitewash Waiver, subject to majority votes by the Independent Shareholders approving the grant by way of a poll at the EGM and the Investor and its concert parties complying fully with the Code.

As the Investor and parties acting in concert with it hold more than 50% of the voting rights of the Company upon Completion, the creeper provision of Rule 26 of the Code will not be applicable and they will be free to acquire further voting rights in the Company without triggering a general offer obligation as long as the aggregate percentage holding of New Shares of the Investor and parties acting in concert with it remains above 50% of the voting rights of the Company. The resolutions in relation to the Subscription and the Whitewash Waiver to be taken by way of a poll at the EGM, are set out in resolutions numbered 2 and 7 in the Notice of EGM on pages 190 to 198 of this circular.

(C) Maintaining the Listing of the Company

The above shareholding table also shows that the Investor, parties acting in concert with it, as well as any other connected persons as defined in the Listing Rules will hold in aggregate more than 75% of the enlarged issued share capital of the Company, thus the Company's public float will fall below 25% of its issued share capital immediately after Completion. The Investor and the Proposed Directors have undertaken to the Stock Exchange that they will as soon as practicable after Completion use their best endeavors to take appropriate steps to ensure that adequate number of New Shares will be sold, placed or otherwise disposed of to independent third parties to restore the public float to not less than 25% of the enlarged issued share capital of the Company as required under Rule 8.08 of the Listing Rules. Trading in the New Shares will remain suspended on Completion if sufficient public float has not been restored by then.

The Investor has also undertaken to the Company and the Stock Exchange that it will not exercise the Working Capital Convertible Bond to the extent that following the exercise of such conversion rights, the 25% minimum public float requirement as stipulated under Rule 8.08 of the Listing Rules is not met. The Company and the Proposed Directors have also undertaken to the Stock Exchange that they will not issue New Shares to the extent that the 25% minimum public float requirement as stipulated under Rule 8.08 of the Listing Rules is not met.

The Investor will make arrangements for restoring the public float of the New Shares. No underwriting or irrevocable placing agreement has yet been entered into by the Investor as at the Latest Practicable Date but it will submit a concrete implementation plan for restoring the 25% public float to the Stock Exchange for approval.

Trading in the New Shares will be resumed when sufficient public float is restored after the implementation of the Restructuring Proposal.

If the Stock Exchange believes that a false market exists or may exist in the New Shares or there are insufficient New Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the New Shares.

The Stock Exchange has further stated that, if the Company remains listed on the Stock Exchange, any asset dispositions or asset acquisitions by the Group will be subject to the provisions of the Listing Rules. The Stock Exchange has the discretion to require the Company to issue an announcement and/or a circular to its shareholders irrespective of the size of the proposed transactions. The Stock Exchange also has the power to aggregate a series of transactions and any such transactions may result in the Company being treated as if it were a new applicant for listing and subject to the requirements for new listing applicants as set out in the Listing Rules.

(D) Working Capital

The Investor has undertaken to the Company that subject to Completion, for a period of 12 months after the Closing Date it will provide the necessary funding to the Company for the working capital requirements of the Group on such terms and conditions as the Investor and the Company may from time to time agree including, without limitation, by subscribing for the Working Capital Convertible Bond.

In the opinion of the directors of the Investor and the Proposed Directors, in the absence of unforeseen circumstances and subject to Completion and the availability of the abovementioned undertakings given by the Investor, the Group will have sufficient working capital for the 12-month period following Completion based on the following principal assumptions:

1. that the Restructuring Proposal is successfully implemented;

2. that the Group will continue to engage in the existing businesses upon Completion;

3. that there will be no material changes in existing political, legal, fiscal or economic conditions in places including, but not limited to Suriname, Hong Kong and the PRC where the Group carries on business and intends to carry on business after Completion;

4. that there will be no material changes in the bases or rates of taxation applicable to the activities of the Group;

5. that there will be no material changes in interest rates and foreign currency exchange rates from those currently prevailing;

6. there will be no circumstances which will require material payments to be made by the Group in respect of any contingent liabilities; and

7. that there will be no material expenditure for purchases of fixed assets, investments or other acquisitions to be incurred during the 12-month period following Completion.

(E) Indebtedness

As at the Latest Practicable Date, the total indebtedness of the Group was approximately HK$287.2 million. The total indebtedness including contingent liabilities of the Company as described in the section headed "8. Material Litigation" of Appendix IV to this circular as at the Latest Practicable Date was approximately HK$145 million in aggregate to the best knowledge of the Provisional Liquidators based on available records, which will be subject to the Debt Restructuring as more particularly described in the subsection headed "2. The Restructuring Proposal — (B) Debt Restructuring". If the Restructuring Proposal is successfully implemented, all of the Company's outstanding claims, which is estimated to be approximately HK$145 million, will be discharged and waived pursuant to the Schemes and the Petitioner will withdraw the petition to wind up the Company. The amount of liabilities to be discharged and compromised pursuant to the Schemes have been reflected in the audited financial statements of the Group for the year ended 31 May 2003 as set out in Appendix I of this circular. The amount of the outstanding claims are for indicative purposes only and will be subject to formal adjudication by the Scheme Administrators once the

Schemes are implemented. The difference of the total indebtedness of the Group of approximately HK$287.2 million and the total indebtedness of the Company of approximately HK$145 million represents amount due to creditors of the subsidiaries to be excluded from the Group post Completion. After the Debt Restructuring, the Group will continue to be liable for approximately HK$1.6 million, which primarily represents Finestyle and i.Solution's existing liabilities incurred in their ordinary course of business from 1 June 2002 to the Latest Practicable Date mainly for salaries, taxes and audit fees.

None of the companies in the Group has any outstanding mortgage, charge or debenture, loan capital, bank overdraft, loan, debt security or other similar indebtedness or any hire purchase commitment, finance lease commitment, guarantee or other material contingent liability at the close of business on the Latest Practicable Date other than those in respect of the above indebtedness, intra-group liabilities and a debenture dated 5 July 2001 granted by Finestyle over all of its assets and undertaking (including the Forest Concession) in favour of Get Nice as security for a HK$5 million loan facility made to the Company by Get Nice. In respect of those assets of Finestyle which are located in Suriname, Suriname Counsel to the Provisional Liquidators have advised that, while the Get Nice charge could be enforceable against those assets of Finestyle located in Suriname which are not related to land, it would not be enforceable against the Forest Concession and any real property in Suriname owned by Finestyle. Get Nice has undertaken that no steps would be taken to levy execution against the Company in respect of any judgment that may be obtained against it until the winding-up petition presented by the Petitioner against the Company has been withdrawn or dismissed or until further order of the Court. For more details, please refer to paragraph (xii) of section 8 headed "Material Litigation" set out in Appendix IV to this circular.

Based on the information provided by the Provisional Liquidators and their advisers in respect of the debenture dated 5 July 2001 granted by Finestyle in favour of Get Nice and the aforementioned undertaking by Get Nice, and considering the proposed Debt Restructuring of the Company (pursuant to which the Company would be debt free upon Completion), the Investor considers that upon Completion it would be able to implement its business plan on the Forest Concession as set out in the section headed "Future Plans and Prospects" in the "Letter from the Investor".

(F) Net Assets

As detailed in section 5 headed "Pro Forma Unaudited Adjusted Net Tangible Assets of the Group" in Appendix I to this circular, the pro forma unaudited net tangible assets of the Group upon Completion will be approximately HK$14.08

million, representing approximately 0.28 cents per New Share. This represents an improvement of approximately HK$45 million to the audited negative net tangible assets of the Group prior to Completion which amounted to approximately HK$(30.92) million or (5.81) cents per Share.

5. USE OF PROCEEDS FROM THE SUBSCRIPTION

The HK$45 million proceeds from the Subscription will be applied to pay the scheme creditors as full and final settlement of their claims pursuant to the Schemes and to pay for all the costs and expenses estimated to be HK$15 million incurred by the Company for the implementation of the Restructuring Proposal and the Schemes.

6. DIRECTORS AND MANAGEMENT

The current Board comprises six Directors, namely, Mr. Chan Man Chuen, Mr. Vong Pak Cheong, Mr. Chan Kai Yiu, Mr. Hung Yat Ming, Mr. Yau Ting Kwok and Mr. Tsang Fan Wan. However, the powers of the Directors have been suspended since the appointment of the Provisional Liquidators. Resolutions regarding the removal of all existing Directors and the appointment of the Proposed Directors nominated by the Investor are respectively set out in resolutions numbered 13 and 11 of the Notice of EGM on pages 190 to 198 of this circular. Details of the Proposed Directors are contained in the section headed "Directors and Management" in the Letter from the Investor.

7. REASONS FOR THE RESTRUCTURING OF THE COMPANY

The consolidated net losses of the Group had increased significantly from approximately HK$154.1 million for the year ended 31 May 2001 to approximately HK$346.3 million for the year ended 31 May 2002, representing an increase in losses of approximately 124.8% over the two years. It was mainly due to provisions for impairment in value of concession right, goodwill and investment properties and for write-off of inventories, plant and equipment, trade and other receivables for the year ended 31 May 2002. As at 31 May 2002, the Group had net liabilities of approximately HK$193.6 million. On 15 July 2002, the HK Court issued a winding up order against LCTC, a wholly owned subsidiary of the Company. As a consequence of the loss of control by the Company as a result of the appointment of a liquidator to LCTC, the Company has deconsolidated LCTC as from 1 June 2002. LCTC will not form part of the Group post Completion. As a result, the Group recorded a consolidated net profit of approximately HK$217.3 million for the year ended 31 May 2003. As at 31 May 2003, the Group had net assets of approximately HK$23.7 million. Implementation of the Restructuring Proposal will restore the Group from a negative net tangible assets position of approximately HK$(30.92) million to a net tangible asset value of approximately HK$14.1 million upon Completion as set out in Appendix I sub-section "5. Pro Forma Unaudited Adjusted Net Tangible Assets of the Group" to this circular.

After taking into consideration the current financial position of the Group and other alternative restructuring proposals received by the Company, the Provisional Liquidators are of the view that the Restructuring Proposal represents the best available option to the Company, its Creditors and Shareholders having regard to all factors including the potential returns to both the Creditors and the Shareholders, the availability of alternatives for the Creditors to recover their debts and the time required to implement the Restructuring Proposal.

If the Restructuring Proposal is successfully implemented, all of the Company's outstanding claims including contingent liabilities as described in the section headed "8. Material Litigation" of Appendix IV to this circular (which is estimated to be approximately HK$145 million in aggregate to the best knowledge of the Provisional Liquidators based on available records as at the Latest Practicable Date) will be discharged and waived pursuant to the Schemes. The amount of the outstanding claims is for indicative purposes only and will be subject to formal adjudication by the Scheme Administrators once the Schemes are implemented. In any event, all the Company's outstanding claims will be dealt with under the Schemes once the Schemes are implemented. After the Debt Restructuring, the Group will continue to be liable for approximately HK$1.6 million, which primarily represents Finestyle and i.Solution's existing liabilities from 1 June 2002 to the Latest Practicable Date. Upon Completion, the winding up petition presented by the Petitioner will be withdrawn.

If the Company is unable to restructure its indebtedness with its Creditors as contemplated under the Restructuring Proposal, the Provisional Liquidators believe that there is a strong likelihood that the Company would be wound up. Should the Company be wound up, the return to the Creditors would be minimal and there is unlikely to be any return to the Shareholders.

8. PRINCIPAL OPERATIONS OF THE GROUP

The key purposes of the Restructuring Proposal are to improve the Company's financial position and to continue and expand the Company's principal operations and to allow the Shareholders and the Creditors to recover some return from their investment in the Company.

Upon Completion, the principal operating subsidiaries of the Group will include Finestyle and i.Solution which are primarily engaged in forest exploitation and timber trading businesses. Finestyle owns the Forest Concession for the exploitation of timber in Suriname in the areas shown in the permission of the Ministry of Natural Resources of Suriname dated 1 March 2002 as confirmed by a search conducted at the Mortgage Office of the Land Registry of Suriname on 13 August 2003. Since August 2000, Finestyle has been wholly owned by LCT Eng, a wholly owned subsidiary of the Company. The Forest Concession represents the cutting licences for timber exploitation on the land area situated in the Brokopondo and Sipaliwini districts for ten years commencing on 1 March 2002 under the legal provisions as stated in the Forest Management Act and the relevant conditions of the concession. The concession area covers approximately 27,975 hectares of land in the Pokigron area, about 125 km from Paramaribo, the capital of Suriname. The concession area straddles the land situated in two administrative districts, namely Brokopondo and Sipaliwini, to the east of the Saramacca River, and north of the Klieine Saramacca River, and west of the roadway Brownsweg-Pokigron in Suriname, South America. Approximately 24,500 hectares of the concession area is made up of productive forest. The greatest part of the concession area, almost 85% is covered by mesophytic high dryland forest, which for logging purposes is the best forest type of the country. Due to the financial position of the Company and the appointment of the Provisional Liquidators, sales of wood logs of approximately HK$1.5 million for the year ended 31 May 2003 have been slow as per records available and there is approximately HK$0.6 million inventory on hand. In the seven-month period ended 31 December 2002, revenue was mostly derived from sales to the local market.

According to the terms of the Forest Concession and confirmation from Stichting voor Bosbeheer en Bostoezicht ("SBB") and the advice from the local valuer in Suriname, there is no restriction to the logging activities except for logging volume which is subject to SBB's approval. The logging quota is 20 m^3 per hectare. The approval requirement is to protect the productive forest area of the Forest Concession from being exhausted and to sustain the growth of the forest area. SBB confirmed that all the relevant approvals and permits for the logging activity had been obtained.

As stated in the "Letter from the Investor", the Investor observed that at present, owing to policy constraints imposed on the exploitation of timber in the PRC, the demand for timber has always exceeded its supply in the PRC. The Investor considers that most of those logs of timber underlying the Forest Concession are saleable in the PRC and the pricing would be competitive when compared with those purchased from other overseas markets as aforesaid. The Investor believes that the usage rate of the species underlying the Forest Concession should be commercially acceptable. The Investor also considers that based on the business potential underlying the business relating to the Forest Concession, it is possible that with the Investor as the controlling shareholder of the Company upon Completion, the business performance of the Forest Concession could be enhanced by capitalizing on NACGC's expertise in the timber business and its relevant sales and distribution network in the PRC.

The Investor has further stated in the "Letter from the Investor" that subject to Completion, the Investor will undertake further detailed business analyses and assessment on the Forest Concession and formulate and implement viable business plans and strategies for the Company to revitalize its business. The Investor and its shareholders envisage using their own timber expertise and distribution network to revitalize and develop the Company's existing forestry businesses and business prospects. Furthermore, the Investor also intends to assist the Company to explore new and appropriate investment and/ or business opportunities by tapping into the resource base, network and business expertise of the Investor and its shareholders with an aim to enhance the overall business prospects of the Company, to broaden its income stream and to increase value to the Company's shareholders as a whole.

Having considered the forest exploitation and timber trading business of the Group, together with the relevant market expertise, sales and distribution network and financial support to be provided by the Investor to the Company following Completion, the Investor is of the view that the Company will be able to satisfy the requirement under paragraph 38 of the Listing Agreement by maintaining a sufficient level of operations and therefore trading in the New Shares may be resumed.

9. INTENTION OF THE INVESTOR

Further details of the intention of the Investor with respect to the Group after Completion are set out in the Letter from the Investor on pages 38 to 50 of this circular.

10. GENERAL MANDATES TO ISSUE AND TO REPURCHASE NEW SHARES

A resolution will be put to the Shareholders at the EGM to approve the granting of a general mandate to the Directors to allot, issue and deal with additional New Shares up to 20% of the aggregate amount of the enlarged issued share capital of the Company immediately upon Completion.

The general mandate would take effect upon Completion and would continue in force until the conclusion of the next annual general meeting of the Company unless it is renewed at such meeting or until revoked or varied by an ordinary resolution of the Shareholders in a general meeting prior to the next annual general meeting or until the expiration of the period within which the next annual general meeting of the Company is required to be held by any applicable law or the articles of association of the Company, whichever occurs earlier.

It is also intended that a resolution be put to the Shareholders at the EGM granting the Directors a general mandate authorizing the repurchase by the Company on the Stock Exchange of up to 10% of the aggregate amount of the enlarged issued share capital of the Company immediately upon Completion. This repurchase mandate will remain effective until the conclusion of the Company's next annual general meeting or until revoked or varied by an ordinary resolution of the Shareholders or until the expiration of the period within which the next annual general meeting of the Company is required to be held by any applicable law or the articles of association of the Company, whichever occurs earlier.

An explanatory statement as required by the relevant provisions of the Listing Rules concerning the regulation of repurchases by companies of their own securities on the Stock Exchange is set out in Appendix III to this circular.

The results of the resolution to be proposed at the EGM in relation to such general mandate will not affect Completion.

11. DIFFICULTIES ENCOUNTERED BY THE PROVISIONAL LIQUIDATORS IN OBTAINING INFORMATION OF THE GROUP

Despite three orders dated 9 September 2002, 16 September 2002 and 27 September 2002 obtained by the Provisional Liquidators from the HK Court ordering the existing Directors to produce to the Provisional Liquidators immediately all books, records, accounts, documents or papers (including computer records) of the Company in their possession, custody or power, and the dismissal of the Former Shareholders who had been involved in the operation of Finestyle pursuant to the order of the Suriname Ministry of Labor dated 14 October 2003, only limited information has been obtained by the Provisional Liquidators.

Since their appointment on 5 September 2002 by the HK Court, the Provisional Liquidators have engaged in a number of activities to facilitate the restructuring of the Company pursuant to the Court order, including:

(1) travelling to Suriname on two occasions to secure control of Finestyle and i.Solution and to gather information on these companies;

(2) undertaking legal proceedings in Suriname against the Former Shareholders to obtain these companies' books and records;

(3) liaising with the Group's respective former auditors;

(4) liaising with the Group's former employees and directors;

(5) appointing Moore Stephens as auditors of the Company for the years ended 31 May 2002 and 2003;

(6) replacing the board of directors of Finestyle and i.Solution and dismissing the Former Shareholders as directors of Finestyle and i.Solution;

(7) ensuring that any outstanding concession fees relating to the Forest Concession are satisfied; and

(8) liaising with Stichting voor Bosbenheer en Bostoezicht (the Suriname government's Foundation for Forest Management and Production Control) regarding the continuing operational matters relating to the Forest Concession.

Whilst the Provisional Liquidators would continue their efforts to the extent possible, the Provisional Liquidators consider the chance for them to be able to recover any further information from the existing Directors would be remote if not impossible. This has caused substantial delays to the commencement of the audit by the auditors, Moore

Stephens, for the years ended 31 May 2002 and 2003. Notwithstanding that the Provisional Liquidators have provided the auditors with the requested information and records to the extent that they have been able to recover, preparation of the financial statements and audit has been restricted to a very large extent owing to limited information being available. In light of the above, the auditors' reports on the Company for the years ended 31 May 2002 and 2003 as disclosed in Appendix I to this circular has been heavily qualified.

12. GENERAL

Asian Capital has been appointed as the financial adviser to the Company. DBS Asia has been appointed as financial adviser to the Investor. First Shanghai has been appointed as the independent financial adviser to the Independent Shareholders in respect of the Restructuring Proposal, the Whitewash Waiver, the Deed of Sale and Purchase and the Finance Documents. Details of the advice and recommendations of First Shanghai, together with the principal factors and reasons taken into consideration in arriving at such advice and recommendations, are set out on pages 51 to 69 of this circular.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the New Shares (including those to be issued pursuant to the exercise of the conversion rights attaching the Working Capital Convertible Bond) on the Stock Exchange. Subject to the granting of the listing of, and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the general rules of CCASS and CCASS Operational Procedures in effect from time to time.

Except for the Working Capital Convertible Bond and the outstanding share options, the Company has no other outstanding securities convertible into New Shares, and no share or loan capital of the Company has been put under option or agreed conditionally or unconditionally to be put under option and no other conversion right affecting the Shares or other derivatives in respect of securities which are being offered for or which carry voting rights have been issued or granted or agreed conditionally or unconditionally to be issued or granted.

No part of the equity or debt securities of the Company is listed or dealt in or is proposed for listing or dealing on any stock exchange other than the Stock Exchange.

As stated on page 135 of this circular, the financial statements of the Group 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 stated in note 1 as set out on pages 134 to 135 of this circular, 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. The audited accounts of the Group have been prepared in accordance with the Statement of Standard Accounting Practice, on the assumption that the Restructuring Proposal will be approved and implemented.

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. For details, please refer to the audited financial statements of the Group for the year ended 31 May 2003 as set out in Appendix I to this circular.

13. TRADING ARRANGEMENT

(A) Effective Date of the Capital Restructuring

The Capital Restructuring will become effective on the date of Completion.

(B) Documents of Title

Upon the Capital Restructuring becoming effective, the nominal value of the issued shares of the Company will be decreased from HK$0.10 each to HK$0.01 each. Accordingly, the Provisional Liquidators and the Investor consider that it would be in the interests of the Company and the Shareholders to reduce the risk of confusion by replacing all existing share certificates (which are currently yellow in colour) with new share certificates (which will be light blue in colour) for the purposes of trading, settlement and delivery on the Stock Exchange.

All existing certificates for Shares in issue immediately before the date of Completion will be deemed to be certificates and documents of title for one four-tenth of that number of New Shares upon the Capital Restructuring becoming effective.

After 4:00 p.m. on Tuesday, 20 January 2004, the existing yellow share certificates will not be valid for the purposes of trading, settlement and delivery on the Stock Exchange but will continue to be good evidence of legal title to the New Shares.

(C) Trading Arrangement

The despatch of this circular does not necessarily indicate that the Restructuring Proposal will be successfully implemented and completed as the conditions precedent to the Restructuring Proposal may or may not be fulfilled or otherwise waived. Trading in the Shares of the Company has been suspended since 9:30 a.m. on Monday, 26 August 2002 and will continue to be suspended on Completion until sufficient public float has been restored according to the requirement as stipulated under Rule 8.08 of the Listing Rules. Further announcement will be made if material developments take place as and when appropriate.

The existing board lot size of 2,000 Shares will be changed to 10,000 New Shares upon resumption of trading in the New Shares. It is proposed that arrangements for dealings in the New Shares will be as follows:

(i) from 9:30 a.m. on Thursday, 11 December 2003, the original counter for trading in the existing Shares in board lots of 2,000 existing Shares will be temporarily removed. A temporary counter for trading in the New Shares in board lots of 800 New Shares will be established and every 2.5 existing Shares will be deemed to represent one New Share. Only existing certificate(s) for existing Shares may be traded at this counter.

(ii) With effect from 9:30 a.m. on Monday, 29 December 2003, the original counter will be re-opened for trading in New Shares in board lots of 10,000 New Shares. Only new certificate(s) for New Shares may be traded at this counter.

(iii) During the period from Monday, 29 December 2003 to Tuesday, 20 January 2004 (both dates inclusive), there will be parallel trading at the above counters.

(iv) The temporary counter for trading in the certificates of the existing Shares in board lots of 800 New Shares will be removed after the close of trading on Tuesday, 20 January 2004 and thereafter, trading will be in board lots of 10,000 New Shares only and existing certificates for existing Shares will not be valid for the purposes of trading, settlement and delivery on the Stock Exchange. However, such certificates will continue to be good evidence of legal title to New Shares on the basis of 2.5 existing Shares for one New Share and may be exchanged for the new light blue share certificates for the New Shares (see paragraph (D) below headed "Share Certificate Exchange Arrangements").

The Shares are at present traded in board lots of 2,000 existing Shares and the New Shares will be traded in board lots of 10,000 New Shares. The New Shares in board lots of 800 New Shares (in the form of existing share certificates) will become odd lots when the counter for trading in the New Shares in board lots of 800 New Shares is removed after the close of trading on Tuesday, 20 January 2004.

(D) Share Certificate Exchange Arrangements

Only new light blue share certificates for the New Shares will be issued in respect of transfers submitted after the date of Completion. Shareholders may during the business hours from 9:30 a.m. on Thursday, 11 December 2003 to Tuesday, 27 January 2004 submit their existing yellow share certificates to the Hong Kong branch share registrar of the Company, Abacus Share Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong to exchange for the new light blue share certificates at the expense of the Company. During this period, it is expected that the new light blue share certificates for the New Shares will be available within ten working days from the date of submission of the existing yellow share certificates in exchange for the new light blue share certificates for the New Shares.

Thereafter, the existing yellow share certificates will be accepted for exchange for the new light blue share certificates for the New Shares only on payment of a fee of HK$2.5 (or such higher amount as may be prescribed or allowed under the Listing Rules and memorandum of association and articles of association of the Company from time to time, whichever is the higher) for each new light blue share certificate to be issued. It is expected that the new light blue share certificates will be available within ten working days from the date of submission of the existing yellow share certificates in exchange for the new light blue share certificates for the New Shares.

(E) Facilities for Odd Lot Holders

In order to alleviate the difficulties arising from the existence of odd lots as a result of the Capital Restructuring, the Company has appointed a broker to assist the Shareholders to match the sale and purchase of odd lots during the period from Monday, 29 December 2003 to Tuesday, 20 January 2004 (both days inclusive). Holders of the New Shares in odd lots (i.e. lots which are not in integral multiples of 10,000 New Shares) who wish to take advantage of this facility either to dispose of or to top up their odd lots to a board lot of 10,000 New Shares may through their brokers contact Mr. Simon Tam of Kim Eng Securities (Hong Kong) Ltd at 2869 5196 / 2869 5197 during such period. Holders of the New Shares in odd lots should note that the matching of the sale and purchase of odd lots is not guaranteed.

Shareholders are recommended to consult their own professional advisers if they are in any doubt about the facility described above.

14. CREDITORS' MEETING

The meeting of the Creditors convened at the direction of both the HK Court and the Cayman Islands Court will be held on 24 November 2003 at 4/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong for the purpose of considering and, if thought fit, approving the Schemes with or without modification by a majority in number of the Creditors present and voting in person or by proxy at the court meeting representing at least 75% in value of each class of the Creditors and the HK Court and the Cayman Islands Court sanctioning the Schemes.

15. EXTRAORDINARY GENERAL MEETING

Set out on pages 190 to 198 of this circular is a notice convening the EGM to be held at 2:00 p.m. on Monday, 24 November 2003 at 4/F Hutchison House, 10 Harcourt Road, Central, Hong Kong (the date of the EGM is subject to any change to the date of the Creditors' meeting, but in any event shall fall after the Creditors' meeting) at which resolutions will be proposed to consider and approve, or (as the case may be) to ratify and confirm, inter alia,

(i) the Capital Restructuring;

(ii) the Restructuring Proposal;

(iii) the entering into of the Working Capital CB Subscription Agreement;

(iv) the issuance of approximately 248.05 million New Shares to the Scheme Administrators or their nominees;

(v) the disposal of all the Company's Assets including, but not limited to, the Existing Subsidiaries and the assignment of all of the Company's claims against the Existing Subsidiaries to Trustco;

(vi) the execution of the Deed of Sale and Purchase and the Finance Documents by certain subsidiaries of the Company;

(vii) the Whitewash Waiver;

(viii) the general mandate to allot, issue and deal with additional New Shares;

(ix) the general mandate to repurchase New Shares;

(x) the authorization of extension of the general mandate to allot New Shares;

(xi) the appointment of Proposed Directors;

(xii) the ratification of the appointment of Messrs. Moore Stephens as the auditors of the Company; and

(xiii) the removal of the existing Directors.

The results of the ordinary resolutions to be proposed at the EGM in relation to the general mandate to issue additional New Shares and to repurchase New Shares of the Company will not affect the Completion.

A form of proxy for use at the EGM is enclosed. Regardless of whether you are able to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company c/o the Provisional Liquidators, Ernst & Young Transactions Limited, 17/F Hutchison House, 10 Harcourt Road, Central, Hong Kong, for the attention of Mr. Stephen Liu/ Mr. Kenneth Yeo, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM. Delivery of a form of proxy will not preclude you from attending and voting in person at the meeting should you so desire.

The ordinary resolutions numbered 2 and 7 in relation to the Subscription and the Whitewash Waiver respectively will be approved by way of a poll of the Independent Shareholders at the EGM.

Shareholders are reminded that even if all the resolutions are approved by the Shareholders or (as the case may be) the Independent Shareholders in the EGM, the Restructuring Proposal is nevertheless subject to a number of conditions including, inter alia, the approval of the Schemes by a majority in number of the Creditors present and voting in person or by proxy at the court meeting representing at least 75% in value of each class of the Creditors and the HK Court and the Cayman Islands Court sanctioning the Schemes.

16. RECOMMENDATIONS

First Shanghai has been appointed as the independent financial adviser to advise the Independent Shareholders in relation to the fairness and reasonableness of the terms of the Restructuring Proposal, the Whitewash Waiver, the Deed of Sale and Purchase and the Finance Documents and the transactions contemplated thereunder. Details of the advice and recommendations of First Shanghai together with the principal factors and reasons taken into consideration in arriving at such advice and recommendations, are set out on pages 51 to 69 of this circular. Independent Shareholders are strongly advised to consider the letter from First Shanghai before deciding to vote in favour of or against the resolutions to be proposed at the EGM.

17. ADDITIONAL INFORMATION

Please refer to the Appendices to this circular for additional information.

Yours faithfully,
For and on behalf of
Baker Group International Holdings Limited
(Formerly known as Luen Cheong Tai International Holdings Limited)
(Provisional Liquidators Appointed)
Mr. Stephen Liu Yiu Keung
Mr. Yeo Boon Ann
Mr. Don Wayne Ebanks
Joint and Several Provisional Liquidators

NORTHERN RESOURCES LIMITED

(incorporated in the British Virgin Islands with limited liability)

Directors:
Mr. Pan Fengqiang
Mr. Wang Baoping
Mr. Liu Wei
Mr. Liu Xiangmao

Registered Office:
Beaufort House,
P.O. Box 438, Road Town,
Tortola,
British Virgin Islands

Head office and principal place of business:
Room 1103, 11th Floor
Tower 1
Lippo Centre
89 Queensway
Admiralty
Hong Kong

29 October 2003

To the Shareholders,

Dear Sir,

RESTRUCTURING OF BAKER GROUP INTERNATIONAL HOLDINGS LIMITED (FORMERLY KNOWN AS LUEN CHEONG TAI INTERNATIONAL HOLDINGS LIMITED) (PROVISIONAL LIQUIDATORS APPOINTED) INVOLVING, INTER ALIA, CAPITAL RESTRUCTURING, DEBT RESTRUCTURING AND CREDITORS' SCHEMES OF ARRANGEMENT IN ACCORDANCE WITH SECTION 86 OF THE CAYMAN COMPANIES LAW AND SECTION 166 OF THE COMPANIES ORDINANCE, SUBSCRIPTION FOR NEW SHARES BY NORTHERN RESOURCES LIMITED, WHITEWASH WAIVER, CONNECTED TRANSACTION AND GENERAL MANDATES TO ISSUE AND TO REPURCHASE NEW SHARES

INTRODUCTION AND BACKGROUND

This letter forms part of the circular dated 29 October 2003 (the "Circular") issued by the Provisional Liquidators to the Shareholders. Terms used in this letter shall, unless the context otherwise requires, have the same meanings as those defined in the Circular.

The Provisional Liquidators and the Investor jointly announced on 12 June 2003 that the Restructuring Agreement regarding the Restructuring Proposal for the Company was signed on 27 May 2003. The Restructuring Proposal aims to restructure the Company through:

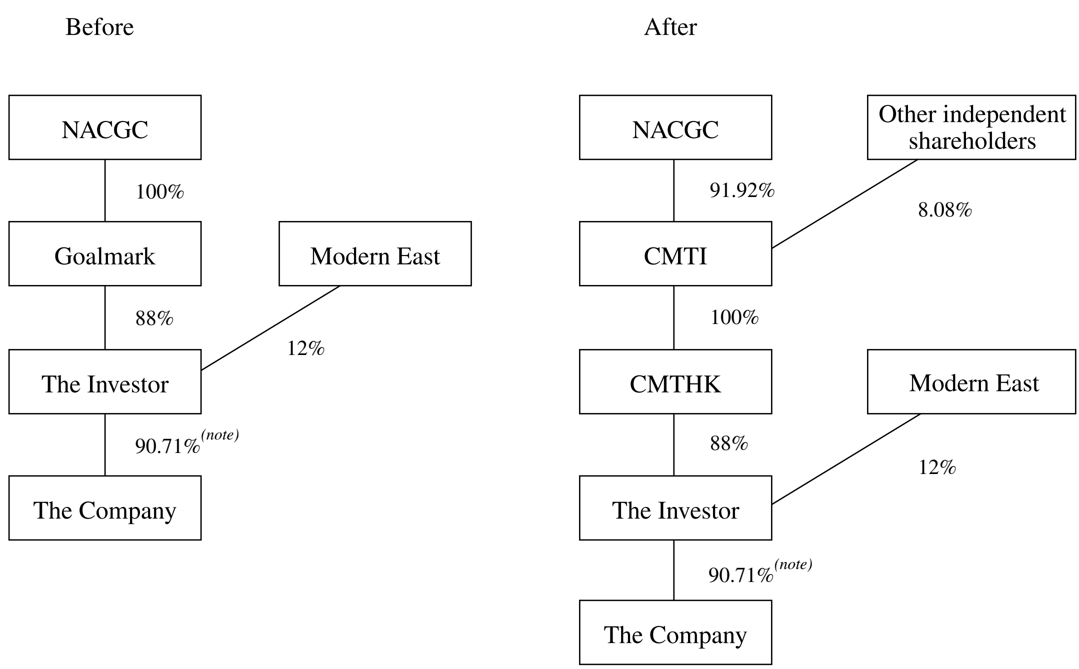
- a Capital Restructuring of the share capital of the Company whereby the par value of the existing Shares will be reduced from HK$0.10 each to a par value of HK$0.01 each through the Capital Reduction, the Share Subdivision and the Share Consolidation;
- all the scheme creditors discharging and waiving their outstanding claims against the Company pursuant to the Schemes;
- Newco assuming the liability for the Debt pursuant to the Deed of Sale and Purchase;
- the Investor holding a controlling interest of approximately 90.71% in the enlarged issued share capital of the Company immediately upon Completion; and
- the resumption of trading in the New Shares if and when sufficient public float is restored after the implementation of the Restructuring Proposal.

INFORMATION ON THE INVESTOR

As stated in the Joint Announcement, the Investor is a company incorporated in the British Virgin Islands with limited liability on 6 February 2003 and was beneficially owned as to 88% by Goalmark and 12% by Modern East. Following the publication of the Joint Announcement, NACGC undertook an internal review on the overall business alignment of interests within the NACGC group of companies in light of the Restructuring Proposal, and considered that for better alignment of business functions within the NACGC group of companies, it would be more appropriate for it to hold its indirect interests in the Investor through CMTI, the principal timber trading arm within the NACGC group of companies. Accordingly, on 22 October 2003, Goalmark transferred its entire 88% equity interest in the Investor to CMTHK (the "Transfer").

NACGC had contemplated effecting the Transfer at the time of entering into the Restructuring Agreement and at the time of making the Joint Announcement. However, due to the uncontrollable timing in obtaining necessary approvals from respective PRC authorities for the establishment of CMTHK, for clarity and prudence purposes, NACGC decided not to create an overhanging effect on the shareholding structure of the Investor at the time of entering into the Restructuring Agreement as well as at the time of making the Joint Announcement. Thus the Transfer was not effected at that time and no disclosure was made in the Joint Announcement related to this matter. Except for various agreements entered into with the Provisional Liquidators in relation to the Restructuring Proposal, the Investor has not engaged in any other investments and/or businesses since its incorporation. Neither the Investor nor its directors nor any of its shareholders is connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or associates as defined under the Listing Rules.

CMTHK is an overseas wholly owned subsidiary of CMTI, and in turn, CMTI is owned as to 91.92% by NACGC with the remaining 8.08% owned by five independent third parties. CMTI is the principal trading arm of NACGC and is engaged in the trading of, among other things, nonferrous metals and timber materials. On this basis, given the principal business nature of the Company, NACGC considers it more appropriate to hold its interests in the Company via its trading arm, CMTI. Notwithstanding the Transfer, NACGC will still remain as the ultimate controlling shareholder of the Company upon Completion. The following table sets out the shareholding structure of the Investor before and after the Transfer:



Note:

This represents the Investor's shareholding position in the Company upon Completion but before exercise of conversion rights of the Working Capital Convertible Bond.

The shareholding structure of CMTI and the particulars of CMTI's minority shareholders are as follows:

Shareholder of CMTI		**Shareholding %**
NACGC		82.86
CNACC International Co., Ltd	*Note 1*	9.06
General Research Institute for Nonferrous Metals	*Note 2*	2.49
Zhuzhou SinoTech Industries Co., Ltd	*Note 3*	2.49
Yuyao Town General Industrial Co.	*Note 4*	1.24
Ningbo Goalmark Co., Ltd	*Note 5*	1.24
Kunming Feiyue Copper Co., Ltd	*Note 6*	0.62
		100

Notes:

1. CNACC International Co., Ltd, a wholly owned subsidiary of NACGC, is principally engaged in international trading of commodities, arts and crafts, gold and silver ornaments, jewellery and silver, wool, textile and steel.

2. General Research Institute for Nonferrous Metals, Beijing, a state-owned enterprise being supervised by The State Assets Supervision and Administration Commission, is a large institution in the field of nonferrous metals industry in China.

3. Zhuzhou SinoTech Industries Co., Ltd, a privately owned enterprise as to 70% and 30% by Messrs. Liu Ziqi and Mao Weiping, respectively, is principally engaged in production and processing of rare metals.

4. Yuyao Town General Industrial Co, a collectively owned enterprise owned by Bureau of Finance, Yuyao Town, is engaged in technology and general trading in nonferrous metals refining and asset management.

5. Ningbo Goalmark Co., Ltd, a privately owned enterprise, is principally engaged in general trading of gifts, toys, arts and crafts products. Ningbo Goalmark Co., Ltd is owned by Messrs Li Li, Jin Min, Huang Yaoyao and Fu Yigang in equal portion of 24% each and as to 4% by Zhou Yajun.

6. Kunming Feiyue Copper Co., Ltd, a Sino-foreign joint venture as to 75% owned by Kunming Fieyue Limited and 25% owned by Taiwan Li Hong Industrial Limited, is principally engaged in the trading of copper and other nonferrous metal products. To the best knowledge of NACGC, the ultimate beneficial owner of Kunming Feiyue Limited and Taiwan Li Hong Industrial Limited is Mr. Zhang Xiaoxiang.

NACGC confirmed that the five minority shareholders of CMTI are independent third parties not connected with NACGC or any of their subsidiaries or associates (as defined under the Code) or any of their connected persons (as defined under the Listing Rules). CMTI was set up in the PRC on 13 October 2000 with its principal business being trading of nonferrous metals and other raw materials, and not for the purposes of effecting the Restructuring Proposal. NACGC confirmed that save for a promotors' agreement dated 2 April 2000 for the establishment of CMTI (which set out the duties and obligations of the promoters of CMTI and was not related to the Restructuring Proposal), no shareholders' agreement has been entered into by NACGC and the other shareholders of CMTI with regard to their interests in CMTI. Neither NACGC nor any of the other shareholders of CMTI has sought any ruling from the Executive as to whether or not they are parties acting in concert with each other. NACGC has also confirmed with each of these five minority shareholders of CMTI that neither they nor any of their respective ultimate beneficial owners have dealt in the Shares during the six months prior to the date of the Restructuring Agreement. Furthermore, these five minority shareholders of CMTI are not connected with the Company, the Directors or any of their respective subsidiaries or associates (as defined under the Listing Rules).

NACGC, founded in 1972, is principally engaged in general trading of raw materials and metal products, including but not limited to, timber imports and trading, mining exploitation and refining, nonferrous and ferrous metal trade and processing, construction installation and decoration and retailing commercial service. As at 31 December 2002, NACGC had an audited consolidated net asset value of approximately RMB993 million, whilst the audited consolidated turnover amounted to approximately RMB2,886 million and RMB3,136 million for the year ended 31 December 2001 and 2002, respectively. In terms of the business volume of timber trading, it amounted to approximately RMB60 million for the year ended 31 December 2002, and approximately RMB64 million for the eight months ended 30 August 2003. For the past years, shareholders of the Investor have accumulated valuable industrial experience in the areas of trading of timber products, research and development of new materials. NACGC currently imports various types of timber from African countries, South East Asia and New Zealand for sale to timber processing companies and/or distributors in the PRC. NACGC considers that the timber import market in China is highly fragmented, and based on their best industry knowledge, there are over 1,000 timber importers in China in 2001. Nonetheless, based on the written advice given by one of the principal timber port operators in the PRC, NACGC is one of the major customers of this timber port operator in terms of import volume, and thus NACGC believes itself to be one of the significant timber importers in the PRC.

The minority shareholder of the Investor, Modern East, is a company incorporated in the British Virgin Islands with limited liability and is jointly owned as to 50% by Mr. Liu Xiangmao (劉湘茂) and 50% by Mr. Liu Wei (劉偉). The principal business of Modern East is investment holding and, at present, its interests in the Investor represents the sole investment of Modern East. Mr. Liu Xiangmao has been engaged in futures trading, particularly on nonferrous metals and grain trading for over 16 years and possesses profound knowledge in this area. Mr. Liu Xiangmao also has valuable experience in the area of management and operation of manufacturing companies and enterprises in the PRC and overseas. Mr. Liu Wei has had over nine years of experience in corporate finance and corporate banking in Hong Kong. Mr. Liu Wei also has experience in asset management and project finance.

The board of directors of the Investor comprises four members, namely, Messrs. Pan Fengqiang, Wang Baoping, Liu Wei and Liu Xiangmao. Details of their experience are contained in the sub-paragraph headed "Directors and management" below.

REASONS TO TAKEOVER THE COMPANY

Despite the incomplete accounting records of the Group as noted in the "Letter from the Provisional Liquidators" set out in the Circular, the Investor still decided to invest in the Company because pursuant to the Restructuring Proposal, the assets of the Group (on a going concern basis) upon Completion will principally comprise the Forest Concession and the Sawmill and the related machinery, which are owned by two subsidiaries of the Group namely, Finestyle and i.Solution, whilst the other subsidiaries and assets of the Group (principally those related to construction activities) will be transferred out of the Group and that all the outstanding debts of the Group are to be repaid and compromised as full and final settlement as part of the Debt Restructuring.

The Investor decided to invest in the Company because of the Group's involvement in the forestry and timber logging business. The Investor and its shareholders consider that the Forest Concession represents a secure timber resource base whereby it can complement the business of NACGC and vice versa. NACGC is principally engaged in general trading of raw materials including nonferrous metals, timber and chemical products, and with their relevant experience and business networks, the Investor and its shareholders intend to restructure the Company to revitalise its business and to restore its profitability in the future.

Save that the Investor may need to dispose of sufficient New Shares either by sale or placing to restore the public float to not less than 25% of the enlarged issued share capital of the Company as required under Rule 8.08 of the Listing Rules, the Investor intends to hold the New Shares to be issued to it under the Subscription Agreement and following the exercise of the Working Capital Convertible Bond as long term investment.

FUTURE PLANS AND PROSPECTS

Having considered the existing principal business and assets of the Company, together with the background and expertise of the Investor, its shareholders and their directors, it is envisaged by the Investor that the Company upon Completion would continue to be principally engaged in tree logging, sale and distribution and trading of timber. At present, owing to policy constraints imposed on the exploitation of timber in the PRC, the demand for timber has always exceeded its supply in the PRC. Based on the 2002 China Timber Industry and Market Research Report《2002年中國木材行業及市場研究報告》, the current demand for timber in China amounts to approximately 300 to 330 million cubic meters per annum and in strict compliance with the national timber reservation policies, it is estimated that the annual output of domestic timber in China amounts to approximately 140-150 million cubic meters, representing a shortfall in supply of approximately 160 million cubic meters. Whilst if based on historic forest depletion rate in China, the maximum domestic supply of timber in China is estimated to be approximately 230 million cubic meters per annum, and that the shortfall in supply under this circumstance amounts to at least approximately 70 to 100 million cubic meters.

In 2002, China imported approximately 109 million cubic meters of timber products from overseas, representing a fourfold growth in a decade since 1993. According to the 2002 China Timber Industry and Market Research Report《2002年中國木材行業及市場研究報告》, given the prevailing national policies and the limited resources of timber, demand for timber in China will continue to exceed supply and, the trend of reliance on imported timbers to satisfy the domestic demand is expected to continue.

NACGC currently imports, among other things, timber from African countries, South East Asia and New Zealand and believes itself to be one of the significant timber importers in the PRC. The Investor considers that the existing forestry and timber logging operations of the Company (which, as mentioned in the "Letter from the Provisional Liquidators", are mainly sales to local Suriname market) and those of NACGC complement each other. The Forest Concession represents a secure timber resource base and given NACGC's timber network in the PRC which covers various provinces including Shandong, Hebei and Zhejiang provinces, Shanghai and Wuhan in the PRC, NACGC would be a potential distributor for the Company in facilitating the Company to sell timber in the PRC. Following Completion, the Investor will undertake further detailed business analyses and assessment on the Forest Concession and formulate and implement viable business plans and strategies for the Company to revitalise its business. The Investor and its shareholders believe that possible business synergies could be created between the Company's timber business and NACGC's existing business network.

Based on the forest report conducted by the Suriname forestry expert, which includes the average export prices of timber from Suriname and the internal records on imported timber prices of NACGC, the Investor considers that most of those logs of timber underlying the Forest Concession are saleable in the PRC and the pricing would be competitive when compared with those purchased from other overseas markets as aforesaid. Furthermore, according to such forest report, the Investor notes that the Forest Concession principally comprises high dryland forest, whereby there is demand for this type of timber in the PRC market. Thus the Investor believes that the usage rate of the species underlying the Forest Concession should be commercially acceptable. The Investor considers that based on the business potential underlying the business relating to the Forest Concession, it is possible that with the Investor as the controlling shareholder of the Company upon Completion, business performance of the Forest Concession could be enhanced by capitalizing on NACGC's expertise in the timber business and its relevant sales and distribution network in the PRC.

Given the above, particularly the Investor's relevant industry expertise in the timber business in the PRC, the Investor intends to focus on continuing and developing the Company's existing timber business and operations. The Investor and its shareholders envisage using their own timber expertise and distribution network to revitalise and develop the Company's existing Forest Concession business potential so as to improve the Company's overall financial performance and business prospects. Furthermore, the Investor also intends to assist the Company to explore new and appropriate investment and/or business opportunities by tapping into the resource base, network and business expertise of the Investor and its shareholders with an aim to enhance the overall business prospects of the Company, to broaden its income stream and to increase value to the Company's shareholders as a whole.

Since one of the principal businesses of NACGC is the import of timber from overseas, the Investor and its shareholders will not rule out the possibility of conducting connected transactions with the Company. However, the Investor and its shareholders have no immediate plans for effecting any connected transactions with the Company nor is there any concrete plan for major changes to be introduced to the Company, or any asset injection, asset redeployment or disposal with regard to the Company. The Investor notes that if the Company remains listed on the Stock Exchange, any asset dispositions or asset acquisitions by the Group will be subject to the provisions of the Listing Rules, and also the Stock Exchange has the power to aggregate a series of transactions and any such transactions may result in the Company being treated as if it were a new applicant for listing and subject to the requirements for new listing applicants as set out in the Listing Rules.

In terms of business delineation between NACGC and the Group, as even prior to Completion, timber trading only forms one of the principal activities of NACGC, NACGC intends that following Completion, all of NACGC's existing timber trading activities will be taken up by the Company such that the Company will continue to engage in its existing business and to gradually become the overseas timber trading arm of NACGC, responsible for timber trading and related activities. The Group will source timber from the Forest Concession as well as from other overseas countries for sale in, amongst others, the PRC market. NACGC will not compete with the Group in timber trading and related business, instead, with its import and export licence, NACGC would be a potential timber importer for the Group in the PRC assisting the Group to import overseas timbers for sale to the customers in the PRC. Apart from this, in order to develop its business connections and networks in the timber trading and related industry in the PRC, the Company will also make contacts with other independent timber importers in the PRC such that the Company can also export timber to customers in the PRC through these independent timber importers. Accordingly, NACGC considers the business of the Group and those of NACGC complement each other. As at the Latest Practicable Date, NACGC did not have any interests in any other forest concession or rights. In any event, the Investor and its shareholders will not engage in any such competing business in the future without the Group having first been offered the right to engage in or undertake the new venture. In addition, should there be any connected transactions between the Company and its connected persons, the Company will conduct all connected transactions in full compliance with the relevant Listing Rules.

As stated above, the Investor will, after Completion, inject additional working capital into the Company by, inter alia, subscribing for the Working Capital Convertible Bond of not less than a principal amount of HK$5 million but up to HK$10 million to provide adequate funding to the Company for the purposes of financing the Company's business, operations and capital investment(s) in any new and appropriate investment or business opportunities (as and when they arise). Further, to enable a smooth transition, the Investor intends to retain, if appropriate, the existing employees for the Forest Concession business and to recruit additional staff to revitalise the Group's operations.

Based on the above, the Investor regards that the operations of the Forest Concession and the Sawmill, together with the relevant market expertise, sales and distribution network and financial support to be provided by the Investor to the Company following Completion shall be sufficient to warrant the continuing listing of the New Shares on the Stock Exchange.

DIRECTORS AND MANAGEMENT

The Investor intends that, upon Completion, all the existing Directors will be removed from the board of Directors and at the same time, the seven Proposed Directors (including two independent non-executive Directors) will be appointed to the board of Directors. Being the ultimate controlling shareholder of the Company upon Completion and in view of the fact that the existing Directors are to be removed at the EGM, it is necessary for NACGC to provide immediate management support to the Group with an aim to revitalise the operations of the Group. Most of the proposed executive directors of the Company are related to NACGC as they can provide relevant management and industry expertise and experience to the Group thus could better assist the Group to revitalise its business and operations. Furthermore, upon Completion, additional staff may be recruited in Hong Kong and Suriname, if required, to strengthen the management and operations of the Group.

Information with respect to the Proposed Directors are as follows:

Executive Directors

Mr. Pan Fengqiang, aged 45, is the Assistant to President of NACGC and the General Manager of CMTI. Mr. Pan joined NACGC in 1995. Mr. Pan has over 20 years of experience in operational management and international trade, particularly in the field of nonferrous metals, timber and logs, chemicals and mining exploitation. Mr. Pan holds a bachelor degree in International Trade from Zheng Zhou University, the PRC and a master degree in business administration from Murdoch University, Australia. Being the Chairman, Mr. Pan will be principally responsible for strategic planning of the Group.

Mr. Wang Baoping, aged 38, is the Administrative Vice General Manager of CMTI. Mr. Wang joined CMTI in 2000. Mr. Wang used to be in charge of the fund management office of China National Construction Materials Bureau and now is also the General Accountant of China Metal & Technology Corporation. Mr. Wang has over 12 years of experience in financial management and operational management. Mr. Wang holds a bachelor degree in Accountancy from Renmin University, the PRC and a master degree in business administration from Beijing Institute of Technology. Being the Managing Director, Mr. Wang will be principally responsible for the financial planning of the Group.

Mr. Liu Wei, aged 39, a director of Modern East, has over nine years of experience in corporate banking and corporate finance activities. Prior to setting up Modern East, Mr. Liu Wei was the regional head of an investment firm engaging in Hi-tech and media business in Hong Kong. Mr. Liu Wei holds a bachelor degree in American & English Literature from the Institute of International Politics, Beijing, the PRC and a master degree in business administration from the University of San Francisco. Being the Deputy Managing Director, Mr. Liu will assist Mr. Wang in managing the day-to-day operations of the Group.

Mr. Peng Jianguo, aged 48, is the Deputy General Manager of CMTI. Mr. Peng joined NACGC in 2000 Mr. Peng is an engineer by profession and has over 20 years of experience engaged in the manufacturing management. Mr. Peng holds a bachelor degree in Engineering from Gansu Industrial University, the PRC. Being the Deputy Managing Director, Mr. Peng will principally be responsible for identifying potential investment and business opportunities in the PRC and the subsequent monitoring and management of these projects.

Mr. Liu Xiangmao, aged 40, a director of Modern East, is also the general manager of Donnion Investments Ltd., specializing in general trading and property investment in the PRC. Mr. Liu Xiang Mao has over 16 years of experience in futures trading, particularly on non-ferrous metals and grain trading and also has valuable experience in the area of management and operation of manufacturing companies and enterprises in the PRC and overseas. Mr. Liu Xiang Mao holds a bachelor degree in Economics from Renmin University, the PRC. Mr. Liu, the Deputy Managing Director, will principally be responsible for identifying potential investment and business opportunities overseas and the subsequent monitoring and management of these projects.

Independent non-executive Directors

Mr. Lau Chi Wah, Alex, aged 40, is currently the Managing Director of the Mergers and Acquisition Division of DBS Asia. Mr. Lau is a member of the Institute of Chartered Accountants in England & Wales. Mr. Lau has over 18 years experience in corporate finance and accounting fields. He holds a bachelor of science degree in Accountancy from University of East Anglia, England.

Mr. Huang Baozhong, aged 40, has more than 15 years of experience in engineering and aerospace related industries. Mr. Huang is an engineer by profession and was qualified as a lawyer to practise laws in the PRC. Mr. Huang is the managing director of Beijing Skyleader Management Consulting Limited, a management consulting company based in Beijing, the PRC. Mr. Huang holds a bachelor degree in Engineering and a master degree in Engineering from Harbin Institute of Technology, the PRC.

Company Secretary

Given that the Company currently does not retain a company secretary, in order to comply with the relevant Listing Rules, the Investor will recruit and recommend a qualified company secretary to the Company at a time nearer the Closing Date for the Company to consider appointment of such person as the Company Secretary.

WHITEWASH WAIVER

Immediately upon Completion, the Investor together with parties acting in concert with it will become the controlling shareholder of the Company holding approximately 90.71% of the issued share capital of the Company. Upon full conversion of the Working Capital Convertible Bond (assuming that the principal amount is HK$10 million and is converted at the conversion price of HK$0.01 per New Share), the Investor's shareholding interest in the Company will further increase to approximately 92.26% of the enlarged issued share capital of the Company.

Under Rule 26 of the Code, the Investor together with parties acting in concert with it are obliged to make an unconditional general offer for all the New Shares not already owned or agreed to be acquired by the Investor together with parties acting in concert with it. Pursuant to the Code, the principal concert parties of the Investor include its immediate and ultimate shareholders namely, Modern East, CMTHK, CMTI and NACGC and their respective directors and associates. Directors of CMTHK are Messrs. Wang Baoping, Liu Wei and Pan Fengqiang. Directors of CMTI are Madam Zhu Yan, Messrs. Pan Fengqiang, Madam Deng Ying, Yao Jianming, Liu Ziqi, Wen Rensheng, Gan Peigen, Tian Minbo, Liao Yingmin, Fan Wenjun and Madam Liu Ping, whilst directors of Modern East are Messrs. Liu Wei and Liu Xiangmao. Given its state-owned status, NACGC does not have a board of directors.

Application has been made by the Investor to the Executive to waive the general offer obligation following Completion.

The Executive has indicated that, subject to the approval by the Independent Shareholders on a vote taken by way of a poll, it will grant to the Investor and parties acting in concert with it a waiver of any obligation to make a general offer which might result from the implementation of the Restructuring Proposal. Completion is conditional upon, among other things, the granting of the Whitewash Waiver by the Executive and such Whitewash Waiver not having been withdrawn up to the completion of the Subscription Agreement. **If the Whitewash Waiver is not approved by the Independent Shareholders, Completion will not take place**.

Since the Investor and parties acting in concert with it will together hold in excess of 50% of the voting rights of the Company immediately following Completion, the creeper provisions of the Code will not be applicable and the Investor will be free to acquire further voting rights in the Company thereafter without triggering a general offer obligation.

Prior to and as at the Latest Practicable Date, the Investor, CMTHK, CMTI, Modern East, NACGC, Messrs. Pan Fengqiang, Wang Baoping, Liu Wei, Liu Xiangmao and parties acting in concert with any one of them are not interested in any securities of the Company and none of them have dealt in any securities of the Company during the six-month period immediately preceding 27 May 2003, being the date of the Restructuring Agreement. Each of the Investor, CMTI, CMTHK, Modern East, NACGC, Messers. Pan Fengqiang, Wang Baoping, Liu Wei and Liu Xiangmao has also undertaken not to deal in the Shares before the EGM to be convened to consider the Restructuring Proposal.

MAINTAINING THE LISTING OF THE COMPANY

It is also the intention of the Investor that the listing of the New Shares on the Stock Exchange will be maintained after Completion.

The Investor and the Proposed Directors have undertaken to the Stock Exchange that they will as soon as practicable after Completion to place or otherwise dispose of such number of New Shares to independent third parties so as to restore the public float to not less than 25% of the enlarged issued share capital of the Company as required under Rule 8.08 of the Listing Rules. No underwriting or irrevocable placing agreement has yet been entered into by the Investor as at the Latest Practicable Date but it will submit a concrete implementation plan for restoring the 25% public float to the Stock exchange for approval.

The Investor has also undertaken to the Company and the Stock Exchange that it will not exercise the Working Capital Convertible Bond to the extent that following the exercise of such conversion rights, the 25% minimum public float requirement as stipulated under Rule 8.08 of the Listing Rules is not met. The Company and the Proposed Directors have also undertaken to the Stock Exchange that the Company will not issue New Shares to the extent that the 25% minimum public float requirement as stipulated under Rule 8.08 of the Listing Rules is not met.

Trading in the New Shares will be resumed when sufficient public float is restored after the implementation of the Restructuring Proposal.

The Stock Exchange has stated that if upon Completion there is less than 25% of the issued New Shares being held by the general public or if the Stock Exchange believes that:

- **a false market exists or may exist in the trading of the New Shares; or**

- **there are insufficient New Shares in public hands to maintain an orderly market,**

then it will consider exercising its discretion to suspend trading in the New Shares until a level of sufficient public float is attained. In this connection, it should be noted that upon completion of the Restructuring Proposal, the minimum public float requirement for the New Shares may not be met and, therefore, trading in the New Shares may be suspended until a sufficient level of public float is attained.

The Stock Exchange will also closely monitor all future acquisitions or disposals of assets by the Company. The Stock Exchange has indicated that it has the discretion to require the Company to issue a circular to Shareholders where an acquisition or disposal by the Company is proposed, irrespective of the size of any proposed acquisition or disposal and in particular where such acquisition or disposal represents a departure from the principal activities of the Company. The Stock Exchange also has the power, pursuant to the Listing Rules, to aggregate a series of acquisitions or disposals by the Company and any such acquisitions or disposals may, in any event, result in the Company being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the Listing Rules.

Yours faithfully,
By Order of the Board
Northern Resources Limited
Mr. Liu Wei
Director

The following is the text of a letter to the Independent Shareholders from First Shanghai in respect of the Restructuring Proposal, the Whitewash Waiver, the Deed of Sale and Purchase and the Finance Documents prepared for the purpose of incorporation in this document.

First Shanghai Capital Limited
19th Floor
Wing On House
71 Des Voeux Road Central
Hong Kong

29 October 2003

To the Independent Shareholders

Dear Sirs,

**RESTRUCTURING OF
BAKER GROUP INTERNATIONAL HOLDINGS LIMITED
(FORMERLY KNOWN AS LUEN CHEONG TAI
INTERNATIONAL HOLDINGS LIMITED)
(PROVISIONAL LIQUIDATORS APPOINTED)
INVOLVING, INTER ALIA, CAPITAL RESTRUCTURING,
DEBT RESTRUCTURING AND CREDITORS' SCHEMES OF
ARRANGEMENT IN ACCORDANCE WITH SECTION 86 OF
THE CAYMAN COMPANIES LAW AND SECTION 166 OF
THE COMPANIES ORDINANCE, SUBSCRIPTION
FOR NEW SHARES BY NORTHERN RESOURCES LIMITED,
WHITEWASH WAIVER, CONNECTED TRANSACTION AND
GENERAL MANDATES TO ISSUE AND TO REPURCHASE NEW SHARES**

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise you in respect of the Restructuring Proposal, the Whitewash Waiver, the Deed of Sale and Purchase and the Finance Documents, details of which are contained in the "Letter from the Provisional Liquidators" and the "Letter from the Investor" set out on pages 11 to 50 of a circular to the Shareholders dated 29 October 2003 (the "Circular"), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as in the Circular.

The Restructuring Proposal which includes, inter alia, the proposed restructuring of the Company through the Capital Restructuring, the Debt Restructuring involving the Schemes, the Subscription contemplated under the Restructuring Agreement and the Subscription Agreement as well as the entering into of the Working Capital CB Subscription Agreement, the Deed of Sale and Purchase, the Finance Documents and the Whitewash Waiver are subject to, inter alia, the approval of the Independent Shareholders at the EGM.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Company, the Provisional Liquidators and the Investor. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Company, the Provisional Liquidators and the Investor are true and accurate at the time when they were made and continue to be so at the date hereof. We have also assumed that all statements of belief, opinion, expectation and intention made by the Company, the Provisional Liquidators and the Investor in the Circular were reasonably made after due enquiry and careful consideration and that there are no other facts or representations the omission of which would make any statement in the Circular misleading. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers, the Provisional Liquidators and/or the Investor, which have been provided to us. We consider that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Group and the Investor nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the terms of the Restructuring Proposal, the Whitewash Waiver, the Deed of Sale and Purchase and the Finance Documents, we have taken into consideration the following principal factors:—

Background for appointment of the Provisional Liquidators

According to the Company's audited financial statements for the year ended 31 May 2002, the financial position of the Group drastically deteriorated during the 12 month period from 31 May 2001 to 31 May 2002, mainly resulting from substantial provisions for impairment and write-offs as further detailed below. On 3 June 2002, a winding up petition was presented against the Company by the Petitioner with a claim of approximately HK$3.9 million. Prior to the first hearing of such petition, an application was made by Bank of China (Hong Kong) Limited, a creditor of the Company, for the appointment of provisional liquidators to the

Company. The BOC Application was supported by seven other creditors of the Company, including the Petitioner, with total claims of approximately HK$97.8 million as at 30 November 2001. Based on the audited financial statements of the Company for the year ended 31 May 2002, the total liabilities of the Group was approximately HK$287.2 million. Upon hearing the BOC Application on 5 September 2002, the HK Court made an order for the appointment of Messrs. Stephen Liu Yiu Keung and Yeo Boon Ann of Ernst & Young Transactions Limited as the Provisional Liquidators of the Company in Hong Kong. On 13 August, 2003, the Cayman Islands Court made an order for the appointment of Messrs. Stephen Liu Yiu Keung and Yeo Boon Ann of Ernst & Young Transactions Limited and Mr. Don Wayne Ebanks of E&Y Restructuring, Ltd. as the Provisional Liquidators of the Company in the Cayman Islands. According to the terms of the order appointing the Provisional Liquidators, the Provisional Liquidators have the power to, inter alia, formulate and carry out a restructuring of the business of the Company, or its subsidiaries, associated companies, joint ventures or other entities in which the Company holds an interest.

Reason for the restructuring

After taking into consideration the financial position of the Group and other alternative restructuring proposals received by the Company, the Provisional Liquidators are of the view that the present Restructuring Proposal represents the best available option to the Company, its Creditors and Shareholders having regard to all factors including the potential returns to both the Creditors and the Shareholders, the availability of alternatives for the Creditors to recover their debts and the time required to implement the Restructuring Proposal. Having discussed with the Provisional Liquidators on their evaluation of alternative proposals, we consider that the Provisional Liquidators have been acting in the interests of the Creditors and Shareholders. The Provisional Liquidators have indicated that there were two alternative restructuring proposals comparable to the Restructuring Proposal, but which are no longer available now.

If the Restructuring Proposal is successfully implemented, all of the Company's outstanding claims, including contingent liabilities of the Company as described in the section headed "8. Material Litigation" of Appendix IV to the Circular (which are estimated to be approximately HK$145 million in aggregate to the best knowledge of the Provisional Liquidators based on available records as at the Latest Practicable Date), will be discharged and waived pursuant to the Schemes and the Petitioner will withdraw the petition to wind up the Company. The amount of the outstanding claims is for indicative purposes only and will be subject to formal adjudication by the Scheme Administrators once the Schemes are implemented. After the Debt Restructuring, the Group will continue to be liable for approximately HK$1.6 million, which primarily represents Finestyle and i.Solution's existing liabilities incurred in the ordinary course of their business mainly for salaries, taxes and audit fees until the Latest Practicable Date. If the Company is unable to restructure its indebtedness with its Creditors as set out in the Restructuring Proposal, there is a strong likelihood that the Company would be wound up. Should the Company be wound up, the return to the Creditors would be minimal and there is unlikely to be any return to the Shareholders.

Listing and dealings of the Shares

Trading in the Shares on the Stock Exchange has been suspended since 9:30 a.m. on Monday, 26 August 2002 at the request of the Company pending the results of the court hearing to be held on the same date for the winding up petition against the Company by Showa Leasing (Hong Kong) Limited.

However, it is the intention of the Investor that the listing of the New Shares on the Stock Exchange will be maintained after Completion.

Independent Shareholders should also note that the Investor and parties acting in concert with it will hold in aggregate more than 75% of the enlarged issued share capital of the Company, thus the Company's public float will fall below 25% of its issued share capital immediately after Completion. The Investor has undertaken to the Stock Exchange that it will as soon as practicable after Completion use its best endeavours to take appropriate steps to ensure that adequate number of New Shares will be sold, placed or otherwise disposed of to independent third parties so as to restore the public float to not less than 25% of the enlarged issued share capital of the Company as required under Rule 8.08 of the Listing Rules. The Stock Exchange has further stated that trading in the Shares will remain suspended on Completion if sufficient public float has not been restored by then.

The Investor has also undertaken to the Company and the Stock Exchange that it will not exercise the conversion rights attaching to the Working Capital Convertible Bond to the extent that following the exercise of such conversion rights, the 25% minimum public float requirement as stipulated under Rule 8.08 of the Listing Rules is not met. The Company and the Proposed Directors will also undertake to the Stock Exchange that the Company will not issue New Shares to the extent that the 25% minimum public float requirement as stipulated under Rule 8.08 of the Listing Rules is not met.

The Investor will make arrangements for restoring the public float of the New Shares. No underwriting or irrevocable placing agreement has yet been entered into by the Investor as at the Latest Practicable Date.

Trading in the New Shares is expected to be resumed when sufficient public float is restored after the implementation of the Restructuring Proposal.

The Stock Exchange has stated that if upon Completion there is less than 25% of the issued New Shares being held by the general public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the New Shares; or (ii) there are insufficient New Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the New Shares until a level of sufficient public float is attained. In this connection, it should be noted that upon Completion, there may be insufficient public float for the New Shares and, therefore, trading in the New Shares may continue to be suspended until a sufficient level of public float is attained.

Principal terms of the Restructuring Proposal

The Restructuring Proposal involves, amongst other things, the Capital Restructuring, the Debt Restructuring through the Schemes, the execution of the Deed of Sale and Purchase and the Finance Documents as well as the Subscription, the principal terms of which are set out in the section headed "Letter from the Provisional Liquidators" in the Circular.

Effect of the Restructuring Proposal on the Shareholders

(i) Shareholding

The expected changes in the shareholding of the Company upon Completion will be as follows:

	Existing (million Shares)	% of the existing issued share capital	Before conversion of the Working Capital Convertible Bond (million New Shares)	% of the issued share capital upon completion of the Restructuring Proposal	Upon full conversion of the Working Capital Convertible Bond (million New Shares) *(Note 1)*	% of the issued share capital upon full conversion of the Working Capital Convertible Bond
Investor and parties acting in concert with it	—	—	4,500.00	90.71	5,500.00 *(Note 2)*	92.26
Creditors	—	—	248.05	5.00	248.05	4.16
Independent Shareholders	532.55	100.00	213.02	4.29	213.02	3.58
Total	532.55	100.00	4,961.07	100.00	5,961.07	100.00

Note 1: The Investor has undertaken to the Company and Stock Exchange that it will not exercise the conversion rights attaching to the Working Capital Convertible Bond if such conversion would result in the public float of the issued share capital of the Company from time to time falling below 25%, the minimum public float requirement as stipulated under Rule 8.08 of the Listing Rules. The Company and the Proposed Directors have also undertaken to the Stock Exchange that the Company will not issue New Shares to the extent that the 25% minimum public float requirement as stipulated under Rule 8.08 of the Listing Rules is not met.

Note 2: Assuming that the principal amount of the Working Capital Convertible Bond is HK$10,000,000 and is converted into New Shares at HK$0.01 per New Share.

As shown from the above shareholding table, the Investor together with parties acting in concert with it will be interested in approximately 90.71% of the enlarged issued share capital of the Company immediately upon Completion. The Investor has applied to the SFC for a waiver from the obligations under Rule 26 of the Code to make a general offer for all the securities of the Company other than those already held by the Investor together with parties acting in concert with it. The Executive has indicated that, subject to the approval by the Independent Shareholders on a vote taken by way of a poll, it will grant to the Investor and parties acting in concert with it a waiver of any obligation to make a general offer which might result from the Subscription.

As the Investor and parties acting in concert with it will hold more than 50% of the voting rights of the Company upon Completion, the creeper provision of Rule 26 of the Code will not be applicable and they will be free to acquire further voting rights in the Company without triggering a general offer obligation as long as the aggregate percentage holding of New Shares of the Investor and parties acting in concert with it remains above 50% of the voting rights of the Company. The Company will put forward a resolution in relation to the Whitewash Waiver, to be taken by way of a poll, to the Independent Shareholders at the EGM.

(ii) Net tangible asset value

Based on the latest audited financial statements of the Group as at 31 May 2003, the adjusted consolidated negative net tangible assets of the Group were approximately HK$(30.92) million. Based on the audited financial statements of the Group as at 31 May 2003 and the effect of the Restructuring Proposal, the pro forma unaudited adjusted net tangible asset value of the Group is estimated to be approximately HK$14.08 million (equivalent to approximately 0.28 cents per New Share) upon Completion and approximately HK$24.08 million after full conversion of the Working Capital Convertible Bond (equivalent to approximately 0.40 cents per New Share), assuming that the principal amount of the Working Capital Convertible Bond is HK$10 million and is converted into New Shares at HK$0.01 per New Share.

Shareholders are drawn to the attention that the latest audited financial statements of the Group for the year ended 31 May 2003 has been heavily qualified in view of the fact that the preparation of the financial statements and audit has been restricted to a very large extent owing to insufficient information being available. In particular, the Provisional Liquidators have indicated that they have only been able to obtain the unaudited management accounts of Finestyle and i.Solution, the only two major subsidiaries of the Group with business operations after Completion, for the seven months ended 31 December 2002 for consolidation into the audited financial statements of the Group for the year ended 31 May 2003. As a consequence, the financial information presented in the latest audited financial statements for the year ended 31 May 2003 may not provide accurate information as to the trading results and assets and liabilities of

Finestyle and i.Solution. Given no other alternative, such information is the best available. Shareholders should be aware of the limitations on the accuracy of the financial statements given the difficulty encountered by the auditors and that the auditors were unable to opine as to whether the financial statements give a true and fair view of the state of affairs of the Group. Accordingly, the financial statements should not be duly relied upon as giving a true and fair view of the state of affairs of the Group. Also, the audited financial statements for the year ended 31 May 2003 have been prepared on a going concern basis assuming successful implementation of the Restructuring Proposal. If the Restructuring Proposal is not successfully implemented, the Group will not be a going concern and the audited financial statements for the year ended 31 May 2003 would no longer provide meaningful information. We consider that Shareholders should focus on the fact that the Provisional Liquidators have been appointed and in the absence of a feasible rescue proposal, the Company is likely to be wound up and the Shares will likely be worthless.

The Provisional Liquidators expect that the implementation of the Restructuring Proposal would discharge the total claims of the Creditors which are estimated to be approximately HK$145 million in aggregate to the best knowledge of the Provisional Liquidators based on available records as at the Latest Practicable Date. Creditors representing approximately 85% in value of known claims have indicated to the Provisional Liquidators that they in principle support the Restructuring Proposal. Pursuant to the terms of the Restructuring Agreement, all outstanding liabilities/claims (subject to adjudication by the Scheme Administrators) will be dealt with under the Schemes. On Completion, the Company will be debt free as all of the Company's outstanding claims/liabilities will be discharged and waived. As for the other subsidiaries of the Group post Completion (i.e. Finestyle and i.Solution), liabilities may arise from the ordinary course of their businesses.

Regarding the debenture dated 5 July 2001 granted by Finestyle over all of its assets and undertaking (including the Forest Concession) in favour of Get Nice as security for a HK$5 million loan facility made to the Company by Get Nice, Suriname Counsel to the Provisional Liquidators have advised that, while the Get Nice charge could be enforceable against those assets of Finestyle located in Suriname which are not related to land, it would not be enforceable against the Forest Concession and any real property in Suriname owned by Finestyle. Get Nice has undertaken to the HK Court that no steps would be taken to levy execution against the Company in respect of any judgment that may be obtained against it until the winding-up petition presented by the Petitioner against the Company has been withdrawn or dismissed or until further order of the Court. Based on the above and considering that the Company would be debt free upon Completion, it is not expected that the Get Nice charge would affect the Investor's ability to implement its business plan on the Forest Concession.

The negative net tangible assets position of the Group would be greatly improved, from approximately HK$(30.92) million as at 31 May 2003 to a net tangible asset value of approximately HK$14.08 million upon Completion and approximately HK$24.08 million after full conversion of the Working Capital Convertible Bond (assuming that the principal amount is HK$10 million and is converted into New Shares at HK$0.01 per New Share) based on the "Pro forma unaudited adjusted net tangible assets of the Group" as disclosed in Appendix I of the Circular. Accordingly, we are of the view that the Restructuring Proposal is in the interests of the Company and the Shareholders as a whole.

(iii) Business and financial performance for the four years ended 31 May 2003

As disclosed in the Company's audited financial statements for the year ended 31 May 2002, the Group was principally engaged in construction, forest exploitation and timber trading as well as online commerce business activities and the financial position of the Group drastically deteriorated during the 12 month period from 31 May 2001 to 31 May 2002.

Detailed audited consolidated financial information of the Group is set out in Appendix I to the Circular and a summary of the financial information of the Group is set out below:

	Year ended 31 May 2003 *(in HK$'000)*	**Year ended 31 May 2002** *(in HK$'000)*	**Year ended 31 May 2001** *(in HK$'000)*	**Year ended 31 May 2000** *(in HK$'000)*
Turnover	1,523	156,352	295,648	367,194
Cost of sales	(1,182)	(213,856)	(308,357)	(311,040)
Gross profit/(loss)	341	(57,504)	(12,709)	56,154
Gross profit margin	22.39%	(36.78)%	(4.30)%	15.29%
Net profit/(loss) attributable to the Shareholders	217,320	(346,316)	(154,083)	3,596
Net profit margin	14,269.21%	(221.50)%	(52.12)%	0.97%

Notes: RSM Nelson Wheeler had been the auditors of the Group for the year ended 31 May 2001. During the course of their audit, they were not provided with sufficient evidence, in particular, the carrying amount of timber concession rights, interests in subsidiaries, provision for taxation and construction contracts of the Group. In addition, there were qualifications in relation to adopting the going concern basis on the Company's financial statements for the year ended 31 May 2001.

> On 4 July 2003, Moore Stephens were appointed as the auditors of the Group by the Provisional Liquidators, but the existing Directors were not able to provide them with all the information that they required in relation to their audit for the two years ended 31 May 2003. In consequence, they were unable to carry out all of the auditing procedures necessary to obtain adequate assurance regarding the assets, liabilities, income and expenses appearing in the financial statements. There were no satisfactory audit procedures that they could adopt to obtain sufficient evidence regarding the accuracy and completeness of the assets, liabilities, income and expenses of the Company.
>
> Because of the significance of the possible effect of the limitation in evidence available to the auditors of the Group, the audited consolidated financial statements for the four years ended 31 May 2003 were qualified by the auditors of the Group that they 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 Group and of the Company as at 31 May 2000, 2001, 2002 and 2003 or of the profit/loss and cash flows of the Group for the four years then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Companies Ordinance.

As shown in the table above, the turnover and profitability of the Group has been declining over the years.

We noted that turnover of the Group had declined by approximately 19.48% from approximately HK$367.19 million for the year ended 31 May 2000 to approximately HK$295.65 million for the year ended 31 May 2001. As disclosed in the Company's audited financial statements for the year ended 31 May 2001, the operating conditions of the construction industry continued to deteriorate. Turnover of the Group had further declined by approximately 47.12% from approximately HK$295.65 million for the year ended 31 May 2001 to approximately HK$156.35 million for the year ended 31 May 2002.

We also noted that the gross profit margin of the Group had decreased considerably from approximately 15.29% for the year ended 31 May 2000 to a gross loss position of approximately 4.30% for the year ended 31 May 2001. The gross loss position had further deteriorated to approximately HK$57.50 million, representing approximately 36.78% of the Group's turnover for the year ended 31 May 2002. As already mentioned in the annual report of the Group for the year ended 31 May 2001, the deterioration of the gross profit margin was mainly due to the continuing deterioration of the operating conditions of the construction industry, and the property market has remained sluggish due to over supply of private and public residential units in Hong Kong with consumer confidence at a very low point. The Group had reported a gross profit of approximately HK$341,000, representing a gross profit margin of approximately 22.39% for the year ended 31 May 2003, which was mainly because of the deconsolidation of a subsidiary, namely LCTC, as a result of loss of control over it.

The consolidated net profit attributable to the Shareholders had drastically decreased over the three years ended 31 May 2002. The decrease was from a profit of approximately HK$3.60 million for the year ended 31 May 2000 to a loss of approximately HK$154.08 million for the year ended 31 May 2001, representing a significant deterioration of approximately 44 times over the two years. It was mainly due to the total effect that (i) gross profit of the Group had decreased by approximately HK$68.86 million from a gross profit of approximately HK$56.15 million for the year ended 31 May 2000 to a gross loss of approximately HK$12.71 million for the year ended 31 May 2001; and (ii) amortisation of concession rights, write-down of recoverable amount of fixed assets, write-down of website development costs arising from acquisition of subsidiaries, and write-off of goodwill arising from acquisition of subsidiaries totalling approximately HK$100.88 million were charged to the consolidated profit and loss account during the year ended 31 May 2001.

The consolidated net loss attributable to the Shareholders had significantly deteriorated from approximately HK$154.08 million for the year ended 31 May 2001 to approximately HK$346.32 million for the year ended 31 May 2002, representing a significant increase of approximately 124.77% over the two years. It was mainly due to the net effect that (i) gross loss of the Group had further increased by approximately HK$44.80 million from approximately HK$12.71 million for the year ended 31 May 2001 to approximately HK$57.51 million for the year ended 31 May 2002; and (ii) other operating expenses of the Group had decreased from approximately HK$113.11 million for the year ended 31 May 2001 to approximately HK$11.63 million for the year ended 31 May 2002; and (iii) provisions for impairment in value of concession right, goodwill and investment properties and for write-off of inventories, plant and equipment, trade and other receivables totalling approximately HK$241.47 million were recorded for the year ended 31 May 2002, but which did not occur in the financial year ended 31 May 2001.

The consolidated net loss/profit attributable to the Shareholders had significantly improved from a loss of approximately HK$346.32 million for the year ended 31 May 2002 to a profit of approximately HK$217.32 million for the year ended 31 May 2003. It was mainly due to the net effect that (i) loss from operations of the Group had significantly decreased by approximately HK$79.02 million from approximately HK$82.10 million for the year ended 31 May 2002 to approximately HK$3.08 million for the year ended 31 May 2003 because of the deconsolidation of a subsidiary, namely LCTC, as a result of loss of control over it; (ii) a gain arising from the said deconsolidation and on restructuring of approximately HK$244.33 million; (iii) debt restructuring costs of approximately HK$27.32 million were incurred for implementing the Restructuring Proposal; and (iv) provisions for impairment and write offs totalling approximately HK$250.30 million incurred in the year ended 31 May 2002 had no longer repeated in the financial year ended 31 May 2003.

In view of the above, the Group's financial and operating performance had been deteriorating significantly over the years. However, upon Completion, the Group will be principally engaged in timber logging and trading business in Suriname. The construction business would be excluded from the restructured Group, and it is anticipated that the Investor and its shareholders will use their own timber expertise and distribution network to revitalise and develop the Company's existing Forest Concession business potential so as to improve the Group's overall financial performance and business prospects. Furthermore, the Investor will undertake further detailed business analysis and assessment on the Forest Concession and formulate and implement viable business plans and strategies for the Company with an aim to enhance the overall business prospects of the Company, to broaden its income stream and to increase value to the Shareholders as a whole. The future plans of the Investor regarding the Group is set out in the section headed "Letter from the Investor" in the Circular. However, Independent Shareholders should be reminded that there is no guarantee on the future success of such plans and there is no assurance that the overall financial and business performance of the Group will be improved.

(iv) Gearing

It is also important to mention that the gearing of the Group had been at an extremely high level. According to the Company's financial statements for each of the three years ended 31 May 2000, 2001 and 2002, the gearing ratio (i.e. interest bearing borrowings divided by net asset value) of the Group had increased from 58.92% as at 31 May 2000 to 92.02% as at 31 May 2001. The reason for the increase in gearing ratio of the Group was that the interest bearing borrowings had decreased from approximately HK$150.99 million as at 31 May 2000 to approximately HK$127.61 million as at 31 May 2001, while its net asset value as at the two year end dates had decreased from approximately HK$256.26 million to HK$136.68 million. As at 31 May 2002, the Group recorded total interest bearing borrowings of approximately HK$123.36 million, while its net liability position was approximately HK$193.64 million. Based on the Company's latest audited financial statements for the year ended 31 May 2003, the Group had secured interest bearing borrowings of approximately HK$11.66 million, while its shareholders' equity had significantly improved from a shareholders' deficit of approximately HK$193.64 million as at 31 May 2002 to become a shareholders' equity of approximately HK$23.68 million because of the fact that the liabilities of the Group as at 31 May 2003 as shown in the financial statements had been adjusted to anticipated settlement amounts as set out in the Company's proposed Debt Restructuring arrangement. Given such adverse condition and possible improvement following Completion, there is a pressing need for the Group to be revitalised by the Restructuring Proposal in a timely manner.

(v) Capital value

Trading in the Shares on the Stock Exchange has been suspended since 9:30 a.m. on Monday, 26 August 2002. The last dealt price per Share on 23 August 2002, being the last day on which the Shares were traded on the Stock Exchange prior to the trading suspension, was HK$0.036. The issue price for each New Share of HK$0.01 to be issued to the Investor and to TrustCo to be held on trust for the scheme creditors represents approximately 72.22% discount to the last dealt price per Share of HK$0.036 on the Stock Exchange on 23 August 2002, being the last trading day prior to the suspension of the trading of the Shares on the Stock Exchange. Given the events which followed the trading suspension and based on the available financial information of the Group, the last traded price is of no relevance to the current capital value of the Shares. In view of the financial position of the Group as disclosed in the audited financial statements of the Group for the year ended 31 May 2002 and of the fact that the Provisional Liquidators have been appointed, we note that the value of the Shares, in the absence of the Restructuring Proposal, would be nil.

Since the Restructuring Proposal would bring to the Shareholders the benefits in terms of net tangible assets, earnings potential and capital value that would be attributable to them as discussed above, we consider that the Restructuring Proposal is in the interests of the Shareholders.

(vi) Working capital

The Investor has undertaken to the Company that subject to Completion, for a period of 12 months after the Closing Date, it will provide the necessary funding to the Company for the working capital requirements of the Group including, without limitation, by subscribing for the Working Capital Convertible Bond. Nonetheless, the funding requirements of the Group in the long-run would depend on its future business needs and its internally generated working capital.

Dilution in the shareholding interests of the Independent Shareholders

Upon Completion, the aggregate shareholding interests of the Independent Shareholders in the Company will be reduced from 100% to around 4.29% (assuming the Working Capital Convertible Bond is not exercised). This represents a dilution impact of 95.71%. Details of the change in the Company's shareholding structure before and immediately after Completion are set out in the sub-paragraph headed "Shareholding" in the paragraph headed "Effect of the Restructuring Proposal on the Shareholders" above of this letter.

The dilution on the shareholding interests of the Independent Shareholders is due to the issue of an aggregate of 4,748.05 million New Shares to the Investor and the Scheme Administrators (on trust for the scheme creditors). There will be further dilution if New Shares are issued upon the conversion of the Working Capital Convertible Bond.

We are of the view that given the current financial difficulties faced by the Group, it is necessary for the Group to implement measures to obtain additional working capital to maintain its business operations and to repay or restructure its outstanding borrowings. If the Group fails to obtain additional working capital from the Restructuring Proposal and there is no other feasible rescue proposal, the Company is likely to be wound up. We have been advised that there are currently no other rescue proposals available. Should the Company be finally wound up, it is very likely that the Shares will be worthless.

If the Group were to raise the required funding by issue of new shares of the Company on a pro rata basis through exercises such as rights issue or open offer, the Independent Shareholders would have the option to maintain their proportionate shareholding interests in the Company. However, this would not be a viable option currently available to the Company. In view of the fact that (i) the Provisional Liquidators have been appointed; (ii) trading in the Shares on the Stock Exchange has been suspended since 9:30 a.m. on Monday, 26 August 2002; (iii) the Group had incurred huge losses over the two financial years ended 31 May 2002; and (iv) the current market situation, it would be very difficult for the Company to find underwriter(s) for such fund raising exercises.

After taking into consideration the current financial position of the Group and other alternative restructuring proposals received by the Company, the Provisional Liquidators are of the view that the Restructuring Proposal represents the best available option to the Company, the Creditors and the Shareholders having regard to all factors including the potential returns to both the Creditors and the Shareholders, the availability of alternatives for the Creditors to recover their debts and the time required to implement the Restructuring Proposal. Given that the Restructuring Proposal is chosen and no other alternative proposals are currently available, we also consider that the Restructuring Proposal currently represents the best available option to the Company. Given that the Restructuring Proposal is the best viable proposal available to the Company, we consider that it is reasonable for the Investor to make it a condition for injection of new equity into a company in serious financial difficulties to gain absolute control of it.

Management, future plans and business prospects of the Group

The current Board comprises six Directors, Mr. Chan Man Chuen, Mr. Vong Pak Cheong, Mr. Chan Kai Yiu, Mr. Hung Yat Ming, Mr. Yau Ting Kwok and Mr. Tsang Fan Wan. However, the powers of the Directors have been suspended since the appointment of the Provisional Liquidators. With regard to management, it is the intention of the Investor that, upon Completion, all the existing Directors will be removed from the Board and seven Proposed Directors (including two independent non-executive Directors) will be appointed to the new board of Directors following Completion. Being the ultimate controlling shareholder of the Company upon Completion and in view of the fact that the existing Directors are to be removed at the EGM, it is necessary for NACGC to provide immediate management support to the Group with an aim to revitalise the operations of the Group. Most of the Proposed Directors are related to NACGC as they can provide relevant management and industry expertise and experience to the Group and thus can assist the Group to revitalise its business and operations. Further, upon Completion, additional staff may be recruited in Hong Kong and Suriname, if required, to strengthen the management and operations of the Group.

The Group was principally engaged in construction, forest exploitation and timber trading as well as online commerce business activities. However, the online commerce business activities had already ceased, and the attributable website development cost had totally been written off during the year ended 31 May 2001. Upon Completion, the only remaining operating subsidiaries of the Group will be Finestyle and i.Solution which are principally engaged in forest exploitation and timber trading businesses. Their existing forestry businesses continue to operate although on a limited scale since the appointment of the Provisional Liquidators. Sales of wood logs have been slow and there is inventory on hand. For the seven-month period ended 31 December 2002, revenue was mostly derived from sales to the local market. The Investor considers the underlying business potential of the Company is its Forest Concession, and considers it possible that with the Investor as the controlling shareholder of the Company upon Completion, the business performance of the Forest Concession could be enhanced by capitalising on NACGC's expertise in the timber business and its relevant diversified sales and distribution network in the PRC.

In view of the above, in particular the Investor's relevant industry expertise in the timber business in the PRC, the Investor intends to focus on continuing and developing the Company's existing timber business and operations. The Investor and its shareholders envisage using their own timber expertise to revitalise the Company's existing Forestry Concession, and to improve the Company's overall financial performance and business prospects. Furthermore, the Investor also intends to assist the Company to explore new and appropriate investment and/or business opportunities by tapping into the resource base, network and business expertise of the Investor and its shareholders with an aim to enhance the overall business prospects of the Company, to broaden its income stream and to increase value to the Shareholders as a whole.

Following Completion, which, if successfully implemented, will, amongst other things, result in all the scheme creditors discharging and waiving their outstanding claims against the Company pursuant to the Schemes and the Petitioner withdrawing the petition to wind up the Company. The Investor will, after Completion, undertake further detailed business analysis and assessment on the Forest Concession and formulate and implement viable business plans and strategies for the Company to revitalise its business.

The Investor will inject additional working capital after Completion to the Company in the form of the Working Capital Convertible Bond of not less than a principal amount of HK$5 million but up to HK$10 million to provide adequate funding to the Company for the purposes of financing the Company's business, operations and capital investment(s) in any new and appropriate investment or business opportunities (as and when they arise).

Having considered the existing principal business and assets of the Company, together with the background and expertise of the Investor, its shareholders and their directors, it is envisaged by the Investor that the Company upon Completion would continue to principally engage in tree logging, sale and distribution and trading of timber. At present, owing to policy constraints imposed on the exploitation of timber in the PRC, the demand for timber has always exceeded its supply in the PRC. NACGC currently imports, among other things, timber from African countries, South East Asia and New Zealand and is one of the major timber importers in the PRC. The Investor considers that the existing forestry and timber operations of the Company and those of NACGC complement each other. In any event, the Investor and its shareholders will not engage in any such competing business in the future without the Group having first been offered the right to engage in or undertake the new venture.

The Forest Concession represents a secure timber resource base and given NACGC's timber network in the PRC which covers various provinces including Shandong, Hebei and Zhejiang provinces, Shanghai and Wuhan in the PRC, NACGC would be a potential distributor for the Company in facilitating the Company to sell timber in the PRC. Given the above, we consider that possible business synergies could be created between the Company's timber business and NACGC's existing business network. NACGC further confirms that following Completion, the Group will gradually become the overseas timber trading arm within the NACGC Group.

Based on industry statistics analysed in the 2002 China Timber Industry and Market Research Report《2002年中國木材行業及市場研究報告》, the current demand for timber in China amounts to approximately 300 to 330 million cubic meters per annum and in strict compliance with the national timber reservation policies, it is estimated that the annual output of domestic timber in China amounts to approximately 150 million cubic meters, representing a shortfall in supply of approximately 150 million cubic meters. Whilst if based on historic forest depletion rate in China, the maximum domestic supply of timber in China is estimated to be approximately 230 million cubic meters per annum, and that the shortfall in supply under this circumstance amounts to at least approximately 70 to 100 million cubic meters.

In 2002, China imported approximately 109 million cubic meters of timber products from overseas, representing a fourfold growth in a decade since 1993. According to the 2002 China Timber Industry and Market Research Report《2002年中國木材行業及市場研究報告》, given the prevailing national policies and the limited resources of timber, demand for timber in China will continue to exceed supply and, the trend of reliance on imported timbers to satisfy the domestic demand is expected to continue.

Based on the industry statistics mentioned above, the forest report conducted by the Suriname forestry expert, which includes the average export prices of timber from Suriname, and the internal records on imported timber prices of NACGC and freight costs, the Investor considers that most of those logs of timber underlying the Forest Concession are saleable in the PRC as there would be sufficient demand and the pricing would be competitive when compared with those purchased from other overseas markets as aforesaid. The Investor believes that the usage rate of each specie underlying the Forest Concession should be at levels that would generate acceptable commercial values. The Investor considers that based on the business potential underlying the business relating to the Forest Concession, it is possible that with the Investor as the controlling shareholder of the Company upon Completion, business performance of the Forest Concession could be enhanced by capitalising on NACGC's expertise in the timber business and its relevant diversified sales and distribution network in the PRC.

Based on the Company's latest audited financial statements for the year ended 31 May 2003, the Provisional Liquidators have evaluated all the relevant facts available to them and are not currently aware of any material adverse conditions precluding the Group from implementing its business development plans for these concession rights. Accordingly, having obtained an independent professional valuation, the Provisional Liquidators have made an appropriate impairment provision against the carrying value of these concession rights in the financial statements.

Based on the above, the Investor regards that the operations of the Forest Concession and the Sawmill, together with the relevant market expertise, sales and distribution network and financial support to be provided by the Investor to the Company following Completion shall be sufficient to warrant the continuing listing of the Shares on the Stock Exchange. In view of the shortage of timber supply in the PRC, NACGC's relevant expertise and its timber distribution network in the PRC, we are of the view that the Investor would be able to assist the Group in developing the PRC market.

The Whitewash Waiver and the effect of approval for granting the Whitewash Waiver

Before Completion, the Investor has no shareholding interest in the Company. Immediately upon Completion, the Investor together with parties acting in concert with it will become the controlling shareholder of the Company holding approximately 90.71% to 92.26% of the enlarged issued share capital of the Company, taking into consideration the New Shares to be issued to the Investor upon full conversion of the Working Capital Convertible Bond (assuming that the principal amount is HK$10 million and is converted into New Shares at the price of HK$0.01 per New Share).

Under Rule 26 of the Code, the Investor and parties acting in concert with it are obligated to make an unconditional offer for all the issued shares of the Company not already owned or agreed to be acquired by the Investor and parties acting in concert with it upon Completion.

The Investor has made an application pursuant to the Rule 26 of the Code to the Executive for the Whitewash Waiver. The Executive has indicated that, subject to the approval by the Independent Shareholders by way of a poll at the EGM, it will grant to the Investor and parties acting in concert with it a waiver of any obligations to make a general offer which might result from the Subscription. Completion is conditional upon, amongst other things, the granting of the Whitewash Waiver by the Executive. In the event that the Whitewash Waiver is not granted by the Executive or that it is not approved by the Independent Shareholders, Completion will not take place. The Provisional Liquidators have indicated that the Company is very likely to go into liquidation unless other viable financial restructuring proposals acceptable to the Creditors and the Shareholders become available in a timely manner. If the Company goes into liquidation, it is unlikely that the Independent Shareholders would be able to recover any of their investments in the Company from a distribution of the Group's assets under liquidation in view of its capital deficiency.

In light of the foregoing, we are of the opinion that the granting of the Whitewash Waiver is necessary to enable the Restructuring Proposal to complete and is in the overall interests of the Independent Shareholders notwithstanding the dilution impact on their shareholdings in the Company upon Completion as mentioned above, and that no general offer, as normally required by the Code, will be made by the Investor after it has taken statutory control of the Company upon Completion.

If the Independent Shareholders do not approve the resolution in respect of the Whitewash Waiver, the Restructuring Proposal would lapse. Given the fact that the Group is facing financial difficulties, the undue delay or possibly the lapse of the Restructuring Proposal (if the Independent Shareholders do not approve the resolution in respect of the Whitewash Waiver) is expected to cause the Group's financial situation to further deteriorate. Based on this reasoning, we are of the view that it would be in the interests of the Independent Shareholders to grant the Whitewash Waiver as it is crucial to revitalise the Group under the Restructuring Proposal in a timely manner.

The Deed of Sale and Purchase and the Finance Documents

Pursuant to the Deed of Sale and Purchase, LCT Eng and Mictech agree to transfer their respective entire shareholdings in and their respective claims, if any, against Finestyle and i.Solution to the Debtor in consideration of Newco's undertaking to repay the Debt.

The Finance Documents will be executed as security for the payment of the Debt owed by Newco, a wholly-owned subsidiary of the Investor, pursuant to which, (i) a share pledge/charge will be granted by the Debtor over its shareholding in Finestyle; and (ii) security will be granted by Finestyle over all its assets and undertakings, each in favour of LCT Eng; and (iii) a share charge will be granted by the Debtor over its shareholding in i.Solution; and (iv) security will be granted by i.Solution over all its assets and undertakings, each in favour of Mictech and in each case to secure the repayment of the Debt by Newco. The execution of the Deed of Sale and Purchase and the Finance Documents will constitute a connected transaction of the Company within the meaning of Chapter 14 of the Listing Rules and is subject to the approval of the Independent Shareholders at the EGM.

The entering into of the Deed of Sale and Purchase and the Finance Documents has the effect of reducing the Group's liabilities by HK$25 million and enhancing the net tangible assets of the Group by the same amount as compared with what the liabilities of the Group would have been in the absence of the Deed of Sale and Purchase. We are of the view that the Finance Documents should not be considered in isolation and should be considered in conjunction with the Deed of Sale and Purchase, the effect of which is the assumption by Newco of HK$25 million, an amount which would have been the Group's liability, which is in the interests of the Company and is fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

After taking into account the principal factors and reasons discussed above and in particular the following:

- that in view of its current financial difficulties especially its liquidity problem, the Company needs to implement a viable financial restructuring in order to revive as a going concern and the Restructuring Proposal is the best viable proposal currently available to the Company;

- that implementation of the Restructuring Proposal will restore the Group's net tangible assets to a positive value (from a negative net tangible asset position of approximately HK$(30.92) million as at 31 May 2003 to a positive net tangible asset value of approximately HK$14.08 million upon Completion and approximately HK$24.08 million after full conversion of the Working Capital Convertible Bond (assuming the principal amount being HK$10 million), will reduce the Group's indebtedness and the associated interest expenses and will provide new working capital to the Group. As a result, the improved financial position will enhance the Group's business potential;

- that in the event that the Restructuring Proposal should fail, the Company is very likely to go into liquidation unless alternative viable financial restructuring proposals become available to the Company in a timely manner. Should the Company go into liquidation, the Shareholders are unlikely to recover any value for their investments in the Company in view of the significant negative net tangible asset value of the Group; and

- that, given the background of the Investor, it would be reasonable to believe that the Investor would bring in new elements for the future business prospects of the Group,

we are of the view that the Restructuring Proposal taken as a whole is fair and reasonable as far as the Independent Shareholders are concerned and is in the overall interests of the Company and the Independent Shareholders. Accordingly, we advise the Independent Shareholders to vote in favour of the resolutions relating to the Restructuring Proposal to be proposed at the EGM.

In view of our reasoning in relation to the Restructuring Proposal and our reasoning for the granting of the Whitewash Waiver as described in our letter above, we believe that the granting of the Whitewash Waiver is essential to enable the completion of the Restructuring Proposal and is in the interests of the Independent Shareholders despite the fact that there will be dilutive effect on the shareholdings of the Independent Shareholders in the Company and that no general offer as normally required by the Code will be made by the Investor after it has obtained statutory control of the Company. Accordingly, we also advise the Independent Shareholders to vote in favour of the resolution relating to the Whitewash Waiver to be proposed at the EGM.

Based on our reasoning in relation to the Deed of Sale and Purchase and the Finance Documents described above, we are of the view that the terms of the Deed of Sale and Purchase and the Finance Documents are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly we advise the Independent Shareholders to vote in favour of the resolution relating to the Deed of Sale and Purchase and the Finance Documents to be proposed at the EGM.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited

Helen Zee	**Byron Tan**
Managing Director	*Executive Director*

1. SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date were, and following Completion, will be as follows:

Authorized:		*HK$*
10,000,000,000	Shares of HK$0.1 each as at the Latest Practicable Date	1,000,000,000
100,000,000,000	New Shares of HK$0.01 each upon the Capital Restructuring becoming effective	1,000,000,000
Issued and fully paid:		
532,554,501	Shares of HK$0.10 each as at the Latest Practicable Date	53,255,450
213,021,800	New Shares of HK$0.01 each upon the Capital Restructuring becoming effective	2,130,218
4,748,053,800	New Shares of HK$0.01 each to be issued upon Completion	47,480,538
4,961,075,600	Total number of New Shares outstanding upon Completion	49,610,756

There has been no alteration in the number of issued Shares since 31 May 2003 which is the last financial year end date of the Company to the Latest Practicable Date.

As at the Latest Practicable Date, all of the issued Shares rank pari passu in all respects with each other, including in particular, as to dividends, voting rights and return of capital. All the New Shares to be issued will rank pari passu in all respects with each other, including in particular, as to dividends, voting rights and return of capital.

Pursuant to the share option scheme adopted on 7 November 1998 and a resolution of the Directors on 1 June 2001, three employees were offered options to subscribe for Shares at the option price of HK$0.16 per Share up to a maximum number of 23,360,000 Shares (subject to adjustments) exercisable between the period from 21 June 2001 to 6 November 2008. As far as the Provisional Liquidators are aware, none of the said share options has been exercised as at the Latest Practicable Date. These options unless exercised will lapse upon the termination of the employment of these employees prior to Completion.

As at the Latest Practicable Date, save for the outstanding share options and the Working Capital Convertible Bond, the Company has no other outstanding securities convertible into Shares, and no other share or loan capital of the Company has been put under option and no other conversion right affecting the Shares or other derivatives in respect of securities which are being offered for or which carry voting rights has been issued or granted or agreed conditionally or unconditionally to be issued or granted.

2. FINANCIAL SUMMARY

The table set out below summarises the consolidated results of the Group for the preceding three financial years ended 31 May 2003, as derived from the audited consolidated financial statements of the Company. There is no significant change in the accounting policy during the period.

The auditors disclaimed their opinions on the 2001, 2002 and 2003 audited consolidated financial statements of the Company.

	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
RESULTS			
Turnover	295,648	156,352	1,523
Operating loss after finance costs	(159,832)	(96,013)	(3,090)
Provision for impairment and write offs	—	(250,303)	—
Gain on deconsolidation of a subsidiary and gain on restructuring	—	—	244,332
Debt restructuring costs	—	—	(27,322)
(Loss)/profit before taxation	(159,832)	(346,316)	213,920
Taxation	5,749	—	3,400
(Loss)/profit after taxation	(154,083)	(346,316)	217,320
Minority Interests	—	—	—
(Loss)/profit attributable to shareholders	(154,083)	(346,316)	217,320
(Loss)/earnings per Share:	*HK$*	*HK$*	*HK$*
Basic	(0.418)	(0.730)	0.408
Fully diluted	N/A	N/A	N/A
Dividend per Share	—#	—#	—#

\# No dividend for ordinary Shares was declared for the preceding three financial years ended 31 May 2003.

The table set out below summarises the audited consolidated net assets/liabilities of the Group as at the last three financial year end dates, as extracted from the annual report of the Company for the financial year ended 31 May 2003 to be despatched to the Shareholders.

	2001	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
TOTAL ASSETS	343,600	93,571	81,982
CURRENT LIABILITIES	(163,694)	(287,207)	(58,298)
NON-CURRENT LIABILITIES	(41,226)	—	—
TOTAL LIABILITIES	(204,920)	(287,207)	(58,298)
TOTAL ASSETS LESS TOTAL LIABILITIES	138,680	(193,636)	23,684
SHAREHOLDERS' FUNDS/ (DEFICIENCY)	138,680	(193,636)	23,684

3. AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF THE COMPANY FOR THE YEAR ENDED 31 MAY 2002

The following information is extracted from the auditors' report on the financial statements of the Company for the year ended 31 May 2002. References to page numbers are to page numbers of such audited financial statements of the Company for the year ended 31 May 2002 as approved by the Provisional Liquidators.

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馬施雲
會計師事務所

We have audited the financial statements on pages 9 to 42 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. As more fully explained in Notes 1 and 2 to the financial statements, provisional liquidators are currently appointed to the Company, and the provisional liquidators 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 Hong Kong Society of Accountants ("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.

As more fully explained in Note 1 to the financial statements, dealing in the Company's shares on The Stock Exchange of Hong Kong Limited ("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 Ernst & Young Transactions Limited as joint and several provisional liquidators (the "Provisional Liquidators") of the Company.

Subsequent to the year end, on 27 May 2003, the Provisional Liquidators, the Company and Northern Resources Limited ("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 conditional agreement regarding the proposed restructuring of the Company (the "Restructuring Agreement"). The Restructuring Agreement sets out the framework for implementation of the proposed restructuring of the Company (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 Director of the Securities and Futures Commission under the Hong Kong Code on Takeovers and Mergers 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 Rules Governing the Listing of Securities on the Stock Exchange ("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 2002 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. As further set out in note 1 to the financial statements, the Provisional Liquidators have not been able to provide us with all the information that we required in relation to our audit for the year ended 31 May 2002. In consequence, we were unable to carry out all of the auditing procedures necessary to obtain adequate assurance regarding the assets, liabilities, income and expenses appearing in the financial statements. 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.

As more fully explained in Note 2 to the financial statements, the financial statements do not contain a statement of cash flows. This is not in accordance with the requirements of the Statement of Standard Accounting Practice ("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", issued by HKSA, and S161 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 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 Investments Suriname N.V. ("Finestyle") and i.Solution Inc. ("i.Solution") had any operations and these companies were already being audited by a firm of Certified Public Accountants in Suriname. However, the audits of Finestyle and i.Solution have not been completed as of the date of these financial statements. All other active subsidiaries of the Company 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 year ended 31 May 2002. As more fully disclosed in Note 16 to the financial statements, 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 2002 and the results for the year then ended of the Group. As we have not had access to all the books and records of the Group, we have been unable to determine whether opening balances were appropriately brought forward at 1 June 2001.

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 — property, plant and equipment of HK$17,119,000 (US$2,194,755); current assets of HK$1,565,000 (US$200,661); including inventories carried at HK$601,000 (US$77,000); current liabilities of HK$1,638,000 (US$210,025); income of HK$3,410,000 (US$437,147) and loss before taxation of HK$6,232,000 (US$798,956);

(ii) the completeness, accuracy and existence of current liabilities of HK$287,207,000 as at 31 May 2002 as insufficient independent confirmations of balance have been received; and

(iii) the completeness, accuracy and existence of capital commitments and contingent liabilities as set out in Notes 37 and 39 to the financial statements.

Fundamental uncertainties relating to the basis of preparation of financial statements

As more fully disclosed in Note 2 to the financial statements, the Provisional Liquidators were only appointed on 5 September 2002 pursuant to an Order of the Court. The Provisional Liquidators 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 2001 to 31 May 2002 have been included in the financial statements.

The consolidated financial statements show a net deficiency of shareholders' funds of HK$193,636,000 at 31 May 2002. As disclosed in Note 2 to the financial statements, 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. 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 revise recoverable amounts, to provide for any further liabilities which might arise and to reclassify fixed assets as current assets.

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 2002.

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 2002 and of the Group's loss 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 Statements of Standard Accounting Practice 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.

As more fully explained in Note 2 to the financial statements, 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 loss.

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.

Moore Stephens
Certified Public Accountants

Hong Kong, 14 October 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 May 2002

	Note	2002 HK$'000	2001 HK$'000
Turnover	5&6	156,352	295,648
Cost of sales		(213,856)	(308,357)
Gross loss		(57,504)	(12,709)
Other revenue	7	6,156	10,874
Administrative expenses		(22,538)	(28,090)
Other operating expenses		(8,216)	(113,110)
Loss from operations		(82,102)	(143,035)
Provisions for impairment and write offs		(250,303)	—
Finance costs	8(a)	(13,911)	(16,797)
Loss before taxation	6&8(b)	(346,316)	(159,832)
Taxation	9(a)	—	5,749
Loss for the year	12&35(a)	(346,316)	(154,083)
		HK $	HK $
Loss per share	14	(0.730)	(0.418)

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31 May 2002

	Note	2002 HK$'000	2001 HK$'000
Share issue expenses	35	*	(179)
Reversal of surplus on revaluation of investment properties	35	*	—
Exchange differences on translation of the accounts of foreign entities	35	*	(37)
Net loss not recognised in the consolidated profit and loss account		*	(216)
Loss for the year		(346,316)	(154,083)
Total recognised gains and losses		*	(154,299)
Movement of goodwill on acquisition			
— elimination against reserves	35	*	(60,720)
— write-off of goodwill charged to profit and loss accounts	35	*	60,720
		*	(154,299)

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

CONSOLIDATED BALANCE SHEET

As at 31 May 2002

	Note	2002 HK$'000	2001 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets			
— investment properties	17	16,990	30,650
— other fixed assets	18	17,666	69,915
Goodwill	20	—	—
Concession rights	21	54,600	105,256
Website development costs	22	—	—
		89,256	205,821
Current assets			
Inventories	23	601	4,369
Trade and other receivables	24	3,621	119,013
Pledged deposits with banks	26	—	10,610
Tax recoverable	9(b)	—	415
Cash and cash equivalents	27	93	3,372
		4,315	137,779
Current liabilities			
Trade and other payables	28	155,205	58,752
Bank and other loans	29	113,533	89,198
Obligations under finance leases	31	—	10,122
Provision for taxation	9(b)	5,536	5,622
Convertible notes	32	9,823	—
Deferred tax	33	3,110	—
		287,207	163,694
Net current liabilities		(282,892)	(25,915)
Total assets less current liabilities		(193,636)	179,906
Non-current liabilities			
Bank and other loans	29	—	22,608
Obligations under finance leases	31	—	5,685
Convertible notes	32	—	9,823
Deferred tax	33	—	3,110
		—	41,226
Net (liabilities)/assets		(193,636)	138,680
CAPITAL AND RESERVES			
Share capital	34	53,255	44,505
Reserves	35(a)	(246,891)	94,175
Shareholders' (deficiency)/funds	2	(193,636)	138,680

The financial statements on pages 9 to 42 were approved and authorised for issue by the Provisional Liquidators on 14 October 2003 and are signed on their behalf by:

YEO Boon Ann	**Stephen LIU Yiu Keung**
Joint and Several Provisional Liquidator	*Joint and Several Provisional Liquidator*

BALANCE SHEET OF THE COMPANY

As at 31 May 2002

	Note	2002 HK$'000	2001 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	*19*	—	231,153
Current assets			
Other receivables	*24*	—	30
Cash and cash equivalents	*27*	—	23
		—	53
Current liabilities			
Other payables	*28*	1,061	761
Bank and other loans	*29*	6,778	6,778
Amount due to a subsidiary	*30*	18,010	—
Convertible notes	*32*	9,823	—
		35,672	7,539
Net current liabilities		(35,672)	(7,486)
Total assets less current liabilities		(35,672)	223,667
Non-current liabilities			
Amount due to a subsidiary	*30*	—	18,010
Convertible notes	*32*	—	9,823
		—	27,833
Net (liabilities)/assets	*2*	(35,672)	195,834
CAPITAL AND RESERVES			
Share capital	*34*	53,255	44,505
Reserves	*35(b)*	(88,927)	151,329
Shareholders' (deficiency)/funds	*2*	(35,672)	195,834

The financial statements on pages 9 to 42 were approved and authorised for issue by the Provisional Liquidators on 14 October 2003 and are signed on their behalf by:

YEO Boon Ann	**Stephen LIU Yiu Keung**
Joint and Several Provisional Liquidator	*Joint and Several Provisional Liquidator*

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 May 2002

	Note	2002 HK$'000	2001 HK$'000
Net cash inflow from operating activities	36(a)	*	89,415
Returns on investments and servicing of finance			
Interest received		*	9,188
Dividends paid		*	—
Interest element of finance lease rentals paid		*	(3,403)
Interest paid on bank borrowings		*	(12,685)
Interest paid on convertible notes		*	(492)
Other interest paid		*	(217)
Net cash outflow from returns on investments and servicing of finance		*	(7,609)
Taxation			
Hong Kong profits tax paid		*	(1,520)
Tax paid		*	(1,520)
Investing activities			
Payment for purchase of subsidiaries, net of cash acquired	36(c)	*	(107,789)
Payment for purchase of investment properties		*	—
Net withdrawal of bank deposits		*	19,440
Payment for purchase of fixed assets		*	(18,094)
Proceeds from sales of fixed assets		*	10,902
Payment of website development costs		*	(290)
Receipt from disposal of a subsidiary, net of cash disposed of	36(e)	*	666
Net cash outflow from investing activities		*	(95,165)
Net cash outflow before financing		*	(14,879)
Financing	36(f)		
Capital element of finance lease rentals paid		*	(12,098)
Issue of ordinary shares		*	8,320
Issue of convertible notes, net of expenses		*	9,446
Share issue expenses		*	(179)
New bank and other loans		*	69,591
Repayment of bank and other loans		*	(46,408)
Net cash inflow from financing activities		*	28,672
Increase in cash and cash equivalents		*	13,793
Cash and cash equivalents at 1 June		*	(22,515)
Cash and cash equivalents at 31 May		*	(8,722)
Analysis of the balances of cash and cash equivalents			
Cash at bank and in hand		*	3,372
Bank overdrafts, secured		*	(12,094)
		*	(8,722)

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

The Company is incorporated in the Cayman Islands and its shares are listed on the Stock Exchange of Hong Kong Limited (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 Company and its subsidiaries (the "Group") are 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.

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 provisional liquidators of the Company (the "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 previous 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 is limited and this has resulted in the Provisional Liquidators being unable to provide full disclosures for the year ended 31 May 2002 as is required by the HKSA Statements of Standard Accounting Practice and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

On 27 May 2003, a Restructuring Agreement was signed between the Company (acting through the Provisional Liquidators), the Provisional Liquidators and Northern Resources Limited (the "Investor"). The Restructuring Agreement sets out the framework for implementation of a proposed restructuring of the Company (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. Unless otherwise stated, capitalized terms defined in that announcement shall have the same meaning when used herein.

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 Director of the Securities and Futures Commission under the Hong Kong Code on Takeovers and Mergers 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 effected 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:

(a) cash payment of HK$45 million upon completion of the Restructuring Proposal ("Completion"), subject to the payment therefrom of the restructuring costs, will be applied towards repaying the outstanding debts of the Company;

(b) 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;

(c) the undertaking to repay the Debt by the Debtor pursuant to a deed of undertaking to be entered into by the Debtor, the Company and the Scheme Administrators; and

(d) 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.

2. Basis of Preparation of Financial Statements

Going concern

The financial statements for the year ended 31 May 2002 have been prepared on a going concern basis, as modified by the write-down of assets to their estimated recoverable amounts. In view of the matters stated in note 1 above, 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, concession rights and website development costs 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 not been adjusted to anticipated net amounts due as the Provisional Liquidators have not yet completed Proof of Debt procedures. The Provisional Liquidators are in the process of finalizing the total claims of the creditors and such claims will be subject to formal adjudication by the Scheme Administrators.

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 HKSA, as there is insufficient information available to prepare such a statement.

No information is available to present the disclosures as required by SSAP 20 "Related party disclosures".

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".

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.

3. Impact of New SSAPs

During the year, the Group has adopted the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 14 (revised):	Leases
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 29:	Intangible assets
SSAP 30:	Business combinations
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investments in subsidiaries

A summary of the requirements of the above standards are set out as follows:

SSAP 9 (revised) prescribes the accounting treatment and disclosures in respect of events after the balance sheet date.

SSAP 14 (revised) prescribes the accounting treatment and disclosures in respect of finance and operating leases.

Under SSAP 28, provisions are recognised for liabilities of uncertain timing or amount when (i) the Company or the Group has a legal or constructive obligation arising as a result of a past event; (ii) it is probable that an outflow of economic benefits will be required to settle the obligation; and (iii) a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. The financial impact of adopting SSAP 28 is immaterial and therefore neither adjustment to the opening balance of retained profits nor restatement of comparative information is made.

SSAP 29 prescribes the accounting treatment and disclosures in respect of intangible assets.

SSAP 30 prescribes the accounting treatment and disclosures in respect of business combinations.

SSAP 31 prescribes procedures to be applied to ensure that assets are not carried at more than their recoverable amounts. Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased:

— Fixed assets;
— Concession rights; and
— Interests in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is defined to be the higher of its net selling price and its value in use. The Group determines the value in use of an asset as the present value of estimated future cash flows together with estimated disposal proceeds at the end of its useful life. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amounts of the assets are to be determined. Any resulting impairment losses identified are charged to the profit and loss account.

SSAP 32 prescribes the accounting treatment and disclosures in respect of the preparation and presentation of consolidated financial statements.

The adoption of these new standards has had no major impact on these financial statements.

4. Principal Accounting Policies

The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong, other than as set out in Note 3 above, are as follows:

(a) Basis of accounting

To the extent possible, these financial statements have been prepared in accordance with Hong Kong SSAP, accounting principles generally accepted in Hong Kong, certain of the disclosure requirements of the Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

The measurement basis used in the preparation of the financial statements is historical cost modified with respect to the measurement of certain property, plant and equipment, other long term assets and properties held for sale, as explained in the respective accounting policies below.

(b) Recognition of revenue

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and related risks and rewards of ownership. Revenue excludes sales taxes and is after deduction of any trade discounts.

(ii) Contract revenue

When the outcome of a construction contract can be estimated reliably:

— revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and

— revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the profit and loss account on a straight-line basis over the term of the lease.

(iv) Interest income

Interest income from bank deposits and loans receivable is accrued on a time apportioned basis by reference to the principal outstanding and the rate applicable.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group made up to 31 May each year.

Where an interest in a subsidiary is acquired with the intention that control be temporary, the interest is accounted for as a short term investment and is included in the balance sheet at the lower of cost and net realisable value.

The results of the subsidiaries and associates acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. In respect of the Company's subsidiary, Finestyle Investments Suriname NV ("Finestyle"), the Provisional Liquidators have continued to consolidate the results of this subsidiary which was acquired during the year ended 31 May 2001. Notwithstanding the threatened action by the Former Shareholders (see also Note 39(xxiii)), legal advice has been obtained that the threatened action has no merit.

All material intercompany transactions and balances within the Group have been eliminated on consolidation.

(d) Goodwill arising on consolidation

Goodwill arising on consolidation represents the excess of the purchase consideration over the fair values ascribed to the Group's share of the net assets of subsidiaries and associates at the date of acquisition and is capitalised in the balance sheet and amortised using the straight line method over its estimated useful life of not more than 20 years.

In prior years, goodwill was taken to reserves in the year in which it arose. With the introduction of SSAP 30 "Business combinations", the Group has adopted the transitional provisions prescribed therein. Goodwill arising from acquisitions before 1 January 2001 will continue to be held in reserves and no reinstatement has been made.

(e) Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, has the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less provision for impairment loss, if any (see also *note (m)* below).

(f) Fixed assets, depreciation and amortisation

(i) Fixed assets are carried in the balance sheet on the following bases:

a. investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers; and

b. all other fixed assets are stated in the balance sheet at cost less accumulated depreciation.

(ii) Increase in valuation of investment properties are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to profit and loss account. Any subsequent increases are credited to profit and loss account up to the amount previously debited.

(iii) The carrying amount of fixed assets (other than investment properties with an unexpired lease term of more than 20 years) is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount (see also note (m) below). The amount of the reduction is recognised as an expense in the profit and loss account.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

(iv) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefit, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account for the year.

(g) Concession rights

Concession rights that are acquired by the Group in connection with rights to extract timber from forests concession areas for an approved duration are stated in the balance sheet at cost less accumulated amortisation (see note (f) above) and impairment loss, if any.

The carrying amount of concession rights is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount (see also note (m) below). When such a decline has occurred the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as amortisation had the write-down or write-off not occurred.

Subsequent expenditure on concession rights after its purchase is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributable to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the concession rights.

(h) Website development costs

Expenditure on development activities in connection with websites is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation (see note (f) above) and impairment loss, if any. Other development expenditure is recognised as an expense in the period in which it is incurred.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

The carrying amount of website development costs is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount (see also note (m) below). When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of the development costs in written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as amortisation had the write-down or write-off not occurred.

Subsequent expenditure on website development costs after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the assets to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributable to the assets reliably. If these conditions are met, the subsequent expenditure is added to the cost of the websites.

(i) Leased assets

(i) Assets acquired under finance leases

When assets are acquired under finance leases, the amounts representing the outright purchase price, which approximate the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the shorter of the period of the leases or the estimated useful lives of the assets as set out in note (f) above. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) Operating lease charges

Rental payable under operating leases are accounted for in the profit and loss account on a straight-line basis over the periods of the respective leases.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials computed using the weighted average method and where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the actual or estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(k) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged or credited to the profit and loss account on a straight line basis over the lease terms.

(l) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates ruling on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the profit and loss account.

On consolidation, the financial statements of foreign subsidiaries which are denominated in currencies other than the Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

(m) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Notwithstanding the foregoing, the Provisional Liquidators have included the Company's and the Group's assets at their best estimates of their respective realisable values which necessarily resulted in impairment losses being charged to the profit and loss account for the year ended 31 May 2002.

(n) Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are charged to the profit and loss account in the year in which they are incurred unless they can be capitalised in accordance with SSAP 19 issued by the HKSA.

(o) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

(p) Retirement benefits

The Group contributes to the Mandatory Provident Fund Scheme established in the Hong Kong Special Administrative Region.

(q) Related parties

For the purposes of these accounts parties are considered to be related to the Group if the Group has the ability, directly and indirectly, to control the party or exercise significant influence over the party in making financial influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

5. Turnover

The principal activities of the Group are construction, sale of timber from its timber concessions, trading of machinery and parts, website development, leasing of machinery, vessels and property investment.

Turnover represents the aggregate of sales value of goods supplied to customers, rental income, revenue from sales of machinery and revenue from construction contracts. 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:

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Gross proceeds from machinery and parts sold	*	50,490
Gross proceeds from timber sold	*	3,998
Gross rentals from machinery, vessels and investment properties	*	9,332
Revenue from construction contracts	*	231,828
	156,352	295,648

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

6. 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 2002 HK$'000	Group's turnover 2001 HK$'000	Contribution to (loss)/profit from ordinary activities before taxation 2002 HK$'000	Contribution to (loss)/profit from ordinary activities before taxation 2001 HK$'000
(a) Principal activities:				
Construction	*	231,828	*	(35,634)
Machinery, vessels and property rental	*	9,332	*	(44,293)
Websites development	*	—	*	(64,380)
Sales of machinery and parts	*	50,490	*	2,778
Sales of timber	*	3,998	*	(18,303)
	156,352	295,648	(346,316)	(159,832)
(b) Geographical locations of operations:				
Hong Kong	*	291,650	*	(141,529)
The People's Republic of China	*	2,867	*	(6,013)
The Republic of Suriname	*	1,131	*	(12,290)
Others	*	—	*	—
	156,352	295,648	(346,316)	(159,832)

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

7. Other Revenue

	The Group 2002 HK$'000	The Group 2001 HK$'000
Bank interest income	*	2,043
Other interest income	*	7,145
Profit on disposal of a subsidiary	*	109
Others	*	1,577
	6,156	10,874

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

8. Loss From Ordinary Activities Before Taxation

Loss from ordinary activities before taxation is arrived at after charging/(crediting):

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
(a) Finance costs:		
Finance charges on obligations under finance leases	*	3,403
Interest on bank advances and other borrowings		
— repayable within five years	*	12,463
— repayable more than five years	*	222
Interest on convertible notes	*	492
Other interest paid	*	217
	13,911	16,797
(b) Other items:		
Amortisation of concession rights	9,802	7,329
Amortisation of issue expenses and redemption premium of convertible notes	*	1,040
Auditors' remuneration	275	649
Depreciation		
— fixed assets held under finance leases	*	6,454
— owned fixed assets	*	8,293
Loss on disposal of fixed assets	*	722
Loss on disposal of investment properties	180	—
Operating lease charges		
— hire of land and buildings	*	1,288
— hire of machinery	*	2,919
Operating lease receivable from investment properties less direct outgoings (2002: HK$* 2001: HK$170,000)	*	(458)
Provision for impairment in value of concession rights	40,854	—
Provision for impairment in value of goodwill	14,000	—
Provision for impairment in value of investment properties	10,330	11,050
Retirement benefit costs	*	455
Staff costs	*	17,325
Write-down of recoverable amount of fixed assets	*	29,192
Write-off of cash balances	140	—
Write-off of inventories	2,417	—
Write-off of plant and equipment	36,554	—
Write-off of trade and other receivables	146,008	—
Write-off of website development costs	*	3,634

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

9. Taxation

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

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Provision for Hong Kong Profits Tax for the year	*	46
Under/(over) provision in respect of prior years	*	26
	*	72
Overseas taxation	*	—
Deferred taxation *(note 33(a))*	*	(5,821)
	*	(5,749)

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

No provision for overseas taxation has been made as the Group sustained a loss for overseas taxation purposes for the years ended 31 May 2002 and 2001.

(b) Taxation in the consolidated balance sheet represents:

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Provision for Hong Kong Profits Tax for the year	*	46
Balance of Hong Kong Profits Tax recoverable relating to prior years	*	(461)
Tax recoverable for Hong Kong Profits Tax	*	(415)
Tax payable for overseas taxation	5,536	5,622
	5,536	5,207
Representing:		
Tax payable	5,536	5,622
Tax recoverable	—	(415)
	5,536	5,207

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

10. Directors' Remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Fees to independent non-executive directors	*	100
Salaries and other emoluments	*	1,813
Retirement scheme contributions	*	66
	*	1,979

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

Included in the directors' remuneration were fees totaling HK$* (2001: HK$100,000) paid to independent non-executive directors during the year.

The remuneration of the directors is within the following band:

	Number of directors	
	2002	**2001**
HK$Nil — HK$1,000,000	*	6

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

11. Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, * (2001: one) is a director whose emoluments are disclosed in note 10. The emoluments in respect of the other four highest paid employees are as follows:

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Salaries and other emoluments	*	2,379
Retirement scheme contributions	*	74
	*	2,453

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

The emoluments of the * (2001: four) individuals with the highest emolument are within the following band:

	Number of employees 2002	2001
HK$Nil — HK$1,000,000	*	4

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

12. Loss Attributable to Shareholders

The loss attributable to shareholders includes a loss of HK$245,506,000 (2001: loss of HK$73,663,000) which has been dealt with in the accounts of the Company.

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

13. Dividends

	The Group 2002	2001
	HK$'000	*HK$'000*
Adjustment to prior year's final dividend	—	—

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

14. Loss Per Share

— ***Basic loss per share***

The calculation of basic loss per share is based on the loss attributable to shareholders of HK$346,316,000 (2001: loss of HK$154,083,000) and the weighted average of 474,217,000 (2001: 368,836,000) ordinary shares in issue during the year.

— ***Diluted loss per share***

Diluted loss per share for each of the years ended 31 May 2002 and 2001 is not shown as the potential ordinary shares are anti-dilutive.

15. Retirement Benefits Scheme

(a) The Mandatory Provident Fund ("MPF") exempted defined contribution retirement scheme

The Group contributed to a defined contribution retirement scheme which was available to all employees in Hong Kong. Contributions to the scheme by the Group and the employees were calculated at a fixed percentage of employees' basis salaries. The assets of the scheme are held separately from those of the Group in an independently administered fund. The retirement benefits scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund. The Group's contributions are reduced by the contributions forfeited by those employees who leave the scheme prior to their contributions vesting fully.

(b) The Mandatory Provident Fund scheme

Following the introduction of the Mandatory Provident Fund Scheme on 1 December 2000, the Group introduced a MPF scheme. Contributions by the Group to the scheme are charged to the profit and loss account. The assets of the scheme are held separately from those of the Group in an independently administered fund. No contributions were payable to the fund at 31 May 2001.

16. Particulars of Principal Subsidiaries

The subsidiaries of the Company which principally affected the results, assets or liabilities of the Group as at 31 May 2002 are set out below:

Name	**Place of Incorporation/ operation**	**Nominal value of issued and Fully paid/ Registered capital**	**Percentage held by the**		**Principal activities**
			Company	*Group*	
Luen Cheong Tai (BVI) Limited	British Virgin Islands	20,000 ordinary shares of US$1 each	100%	100%	Investment holding
Finestyle Maritime Services Limited	Hong Kong	2 ordinary shares of HK$1 each and 1,000,020 non-voting deferred shares of HK$1 each	—	100%	Vessels and machinery owning
Luen Cheong Tai Construction Company Limited	Hong Kong	2 ordinary shares of HK$100 each and 100,020 non-voting deferred shares of HK$100 each	—	100%	Construction work
Luen Cheong Tai Engineering Limited	British Virgin Islands	1 ordinary share of US$1 each	—	100%	Investment holding

Name	Place of Incorporation/ operation	Nominal value of issued and Fully paid/ Registered capital	Percentage held by the *Company*	*Group*	Principal activities
Multi-business Enterprises Limited	British Virgin Islands	1 ordinary share of US$1 each	—	100%	Dormant
MicTech International Corp.	British Virgin Islands	1 ordinary share of US$1 each	—	100%	Investment holding
Finestyle Investments Suriname N.V.	The Republic of Suriname	100 ordinary shares of SRG 10,000 each	—	100%	Logging operations and holding concession rights
Luen Cheong Investment Limited	British Virgin Islands	1 ordinary share of US$1 each	—	100%	Investment holding
i.Solution Inc.	British Virgin Islands	1 ordinary share of US$1 each	—	100%	Saw mill operation
Urban Edge Services Limited	British Virgin Islands	1 ordinary share of US$1 each	—	100%	On-line commerce and related services (website)
Hardmeadow Services Limited	British Virgin Islands	1 ordinary share of US$1 each	—	100%	On-line commerce and related services (website)
Gonhaven Services Limited	British Virgin Islands	1 ordinary share of US$1 each	—	100%	On-line commerce and related services (website)
Glo-mat.com Inc.	British Virgin Islands	1 ordinary share of US$1 each	—	100%	On-line commerce and related services
Finestyle Wood Industrial Company Limited	Hong Kong	100 ordinary shares of HK$1 each	—	100%	Trading of wood and building materials
Best Era Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	—	100%	Property holding
Glory Hero Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	—	100%	Property holding

Name	Place of Incorporation/ operation	Nominal value of issued and Fully paid/ Registered capital	Percentage held by the *Company*	*Group*	Principal activities
Gold Crown Development Limited	Hong Kong	2 ordinary shares of HK$1 each	—	100%	Property holding
Golden Voyage Industrial Limited	Hong Kong	2 ordinary shares of HK$1 each	—	100%	Property holding
Good Scene (Hong Kong) Limited	Hong Kong	2 ordinary shares of HK$1 each	—	100%	Property holding
Henful Investments Limited	Hong Kong	2 ordinary shares of HK$1 each	—	100%	Property holding
Vaton Enterprises Limited	Hong Kong	2 ordinary shares of HK$1 each	—	100%	Property holding
Sky Glory Holdings Limited	Hong Kong	2 ordinary shares of HK$1 each	*	100%	Construction work

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

Note: Moore Stephens are not auditors of any of the above subsidiaries.

17. Investment Properties

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Cost/Valuation:		
At 1 June	30,650	41,700
Deficit on revaluation	(10,330)	(11,050)
Disposal	(3,330)	—
At 31 May	16,990	30,650
Accumulated amortisation:		
At 1 June	—	—
Charge for the year	—	—
At 31 May	—	—
Net book value:		
At 31 May	16,990	30,650

Notes:

(a) The analysis of the Group's net book value or valuation of investment properties is as follows:

	Investment properties	
	2002	**2001**
	HK$'000	*HK$'000*
Medium term leases		
— in Hong Kong	16,990	30,650
— outside Hong Kong	—	—
	16,990	30,650

(b) Investment properties of the Group were valued at 31 May 2002 on net realisable value basis. The revaluation deficit of HK$10,330,000 (2001: HK$11,050,000) has been dealt with as follows:

	2002	**2001**
	HK$'000	*HK$'000*
Charged to the profit and loss account	10,330	11,050
Set off against the revaluation surplus	—	—
	10,330	11,050

(c) Investment properties with carrying values of HK$16,990,000 (2001: HK$30,650,000) were pledged to banks against banking facilities granted to the Group *(note 29(b))*

18. Other Fixed Assets

The Group	Land and buildings held for own use	Vessels	Machinery and equipment	Furniture and fittings	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:						
At 1 June 2001	8,431	39,217	104,919	2,244	6,153	160,964
Additions						
— through acquisition of subsidiaries	*	*	*	*	*	*
— others	*	*	*	*	*	*
Disposals						
— through disposal of a subsidiary	*	*	*	*	*	*
— others	*	*	*	*	*	*
Deficit on revaluation	*	*	*	*	*	*
At 31 May 2002	*	*	*	*	*	*
Representing:						
Cost	*	*	*	*	*	*
Valuation — 2002	*	*	*	*	*	*
	*	*	*	*	*	*
Aggregate amortisation and depreciation						
At 1 June 2001	228	34,567	52,509	1,411	2,334	91,049
Through acquisition of subsidiaries	*	*	*	*	*	*
Charge for the year	*	*	*	*	*	*
Provision for impairment	*	*	*	*	*	*
Written back on disposals	*	*	*	*	*	*
— through disposal of a subsidiary	*	*	*	*	*	*
— others	*	*	*	*	*	*
At 31 May 2002	*	*	*	*	*	*
Net book value:						
At 31 May 2002	7,887	440	6,979	27	2,333	17,666
At 31 May 2001	8,203	4,650	52,410	833	3,819	69,915

Notes:

(a) The analysis of the Group's net book value or valuation of land and buildings is as follows:

	2002	2001
	HK$'000	*HK$'000*
Medium term leases		
— in Hong Kong	—	—
— outside Hong Kong	7,887	8,203
	7,887	8,203

(b) The net book value of machinery and equipment held under finance leases of the Group amounted to HK$* (2001: HK$36,084,000).

(c) Vessels with carrying values of HK$440,000 (2001: HK$4,040,000) were pledged to banks against banking facilities granted to the Group *(note 29(b))*.

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

19. Interest in Subsidiaries

	The Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted shares, at cost	*	77,453
Amounts due from subsidiaries	*	225,855
		303,308
Less: Provision	*	(72,155)
	—	231,153

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

The amounts due from subsidiaries are unsecured, interest free and are not due for payment in the next twelve months.

Details of the principal subsidiaries are set out in note 16 to the accounts.

The auditors' report of the accounts of Finestyle Investment (Suriname) N.V. for the period ended 31 May 2001 expressed the following qualified opinion:

Matters affecting opinion

The size of the company and the level of activities have been limited to date. The company has not yet installed an appropriate internal control system nor proper segregation of duties. We have been unable to perform sufficient audit procedures to obtain reasonable assurance on the completeness of sales revenues, expenses and related items as shown in the financial statements.

We have not been able to perform a stock take at balance sheet date because we received the audit instructions far beyond this date.

Opinion

For the reasons described in the preceding paragraph, we are unable to express an opinion about whether the financial statements taken as a whole give a true and fair view. However our audit has not revealed any adjustments that had to be made to these financial statements.

20. Goodwill

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Cost:		
Additions arising on acquisition of subsidiaries	14,000	60,720
Write-off of goodwill *(note 35(a))*	(14,000)	(60,720)
At 31 May	—	—

The consideration was satisfied as follows:

	2002	**2001**
	HK$'000	*HK$'000*
Issue of ordinary shares of the Company	14,000	4,400
Assignments of the Group's trade receivables to vendors	—	59,670
Total consideration	14,000	64,070

(a) Acquisitions in the year ended 31 May 2001

In April 2001, the Group acquired 100% interests in Hardmeadow Services Limited ("Hardmeadow"), Urban Edge Services Limited ("Urban Edge") and Gonhaven Services Limited ("Gonhaven") at a consideration of HK$38,504,000, HK$4,400,000 and HK$21,166,000 respectively. The consideration was determined by the directors at the time of acquisition after taking into account valuation reports prepared by a consultant.

At the dates of acquisition, the net assets of Hardmeadow, Urban Edge and Gonhaven were approximately HK$1,132,000, HK$1,202,000 and HK$1,016,000 respectively, and the principal assets of Hardmeadow, Urban Edge and Gonhaven were website development in WoodsMarket.com, SuperTender.com and Nicefule.com. These websites have not commenced operations. At 31 May 2001, the directors evaluated all the relevant facts available to them and considered that there were no future economic benefits arising from this goodwill and therefore the goodwill was written off to the profit and loss account for the year ended on that date.

(b) Acquisition in the year ended 31 May 2002

In 2002, the Group acquired 100% interests in Sky Glory Holdings Limited at a consideration of HK$14,000,000. According to the announcement dated 7 February 2002, as at the date of acquisition, the net assets of Sky Glory Holdings Limited were HK$2 and the principal activity of the company was as a contractor mainly in PRC. The Provisional Liquidators have evaluated all the relevant facts available to them and since they consider that there are no future economic benefits arising from the goodwill, it is appropriate to write off the goodwill to the profit and loss account as at 31 May 2002.

21. Concession Rights

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Cost:		
At 1 June	112,723	—
Additions through acquisition of subsidiaries	—	112,723
At 31 May	112,723	112,723
Accumulated amortisation:		
At 1 June	7,467	—
Through acquisition of subsidiaries	—	138
Charge for the year	9,802	7,329
Provision for impairment in value	40,854	—
At 31 May	58,123	7,467
Net book value:		
At 31 May	54,600	105,256

Concession rights were acquired in a business combination that is an acquisition. The cost of concession right is based on its fair value at the date of acquisition.

The concessions represent cutting licences which cover an area of 27,975 hectares in the Republic of Suriname. The Group applied to the Ministry of Natural Resources of the Republic of Suriname for ten-year concession rights for these locations and the ten-year concession rights were granted on 1 March 2002. During the period before the ten-year concession rights were granted on 1 March 2002 the Group continued with its activities in these areas.

The Provisional Liquidators have evaluated all the relevant facts available to them and are of the opinion that there are no material adverse conditions precluding the Group from implementing its business development plans for these concession rights. Accordingly, having obtained an independent professional valuation, the Provisional Liquidators have made an appropriate impairment provision against the carrying value of these concession rights in the accounts.

22. Website Development Costs

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Cost:		
At 1 June	—	—
Additions		
— through acquisition of subsidiaries	—	3,344
— others	—	290
Written-off	—	(3,634)
At 31 May	—	—

23. Inventories

	The Group		The Company	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Finished goods — timber	601	4,369	—	—
	601	4,369	—	—

Included in finished goods are inventories of HK$* (2001: HK$3,156,000) stated at net realisable value.

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

24. Trade and Other Receivables

	The Group		The Company	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from related companies *(note 38(b))*	*	1,493	*	—
Loan receivable *(note (a))*	*	78,397	*	—
Trade receivables, deposits and other receivables	*	27,907	*	30
Temporary advances	*	8,945	*	—
Gross amount due from customers for contract work *(note 25)*	*	2,271	*	—
	3,621	119,013	*	30

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

(a) Pursuant to an agreement dated 1 May 2000 entered into by the Group, a debtor ("Debtor 2") and an independent third party (the "Assignee"), a balance of HK$47,000,000 owed to the Group by Debtor 2 was assigned to the Assignee.

Pursuant to another agreement dated 1 June 2000 entered into by the Group, the Assignee and a related company of the Group (the "Related Company"), a further balance of HK$25,300,000 due to the Group by the Related Company was also assigned to the Assignee.

According to the above agreements, Debtor 2 and the Related Company are released from any obligation to settle the underlying debts and such obligations will be fully undertaken by the Assignee. The Assignee is a company incorporated in the Republic of Suriname and is engaged in the forestry business. According to the agreements, the above balances will be settled through the supply of timber over a period of five years. The debts assigned carry a fixed interest rate of 8% per annum. No security has been given to the Group over the debts assigned.

Interest income for the year ended 31 May 2002 was HK$* in connection with the above two assignments. As at 31 May 2002, the total balance due from the Assignee was HK$*.

The Assignee has not settled any outstanding balance up to the date of approval of these accounts. However, at 31 May 2001 the directors were of the opinion that the above assignments were in the best interests of the Group which has commenced its timber trading business. The directors expected that the amounts due could be collected in full through the supply of timber over a period of five years. No provision for these receivables was made in the accounts for the year ended 31 May 2001. The Provisional Liquidators have evaluated all the relevant facts available to them and consider that it is appropriate to write off the above loans to the profit and loss account in the year ended 31 May 2002.

(b) All of the trade and other receivables, apart from those mentioned above are expected to be recovered within one year.

(c) Included in trade and other receivables are trade debtors (net of specific provisions for bad and doubtful debts) with the followings aging analysis:

	The Group		**The Company**	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current	*	10,163	*	—
1 to 3 months	*	2,444	*	—
More than 3 months but less than 12 months	*	5,111	*	—
More than 12 months	*	—	*	—
	*	17,718	*	—
Retention receivables	*	7,187	*	—
	*	24,905	*	—

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

The credit terms given to trade debtors vary and are generally based on the financial strengths of individual debtors. In order to effectively manage the credit risks associated with trade debtors, creditor evaluations of the debtors are performed periodically.

25. Construction Contracts

	The Group		The Company	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Costs	*	508,826	*	—
Less: Progress billings	*	(507,457)	*	—
	*	1,369	*	—

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

The gross amount due from customers for contract work at 31 May 2002 that is expected to be recovered within one year is HK$* (2001: HK$2,271,000).

The gross amount due to customers for contract work at 31 May 2002 that is expected to be settled within one year is HK$* (2001: HK$902,000).

In respect of construction contracts in progress at the balance sheet date the amount of retention receivables from customers recorded within "Trade and other receivables" at 31 May 2002 is HK$* (2001: HK$7,187,000).

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

26. Pledged Deposits with Banks

	The Group		The Company	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Pledged deposits	—	10,610	—	—

Pledged deposits with bank maturing within three months of the balance sheet date have been pledged to banks as security for the bank loans and overdrafts (note 29(b)).

27. Cash and Cash Equivalents

	The Group		The Company	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and in hand	93	3,372	*	23

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

28. Trade and Other Payables

	The Group		The Company	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Creditors and other payables	*	57,850	*	761
Amounts due to related companies	*	—	*	—
Gross amount due to customers for contract work *(note 25)*	*	902	*	—
	155,205	58,752	1,061	761

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

Included in trade and other payables are trade creditors with the following aging analysis:

	The Group		The Company	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Due within 1 month or on demand	*	13,822	*	—
Due after 1 month but within 3 months	*	12,958	*	—
Due after 3 months but within 6 months	*	2,855	*	—
Due after 6 months	*	13,854	*	—
	*	43,489	*	—

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

29. Bank and Other Loans

	The Group		The Company	
	2002	2001	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans, secured	*	66,703	—	—
Trust receipt loans, secured	*	26,231	—	—
Overdrafts, secured	*	12,094	—	—
Other loans, unsecured	*	6,778	6,778	6,778
	113,533	111,806	6,778	6,778

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

Notes:

(a) The borrowings are repayable as follows:

	The Group		The Company	
	2002	2001	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans, trust receipt loans and overdrafts:				
Within 1 year or on demand	*	82,420	*	—
After 1 year but within 2 years	*	3,571	*	—
After 2 years but within 5 years	*	4,873	*	—
After 5 years	*	14,164	*	—
	*	22,608	*	—
Other loans:				
Within 1 year or on demand	*	6,778	6,778	6,778
	113,533	111,806	6,778	6,778
Representing: Current liabilities	113,533	89,198	6,778	6,778
Non-current liabilities	—	22,608	—	—
	113,533	111,806	6,778	6,778

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

(b) At 31 May 2002, the Group had banking facilities of approximately HK$* (2001: HK$158,000,000) which were secured by the following:

(i) Assignment of contract proceeds;

(ii) Corporate guarantees executed by the Company;

(iii) Personal guarantees issued by the directors; and

(iv) The following assets owned by the Group;

	2002	2001
	HK$'000	*HK$'000*
Deposits with bank *(note 26)*	*	10,610
Investment properties and vessels *(notes 17(c) & 18(c))*	*	34,690
	*	45,300

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

30. Amount due to a Subsidiary

The amount due to a subsidiary is unsecured, interest free and is not due for repayment in the next twelve months.

31. Obligations under Finance Leases

At 31 May 2002 the Group had obligations under finance leases repayable as follows:

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Within 1 year	*	10,969
After 1 year but within 2 years	*	4,247
After 2 years but within 5 years	*	1,914
	*	17,130
Finance charges relating to future periods	*	(1,323)
	*	15,807
Amount due within one year	*	(10,122)
	*	5,685

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

32. Convertible Notes

	The Group		The Company	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
8% convertible notes *(note (a))*	10,900	10,900	10,900	10,900
Less: unamortised notes issue expenses	(335)	(335)	(335)	(335)
unamortised redemption premium	(742)	(742)	(742)	(742)
	9,823	9,823	9,823	9,823

Notes:

(a) The convertible note (the "Note") of HK$10,000,000 which was issued on 22 January 2001 bears interest at a fixed rate of 8% per annum payable semi-annually in arrears. The Note is convertible in whole or in part at any time following the date of issue of the Note until 14 days before 21 January 2003 into ordinary shares of the Company at the fixed conversion price, subject to adjustment in certain events, of HK$0.16 per share (the "Conversion Price"). The Conversion Price shall be adjusted from time to time pursuant to the placing and underwriting agreement dated 22 January 2001 and provided that the Conversion Price shall not be less than the par value of ordinary share of the Company. At any time prior to 21 January 2003 the Company shall have a right to redeem the Note at a price equal to the outstanding principal amount together with a premium of 10% of the outstanding principal amount and interest accrued. In the event of full conversion of the Note at the Conversion Price a total of 62,500,000 new ordinary shares of the Company will be issued. Any Note not converted into ordinary shares by the end of 21 January 2003 will be paid to the note holder together with a premium of 9% of the outstanding principal amount and interest accrued. During the year no conversion rights were exercised.

33. Deferred Taxation

(a) Movements on deferred taxation comprise:

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
At 1 June	3,110	8,931
Transfer to profit and loss account *(note 9(a))*	*	(5,821)
At 31 May	3,110	3,110

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

No deferred tax assets in respect of unutilised tax losses carried forward which are available to set off against future assessable profits have been recognised as it is uncertain that these tax losses will be utilised in the foreseeable future.

(b) Major components of the deferred taxation liabilities of the Group is as follows:

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Depreciation allowances in excess of related depreciation	3,110	3,110

34. Share Capital

	2002	**2001**
	HK$'000	*HK$'000*
Authorised:		
10,000,000,000 (1,000,000,000 in 2001) Ordinary shares of HK$0.10 each *(note (a))*	1,000,000	100,000
Issued and fully paid:		
At 1 June	44,505	32,043
Issue of 50,624,000 shares on conversion of convertible notes *(note (b))*	—	5,062
Issue of new shares *(notes (c) & (e))*	8,750	2,200
Placement of shares *(note (d))*	—	5,200
At 31 May	53,255	44,505

Notes:

(a) By ordinary resolution passed at an Extraordinary General Meeting on 2 August 2001, the authorised share capital of the Company increased from HK$100,000,000 comprising 1,000,000,000 shares of HK$0.10 each to HK$1,000,000,000 comprising 10,000,000,000 shares of HK$0.10 each by the creation of an additional 9,000,000,000 new shares of HK$0.10 each that rank pari passu in all respects with existing issued and unissued shares of HK$0.10 each in the authorised share capital of the Company.

(b) On 3 August 2000 and 4 August 2000 5.5% convertible notes with an aggregate principal amount of HK$24,000,000 were fully converted in 44,296,000 and 6,328,000 shares of the Company respectively based on the conversion price of HK$0.474 each.

(c) On 20 March 2001 the Company entered into an agreement to issue a total of 22,000,000 shares of HK$0.1 each at price of HK$0.2 per share for an aggregate consideration before expenses of HK$4,400,000 to an independent third party as consideration for the acquisition of Urban Edge (note 20).

(d) On 18 May 2001 the Company issued by means of a private placement 52,000,000 ordinary shares with par value of HK$0.1 each at a cash consideration of HK$0.16 per share.

(e) On 5 February 2002, the group acquired 100% of the issued share capital of Sky Glory Holdings Limited, a company incorporated in Hong Kong, at a consideration of HK$14,000,000 satisfied by the issued and allotment of the Company's 87,500,000 new shares with par value of HK$0.1 each at a cash consideration of HK$0.16 per share.

(f) All the above new shares rank pari passu with the existing shares.

35. Reserves

(a) The Group

	Share premium	Capital reserve	Investment property revaluation reserve	Exchange reserve	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 June 2000	122,214	10,802	—	18	91,182	224,216
Issue of new shares	5,320	—	—	—	—	5,320
Conversion of convertible notes *(note 32(a))*	18,938	—	—	—	—	18,938
Elimination of goodwill against reserves *(note 20)*	—	—	—	—	(60,720)	(60,720)
Share issue expenses	(179)	—	—	—	—	(179)
Exchange differences	—	—	—	(37)	—	(37)
Write-off of goodwill *(note 20)*	—	—	—	—	60,720	60,720
Loss for the year	—	—	—	—	(154,083)	(154,083)
At 31 May 2001	146,293	10,802	—	(19)	(62,901)	94,175
At 1 June 2001	146,293	10,802	—	(19)	(62,901)	94,175
Issue of new shares	5,250	—	—	—	—	5,250
Conversion of convertible notes *(note 32(a))*	—	—	—	—	—	—
Elimination of goodwill against reserves *(note 20)*	—	—	—	—	—	—
Share issue expenses	*	—	—	—	—	*
Exchange differences	*	*	—	*	*	*
Write-off of goodwill *(note 20)*	—	—	—	—	—	—
Loss for the year	—	—	—	—	(346,316)	(346,316)
At 31 May 2002	151,543	10,802	—	(19)	(409,217)	(246,891)

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

(b) The Company	Share premium	Contributed surplus	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 June 2000	122,214	77,253	1,446	200,913
Issue of new shares	5,320	—	—	5,320
Conversion of convertible notes *(note 32(a))*	18,938	—	—	18,938
Share issue expenses	(179)	—	—	(179)
Loss for the year *(note 8)*	—	—	(73,663)	(73,663)
At 31 May 2001	146,293	77,253	(72,217)	151,329
At 1 June 2001	146,293	77,253	(72,217)	151,329
Issue of new shares	5,250	—	—	5,250
Conversion of convertible notes *(note 32(a))*	—	—	—	—
Share issue expenses	—	—	—	—
Loss for the year *(note 8)*	—	—	(245,506)	(245,506)
At 31 May 2002	151,543	77,253	(317,723)	(88,927)

The contributed surplus of the Company represents the difference between the nominal value of the shares of the Company issued in exchange for the entire issued share capital of Luen Cheong Tai (BVI) Limited and the value of the underlying net assets of the subsidiaries as at the date they were acquired by the Company.

The capital reserve of the Group represents the difference between nominal value of the value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the Company in consideration thereof.

Under the Companies Law (1998 Revision) of the Cayman Islands, the contributed surplus account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The Company's reserves available for distribution comprise the share premium account, contributed surplus account and retained earnings. At 31 May 2002, in the opinion of the Provisional Liquidators, the Company is unable to make any distribution to Shareholders.

36. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of loss from ordinary activities before taxation to net cash inflow from operating activities

	2002	2001
	HK$'000	*HK$'000*
Loss from ordinary activities before taxation	*	(159,832)
Amortisation of concession rights	*	7,329
Amortisation of expenses in connection with issue of convertible notes	*	752
Amortisation of redemption premium on convertible notes	*	288
Depreciation		
— fixed assets held under finance leases	*	6,454
— owned fixed assets	*	8,293
Interest element of finance leases	*	3,403
Interest income	*	(9,188)
Interest on bank borrowings	*	12,685
Interest on convertible notes	*	492
Loss on disposal of fixed assets	*	722
Other interest paid	*	217
Profit on disposal of a subsidiary	*	(109)
Revaluation deficit on investment properties	*	11,050
Write-down of recoverable amount of fixed assets	*	29,192
Write-down of website development costs	*	3,634
Write-down of goodwill	*	60,720
Increase in inventories	*	(2,684)
Decrease in trade and other receivables	*	130,041
Decrease in trade and other payables	*	(14,025)
Foreign exchange	*	(19)
Net cash inflow from operating activities	*	89,415

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

(b) Purchase of subsidiaries

	2002	2001
	HK$'000	*HK$'000*
Net assets acquired		
Fixed assets	—	11,489
Concession rights	—	112,585
Website development costs	—	3,344
Other receivables	—	1,632
Cash at bank and in hand	—	647
Inventories	—	2,368
Trade and other payables	—	(2,279)
	—	129,786
Goodwill arising on consolidation *(note 20)*	14,000	60,720
	14,000	190,506
Satisfied by:		
Cash paid	—	126,436
Issue of ordinary shares of the Company	14,000	4,400
Assignment of the Group's trade receivables to vendors	—	59,670
	14,000	190,506

Subsidiaries acquired during the year utilised HK$Nil (2001: HK$127,000) from the Group's net operating cash flows, contributed HK$Nil (2001: HK$2,000) in respect of the net returns on investments and servicing of finance and utilised HK$Nil (2001: HK$2,742,000) for investing activities.

(c) Analysis of net outflow of cash and cash equivalents in respect of the purchase of subsidiaries

	2002	2001
	HK$'000	*HK$'000*
Cash consideration	*	126,436
Cash at bank and in hand acquired	*	(647)
	*	125,789
Deposit paid in previous year	*	(18,000)
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	*	107,789

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

(d) Disposal of a subsidiary

	2002	2001
	HK$'000	*HK$'000*
Net assets disposal of		
Fixed assets	*	21
Other receivables	*	2
Cash at bank and in hand	*	84
Inventories	*	752
Trade and other payables	*	(200)
Attributable exchange reserve	*	(18)
	*	641
Gain on disposal	*	109
	*	750
Satisfied by: Cash received	*	750

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

The subsidiary disposed of during the year 2001 utilised HK$387,000 from the Group's net operating cash flows, contributed HK$4,000 in respect of the net returns on investments and servicing of finance and utilised HK$10,000 for investing activities.

(e) Analysis of net inflow of cash and cash equivalents in respect of the disposal of a subsidiary

	2002	2001
	HK$'000	*HK$'000*
Cash consideration	*	750
Cash at bank and in hand disposed of	*	(84)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	*	666

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

(f) ***Analysis of changes in financing***

	Convertible notes HK$'000	Share capital (including premium) HK$'000	Finance lease obligations HK$'000	Bank and other loans (excluding Overdrafts) HK$'000	Total HK$'000
At 1 June 2000	23,337	154,257	16,954	76,529	271,077
Share issue at premiu	—	8,320	—	—	8,320
Share issue expenses	—	(179)	—	—	(179)
Repayment of loans	—	—	—	(46,408)	(46,408)
New loans raised	—	—	—	69,591	69,591
Repayment of capital element of finance leases and hire purchase contracts	—	—	(12,098)	—	(12,098)
Issue of convertible notes, net of expenses	9,446	—	—	—	9,446
Non-cash items:					
Inception of finance leases	—	—	10,951	—	10,951
Amortisation of expenses in connection with issue of convertible notes	752	—	—	—	752
Amortisation of premium on convertible notes	288	—	—	—	288
Shares issued for acquisition of a subsidiary *(note 36(b))*	—	4,400	—	—	4,400
Shares issued upon conversion of convertible notes *(note 32(a))*	(24,000)	24,000	—	—	—
At 31 May 2001	9,823	190,798	15,807	99,712	316,140
At 1 June 2001	*	*	*	*	*
Share issue at premium	*	*	*	*	*
Share issue expense	*	*	*	*	*
Repayment of loans	*	*	*	*	*
New loans raised	*	*	*	*	*
Repayment of capital element of finance leases and hire purchase contracts	*	*	*	*	*
Issue of convertible notes, net of expenses	*	*	*	*	*
Non-cash items:					
Inception of finance leases	*	*	*	*	*
Amortisation of expenses in connection with issue of convertible notes	*	*	*	*	*
Amortisation of premium on convertible notes	*	*	*	*	*
Shares issued for acquisition of a subsidiary *(note 36(b))*	*	*	*	*	*
Shares issued upon conversion of convertible notes *(note 32(a))*	*	*	*	*	*
At 31 May 2002	*	*	*	*	*

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

37. Commitments

At 31 May 2002, the Group had commitments under operating leases to make payments in the next year as follows:

	Properties	
	2002	**2001**
	HK$'000	*HK$'000*
Leases expiring		
Within 1 year	*	—
After 1 year but within 2 years	*	1,606
After 2 years but within 5 years	*	—
	*	1,606

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

38. Material Related Party Transactions

(a) The following material transactions with related parties were in the opinion of the directors carried out in the ordinary course of business:

		The Group	
		2002	**2001**
	Note	*HK$'000*	*HK$'000*
# Well-Joint Machinery Company Limited	*(ii)*	*	420
Rental of land and buildings payable to			
# Winmost Investments Limited	*(i) & (ii)*	*	384
Contract revenue receivable from			
Winfast Engineering Limited	*(iii)*	*	120,284

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

\# *These are companies in which Mr. Chan Man Chuen and Mr. Vong Pak Cheong, directors of the Company, have a beneficial interest.*

Notes:

(i) These constitute connected transactions under the Listing Rules. The Company has been granted a waiver from compliance with the relevant requirements of the Listing Rules for these connected transactions for a period of three years commencing from the date of listing of the Shares.

(ii) Rentals of machinery, land and buildings payable to/receivable from related companies were charged at the prevailing market rates.

(iii) This is a company owned by Asia Standard International Group Limited, Asia Standard International Limited, Asia Standard Development (Holdings) Limited and Richcorp Investments Holdings Limited, which are deemed to have interests in the Company through the shares held by Tonlok Limited, a shareholder of the Company. The contract revenues were received in accordance with the terms and conditions of the underlying agreement dated 10 July 1999. Further details of the transaction were set out in the Company's announcement dated 24 September 1999.

(b) Outstanding balances due from related companies as at 31 May 2002:

	The Group	
	2002	**2001**
	HK$'000	*HK$'000*
Winfast Engineering Limited *(notes (i) and (ii))*	*	1,493
	*	1,493

* *The Provisional Liquidators have encountered difficulties in recovering the Books and Records of the Group. As a result, certain information in the financial statements of the Group for the year ended 31 May 2002 is not available.*

Notes:

(i) Winfast Engineering Limited is a fellow subsidiary of Tonlok Limited, a major shareholder of the Company. The balance was unsecured, interest free and had no fixed repayment terms.

(ii) All of the above balances are trading in nature.

39. Contingent Liabilities and Litigation

i. On 13 September 1996, P&T Construction & Engineering Company Limited ("P&T") commenced proceedings against Luen Cheong Tai Construction Company Limited ("LCTC") claiming damages for wrongful repudiation of a contract dated 9 October 1995 between the parties. P&T filed a Reply to Amended Defence and Defence to Counterclaim on 11 June 1997. No further action has been taken by P&T against LCTC.

ii. On 27 September 1996 and 23 October 1996, P&T commenced two separate proceedings against LCTC in respect of amounts outstanding, totaling HK$4,851,000, in respect of certain construction works performed by P&T for LCTC. The two proceedings were consolidated by an Order dated 20 December 1996. No action has been taken by P&T since March 1997.

iii. On 8 January 2001 Orient Shipping NV ("OSNV") commenced proceedings in Hong Kong against Finestyle Wood Industrial Company Limited ("FWI"), a wholly owned subsidiary, claiming a sum of HK$3,491,000. OSNV alleged that OSNV had entered into an agreement with FWI in connection with delivery of FWI's timber but FWI had refused to pay additional freight costs of HK$954,000. FWI and OSNV are seeking arbitration in the High Court. FWI has placed a deposit of US$200,000 with its solicitor under an Escrow Agreement. On 21 January 2001 the arbitrators issued the First Partial Final Award and FWI had to pay freight costs of H$K2,544,000 and costs of the award of HK$39,000 to OSNV. The said sum of HK$2,583,000 together with interest payable thereon has been settled. OSNV has further proceeded with arbitrations seeking, inter alia, payment of further freight costs and damages for breach of the agreement. The case is currently pending. In the opinion of the directors, sufficient provision was made in the financial statements for the year ended 31 May 2001.

iv. At 31 May 2001 a developer had launched arbitration proceedings against the Group whereby the developer claimed a sum of approximately HK$3,200,000 for breach of a construction contract and other relief. No provision on the above has been made as the directors considered that no material loss will be incurred as a result of such proceedings.

v. At 31 May 2001 the Group had contingent liabilities in respect of performance bonds not provided for amounting to HK$5,665,000 (2000: HK$6,158,000).

vi. On 27 August 2001 litigation was commenced by Dah Sing Bank Limited against LCTC (as borrower), a wholly owned subsidiary, and the Company (as guarantor) for the failure to repay the outstanding obligation under finance leases plus interest and cost, totaling HK$621,000. The outstanding obligation under these finance leases were secured by a corporate guarantee provided by the Company and the machinery under this finance lease. On 22 October 2001 judgement was given by the High Court that the Company and LCTC have to pay the above sum.

vii. On 30 August 2001 litigation was commenced by Hua Chiao Commercial Bank Limited (which has since become part of the Bank of China (Hong Kong) Limited group of companies) against FWI (as borrower), and the Company (as guarantor) for the alleged failure to repay the principal amount of loans plus interest and costs, totaling HK$3,425,000. The loan was secured by a corporate guarantee provided by the Company and a fixed deposit.

viii. On 3 September 2001 litigation was commenced by China International Water & Electronic Corporation ("CIWEC") against the Company for the failure to repay the principal amount due to CIWEC plus interest and costs, totaling HK$7,378,000. On 22 October 2001 judgement was given by the High Court that the Company has to pay the above sum.

ix. On 10 September 2001 litigation was commenced by East Asia Credit Company Limited against LCTC (as borrower), a wholly owned subsidiary, and the Company (as guarantor) for the alleged failure to repay the principal amount of loan plus interest and costs, totaling HK$4,721,000. The loan was secured by a corporate guarantee provided by the Company. On 30 April 2002 judgement was given by the High Court that the Company and LCTC have to pay the above sum.

x. On 24 September 2001, Cheung Kwong Yau and Cheung Kwong Kiu (administratrices of the estate of Lam Fei Wan, deceased) obtained judgment against, amongst others, LCTC in the sum of HK$2,850,000 as damages arising out of a fatal accident.

xi. On 25 September 2001 litigation was commenced by Wing Hang Finance Company Limited against LCTC (as borrower), and the Company (as guarantor) for the alleged failure to repay the outstanding obligation under a finance lease plus interest and costs, totaling HK$1,352,000. The outstanding obligation under this finance lease was secured by a corporate guarantee provided by the Company and the machinery under this finance lease.

xii. On 15 October 2001 litigation was commenced by Jian Sing Bank Limited against LCTC (as borrower), and the Company (as guarantor) for the alleged failure to repay the outstanding trust receipt loans plus interest and costs, totaling HK$4,706,000. The loans were secured by a corporate guarantee provided by the Company.

xiii. On 22 October 2001, China International Water & Electric Corporation obtained judgment against the Company for the sum of HK$7,378,000, plus costs and interest.

xiv. On 22 October 2001, Dah Sing Bank, Limited ("Dah Sing Bank") obtained judgment against LCTC as primary obligor and the Company, Chan Man Chuen and Vong Pak Cheong (as guarantors) for the sum of HK$621,000, plus costs and interest, being rentals outstanding under an equipment lease. Dah Sing Bank has also commenced proceedings against LCTC for return of the equipment in question. A Defence was filed on 5 March 2002 and no further action has been taken.

xv. On 11 January 2002 litigation was commenced by the Bank of East Asia Limited against LCTC (as borrower), and the Company (as guarantor) for the alleged failure to repay the outstanding trust receipt loans plus interest and costs, totaling HK$4,601,000. The loans were secured by a corporate guarantee provided by the Company.

xvi. On 18 February 2002, a winding-up petition was commenced by Hennabun Resources Limited against LCTC (as borrower), for the alleged failure to repay a loan plus interest and costs totaling HK$12,250,000.

xvii. On 30 April 2002, East Asia Credit Company Limited obtained judgment against the Company and LCTC for the sum of HK$4,721,000, plus costs and interest.

xviii. On 9 May 2002, Wharf Properties Limited ("Wharf") commenced proceedings against LCTC claiming for vacant possession of certain office premises which was let to LCTC by Wharf (the "Premises") and amounts outstanding under a tenancy agreement relating to the Premises. LCTC has made an application for a stay of the proceedings.

xix. On 15 May 2002, Get Nice (Union) Finance Company Limited ("Get Nice") issued a writ against the Company and Chan Man Chuen (as guarantor), one of the directors of the Company. The claim was in respect of a loan agreement made between Get Nice and the Company dated 5 July 2001 for a loan of HK$5,000,000 to be repaid on 4 January 2002 with interest. Get Nice issued a summons for summary judgment on 30 May 2002. The Company issued a summons to restrain further proceedings against it on 17 June 2002. On 31 July 2002, the Court heard and dismissed the Company's application upon an undertaking by Get Nice that no steps would be taken to levy execution against the Company in respect of any judgment that may be obtained against it until the winding-up petition against the Company has been withdrawn or dismissed or until further order of the Court. No hearing date for Get Nice's application for a summary judgment has been fixed. On 18 October 2002, Get Nice obtained judgment against Chan Man Chuen for the sum of HK$6,095,000, plus interest and costs on an indemnity basis.

xx. On 24 May 2002 a winding-up petition was commenced by Winfast Engineering Limited ("Winfast") against LCTC, for the alleged failure to repay the amount due to Winfast, totaling HK$15,266,000.

xxi. On 3 June 2002 a winding-up petition was commenced by Showa Leasing (Hong Kong) Limited against Finestyle Maritime Services Limited ("Finestyle Maritime") (as borrower), a wholly owned subsidiary, LCTC (as guarantor), and the Company (as guarantor) for the alleged failure to repay outstanding obligations under finance leases and mortgage loans plus interest and costs totaling HK3,979,000. The outstanding obligations under these finance leases were secured by a corporate guarantee provided by the Company and vessels under these finance leases.

xxii. On 14 August 2002, GE Capital (Hong Kong) Limited obtained judgment against Finestyle Maritime for the sum of HK$2,140,000, plus costs and interest.

xxiii. By a sale and purchase agreement dated 31 August 2000, the Former Shareholders of Finestyle , a wholly owned subsidiary, agreed to transfer the entire issued shares in Finestyle to Luen Cheong Tai Engineering Limited ("LCT Eng"), a wholly owned subsidiary of the Company, for a consideration of HK$125,000,000. The Provisional Liquidators are in possession of a photocopy of share certificate No. 6 of Finestyle, signed by the Former shareholders and dated 1 September 2000, which confirms that LCT Eng is the sole shareholder of Finestyle. In early July 2003, the Former Shareholders wrote to the Provisional Liquidators claiming that they had not received the consideration for the shares in Finestyle. The Provisional Liquidators have conducted investigations into the circumstances surrounding the share transfer. Based on the information currently available, including (i) written confirmation from Banco Weng Hang, Macau of the transfer to the Former Shareholders' investment company of the amount due under the sale and purchase agreement from LCT Eng in September 2000, and (ii) independent legal advice, the Provisional Liquidators are satisfied that there is no merit to these allegations. No legal action has been taken by the Former Shareholders as at the date of the finalisation of these financial statements. The Former Shareholders have also alleged that certain resolutions passed by LCT Eng, as the sole shareholder of Finestyle, inter alia, suspending the Former Shareholders as directors of Finestyle and initiating legal proceedings for their removal as directors of Finestyle, are not valid by reason of a breach of the articles of association of Finestyle. The Provisional Liquidators have obtained independent legal advice from Suriname counsel to the effect that the resolutions passed by LCT Eng are valid and binding on Finestyle, and are satisfied that there is no merit to this allegation. No legal action has been taken by the Former Shareholders in this respect as at the date of the finalisation of these financial statements.

xxiv. On 10 January 2003, Citic Ka Wah Bank Limited obtained an order against LCTC for the delivery up of vacant possession of certain residential premises in Shatin.

40. Post Balance Sheet Events

i. On 15 July 2002, the High Court of Hong Kong issued a winding up order against LCTC, a wholly owned subsidiary of the Company. A winding-up petition had been presented by Hennabun Resources against LCTC on 18 February 2002 (see also note 39(xvi) above). As a consequence of the loss of control of LCTC, the Company will deconsolidate LCTC in the Group financial statements for the period ended 30 November 2002 and report a gain on deconsolidiation of LCTC of approximately HK$206.8 million. However as a result of the Restructuring Proposal, the Company's liabilities will increase to HK$70 million in total at this time to reflect the Company's proposed Debt Restructuring arrangement.

ii. 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 Joint and Several Provisional Liquidators of the Company (see also note 1 above). A winding-up petition had been presented by Showa Leasing (Hong Kong) Limited against the Company on 3 June 2002 (see also note 39(xxi) above).

iii. 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 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 (see also note 1 above).

iv The Investment Properties of the Group (totaling HK$16.99 million in value) were disposed of by the respective mortgage holders subsequent to year end. As these assets have been written down to their recoverable amounts, no gain or loss arose on their disposal.

4. AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF THE COMPANY FOR THE YEAR ENDED 31 MAY 2003

The following information is extracted from the auditors' report on the financial statements of the Company for the year ended 31 May 2003. References to page numbers are to page numbers of such audited financial statements of the Company for the year ended 31 May 2003 as approved by the Provisional Liquidators.

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We have audited the financial statements on pages 9 to 32 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. As more fully explained in Notes 1 and 2 to the financial statements, provisional liquidators are currently appointed to the Company, and the provisional liquidators 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 Hong Kong Society of Accountants ("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.

As more fully explained in Note 1 to the financial statements, dealing in the Company's shares on The Stock Exchange of Hong Kong Limited ("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 Ernst & Young Transactions Limited as joint and several provisional liquidators (the "Provisional Liquidators") of the Company.

On 27 May 2003, the Provisional Liquidators, the Company and Northern Resources Limited ("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 ("Modern East") entered into a conditional agreement regarding the proposed restructuring of the Company (the "Restructuring Agreement"). The Restructuring Agreement sets out the framework for implementation of the proposed restructuring of the Company (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 Director of the Securities and Futures Commission under the Hong Kong Code on Takeovers and Mergers 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 Rules Governing the Listing of Securities on the Stock Exchange ("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. As further set out in Note 1 to the Financial Statements, 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.

As more fully explained in Note 2 to the financial statements, the financial statements do not contain a statement of cash flows. This is not in accordance with the requirements of the Statement of Standard Accounting Practice ("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 S161 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 Investments Suriname N.V. ("Finestyle") and i.Solution Inc. ("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 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. We were unable to satisfy ourselves as to whether proper books of accounts were maintained by the subsidiaries during the years ended 31 May 2002 and 2003. As more fully disclosed in Note 17 to the financial statements, 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 all 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 as set out in notes 35 and 37 to the financial statements.

Fundamental uncertainties relating to the basis of preparation of financial statements

As more fully disclosed in note 2 to the financial statements, the Provisional Liquidators were only appointed on 5 September 2002 pursuant to an Order of the Court. The Provisional Liquidators 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. As disclosed in note 2 to the financial statements, 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 as disclosed in note 37 (xxiii). 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 Statements of Standard Accounting Practice 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.

As more fully explained in Note 2 to the financial statements, 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.

Moore Stephens
Certified Public Accountants

Hong Kong, 24 October 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 May 2003

	Note	2003 HK$'000	2002 HK$'000
Turnover	5&6	1,523	156,352
Cost of sales		(1,182)	(213,856)
Gross profit/(loss)		341	(57,504)
Other revenue	7	1	6,156
Administrative expenses		(3,432)	(22,538)
Other operating expenses		—	(8,216)
Loss from operations		(3,090)	(82,102)
Gain on deconsolidation of a subsidiary and gain on restructuring	9	244,332	—
Debt restructuring costs	9	(27,322)	—
Provisions for impairment and write offs		—	(250,303)
Finance costs	8(a)	*	(13,911)
Profit/(loss) before taxation	6&8(b)	213,920	(346,316)
Taxation	10(a)	3,400	—
Profit/(loss) for the year	13&34(a)	217,320	(346,316)
		HK$	HK$
Earnings/(loss) per share	15	0.408	(0.730)

CONSOLIDATED BALANCE SHEET

As at 31 May 2003

	Note	2003 HK$'000	2002 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets			
— investment properties	18	11,660	16,990
— other fixed assets	19	14,041	17,666
Concession rights	22	54,600	54,600
		80,301	89,256
Current assets			
Inventories	23	601	601
Trade and other receivables	24	950	3,621
Cash and cash equivalents	26	130	93
		1,681	4,315
Current liabilities			
Bank loans, trade and other payables	27	13,298	268,738
Provision under proposed restructuring agreement	9&30	45,000	—
Provision for taxation	10(b)	—	5,536
Convertible notes	31	—	9,823
Deferred tax	32	—	3,110
		58,298	287,207
Net current liabilities		(56,617)	(282,892)
Total assets less current liabilities		23,684	(193,636)
Net Assets/(Net liabilities)	2	23,684	(193,636)
CAPITAL AND RESERVES			
Share capital	33	53,255	53,255
Reserves	34(a)	(29,571)	(246,891)
Shareholders' funds/(deficiency)	2	23,684	(193,636)

The financial statements on pages 9 to 32 were approved and authorised for issue by the Provisional Liquidators on 24 October 2003:

YEO Boon Ann
Joint and Several Provisional Liquidator

Stephen LIU Yiu Keung
Joint and Several Provisional Liquidator

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2003

	Share capital	Share premium	Capital reserve	Investment property revaluation reserve	Exchange reserve	Retained profits/ (Accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 June 2001	44,505	146,293	10,802	—	(19)	(62,901)	138,680
Issue of new shares	8,750	5,250	—	—	—	—	14,000
Share issue expenses	—	*	—	—	—	—	*
Exchange differences	—	—	*	*	*	*	*
Loss for the year	—	—	—	—	—	(346,316)	(346,316)
At 31 May 2002	53,255	151,543	10,802	—	(19)	(409,217)	(193,636)
At 1 June 2002	53,255	151,543	10,802	—	(19)	(409,217)	(193,636)
Exchange differences	—	—	*	*	*	*	*
Profit for the year	—	—	—	—	—	217,320	217,320
At 31 May 2003	53,255	151,543	10,802	—	(19)	(191,897)	23,684

BALANCE SHEET OF THE COMPANY

As at 31 May 2003

	Note	**2003** *HK$'000*	**2002** *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	*20*	—	—
Current assets			
Trade and other receivables	*24*	—	—
Cash and cash equivalents	*26*	18	—
		18	—
Current liabilities			
Bank loans, trade and other payables	*27*	—	7,839
Amount due to a subsidiary	*28*	—	18,010
Provision under proposed restructuring agreement	*9&30*	45,000	—
Convertible notes	*31*	—	9,823
		45,000	35,672
Net current liabilities		(44,982)	(35,672)
Total assets less current liabilities		(44,982)	(35,672)
Net liabilities	*2*	(44,982)	(35,672)
CAPITAL AND RESERVES			
Share capital	*33*	53,255	53,255
Reserves	*34(b)*	(98,237)	(88,927)
Shareholders' deficiency	*2*	(44,982)	(35,672)

The financial statements on pages 9 to 32 were approved and authorised for issue by the Provisional Liquidators on 24 October 2003:

YEO Boon Ann	**Stephen LIU Yiu Keung**
Joint and Several Provisional Liquidator	*Joint and Several Provisional Liquidator*

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

The Company is incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited ("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 Company and its subsidiaries ("the Group") are 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.

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 (the "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 previous 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 is limited and this has resulted in the Provisional Liquidators being unable to provide full disclosures for the year ended 31 May 2003 and 2002 as is required by the Hong Kong Society of Accountants ("HKSA") Statements of Standard Accounting Practice ("SSAP") and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The * symbol has been inserted in those parts of these financial statements that the relevant financial information has not been available as a result of these issues.

On 27 May 2003, a Restructuring Agreement was signed between the Company (acting through the Provisional Liquidators), the Provisional Liquidators and Northern Resources Limited (the "Investor"). The Restructuring Agreement sets out the framework for implementation of a proposed restructuring of the Company (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. Unless otherwise stated, capitalized terms defined in that announcement shall have the same meaning when used herein.

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 Director of the Securities and Futures Commission under terms of the Hong Kong Code on Takeovers and Mergers from 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 effected 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:

(a) cash payment of HK$45 million upon completion of the Restructuring Proposal ("Completion"), subject to the payment therefrom of the restructuring costs, will be applied towards repaying the outstanding debts of the Company; and

(b) 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; and

(c) 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 (d) below, via a voluntary liquidation of LCT Engineering (see also *note 30*); and

(d) cash payment of the proceeds (if any) from the realization of the Company's assets (other than Finestyle, i.Solution and the Debtor) which for administrative purposes will be transferred to a newly incorporated company controlled by the Scheme Administrators in trust for scheme creditors (see also *note 30*).

2. Basis of Preparation of Financial Statements

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 stated in *note 1* above, 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 information is not available.

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

No information is available to present the Group's financial information by segment. This is not in accordance with the requirements of SSAP 26 "Segment Reporting" and the Listing Rules.

No information is available to present the disclosures as 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.

For the reasons discussed in note 37(xxii), 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.

3. Impact of New SSAPs

During the current year, the Group has adopted the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	Presentation of financial statements
SSAP 11 (revised)	Foreign currency translation
SSAP 33	Discontinuing operations
SSAP 34	Employee benefits

The significant changes in the Group's (Company's) accounting policies resulting from the adoption of these new accounting standards are set out below.

(i) SSAP 1 (revised) "Presentation of financial statements"

The main revision to SSAP 1 is to change the requirement from presenting a statement of recognised gains and losses to a statement of changes in equity.

(ii) SSAP 11 (revised) "Foreign currency translation"

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. This revised SSAP has had no major impact on these financial statements.

(iii) SSAP 33 "Discontinuing operations"

SSAP 33 prescribes the accounting treatment in respect of disclosures required for discontinuing operations. The disclosures required by SSAP 33 have not been presented in these financial statements since the Directors have continued to refuse to surrender all the books and records of the Group and limited information has been made available to the Provisional Liquidators.

(iv) SSAP 34 "Employee benefits"

SSAP 34 prescribes the accounting treatment and disclosure requirements for employee benefits. This SSAP has had no major impact on these financial statements.

4. Principal Accounting Policies

In addition to those accounting policies adopted by the Group as set out in note 2, the principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong, are as follows:

(a) Basis of accounting

To the extent possible, these financial statements have been prepared in accordance with Hong Kong SSAP, accounting principles generally accepted in Hong Kong, certain of the disclosure requirements of the Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

The measurement basis used in the preparation of the financial statements is historical cost modified with respect to the measurement of certain long term assets and provision for liabilities as explained in note 2 and the respective accounting policies below.

(b) Recognition of revenue

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and related risks and rewards of ownership. Revenue excludes sales taxes and is after deduction of any trade discounts.

(ii) Contract revenue

When the outcome of a construction contract can be estimated reliably:

— revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and

— revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the profit and loss account on a straight-line basis over the term of the lease.

(iv) Interest income

Interest income from bank deposits and loans receivable is accrued on a time apportioned basis by reference to the principal outstanding and the rate applicable.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group made up to 31 May each year.

Where an interest in a subsidiary is acquired with the intention that control be temporary, the interest is accounted for as a short term investment and is included in the balance sheet at the lower of cost and net realisable value.

The results of the subsidiaries and associates acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. In respect of the Company's subsidiary, Finestyle, the Provisional Liquidators have continued to consolidate the results of this subsidiary which was acquired during the year ended 31 May 2001. Notwithstanding the threatened action by the Former Shareholders (see also note 37(xxii)), legal advice having been obtained that the threatened action has no merit.

All material intercompany transactions and balances within the Group have been eliminated on consolidation.

(d) Goodwill arising on consolidation

Goodwill arising on consolidation represents the excess of the purchase consideration over the fair values ascribed to the Group's share of the net assets of subsidiaries and associates at the date of acquisition and is capitalised in the balance sheet and amortised using the straight line method over its estimated useful life of not more than 20 years.

In prior years, goodwill was taken to reserves in the year in which it arose. With the introduction of SSAP 30 "Business combinations", the Group has adopted the transitional provisions prescribed therein. Goodwill arising from acquisitions before 1 January 2001 will continue to be held in reserves and no reinstatement has been made.

(e) Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, has the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less provision for impairment loss, if any (see also note (l) below).

(f) ***Fixed assets, depreciation and amortisation***

(i) Fixed assets are carried in the balance sheet on the following bases:

a. investment properties are stated in the balance sheet at estimates of their net realizable values; and

b. all other fixed assets are stated in the balance sheet at cost less accumulated depreciation.

(ii) Increase in valuation of investment properties are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to profit and loss account. Any subsequent increases are credited to profit and loss account up to the amount previously debited.

(iii) The carrying amount of fixed assets (other than investment properties with an unexpired lease term of more than 20 years) is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount (see also note (l) below). The amount of the reduction is recognised as an expense in the profit and loss account.

When the circumstances and events that led to the write-down or write-off cease exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

(iv) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefit, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account for the year.

(g) ***Concession rights***

Concession rights that are acquired by the Group in connection with rights to extract timber from forests concession areas for an approved duration are stated in the balance sheet at cost less accumulated amortisation (see note (f) above) and impairment loss, if any.

The carrying amount of concession rights is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount (see also note (l) below). When such a decline has occurred the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as amortisation had the write-down or write-off not occurred.

Subsequent expenditure on concession rights after its purchase is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributable to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the concession rights.

(h) Leased assets

(i) Assets acquired under finance leases

When assets are acquired under finance leases, the amounts representing the outright purchase price, which approximate the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the shorter of the period of the leases or the estimated useful lives of the assets as set out in note (f) above. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(ii) Operating lease charges

Rental payable under operating leases are accounted for in the profit and loss account on a straight-line basis over the periods of the respective leases.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials computed using the weighted average method and where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the actual or estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged or credited to the profit and loss account on a straight line basis over the lease terms.

(k) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates ruling on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the profit and loss account.

On consolidation, the financial statements of foreign subsidiaries which are denominated in currencies other than the Hong Kong dollars are translated at the average rates during the year. All exchange differences arising on consolidation are dealt with in reserves.

(l) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Notwithstanding the foregoing, the Provisional Liquidators have included the Company's and the Group's assets at their best estimates of their respective realisable values which necessarily resulted in impairment losses being charged to the profit and loss account for the year ended 31 May 2003.

(m) Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are charged to the profit and loss account in the year in which they are incurred unless they can be capitalised in accordance with SSAP 19 issued by the HKSA.

(n) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

(o) Retirement benefits

Prior to the Provisional Liquidators' appointment, the Group was required to contribute to the Mandatory Provident Fund Scheme established in the Hong Kong Special Administrative Region.

(p) Related parties

For the purposes of these accounts parties are considered to be related to the Group if the Group has the ability, directly and indirectly, to control the party or exercise significant influence over the party in making financial influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

5. 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:

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

6. Segmental Information

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

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

7. Other Revenue

	The Group	
	2003	**2002**
	HK$'000	*HK$'000*
Bank interest income	*	*
Other interest income	*	*
Others	*	*
	1	6,156

8. Profit/(Loss) From Ordinary Activities Before Taxation

Profit/(Loss) from ordinary activities before taxation is arrived at after charging/(crediting):

	The Group	
	2003	**2002**
	HK$'000	*HK$'000*
(a) Finance costs:		
Finance charges on obligations under finance leases	*	*
Interest on bank advances and other borrowings		
— repayable within five years	*	*
— repayable more than five years	*	*
Interest on convertible notes	*	*
Other interest paid	*	*
	*	13,911
(b) Other items:		
Amortisation of concession rights	—	9,802
Amortisation of issue expenses and redemption premium of convertible notes	*	*
Auditors' remuneration	*	275
Depreciation		
— fixed assets held under finance leases	*	*
— owned fixed assets	*	*
Loss on disposal of fixed assets	*	*
Loss on disposal of investment properties	*	180
Operating lease charges		
— hire of land and buildings	*	*
— hire of machinery	*	*
Operating lease receivable from investment properties less direct outgoings (2003: HK$* 2002: HK$*)	*	*
Provision for impairment in value of concession rights	—	40,854
Provision for impairment in value of goodwill	—	14,000
Provision for impairment in value of investment properties	—	10,330
Retirement benefit costs	*	*
Staff costs	*	*
Write-down of recoverable amount of fixed assets	*	*
Write-off of cash balances	*	140
Write-off of inventories	*	2,417
Write-off of plant and equipment	*	36,554
Write-off of trade and other receivables	*	146,008
Write-off of website development costs	*	*

9. 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.

The liability for the costs and expenses for implementing the Restructuring Proposal form part of the provision under proposed restructuring agreement in the Balance Sheet. The Restructuring Proposal is discussed further in note 1.

10. Taxation

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

	The Group	
	2003	**2002**
	HK$'000	*HK$'000*
Provision for Hong Kong Profits Tax for the year	*	*
Under/(over) provision in respect of prior years	*	*
	*	*
Overseas taxation	*	*
Deferred taxation *(note32(a))*	*	*
	(3,400)	—

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:

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

11. Directors' Remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	The Group	
	2003	**2002**
	HK$'000	*HK$'000*
Fees to independent non-executive directors	*	*
Salaries and other emoluments	*	*
Retirement scheme contributions	*	*
	*	*

The remuneration of the directors is within the following band:

	Number of directors	
	2003	**2002**
HK$ Nil — HK$ *	*	*

12. Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, * (2002: *) are directors whose emoluments are disclosed in note 11. The emoluments in respect of the other * highest paid employees are as follows:

	The Group	
	2003	**2002**
	HK$'000	*HK$'000*
Salaries and other emoluments	*	*
Retirement scheme contributions	*	*
	*	*

The emoluments of the * (2002: *) individuals with the highest emolument are within the following band:

	Number of employees	
	2003	**2002**
HK$ Nil — HK$ *	*	*

13. Profit/(Loss) Attributable to Shareholders

The profit/(loss) attributable to shareholders includes a loss of HK$9,310,000 (2002: loss of HK$245,506,000) which has been dealt with in the accounts of the Company.

14. Dividends

The Provisional Liquidators do not recommend the payment of a final dividend for the year ended 31 May 2003.

15. Earnings/(Loss) Per Share

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

The calculation of basic earnings/(loss) per share is based on the earnings 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.

— ***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.

16. Retirement Benefits Scheme

(a) The Mandatory Provident Fund ("MPF") exempted defined contribution retirement scheme

Prior to the Provisional Liquidators' appointment, the Group was required to contribute to a defined contribution retirement scheme which was available to all employees in Hong Kong. Contributions to the scheme by the Group and the employees were calculated at a fixed percentage of employees' basic salaries. The assets of the scheme are held separately from those of the Group in an independently administered fund. The retirement benefits scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund. The Group's contributions are reduced by the contributions forfeited by those employees who leave the scheme prior to their contributions vesting fully. In July 2000, this defined contribution retirement scheme became a MPF exempted defined contribution scheme.

(b) The Mandatory Provident Fund scheme

Following the introduction of the Mandatory Provident Fund Scheme on 1 December 2000, the Group introduced a MPF scheme. Contributions by the Group to the scheme are charged to the profit and loss account. The assets of the scheme are held separately from those of the Group in an independently administered fund. Due to the limited books and records, the Provisional Liquidators have no knowledge as to whether contributions were payable to the fund at 31 May 2003.

17. Particulars of Principal Subsidiaries

The subsidiaries of the Company which principally affected the results, assets or liabilities of the Group as at 31 May 2003 are set out below:

Name	Place of Incorporation/ operation	Nominal value of issued and Fully paid/ Registered capital	Percentage held by the *Company*	Percentage held by the *Group*	Principal activities/Former principal activities
Luen Cheong Tai (BVI) Limited	British Virgin Islands	20,000 ordinary shares of US$1 each	100%	100%	Investment holding
Finestyle Maritime Services Limited	Hong Kong	2 ordinary shares of HK$1 each and 1,000,020 non-voting deferred shares of HK$1 each	—	100%	Vessels and machinery owning
Luen Cheong Tai Engineering Limited	British Virgin Islands	1 ordinary share of US$1 each	—	100%	Investment holding
Mutli-business Enterprises Limited	British Virgin Islands	1 ordinary share of US$1 each	—	100%	Dormant
MicTech International Corp.	British Virgin Islands	1 ordinary share of US$1 each	—	100%	Investment holding
Finestyle Investments Suriname N.V.	The Republic of Suriname	100 ordinary shares of SRG 10,000 each	—	100%	Logging operations and holding concession rights
Luen Cheong Investment Limited	British Virgin Islands	1 ordinary share of US$1 each	—	100%	Investment holding
i.Solution Inc.	British Virgin Islands	1 ordinary share of US$1 each	—	100%	Saw mill operation
Urban Edge Services Limited	British Virgin Islands	1 ordinary share of US$1 each	—	100%	On-line commerce and related services (website)
Hardmeadow Services Limited	British Virgin Islands	1 ordinary share of US$1 each	—	100%	On-line commerce and related services (website)

Name	Place of Incorporation/ operation	Nominal value of issued and Fully paid/ Registered capital	Percentage held by the *Company*	*Group*	Principal activities/former principal activities
Gonhaven Services Limited	British Virgin Islands	1 ordinary share of US$1 each	—	100%	On-line commerce and related services (website)
Glo-mat.com Inc.	British Virgin Islands	1 ordinary share of US$1 each	—	100%	On-line commerce and related services
Finestyle Wood Industrial Company Limited	Hong Kong	100 ordinary shares of HK$1 each	—	100%	Trading of wood and building materials
Best Era Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	—	100%	Property holding
Glory Hero Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	—	100%	Property holding
Gold Crown Development Limited	Hong Kong	2 ordinary shares of HK$1 each	—	100%	Property holding
Golden Voyage Industrial Limited	Hong Kong	2 ordinary shares of HK$1 each	—	100%	Property holding
Good Scene (Hong Kong) Limited	Hong Kong	2 ordinary shares of HK$1 each	—	100%	Property holding
Henful Investments Limited	Hong Kong	2 ordinary shares of HK$1 each	—	100%	Property holding
Vaton Enterprises Limited	Hong Kong	2 ordinary shares of HK$1 each	—	100%	Property holding
Sky Glory Holdings Limited	Hong Kong	2 ordinary shares of HK$1 each	*	100%	Construction work

Note: Moore Stephens are not auditors of any of the above subsidiaries.

18. Investment Properties

	The Group	
	2003	**2002**
	HK$'000	*HK$'000*
Cost/Valuation:		
At 1 June	16,990	30,650
Deficit on revaluation	—	(10,330)
Disposal	(2,430)	(3,330)
Subsidiary deconsolidated	(2,900)	—
At 31 May	11,660	16,990
Accumulated depreciation:		
At 1 June	—	—
Charge for the year	—	—
At 31 May	—	—
Net book value:		
At 31 May	11,660	16,990

Notes:

(a) The analysis of the Group's net book value or valuation of investment properties is as follows:

	Investment properties	
	2003	**2002**
	HK$'000	*HK$'000*
Medium term leases in Hong Kong		
— valued at estimates of their net realizable values	11,660	16,990

(b) Investment properties of the Group were valued at 31 May 2003 at estimates of their net realizable values. The revaluation deficit of HK$ Nil (2002: HK$10,330,000) has been dealt with as follows:

	2003	**2002**
	HK$'000	*HK$'000*
Charged to the profit and loss account	—	10,330

(c) Investment properties with carrying values of HK$11,660,000 (2002: HK$16,990,000), were pledged to banks against banking facilities granted to the Group (note 27(b)).

19. Other Fixed Assets

The Group	Land and buildings held for own use	Vessels	Machinery and equipment	Furniture and fittings	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:						
At 1 June 2002	*	*	*	*	*	*
Additions						
— through acquisition of subsidiaries	*	*	*	*	*	*
— others	*	*	*	*	*	*
Disposals						
— through disposal of a subsidiary	*	*	*	*	*	*
— others	*	*	*	*	*	*
Deficit on revaluation	*	*	*	*	*	*
At 31 May 2003	*	*	*	*	*	*
Representing:						
Cost	*	*	*	*	*	*
Valuation - 2003	*	*	*	*	*	*
	*	*	*	*	*	*
Aggregate amortisation and depreciation:						
At 1 June 2002	*	*	*	*	*	*
Through acquisition of subsidiaries	*	*	*	*	*	*
Charge for the year	*	*	*	*	*	*
Provision for impairment	*	*	*	*	*	*
Written back on disposals	*	*	*	*	*	*
— through disposal of a subsidiary	*	*	*	*	*	*
— others	*	*	*	*	*	*
At 31 May 2003	*	*	*	*	*	*
Net book value:						
At 31 May 2003	7,665	—	4,624	17	1,735	14,041
At 31 May 2002	7,887	440	6,979	27	2,333	17,666

Notes:

(a) The analysis of the Group's net book value or valuation of land and buildings is as follows:

	2003	2002
	HK$'000	*HK$'000*
Medium term leases		
— in Hong Kong	—	—
— outside Hong Kong	7,665	7,887
	7,665	7,887

(b) The net book value of machinery and equipment held under finance leases of the Group amounted to HK$* (2002: HK$*).

(c) Vessels with carrying values of HK$ Nil (2002: HK$440,000) were pledged to banks against banking facilities granted to the Group (note 27(b)).

20. Interest in Subsidiaries

	The Company	
	2003	2002
	HK$'000	*HK$'000*
Unlisted shares, at cost	*	*
Amounts due from subsidiaries	*	*
Less: Provision	*	*
	—	—

The amounts due from subsidiaries are unsecured, interest free and are not due for payment in the next twelve months.

Details of the principal subsidiaries are set out in *note 17* to the accounts.

The auditors' report of the accounts of Finestyle for the period ended 31 May 2001 expressed the following qualified opinion:

Matters affecting opinion

The size of the company and the level of activities have been limited to date. The company has not yet installed an appropriate internal control system nor proper segregation of duties. We have been unable to perform sufficient audit procedures to obtain reasonable assurance on the completeness of sales revenues, expenses and related items as shown in the financial statements.

We have not been able to perform a stock take at balance sheet date because we received the audit instructions far beyond this date.

Opinion

For the reasons described in the preceding paragraph, we are unable to express an opinion about whether the financial statements taken as a whole give a true and fair view. However our audit has not revealed any adjustments that had to be made to these financial statements.

21. Goodwill

	The Group	
	2003	**2002**
	HK$'000	*HK$'000*
Cost:		
Additions arising on acquisition of subsidiaries	—	14,000
Write-off of goodwill	—	(14,000)
At 31 May	—	—

The consideration was satisfied as follows:

	2003	**2002**
	HK$'000	*HK$'000*
Issue of ordinary shares of the Company	—	14,000
Total consideration	—	14,000

(a) Acquisition in the year ended 31 May 2002

In 2002, the Group acquired 100% interests in Sky Glory Holdings Limited at a consideration of HK$14,000,000.

According to the announcement dated 7 February 2002, as at the date of acquisition, the net assets of Sky Glory Holdings Limited were HK$2 and the principal activity of the company was as a contractor in PRC. The Provisional Liquidators have evaluated all the relevant facts available to them and they consider that there are no future economic benefits arising from the goodwill. As a result, the goodwill was written off to the profit and loss account as at 31 May 2002.

22. Concession Rights

	The Group	
	2003	2002
	HK$'000	*HK$'000*
Cost:		
At 1 June	112,723	112,723
Additions through acquisition of subsidiaries	—	—
At 31 May	112,723	112,723
Accumulated amortisation:		
At 1 June	58,123	7,467
Through acquisition of subsidiaries	—	—
Charge for the year	—	9,802
Provision for impairment in value	—	40,854
At 31 May	58,123	58,123
Net book value:		
At 31 May	54,600	54,600

Concession rights were acquired in a business combination that is an acquisition. The cost of concession right is based on its fair value at the date of acquisition.

The concessions represent cutting licences which cover an area of 27,975 hectare, in the Republic of Suriname. The Group applied to the Ministry of Natural Resources of the Republic of Suriname for ten-year concession rights for these locations and the ten-year concession rights were granted on 1 March 2002. During the period before the ten-year concession rights were granted on 1 March 2002 the Group continued with its activities in these areas.

The Provisional Liquidators have evaluated all the relevant facts available to them and are of the opinion that there are no material adverse conditions precluding the Group from implementing its business development plans for these concession rights (refer to note 37(xxii)). Accordingly, having obtained an independent professional valuation, the Provisional Liquidators have made an appropriate impairment provision against the carrying value of these concession rights in the accounts.

23. Inventories

	The Group		The Company	
	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Finished goods - timber	601	601	—	—
	601	601	—	—

Included in finished goods are inventories of HK$* (2002: HK$*) stated at net realisable value.

24. Trade and Other Receivables

	The Group		The Company	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from related companies *(note 36(b))*	*	*	*	*
Loan receivable	*	*	*	*
Trade receivables, deposits and other receivables	950	*	*	*
Temporary advances	*	*	*	*
Gross amount due from customers for contract work *(note 25)*	*	*	*	*
	950	3,621	—	—

(a) No information is available to provide for the required disclosure for aging of debtors.

25. Construction Contracts

No information is available to provide the required disclosures for the breakdown between construction contracts costs and progress billings, the gross amount due from customers for contract work to be recovered within one year as at 31 May 2003, amount due to customer to be settled within one year as at 31 May 2003, and the amount of retention receivables from customers recorded within "Trade and other receivables" as at 31 May 2003 in respect of construction contracts in progress.

26. Cash and Cash Equivalents

	The Group		The Company	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and in hand	130	93	18	—

27. Bank loans, Trade and Other Payables

	The Group		The Company	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	11,660	*	*	*
Creditors and other payables	1,638	*	*	*
	13,298	268,738	—	7,839

(a) Details for aging analysis and borrowing repayment terms as at 31 May 2003 and 31 May 2002 are not available.

(b) At 31 May 2003, the Group had banking facilities of approximately HK$* (31 May 2002: HK*) which were secured by the following:

(i) Assignment of contract proceeds;

(ii) Corporate guarantees executed by the Company;

(iii) Personal guarantees issued by the directors; and

(iv) The following assets owned by the Group;

	As at 2003	As at 2002
	HK$'000	*HK$'000*
Deposits with bank	*	*
Investment properties and vessels *(notes 18(c) and 19(c))*	11,660	17,430
	*	*

(c) 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.

28. Amount due to a Subsidiary

The amount due to a subsidiary is unsecured, interest free and is not due for repayment in the next twelve months. It will be dealt with under the Schemes.

29. Obligations under Finance Leases

No information is available to provide for the required disclosures for the aging and details of obligations under finance leases.

30. Provision Under Proposed Restructuring Agreement

	The Group		The Company	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Provision under proposed restructuring agreement	45,000	—	45,000	—

Under the Restructuring Proposal, the Company will make a cash payment of HK$45,000,000 to settle its outstanding creditors (including its contingent liabilities); a wholly owned subsidiary of the Investor outside the Group undertakes, will in accordance with a deed of sale and purchase, to pay HK$25,000,000 to LCT Engineering for the acquisition of Finestyle and i.Solution (LCT Engineering will not form part of the Group on the completion of the Restructuring Proposal) (see *note 1(a), (c)* and *(d)*). Payments made to LCT Engineering will be distributed to its creditors, which will include the newly incorporated company referred to in *note 1(d)*, via a voluntary liquidation of LCT Engineering.

31. Convertible Notes

	The Group		The Company	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
8% convertible notes	10,900	10,900	10,900	10,900
Less: Unamortised notes issue expenses	(335)	(335)	(335)	(335)
Unamortised redemption premium	(742)	(742)	(742)	(742)
Transferred to provision under proposed restructuring agreement *(note 30)*	(9,823)		(9,823)	
	—	9,823	—	9,823

Note:

(a) The convertible note (the "Note") of HK$10,000,000 which was issued on 22 January 2001 bears interest at a fixed rate of 8% per annum payable semi-annually in arrears. The Note is convertible in whole or in part at any time following the date of issue of the Note until 14 days before 21 January 2003 into ordinary shares of the Company at the fixed conversion price, subject to adjustment in certain events, of HK$0.16 per share (the "Conversion Price"). The Conversion Price shall be adjusted from time to time pursuant to the placing and underwriting agreement dated 22 January 2001 and provided that the Conversion Price shall not be less than the par value of ordinary share of the Company. At any time prior to 21 January 2003 the Company shall have a right to redeem the Note at a price equal to the outstanding principal amount together with a premium of 10% of the outstanding principal amount and interest accrued. In the event of full conversion of the Note at the Conversion Price a total of 62,500,000 new ordinary shares of the Company will be issued. Any Note not converted into ordinary shares by the end of 21 January 2003 will be paid to the note holder together with a premium of 9% of the outstanding principal amount and interest accrued. During the year no conversion rights were exercised.

32. Deferred Taxation

(a) Movements on deferred taxation comprise:

	The Group 2003 HK$'000	The Group 2002 HK$'000
At 1 June	3,110	3,110
Deconsolidation of a subsidiary	(3,110)	*
Transfer to profit and loss account *(note 10(a))*	*	*
At 31 May	—	3,110

No deferred tax assets in respect of unutilised tax losses carried forward which are available to set off against future assessable profits have been recognised as it is uncertain that these tax losses will be utilised in the foreseeable future.

(b) Major components of the deferred taxation liabilities of the Group is as follows:

	The Group 2003 HK$'000	The Group 2002 HK$'000
Depreciation allowances in excess of related depreciation	—	3,110

33. Share Capital

	2003 HK$'000	2002 HK$'000
Authorised:		
10,000,000,000 Ordinary shares of HK$0.10 each	1,000,000	1,000,000
Issued and fully paid:		
At 1 June	53,255	44,505
Issue of new shares *(note (a))*	—	8,750
At 31 May	53,255	53,255

Notes:

(a) On 5 February 2002, the group acquired 100% of the issued share capital of Sky Glory Holdings Limited, a company incorporated in Hong Kong, at a consideration of HK$14,000,000 satisfied by the issued and allotment of the Company's 87,500,000 new shares with par value of HK$0.10 each at a cash consideration of HK$0.16 per share.

(b) All the above new shares rank pari passu with the existing shares.

34. Reserves

(a) The Group

	Share premium	Capital reserve	Investment property revaluation reserve	Exchange reserve	Retained profits/ (Accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 June 2001	146,293	10,802	—	(19)	(62,901)	94,175
Issue of new shares	5,250	—	—	—	—	5,250
Conversion of convertible notes *(note 31)*	—	—	—	—	—	—
Share issue expenses	*	—	—	—	—	*
Exchange differences	—	*	*	*	*	*
Loss for the year	—	—	—	—	(346,316)	(346,316)
At 31 May 2002	151,543	10,802	—	(19)	(409,217)	(246,891)
At 1 June 2002	151,543	10,802	—	(19)	(409,217)	(246,891)
Issue of new shares	—	—	—	—	—	—
Conversion of convertible notes *(note 31)*	—	—	—	—	—	—
Share issue expenses	—	—	—	—	—	—
Exchange differences	—	*	*	*	*	*
Profit for the year	—	—	—	—	217,320	217,320
At 31 May 2003	151,543	10,802	—	(19)	(191,897)	(29,571)

(b) The Company

	Share premium	Contributed surplus	Retained profits/ (Accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 June 2001	146,293	77,253	(72,217)	151,329
Issue of new shares	5,250	—	—	5,250
Conversion of convertible notes *(note 31)*	—	—	—	—
Share issue expenses	—	—	—	—
Loss for the year *(note 13)*	—	—	(245,506)	(245,506)
At 31 May 2002	151,543	77,253	(317,723)	(88,927)
At 1 June 2002	151,543	77,253	(317,723)	(88,927)
Issue of new shares	—	—	—	—
Conversion of convertible notes *(note 31)*	—	—	—	—
Share issue expenses	—	—	—	—
Loss for the year *(note 13)*	—	—	(9,310)	(9,310)
At 31 May 2003	151,543	77,253	(327,033)	(98,237)

The contributed surplus of the Company represents the difference between the nominal value of the shares of the Company issued in exchange for the entire issued share capital of Luen Cheong Tai (BVI) Limited and the value of the underlying net assets of the subsidiaries as at the date they were acquired by the Company.

The capital reserve of the Group represents the difference between nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the Company in consideration thereof.

Under the Companies Law (1998 Revision) of the Cayman Islands, the contributed surplus account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The Company's reserves available for distribution comprise the share premium account, contributed surplus account and retained earnings. At 31 May 2003, in the opinion of the Provisional Liquidators, the Company is unable to make any distribution to Shareholders.

35. Commitments

At 31 May 2003, the Group had commitments under operating leases to make payments as follows:

	Properties	
	2003	**2002**
	HK$'000	*HK$'000*
Leases expiring		
Within 1 year	*	*
After 1 year but within 2 years	*	*
After 2 years but within 5 years	*	*
	*	*

36. Material Related Party Transactions

(a) ***The following material transactions with related parties were in the opinion of the directors carried out in the ordinary course of business:***

		The Group	
		2003	**2002**
	Note	*HK$'000*	*HK$'000*
Rental of machinery payable to			
# Well-Joint Machinery Company Limited	*(ii)*	*	*
Rental of land and buildings payable to			
# Winmost Investments Limited	*(i) & (ii)*	*	*
Contract revenue receivable from			
Winfast Engineering Limited	*(iii)*	*	*

These are companies in which Mr. Chan Man Chuen and Mr. Vong Pak Cheong, directors of the Company, have a beneficial interest.

Notes:

(i) These constitute connected transactions under the Listing Rules. The Company has been granted a waiver from compliance with the relevant requirements of the Listing Rules for these connected transactions for a period of three years commencing from the date of listing of the Shares.

(ii) Rentals of machinery, land and buildings payable to/receivable from related companies were charged at the prevailing market rates.

(iii) This is a company owned by Asia Standard International Group Limited, Asia Standard International Limited, Asia Standard Development (Holdings) Limited and Richcorp Investments Holdings Limited, which are deemed to have interests in the Company through the shares held by Tonlok Limited, a shareholder of the Company. The contract revenues were received in accordance with the terms and conditions of the underlying agreement dated 10 July 1999. Further details of the transaction were set out in the Company's announcement dated 24 September 1999.

(b) Amounts due from related companies as at 31 May 2003:

	The Group	
	2003	**2002**
	HK$'000	*HK$'000*
Winfast Engineering Limited *(notes (i) and (ii))*	*	*
	*	*

Notes:

(i) Winfast Engineering Limited is a fellow subsidiary of Tonlok Limited, a major shareholder of the Company. The balance was unsecured, interest free and had no fixed repayment terms.

(ii) All of the above balances are trading in nature.

37. Contingent Liabilities and Litigation

Save as disclosed below, no litigation or claim of material importance is known to the Provisional Liquidators to be pending or threatened against the Company or any of its subsidiaries. In any event, pursuant to Section 186 of the Companies Ordinance (Cap.32), upon the appointment of the Provisional Liquidators to the Company and the making of a winding-up order against LCTC, a wholly owned subsidiary of the Company, on 15 July 2002, no action or proceeding shall be proceeded with or commenced against the Company and LCTC except by leave of the Court. As at the Latest Practicable Date, no party has sought leave of the Court to continue any of the following actions involving the Company or LCTC. In any event, all contingent liabilities of the Company arising from these actions will be dealt with under the Schemes.

i. On 13 September 1996, P&T Construction & Engineering Company Limited ("P&T") commenced proceedings against LCTC claiming damages for wrongful repudiation of a contract dated 9 October 1995 between the parties. P&T filed a Reply to Amended Defence and Defence to Counterclaim on 11 June 1997. No further action has been taken by P&T against LCTC.

ii. On 27 September 1996 and 23 October 1996, P&T commenced two separate proceedings against LCTC in respect of amounts outstanding, totalling HK$4,851,000, in respect of certain construction works performed by P&T for LCTC. The two proceedings were consolidated by an Order dated 20 December 1996. No action has been taken by P&T since March 1997.

iii. On 8 January 2001 Orient Shipping NV ("OSNV") commenced proceedings in Hong Kong against Finestyle Wood Industrial Company Limited ("FWI"), a wholly owned subsidiary, claiming a sum of HK$3,491,000. OSNV alleged that OSNV had entered into an agreement with FWI in connection with delivery of FWI's timber but FWI had refused to pay additional freight costs of HK$954,000. FWI and OSNV are seeking arbitration in the High Court. FWI has placed a deposit of US$200,000 with its solicitor under an Escrow Agreement. On 21 January 2001 the arbitrators issued the First Partial Final Award and FWI had to pay freight costs of H$K2,544,000 and costs of the award of HK$39,000 to OSNV. The said sum of HK$2,583,000 together with interest payable thereon has been settled. OSNV has further proceeded with arbitrations seeking, inter alia, payment of further freight costs and damages for breach of the agreement. The case is currently pending. In the opinion of the directors, sufficient provision was made in the financial statements for the year ended 31 May 2001.

iv. At 31 May 2001 a developer had launched arbitration proceedings against the Group whereby the developer claimed a sum of approximately HK$3,200,000 for breach of a construction contract and other relief. No provision on the above has been made as the directors considered that no material loss will be incurred as a result of such proceedings.

v. At 31 May 2001 the Group had contingent liabilities in respect of performance bonds not provided for amounting to HK$5,665,000 (2000: HK$6,158,000).

vi. On 27 August 2001 litigation was commenced by Dah Sing Bank Limited against LCTC (as borrower), a wholly owned subsidiary, and the Company (as guarantor) for the failure to repay the outstanding obligation under finance leases plus interest and cost, totalling HK$621,000. The outstanding obligation under these finance leases were secured by a corporate guarantee provided by the Company and the machinery under this finance lease. On 22 October 2001 judgement was given by the High Court that the Company and LCTC have to pay the above sum.

vii. On 30 August 2001 litigation was commenced by Hau Chiao Commercial Bank Limited (which has since become part of the Bank of China (Hong Kong) Limited group of companies) against FWI (as borrower), and the Company (as guarantor) for the alleged failure to repay the principal amount of loans plus interest and costs, totalling HK$3,425,000. The loan was secured by a corporate guarantee provided by the Company and a fixed deposit.

viii. On 3 September 2001 litigation was commenced by China International Water & Electronic Corporation ("CIWEC") against the Company for the failure to repay the principal amount due to CIWEC plus interest and costs, totalling HK$7,378,000. On 22 October 2001 judgement was given by the High Court that the Company has to pay the above sum.

ix. On 10 September 2001 litigation was commenced by East Asia Credit Company Limited against "LCTC" (as borrower), a wholly owned subsidiary (see note 9 above), and the Company (as guarantor) for the alleged failure to repay the principal amount of loan plus interest and costs, totalling HK$4,721,000. The loan was secured by a corporate guarantee provided by the Company. On 30 April 2002 judgement was given by the High Court that the Company and LCTC have to pay the above sum.

x. On 24 September 2001, Cheung Kwong Yau and Cheung Kwong Kiu (administratrices of the estate of Lam Fei Wan, deceased) obtained judgment against, amongst others, LCTC in the sum of HK$2,850,000 as damages arising out of a fatal accident.

xi. On 25 September 2001 litigation was commenced by Wing Hang Finance Company Limited against LCTC (as borrower), and the Company (as guarantor) for the alleged failure to repay the outstanding obligation under a finance lease plus interest and costs, totalling HK$1,352,000. The outstanding obligation under this finance lease was secured by a corporate guarantee provided by the Company and the machinery under this finance lease.

xii. On 15 October 2001 litigation was commenced by Jian Sing Bank Limited against LCTC (as borrower), and the Company (as guarantor) for the alleged failure to repay the outstanding trust receipt loans plus interest and costs, totalling HK$4,706,000. The loans were secured by a corporate guarantee provided by the Company.

xiii. On 22 October 2001, China International Water & Electric Corporation obtained judgment against the Company for the sum of HK$7,378,000, plus costs and interest.

xiv. On 22 October 2001, Dah Sing Bank, Limited ("Dah Sing Bank") obtained judgment against LCTC as primary obligor and the Company, Chan Man Chuen and Vong Pak Cheong (as guarantors) for the sum of HK$621,000, plus costs and interest, being rentals outstanding under an equipment lease. Dah Sing Bank has also commenced proceedings against LCTC for return of the equipment in question. A Defence was filed on 5 March 2002 and no further action has been taken.

xv. On 11 January 2002 litigation was commenced by the Bank of East Asia Limited against LCTC (as borrower), and the Company (as guarantor) for the alleged failure to repay the outstanding trust receipt loans plus interest and costs, totalling HK$4,601,000. The loans were secured by a corporate guarantee provided by the Company.

xvi. On 18 February 2002, a winding-up petition was commenced by Hennabun Resources Limited against LCTC (as borrower), for the alleged failure to repay a loan plus interest and costs totalling HK$12,250,000.

xvii. On 30 April 2002, East Asia Credit Company Limited obtained judgment against the Company and LCTC for the sum of HK$4,721,000, plus costs and interest.

xviii. On 15 May 2002, Get Nice (Union) Finance Company Limited ("Get Nice") issued a writ against the Company and Chan Man Chuen (as guarantor), one of the directors of the Company. The claim was in respect of a loan agreement made between Get Nice and the Company dated 5 July 2001 for a loan of HK$5,000,000 to be repaid on 4 January 2002 with interest. Get Nice issued a summons for summary judgment on 30 May 2002. The Company issued a summons to restrain further proceedings against it on 17 June 2002. On 31 July 2002, the Court heard and dismissed the Company's application upon an undertaking by Get Nice that no steps would be taken to levy execution against the Company in respect of any judgment that may be obtained against it until the winding-up petition against the Company has been withdrawn or dismissed or until further order of the Court. No hearing date for Get Nice's application for a summary judgment has been fixed. On 18 October 2002, Get Nice obtained judgment against Chan Man Chuen for the sum of HK$6,095,000, plus interest and costs on an indemnity basis.

xix. On 24 May 2002 a winding-up petition was commenced by Winfast Engineering Limited ("Winfast") against LCTC, for the alleged failure to repay the amount due to Winfast, totalling HK$15,266,000.

xx. On 3 June 2002 a winding-up petition was commenced by Showa Leasing (Hong Kong) Limited against Finestyle Maritime Services Limited ("Finestyle Maritime") (as borrower), a wholly owned subsidiary, LCTC (as guarantor), and the Company (as guarantor) for the alleged failure to repay outstanding obligations under finance leases and mortgage loans plus interest and costs totalling HK3,979,000. The outstanding obligations under these finance leases were secured by a corporate guarantee provided by the Company and vessels under these finance leases.

xxi. On 14 August 2002, GE Capital (Hong Kong) Limited obtained judgment against Finestyle Maritime for the sum of HK$2,140,000, plus costs and interest.

xxii. By a sale and purchase agreement dated 31 August 2000, the Former Shareholders of Finestyle, a wholly owned subsidiary, agreed to transfer the entire issued shares in Finestyle to LCT Engineering, a wholly owned subsidiary of the Company, for a consideration of HK$125,000,000. The Provisional Liquidators are in possession of a photocopy of share certificate No. 6 of Finestyle, signed by the Former shareholders and dated 1 September 2000, which confirms that LCT Eng is the sole shareholder of Finestyle. In early July 2003, the Former Shareholders wrote to the Provisional Liquidators claiming that they had not received the consideration for the shares in Finestyle. The Provisional Liquidators have conducted investigations into the circumstances surrounding the share transfer. Based on the information currently available, including (i) written confirmation from Banco Weng Hang, Macau of the transfer to the Former Shareholders' investment company of the amount due under the sale and purchase agreement from LCT Eng in September 2000, and (ii) independent legal advice, the Provisional Liquidators are satisfied that there is no merit to these allegations. No legal action has been taken by the Former Shareholders in this regard as at the date of the finalisation of these financial statements. The Former Shareholders have also alleged that certain resolutions passed by LCT Eng, as the sole shareholder of Finestyle, inter alia, suspending the Former Shareholders as directors of Finestyle and initiating legal proceedings for their removal as directors of Finestyle, are not valid by reason of a breach of the articles of association of Finestyle. The Provisional Liquidators have obtained independent legal advice from Suriname counsel to the effect that the resolutions passed by LCT Eng are valid and binding on Finestyle, and are satisfied that there is no merit to this allegation. On 14 October 2003, the Suriname Ministry of Labor approved the dismissal of the Former Shareholders, however they continue to refuse to cooperate and deliver up the books and records of Finestyle and i.Solution to the Provisional Liquidators. The Provisional Liquidators have commenced proceedings in Suriname to recover the books and records. No legal action has been taken by the Former Shareholders in this respect as at the date of the finalisation of these financial statements.

xxiii. 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 (see also Notes 2 and 27). In this event, the liability position of the Group is not expected to be materially dissimilar to that disclosed in the Balance Sheet as at 31 May 2002. Note that the Provisional Liquidators have not yet completed Proof of Debt procedures and there are a number of outstanding claims against the Company and the Group at the date of finalisation of these financial statements which have still to be resolved.

38. Post Balance Sheet Events

i. All of the Investment Properties of the Group were disposed of by the respective mortgage holders subsequent to year end. As these assets have been written down to their recoverable amounts, no gain or loss arose on their disposal.

5. PRO FORMA UNAUDITED ADJUSTED NET TANGIBLE ASSETS OF THE GROUP

Set out below is a statement of the pro forma unaudited adjusted net tangible assets of the Group upon completion of the Restructuring Proposal. The proforma unaudited adjusted net tangible assets of the Group is prepared based on the audited negative net tangible assets of the Group as at 31 May 2003 and has been reviewed by the auditors. The auditors gave a qualified opinion in respect of the audited financial statements of the Group for the year ended 31 May 2003. For details, please refer to the section headed "4. Auditors' Report on the financial statements of the Company for the year ended 31 May 2003" as set out in Appendix I to this circular.

	HK$'000
Audited consolidated negative net tangible assets as at 31 May 2003 *(Note)*	(30,916)
Add: Subscription for 4,500 million New Shares by the Investor	45,000
Unaudited consolidated net tangible asset value of the Group upon completion of the Restructuring Proposal	14,084
Unaudited consolidated net tangible asset value per New Share upon completion of the Restructuring Proposal but before full conversion of the Working Capital Convertible Bond (based on 4,961,075,600 New Shares of HK$0.01 each)	0.28 cents
Upon full conversion of the Working Capital Convertible Bond (assuming the principal amount of the Working Capital Convertible Bond being HK$10 million)	10,000
Pro forma unaudited consolidated net tangible asset value upon completion of the Restructuring Proposal and full conversion of the Working Capital Convertible Bond	24,084
Pro forma unaudited consolidated net tangible asset value per New Share upon completion of the Restructuring Proposal and full conversion of the Working Capital Convertible Bond (based on 5,961,075,600 New Shares of HK$0.01 each and assuming that the HK$10 million principal amount of the Working Capital Convertible Bond is converted in full at the initial conversion price of HK$ 0.01 per New Share)	0.40 cents

Note:

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. 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.

6. COMFORT LETTER FROM MOORE STEPHENS IN RELATION TO THE SUFFICIENCY OF WORKING CAPITAL FOR THE GROUP FOR THE TWELVE MONTH PERIOD FOLLOWING COMPLETION

MOORE STEPHENS
CERTIFIED PUBLIC ACCOUNTANTS

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馬施雲
會計師事務所

29 October 2003

The Provisional Liquidators of Baker Group International Holdings Limited
(formerly known as Luen Cheong Tai International Holdings Limited)
DBS Asia Capital Limited
The directors of Northern Resources Limited
The Proposed Directors

Dear Sirs,

We refer to the circular dated 29 October 2003 (the "Circular") issued by Baker Group International Holdings Limited (formerly known as Luen Cheong Tai International Holdings Limited) (Provisional Liquidators Appointed) (the "Company") in connection with a restructuring proposal involving, inter alia, Capital Restructuring, Debt Restructuring and Creditors' Schemes of arrangement in accordance with section 86 of the Cayman Companies Law and section 166 of the Hong Kong Companies Ordinance, Subscription for New Shares by Northern Resources Limited (the "Investor"), Whitewash Waiver, Connected Transaction and general mandates to issue and to repurchase New Shares. Terms used in this letter shall have the same meanings as defined in the Circular unless otherwise defined.

In accordance with the instructions of the Provisional Liquidators and the directors of the Investor, we have reviewed the cash flow projections of the Group for the 12 month period after Completion (the "Cash Flow Projections") taking into account the intention of the Proposed Directors regarding the Group as described in the Circular and the summary of the restructuring proposal as described on pages 14 to 19 of the Circular. The Cash Flow Projections have been compiled on the basis of certain principal assumptions (the "Assumptions") as set out on pages 23 and 24 of the Circular, made by the directors of the Investor and the Proposed Directors.

We note that the Investor has undertaken to make further advances to the Company by way of exercising the Working Capital Convertible Bond, to fund the working capital requirements of the Group for the 12 month period after Completion.

We refer to the following statement made by the directors of the Investor and the Proposed Directors as referred to by the Provisional Liquidators on page 23 of the Circular:

"In the opinion of the directors of the Investor and the Proposed Directors, in the absence of unforeseen circumstances and subject to Completion and the availability of the abovementioned undertakings given by the Investor, the Group will have sufficient working capital for the 12-month period following Completion based on the following principal assumptions."

We emphasise that the Cash Flow Projections and the assumptions on which they are based relate to the future and actual cash flow are likely to be different since anticipated events frequently do not occur as expected and the variation may be material. Accordingly, cash flow projections cannot be relied upon to the same extent as information derived from the audited financial statements for completed financial accounting periods.

In our opinion, based on our review, the Cash Flow Projections (for which the directors of the Investor and the Proposed Directors are responsible) as far as accounting policies and calculations are concerned have been properly compiled on the basis of the Assumptions and the statement as to the sufficiency of working capital of the Group made by the directors of the Investor and the Proposed Directors have been properly made with due care and consideration.

Yours faithfully,
Moore Stephens
Certified Public Accountants
Hong Kong

7. COMFORT LETTER FROM DBS ASIA IN RELATION TO THE SUFFICIENCY OF WORKING CAPITAL FOR THE GROUP FOR THE TWELVE MONTH PERIOD FOLLOWING COMPLETION

DBS Asia Capital

16th Floor
Man Yee Building
68 Des Voeux Road Central
Hong Kong

29 October 2003

Baker Group International Holdings Limited
(Provisional Liquidator Appointed)
c/o 17/F., Hutchison House
10 Harcourt Road
Central
Hong Kong

The Directors
Northern Resources Limited
Beaufort House
P.O. Box 438, Road Town
Tortola,
British Virgin Islands

Dear Sirs,

We refer to the statement made by the directors of the Investor and the Proposed Directors regarding the sufficiency of working capital for the Group's requirements for the 12-month period following Completion (the "Projection Period") as set out on page 24 to the circular dated 29 October 2003 (the "Circular") issued by the Company in connection with the Debt Restructuring. Terms used in this letter shall have the same meanings as defined in the Circular unless otherwise defined.

We have not performed independent review of the preparation of the cash flow projections (the "Cash Flow Projection") of the Group for the Projection Period for which the directors of the Investor and the Proposed Directors are responsible. However, we have discussed with the directors of the Investor and the Proposed Directors, the assumptions (the "Assumptions") for the Cash Flow Projection and have considered the letter dated 29 October 2003 (the "Reporting Accountants' Letter") addressed to, inter alia, the Provisional Liquidators, the directors of the Investor and the Proposed Directors and ourselves by Moore Stephens, the reporting accountants for the Company (the "Reporting Accountants").

We note that the Investor has undertaken to make further advances to the Company by way of exercising the Working Capital Convertible Bond, to fund the working capital requirements of the Group for the Projection Period.

We note from the Reporting Accountants' Letter that the Reporting Accountants are of the opinion that, based on their review, the Cash Flow Projection for the Projection Period following Completion (for which the directors of the Investor and the Proposed Directors are responsible) as far as accounting policies and calculations are concerned have been properly compiled on the basis of the Assumptions and the statement as to the sufficiency of working capital of the Group made by the directors of the Investors and the Proposed Directors has been properly made with due care and consideration.

We have satisfied ourselves that the statement as to the sufficiency of working capital of the Group has been made with due care and consideration by the directors of the Investor and the Proposed Directors.

Please note that the Cash Flow Projection and the Assumptions relate to the future and may be affected by unforeseen events.

Yours faithfully,
For and on behalf of
DBS ASIA CAPITAL LIMITED
Alex Lau **Flavia Hung**
Managing Director *Director*

The principal terms of the Working Capital Convertible Bond are summarized below:

Issuer:	the Company
Aggregate principal amount:	not less than HK$5,000,000 but up to HK$10,000,000
Issue price:	at face value
Conversion price:	HK$0.01 per New Share, subject to adjustments
Interest:	non-interest bearing
Conversion period:	the Working Capital Convertible Bond may be converted in whole or in part at any time following the date of issue until 6:00p.m. Hong Kong time on the date 24 months from the date of issuance of the Working Capital Convertible Bond at the option of the Investor
Transfer:	the Working Capital Convertible Bond may be assigned or transferred in whole or in part (subject to compliance with the relevant provisions of the Listing Rules and transfer restrictions under applicable laws)
Listing:	no application will be made for the listing of the Working Capital Convertible Bond. An application will be made for the listing of the New Shares to be issued on exercise of conversion rights attaching to the Working Capital Convertible Bond

The Investor has undertaken to the Company and the Stock Exchange that it will not exercise the conversion rights attaching to the Working Capital Convertible Bond if such conversion would result in the public float of the issued share capital of the Company from time to time falling below 25%, which is the minimum public float requirement as stipulated under Rule 8.08 of the Listing Rules. The Company and the Proposed Directors have also undertaken to the Stock Exchange that they will not issue New Shares to the extent that the 25% minimum public float requirement as stipulated under Rule 8.08 of the Listing Rules is not met.

The information set out in this Appendix serves as the explanatory statement required under Rule 10.06(1)(b) of the Listing Rules to provide Shareholders with all the information reasonably necessary for them to make an informed decision on whether to vote for or against the ordinary resolution approving the repurchase mandate and constitutes the memorandum of the terms of the proposed repurchases required under the articles of association of the Company.

LISTING RULES FOR REPURCHASE OF SECURITIES

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(a) Shareholders' Approval

The Listing Rules provide that all proposed repurchases of security by a company whose primary listing is on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to a specific transaction.

(b) Source of Funds

Repurchases must be made out of funds which are legally available for such purpose in accordance with the laws of the jurisdiction in which the company is incorporated or otherwise established and with the company's constitutive documents.

(c) Trading Restrictions

A maximum of 10% of the issued and fully paid up share capital of a company outstanding as at the date of the passing of the resolution approving the repurchase mandate may be repurchased on the Stock Exchange or on any other stock exchange recognized by the SFC and the Stock Exchange for this purpose. A company may not issue or announce an issue of securities for a period of 30 days immediately following a repurchase, whether on the Stock Exchange or otherwise (other than an issue of shares pursuant to the exercise of warrants, share options of similar instruments requiring the Company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, all repurchases of securities on the Stock Exchange in any given calendar month are limited to a maximum of 25% of the trading volume of such securities in the immediately preceding calendar month and a company may not repurchase its securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the Stock Exchange trading rules from time to time. A company is also prohibited from making securities repurchases on the Stock Exchange if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage for the company as determined by the Stock Exchange.

(d) Status of Repurchased Securities

The Listing Rules provide that the listing of all repurchased securities will be automatically cancelled and the certificate(s) for such repurchased securities must be cancelled and destroyed.

(e) Suspension of Repurchases

A company is prohibited from repurchasing securities on the Stock Exchange at any time after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information is made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or publication of a company's interim report, a company (other than a company listed pursuant to the provisions of Chapter 21 of the Listing Rules) may not repurchase securities on the Stock Exchange, unless the circumstances are exceptional. In addition, the Stock Exchange reserves the right to prohibit repurchases of securities on the Stock Exchange if a company has breached the Listing Rules.

(f) Reporting Requirement

Repurchases on the Stock Exchange or otherwise must be reported to the Stock Exchange in the prescribed form not later than 30 minutes before the earlier of commencement of the morning trading session or any pre-opening session on the business day following any day on which the issuer makes a purchase of shares (whether on the Stock Exchange or otherwise), the total number of shares purchased by the company the previous day and the purchase price per share or the highest and lowest prices paid for such purchases. In addition, a company's annual report is required to disclose on a monthly basis details regarding repurchases made during the year, including the number of securities repurchased each month, the repurchase price per relevant securities or the highest and lowest price paid for all such repurchases and the aggregate prices paid. A company shall procure that any broker appointed by the company to effect repurchases of securities shall disclose to the Stock Exchange such information with respect to repurchases made on behalf of the company as the Stock Exchange may request. The directors' report shall contain reference to the repurchases made during the year and the directors' reasons for making such repurchases.

(g) Connected Parties

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a connected person (as defined in the Listing Rules), and a connected person must not knowingly sell his securities to the company on the Stock Exchange.

SHARE CAPITAL OUTSTANDING

As at the Latest Practicable Date, the aggregate nominal amount of issued share capital of the Company was HK$53,255,450 comprising 532,554,501 Shares. Immediately upon Completion, the aggregate nominal amount of issued share capital of the Company will be HK$49,610,756 comprising 4,961,075,600 New Shares. Subject to Completion and the passing of the relevant ordinary resolution approving the repurchase mandate at the EGM and assuming that no further Share is issued prior to the EGM, the Company will be allowed under the repurchase mandate to repurchase a maximum of 496,107,560 New Shares immediately following Completion.

REASONS FOR REPURCHASES

The Proposed Directors believe that the repurchase mandate is in the interests of the Company and the Shareholders since it will give the restructured Company the flexibility to do so if and when appropriate. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the value of the Company's securities and/or its earnings per share. The Proposed Directors will only exercise such power in such circumstances that they believe such repurchase will have a material benefit to the Company and the Shareholders.

FUNDING OF REPURCHASES

Repurchases of the Company's securities must be funded out of funds legally available for the purpose in accordance with the memorandum of association and articles of association of the Company and the applicable laws of Cayman Islands, being capital paid up on the purchased shares or out of the funds of the Company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. The premium payable on a purchase over the par value of shares to be purchased must be provided for out of funds of the Company otherwise available for dividend or distribution or out of the Company's share premium account. It is envisaged that the funds required for any repurchase would be derived from such sources.

There may be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the latest published audited financial statements as at 31 May 2003) in the event that the repurchase mandate is exercised in full. However, the Proposed Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Proposed Directors are from time to time appropriate for the Company.

DISCLOSURE OF INTEREST

None of the Proposed Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has a present intention to sell securities to the Company upon Completion if the repurchase mandate is approved by the Shareholders.

No connected person (as defined in the Listing Rules) of the Company has notified the Company that he/she has a present intention to sell securities to the Company, or has undertaken not to do so, in the event that the Company is authorized to make repurchases of its own securities.

UNDERTAKING OF THE PROPOSED DIRECTORS

The Proposed Directors have undertaken to the Stock Exchange that they will exercise the power of the Company to make repurchases pursuant to the repurchase mandate in accordance with the Listing Rules, the laws of Cayman Islands and the memorandum of association and articles of association of the Company.

During each of the six months preceding the date of this circular, the Company has not repurchased any securities of the Company.

SHARE PRICES

Trading in the Company's Shares has been suspended since 9:30 a.m. on 26 August 2002. The closing price before suspension was HK$ 0.036 per Share.

The highest and lowest prices at which the Shares were traded on the Stock Exchange during each of the previous 12 calendar months preceding the suspension were as follows:

	Highest	**Lowest**
	HK$	*HK$*
2001		
September	0.080	0.042
October	0.072	0.050
November	0.068	0.052
December	0.069	0.054
2002		
January	0.068	0.050
February	0.083	0.050
March	0.120	0.060
April	0.210	0.086
May	0.137	0.101
June	0.119	0.084
July	0.106	0.033
August	0.045	0.032

GENERAL

If as a result of a repurchase of the New Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Code. As a result, a Shareholder or a group of Shareholders, acting in concert with each other could, depending on the level of increase of the Shareholders' interests, obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code. The Proposed Directors have no intention to exercise the repurchase mandate to such an extent that will result in a requirement of a Shareholder, or a group of Shareholders acting in concert, to make a general offer under the Code.

As at the Latest Practicable Date, there was no controlling Shareholder of the Company who was beneficially interested in more than 30% of the existing issued share capital of the Company. Immediately upon Completion, the Investor together with parties acting in concert with it will be interested in approximately 90.71% of the enlarged issued share capital of the Company. The Proposed Directors are not aware of any consequences which would arise under the Code as a result of any repurchases pursuant to the repurchase mandate.

Any purchase of Shares which results in the amount of Shares held by the public being reduced to less than 25% could only be implemented with the agreement of the Stock Exchange. Except in extraordinary circumstances such agreement would not normally be given by the Stock Exchange.

1. RESPONSIBILITY STATEMENTS

This circular includes particulars given in compliance with the Code and the Listing Rules for the purpose of giving information with regard to the Company and the Investor. The Provisional Liquidators jointly and severally accept full responsibility for the accuracy of the information contained in this circular relating to the Group and themselves and confirm, having made all reasonable inquires, that to the best of their knowledge, opinions expressed in this circular concerning the Group and themselves have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular concerning the Group and themselves misleading.

The information contained in this circular relating to the Investor has been supplied by the directors of the Investor. The directors of the Investor accept full responsibility for the accuracy of information contained in this circular other than that relating to the Group and the Provisional Liquidators and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, the opinions expressed in this circular other than those concerning the Group and the Provisional Liquidators have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular other than those concerning the Group and the Provisional Liquidators misleading.

2. MARKET PRICES

Trading in the Company's Shares has been suspended since 9:30 a.m. on Monday, 26 August 2002 and will remain suspended on Completion until sufficient public float has been restored. The closing price before suspension was HK$0.036 per Share which is therefore the closing price prior to the date of the joint announcement of the Company and the Investor in relation to the Restructuring Proposal and the Latest Practicable Date.

The closing prices at which the Shares were traded on the Stock Exchange on the last day during each of the previous six calendar months preceding the suspension of their trading on the Stock Exchange are as follows:

	Closing prices on the last trading day of the month
	HK$
2002	
March	0.109
April	0.106
May	0.103
June	0.106
July	0.046
August	0.036

The highest and lowest closing prices at which the Shares were traded on the Stock Exchange during the previous six calendar months preceding the suspension of their trading on the Stock Exchange were HK$0.195 each on 17 April 2002 and HK$0.033 each on 29 July 2002 respectively.

3. INTERESTS IN SECURITIES OF THE COMPANY

(a) Interests and short positions of the Directors in the share capital of the Company and its associated corporations

As at the Latest Practicable Date, to the best of the knowledge of the Provisional Liquidators having made all reasonable enquires, the interests of the Directors in the securities of the Company were as follows:

	Number of Shares of the Company					**Number of Shares that can be exercised under the share option scheme adopted on 7 November 1998**
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**	
Mr. Chan Man Chuen	—	—	—	60,423,809 *(Note 1)*	60,423,809	10,780,000 *(Note 4)*
Mr. Vong Pak Cheong	—	—	—	60,423,809 *(Note 2)*	60,423,809	6,290,000 *(Note 4)*
Mr. Chan Kai Yiu	937,500	—	6,490,158 *(Note 3)*	—	7,427,658	6,290,000 *(Note 4)*

Note 1 — These shares are beneficially owned by Enson Group Limited ("Enson"), Enson has two classes of shares, namely class A and class B. All the class A shares in the issued share capital of Enson are beneficially owned by a capital trust, the discretionary objects of which include Mr. Chan Man Chuen and his family members. Holders of class A shares are entitled to, among other rights, exercise all the voting rights of Enson. All the class B shares in the issued share capital of Enson are beneficially owned by an income trust, the discretionary objects of which are Mr. Chan Man Chuen's brother and nephew. Holders of class B shares are entitled to, among other rights, all dividend income of Enson. (Source: circular of the Company dated 19 August 2002)

Note 2 — These shares are beneficially owned by Joyful Holdings Limited ("Joyful"), Joyful has two classes of shares, namely class A and class B. All the class A shares in the issued share capital of Joyful are beneficially owned by a capital trust, the discretionary objects of which include Mr. Vong Pak Cheong and his family members. Holders of class A shares are entitled to, among other rights, exercise all the voting rights of Joyful. All the class B shares in the issued share capital of Joyful are beneficially owned by an income trust, the discretionary objects of which are Mr. Vong Pak Cheong's sisters. Holders of class B shares are entitled to, among other rights, all dividend income of Joyful. (Source: circular of the Company dated 19 August 2002)

Note 3 — These Shares are beneficially owned by Gainful International Inc., the entire issued share capital of which is beneficially owned by Mr. Chan Kai Yiu. (Source: based on the Directors'/Chief Executives' Notifications Report (A) as appeared in the Securities (Disclosure of interests) Daily Summaries dated 27 June 2001, Mr. Chan Kai Yiu claimed to be the ultimate beneficial owner of these shares)

Note 4 — Pursuant to the share option scheme adopted on 7 November 1998 and a resolution of the Directors on 1 June 2001, Mr. Chan Man Chuen, Mr. Vong Pak Cheong and Mr. Chan Kai Yiu were offered options to subscribe for Shares at the option price of HK$0.16 per Share up to a maximum number of 23,360,000 Shares (subject to adjustments) exercisable between the period from 21 June 2001 to 6 November 2008.

Save as disclosed above, having made all reasonable enquiries and to the best of knowledge of the Provisional Liquidators, as at the Latest Practicable Date, none of the Directors or chief executives of the Company and their associates had any interest or short position in any shares, underlying shares or debentures of the Company or any associated company (as defined in Part XV of the SFO) which would be required to be: (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which a director or a chief executive would be taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies; or (iv) disclosed in this circular pursuant to the requirements of the Code.

(b) Interests and short positions of substantial shareholders in the share capital of the Company

As at the Latest Practicable Date, to the best of the knowledge of the Provisional Liquidators having made all reasonable enquires, the following interests of 5% or more in the shares and underlying shares of the Company were recorded in the register kept by the Company under section 336 of the SFO.

Name of substantial shareholders	Interests in shares or underlying shares of the Company	Percentage of issued share capital of the Company
Enson Group *(Note 1)*	60,423,809 Shares	11.35% *(Note 5)*
Joyful Holdings Limited *(Note 2)*	60,423,809 Shares	11.35% *(Note 5)*
Tonlok Limited *(Note 3)*	45,944,000 Shares	8.63% *(Note 5)*
Richcorp Investments Holdings Limited *(Note 3)*	45,944,000 Shares	8.63% *(Note 5)*
Asia Standard International Group Limited *(Note 3)*	45,944,000 Shares	8.63% *(Note 5)*
Asia Standard International Limited *(Note 3)*	45,944,000 Shares	8.63% *(Note 5)*
Asia Standard Development (Holdings) Limited *(Note 3)*	45,944,000 Shares	8.63% *(Note 5)*
NACGC *(Note 4)*	4,500,000,000 New Shares	90.71% *(Note 6)*
CMTI *(Note 4)*	4,500,000,000 New Shares	90.71% *(Note 6)*
CMTHK *(Note 4)*	4,500,000,000 New Shares	90.71% *(Note 6)*
Investor *(Note 4)*	4,500,000,000 New Shares	90.71% *(Note 6)*

Note 1 — Enson has two classes of shares, namely class A and class B. All the class A shares in the issued share capital of Enson are beneficially owned by a capital trust, the discretionary objects of which include Mr. Chan Man Chuen, a director of the Company, and his family members. Holders of class A shares are entitled to, among other rights, exercise all the voting rights of Enson. All the class B shares in the issued share capital of Enson are beneficially owned by an income trust, the discretionary objects of which are Mr. Chan Man Chuen's brother and nephew. Holders of class B shares are entitled to, among other rights, all dividend income of Enson. (Source: circular of the Company dated 19 August 2002)

Note 2 — Joyful has two classes of shares, namely class A and class B. All the class A shares in the issued share capital of Joyful are beneficially owned by a capital trust, the discretionary objects of which include Mr. Vong Pak Cheong, a director of the Company and his family members. Holders of class A shares are entitled to, among other rights, exercise all the voting rights of Joyful. All the class B shares in the issued share capital of Joyful are beneficially owned by an income trust, the discretionary objects of which are Mr. Vong Pak Cheong's sisters. Holders of class B shares are entitled to, among other rights, all dividend income of Joyful. (Source: circular of the Company dated 19 August 2002)

Note 3 — These represent the same parcel of shares which are held by Tonlok Limited. Asia Standard International Group Limited, Asia Standard International Limited, Asia Standard Development (Holdings) Limited and Richcorp Investments Holdings Limited are deemed to have interests in these shares as they are holding companies of Tonlok Limited. (Source: Interim report of the Company for the six month period ended 30 November 2001)

Note 4 — As at the Latest Practicable Date, the Investor was held as to 88% by CMTHK. CMTHK was a wholly owned subsidiary of CMTI and CMTI was held as to 91.92% by NACGC.

Note 5 — this percentage is based on the existing issued share capital of the Company.

Note 6 — this percentage is based on the issued share capital of the Company immediately after Completion.

Save as disclosed above, having made all reasonable enquiries and to the best of their knowledge, the Provisional Liquidators are not aware of any person who as at the Latest Practicable Date had an interest (whether direct or indirect) in 5% or more in the shares and underlying shares comprised in the relevant share capital or a short position which was required to be recorded in the register of interests in shares and short positions required to be kept by the Company pursuant to section 336 of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or options to subscribe for 10% or more of the nominal value of such capital.

(c) The Investor

As at the Latest Practicable Date, save as disclosed in the circular, none of the Investor, its directors, and parties acting in concert with them had any interest in the securities of the Company.

(d) Others

As at the Latest Practicable Date, to the best of the knowledge of the Provisional Liquidators having made all reasonable enquiries,

(i) none of the subsidiaries or associates of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor the Provisional Liquidators, Asian Capital, DBS Asia, First Shanghai, Moore Stephens or advisers (as defined under the Code) to the Company and the Investor had any interest in the securities of the Company;

(ii) no person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate as defined in the Code, the Investor, or any party acting in concert with any of them had any interest in the securities of the Company;

(iii) no person who, prior to the posting of this circular, has irrevocably committed itself to accept or reject the Restructuring Proposal had any interest in any securities of the Company;

(iv) no fund managers connected with the Company or any of its subsidiaries had any interest in any securities of the Company;

(v) pursuant to the share option scheme adopted on 7 November 1998 and a resolution of the Directors on 1 June 2001, three employees were offered options to subscribe for Shares at the option price of HK$0.16 per Share up to a maximum number of 23,360,000 (subject to adjustments) Shares exercisable between the period from 21 June 2001 to 6 November 2008. As far as the Provisional Liquidators are aware, none of the said share options has been exercised as at the Latest Practicable Date. These options, unless exercised, will lapse upon the termination of the employment of these employees prior to Completion.

4. DEALINGS IN SECURITIES OF THE COMPANY

(a) Directors

To the best of the knowledge of the Provisional Liquidators having made all reasonable enquiries, none of the Directors nor parties acting in concert with them had dealt in any securities of the Company during the Relevant Period.

(b) The Investor

None of the Investor, its directors, and any party acting in concert with them had dealt in any securities of the Company during the Relevant Period.

(c) Others

During the Relevant Period, to the best of the knowledge of the Provisional Liquidators having made all reasonable enquiries,

(i) none of the subsidiaries or associates of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor the Provisional Liquidators, Asian Capital, DBS Asia, Moore Stephens, First Shanghai or advisers (as defined under the code) to the Company and the Investor had dealt in any securities of the Company;

(ii) no person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Code with the Company or the Investor or with any persons acting in concert with any of them had dealt in any securities of the Company;

(iii) no person who, prior to the posting of this circular, has irrevocably committed themselves to accept or reject the Restructuring Proposal had dealt in any securities of the Company; and

(iv) no fund managers connected with the Company or any of its subsidiaries had dealt in any securities of the Company.

5. INTERESTS AND DEALINGS IN THE INVESTOR

To the best of the knowledge of the Provisional Liquidators having made all reasonable enquiries, neither the Company and the Directors nor parties acting in concert with any of them had any interest in the securities of the Investor and none of them had dealt in any such securities during the Relevant Period.

6. ARRANGEMENTS AFFECTING DIRECTORS

(a) Arrangements with members of the Group:

To the best of the knowledge of the Provisional Liquidators having made all reasonable enquiries,

(i) none of the Directors or the Proposed Directors has any service contract with any member of the Group which (excluding contracts expiring or determinable by the employer) is not terminable within one year without payment of compensation (other than statutory compensation) and no service contract has been entered into or amended within six months before 12 June 2003, being the date of the Joint Announcement;

(ii) since 31 May 2003 (being the date to which the latest published audited accounts of the Company were made up), none of the Directors or the Proposed Directors had any interest, direct or indirect, in any assets which have been acquired or disposed of or are proposed to be acquired or disposed of by or leased to any member of the Group;

(iii) there is no agreement or arrangement between any Directors and other person which is conditional on or dependent upon the outcome of the Restructuring Proposal or otherwise in connection therewith;

(iv) no other benefits have been or will be given to the Directors as compensation for loss of office or otherwise in connection with the Restructuring Proposal.

(b) Arrangements with the Investor:

(i) There is no agreement or arrangement between the Investor or parties acting in concert with it and any Directors, recent Directors, Shareholders or recent Shareholders of the Company which is conditional on or dependent upon Completion or otherwise connected therewith.

(ii) There is no material contract or arrangement entered into by any of the Directors and the Investor or parties acting in concert with them which any Director has a material personal interest.

7. EXPERTS

(a) The following are the qualifications of the experts who have given an opinion or advice which is contained or referred to in this circular:

Name	Qualification
Asian Capital	A licensed corporation under the SFO
DBS Asia	A deemed licensed corporation under the SFO
Moore Stephens	Certified Public Accountants, Hong Kong
First Shanghai	A deemed licensed corporation under the SFO

(b) Each of Asian Capital, DBS Asia, Moore Stephens, First Shanghai (i) has no shareholding in any member of the Group nor any right to subscribe for or to nominate persons to subscribe for securities in any member of the Group; (ii) has given and has not withdrawn its written consents to the issue of this circular with the inclusion of its letter and references to its names, as the case may be, in the form and context in which they respectively appear; and (iii) does not have any direct or indirect interest in any assets which have been since 31 May 2003, the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to the Company or any of its subsidiaries.

8. MATERIAL LITIGATION

Save as disclosed below, no litigation or claim of material importance is known to the Provisional Liquidators to be pending or threatened against the Company or any of its subsidiaries. In any event, pursuant to section 186 of the Companies Ordinance (Cap.32), upon the appointment of the Provisional Liquidators to the Company and the making of a winding-up order against LCTC, a wholly owned subsidiary of the Company, on 15 July 2002, no action or proceeding shall be proceeded with or commenced against the Company or LCTC except by leave of the Court. As at the Latest Practicable Date, no party has sought leave of the Court to continue any of the following actions involving the Company or LCTC. In any event, all contingent liabilities of the Company arising from these actions will be dealt with under the Schemes. Under the Schemes, admissible claims include contingent liabilities (subject to the Scheme Administrators' adjudication) and scheme creditors include all persons with the benefit of a claim against the Company that arises before the date the Schemes become effective. Therefore parties with contingent liabilities may participate in the Schemes. Under the Schemes, all scheme creditors' claims are discharged and waived.

(i) On 13 September 1996, P&T Construction & Engineering Company Limited ("P&T") commenced proceedings against LCTC claiming damages for wrongful repudiation of a contract dated 9 October 1995 between the parties. P&T filed a Reply to Amended Defence and Defence to Counterclaim on 11 June 1997. No further action has been taken against LCTC as at the Latest Practicable Date.

(ii) On 27 September 1996 and 23 October 1996, P&T commenced two separate proceedings (HCA11057/1996 and HCA12057/1996) against LCTC in respect of amounts outstanding, totalling HK$4,851,335, in respect of certain construction works performed by P&T for LCTC. The two proceedings were consolidated by an Order dated 20 December 1996. No action has been taken by P&T since March 1997.

(iii) On 1 February 2001, Orient Shipping N.V. obtained judgment against Finestyle Wood Industrial Co. Ltd. ("Finestyle Wood"), a subsidiary of the Company, in the sum of US$325,342.18, plus interest and costs. The Provisional Liquidators are unable to confirm whether Finestyle Wood has satisfied the judgment owing to the lack of books and records of Finestyle Wood.

(iv) On 30 August 2001, Hua Chao Commercial Bank Limited (which has since become part of the Bank of China (Hong Kong) Limited group of companies) ("Hua Chao") commenced an action against Finestyle Wood, a wholly owned subsidiary of the Company, and the Company (as guarantor) in High Court Action HCA3888/2001, claiming HK$3,425,263.19, plus costs and interests, being amounts outstanding under certain banking facilities conferred by Hua Chao to Finestyle Wood. A joint defence was filed on 8 November 2001 by the Company and Finestyle Wood and no further action has been taken by Hua Chao as at the Latest Practicable Date.

(v) On 24 September 2001, Cheung Kwong Yau and Cheung Kwong Kiu (administrators of the estate of Lam Fei Wan, deceased) obtained judgment against, amongst others, LCTC in the sum of HK$2,850,000 as damages arising out of a fatal accident.

(vi) On 25 September 2001, Wing Hang Finance Company Limited ("Wing Hang") issued a writ against LCTC (as lessee) and the Company (as guarantor) in High Court Action HCA4260/2001, claiming HK$1,351,864 of outstanding rentals for equipment leasing. Wing Hang made an application for summary judgment to be entered against LCTC and the Company. The Court gave leave on for LCTC and the Company to file evidence in opposition and for Wing Hang to file evidence in reply. LCTC and the Company have filed evidence in opposition but no further action has been taken as at the Latest Practicable Date.

(vii) On 15 October 2001, Jiang Sing Finance Company Limited ("Jiang Sing") commenced proceedings against LCTC (as borrower) and the Company (as guarantor) in High Court Action HCA4487/2001 for HK$4,705,490.84, plus costs and interest, in respect of banking facilities conferred by Jiang Sing to LCTC. A Joint Defence by LCTC and the Company was filed on 17 December 2001 and no further action has been taken by Jiang Sing as at the Latest Practicable Date.

(viii) On or about 22 October 2001, China International Water & Electric Corporation obtained judgment against the Company for the sum of HK$7,378,000, plus costs and interest. This judgment remains unpaid as at the Latest Practicable Date and continues to accrue interest at the rate prescribed from time to time by the High Court.

(ix) On or about 22 October 2001, Dah Sing Bank, Limited ("Dah Sing Bank") obtained judgment against LCTC as primary obligor and the Company, Chan Man Chuen and Vong Pak Cheong (as guarantors) for the sum of HK$620,839.17, plus costs and interest, being rentals outstanding under an equipment lease. Dah Sing Bank has also commenced proceedings against LCTC for return of the equipment in question by specific delivery in High Court Action HCA5432/2001. A defence was filed on 5 March 2001 by LCTC and no further action has been taken by Dah Sing Bank as at the Latest Practicable Date.

(x) On 11 January 2002, Bank of East Asia, Limited ("BEA") issued a writ against, amongst others, LCTC (as borrower) and the Company (as guarantor) in High Court Action HCA127/2002, claiming HK$4,600,517.13, plus costs and interest, in respect of banking facilities conferred by BEA to LCTC. By an Order dated 11 July 2002, all further proceedings in this action against the Company and LCTC are stayed until the conclusion of the hearing of the winding-up petitions against the Company and LCTC or until further order. Therefore, no further action has been taken as at the Latest Practicable Date.

(xi) On or about 30 April 2002, East Asia Credit Company Limited obtained judgment against the Company and LCTC (as borrower), a wholly owned subsidiary of the Company in High Court Action HCA 4029/2001 for the sum of HK$4,721,331.89, plus costs and interest. The judgment remains unpaid as at the Latest Practicable Date and continues to accrue interest at the rate prescribed from time to time by the High Court.

(xii) On 15 May 2002, Get Nice issued a writ against the Company as borrower and Chan Man Chuen (as guarantor), one of the directors of the Company. The claim was in respect of a loan agreement made between Get Nice and the Company dated 5 July 2001 for a loan of HK$5,000,000 to be repaid on 4 January 2002 with interest. Get Nice issued a summons for summary judgment on 30 May 2002. The Company issued a summons to restrain further proceedings against it on 17 June 2002. On 31 July 2002, the Court heard and dismissed the Company's application upon an undertaking by Get Nice that no steps would be taken to levy execution against the Company in respect of any judgment that may be obtained against it until the winding-up petition against the Company has been withdrawn or dismissed or until further order of the Court. No hearing date for Get Nice's application for a summary judgment has been fixed as at the Latest Practicable Date. On 18 October 2002, Get Nice obtained judgment against Chan Man Chuen for the sum of HK$6,094,972.11, plus interest and costs on an indemnity basis.

(xiii) On or about 14 August 2002, GE Capital (Hong Kong) Limited obtained judgment against Finestyle Maritime Services Limited, a wholly owned subsidiary of the Company in High Court Action HCA4347/2001 for the sum of HK$2,140,000, plus costs and interest. This judgment remains unpaid as at the Latest Practicable Date and continues to accrue interest at the rate prescribed from time to time by the High Court.

(xiv) By a sale and purchase agreement dated 31 August 2000, the Former Shareholders of Finestyle agreed to transfer the entire issued shares in Finestyle to LCT Eng for a cash consideration of HK$125,000,000. The Provisional Liquidators are in possession of a photocopy of a share certificate No. 6 of Finestyle, signed by the Former Shareholders and dated 1 September 2000, which confirms that LCT Eng is the sole shareholder of Finestyle. In early July 2003, the Former Shareholders wrote to the Provisional Liquidators claiming that they had not received the consideration for the shares in Finestyle. The Provisional Liquidators have conducted investigations into the circumstances surrounding the share transfer. Based on the information currently available, including (i) written confirmation from Banco Weng Hang, Macau of the transfer to the Former Shareholders' investment company of the amount due under the sale and purchase agreement from LCT Eng in September 2000, and (ii) independent legal advice, the Provisional Liquidators are satisfied that there is no merit to these allegations. No legal action has been taken by the Former Shareholders as at the Latest Practicable Date.

The Former Shareholders have also alleged that certain resolutions passed by LCT Eng, as the sole shareholder of Finestyle, inter alia, suspending the Former Shareholders as directors of Finestyle and initiating legal proceedings for their removal as directors of Finestyle, are not valid by reason of a breach of the articles of association of Finestyle. The Provisional Liquidators have obtained independent legal advice from Suriname counsel to the effect that the resolutions passed by LCT Eng are valid and binding on Finestyle, and are satisfied that there is no merit to this allegation. On 14 October 2003, the Suriname Ministry of Labor approved the dismissal of Ma Jiaqi and Sheng Hui as directors of Finestyle. However, they continue to refuse to cooperate and deliver up the books and records of Finestyle and i.Solution to the Provisional Liquidators. The Provisional Liquidators have commenced proceedings in Suriname to recover the books and records. No legal action has been taken by the Former Shareholders.

9. MATERIAL CONTRACTS

Save for the Restructuring Agreement and the Subscription Agreement, to the best of the knowledge of the Provisional Liquidators, having made all reasonable enquiries, neither the Company nor any other members of the Group has entered into any material contracts (not being contracts entered into in the ordinary course of business carried out by the Group) within the two years preceding the Latest Practicable Date.

10. MATERIAL CHANGES IN THE FINANCIAL OR TRADING POSITION

As at the Latest Practicable Date, the Provisional Liquidators are not aware of any material change in the financial or trading position or prospects of the Group subsequent to the last published audited accounts of the Company for the year ended 31 May 2003.

11. MISCELLANEOUS

(a) As at the Latest Practicable Date, there were no agreements, arrangements or understanding as to the transfer of any New Shares to be acquired by the Investor or parties acting in concert with it pursuant to the Restructuring Proposal to any other persons.

(b) The Company's Hong Kong branch share registrar is Abacus Share Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong.

(c) The principal place of business of the Company is c/o the Provisional Liquidators, Ernst & Young Transactions Limited, 17/F Hutchison House, 10 Harcourt Road, Central, Hong Kong.

(d) The registered office of the Investor is Beaufort House, P.O. Box 438, Road Town, Tortola, British Virgin Islands, and the principal place of business of the Investor is Room 1103, 11th Floor, Tower 1 Lippo Centre, 89 Queensway Admiralty Hong Kong.

(e) The registered office of Asian Capital is Suite 1006, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

(f) The registered office of DBS Asia is 16/F., Man Yee Building, 68 Des Voeux Road, Central, Hong Kong.

(g) The registered office of First Shanghai is 19/F., Wing On House, 71 Des Voeux Road Central, Hong Kong.

(h) The registered office of Moore Stephens is 905 Silvercord, Tower 2, 30 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

(i) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of any inconsistency.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office of the Provisional Liquidators at 17/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong up to and including 24 November 2003:

(a) the memorandum and articles of association of the Company;

(b) the memorandum and articles of association of the Investor;

(c) the annual reports of the Company for the two financial years ended 31 May 2002 and 2003;

(d) the interim report of the Company for the six month period ended 30 November 2002.

(e) the letter of advice from First Shanghai, the text of which is set out on pages 51 to 69 of this circular;

(f) the letter from the Provisional Liquidators, the text of which are set out on pages 11 to 37 of this circular;

(g) the letter and audited reports from Moore Stephens, the text of which are set out on pages 165, 73 and 125 of this circular;

(h) the letter from DBS Asia, the text of which is set out on pages 167 to 168 of this circular; and

(i) the written consents referred to in the paragraph (b) under the section headed "Experts" in this Appendix.

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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("EGM") of Baker Group International Holdings Limited (Provisional Liquidators Appointed) (the "Company") will be held at 4/F Hutchison House, 10 Harcourt Road, Central, Hong Kong, on 24 November, 2003 at 2:00 p.m. for the purpose of considering and, if though fit, passing, with or without modification, the following resolutions, numbered 1, 12 and 13 as special resolutions and numbered 2 to 11 inclusive as ordinary resolutions, as set out below:

SPECIAL RESOLUTION

CAPITAL RESTRUCTURING OF THE COMPANY

1. "**THAT**, conditional upon approval of the resolutions numbered 2 to 7 inclusive set out in the notice dated 29 October 2003 (the "Notice") convening the EGM of the Company and the schemes of arrangement pursuant to section 86 of the Companies Law (2003 Revision) of the Cayman Islands ("Cayman Law") and section 166 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) ("Companies Ordinance") (the "Schemes") becoming effective:

    (a) the par value of each issued share be reduced from HK$0.10 to HK$0.004 so that the Company's issued share capital of HK$53,255,450.10 will be reduced by HK$51,125,232.10 to HK$2,130,218.00;

    (b) each unissued share of HK$0.10 in the capital of the Company be subdivided into 25 shares with a new par value of HK$0.004 each;

    (c) every five reduced shares of par value HK$0.004 each be consolidated into two new shares of par value HK$0.01 each so that after such consolidation, the issued share capital of the Company shall comprise 213,021,800 new shares of HK$0.01 each (the "New Shares");

    immediately after the aforesaid capital reduction and share consolidation becoming effective, the authorised share capital of the Company be HK$1,000,000,000.00 divided into 100,000,000,000 New Shares, comprising 213,021,800 issued New Shares and 99,786,978,200 unissued New Shares;

(e) clause 8 of the Company's existing Memorandum of Association be amended by the deletion in its entirety and by its replacement with the following provision:

"8. The share capital of the Company is HK$1,000,000,000.00 divided into 100,000,000,000 shares of a nominal or par value of HK$0.01 each, with power for the Company insofar as is permitted by law to redeem or purchase any of its shares and to increase or reduce the said capital subject to the provisions of the Companies Law (Revised) and the Articles of Association and to issue any part of its capital, whether original, redeemed or increased with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions and so that unless the conditions of issue shall otherwise expressly declare every issue of shares whether stated to be preference or otherwise shall be subject to the powers hereinbefore contained.";

(f) article 6 of the existing Articles of Association of the Company be amended by the deletion in its entirety and by its replacement with the following provision:

"6. The authorised share capital of the Company shall be HK$1,000,000,000.00 divided into 100,000,000,000 shares of a par value of HK$0.01 each";

(g) any fractions of New Shares arising on the share consolidation pursuant to paragraph (c) of this resolution shall not be allocated to the holders of the existing shares of the Company otherwise entitled thereto but such fractions shall be aggregated and sold for the benefit of the Company;

(h) all of the New Shares in the capital of the Company after completion of the capital restructuring pursuant to paragraphs (a) to (d) inclusive of this resolution shall rank pari passu in all respects with each other and have the same rights and privileges and be subject to the restrictions contained in the Memorandum and Articles of Association of the Company as amended pursuant to paragraphs (e) and (f) of this resolution (the "Amended Memorandum and Articles");

(i) the credit which will arise as a result of the capital reduction pursuant to paragraph (a) of this resolution be applied to set off the same amount of the Company's accumulated loss on a dollar-for-dollar basis and the directors of the Company be and are hereby authorised to apply such credit in such manner as may be permitted by the Amended Memorandum and Articles; and

(j) the provisional liquidators of the Company (the "Provisional Liquidators") and the directors of the Company be and are hereby authorised generally to take all necessary steps and to do all other things and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) which may be necessary or desirable for the purpose of giving effect to or implementing any of the foregoing."

ORDINARY RESOLUTIONS

IMPLEMENTATION OF THE COMPANY'S RESTRUCTURING PROPOSAL

2. "**THAT**,

(a) the Provisional Liquidators and the directors of the Company be and are hereby authorised to the extent of their authority so to act, to do all such things and take all such action as they may consider to be necessary or desirable to give effect to the terms of the restructuring agreement dated 27 May 2003 as may be amended from time to time (the "Restructuring Agreement") and the subscription agreement dated 27 May 2003 as may be amended from time to time (the "Subscription Agreement") (the material terms of which are detailed in the circular sent to the Company's shareholders dated 29 October 2003 (the "Circular")) and to complete the transactions contemplated under the Restructuring Agreement and the Subscription Agreement, including but not limited to subject to the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting approval of the listing of, and permission to deal in the New Shares, the issue and allotment of 4,500,000,000 New Shares to the Investor pursuant to the Subscription Agreement; and

(b) the Provisional Liquidators and the directors of the Company be and are hereby authorised generally to take all necessary steps and to do all other things and execute all documents (including the affixation of the common seal of Company where execution under seal is required) which may be necessary or desirable for the purpose of giving effect to or implementing any of the foregoing."

3. "**THAT**, conditional upon approval of the resolutions numbered 1, 2, 4, 5, 6 and 7 set out in the Notice and the Schemes becoming effective in accordance with the Cayman Law and the Companies Ordinance:

   (a) the execution by the Company of the Working Capital CB Subscription Agreement, a copy of which has been produced to the EGM marked "A" and signed by the chairman of the EGM for identification purposes, the transactions contemplated by the Working Capital CB Subscription Agreement and the performance thereof by the Company, be and are hereby approved;

   (b) the Provisional Liquidators and the directors of the Company be and are hereby authorised to the extent of their authority so to act, to do all such things and take all such action as they may consider to be necessary or desirable to give effect to the terms of the Working Capital CB Subscription Agreement and to complete the transactions contemplated by the Working Capital CB Subscription Agreement, including but not limited to:

      (i) the issue of the Working Capital Convertible Bond upon the terms set out in the Working Capital CB Subscription Agreement and the Circular to which the notice convening this meeting is attached to Northern Resources Limited; and

      (ii) subject to the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the New Shares which may fall to be issued upon the exercise of the conversion rights under the Working Capital Convertible Bond, the issue and allotment of the New Shares pursuant to the Working Capital CB Subscription Agreement upon the exercise of the conversion rights under the Working Capital Convertible Bond; and

   (c) the Provisional Liquidators and the directors of the Company be and are hereby authorised generally to take all necessary steps and to do all other things and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) which may be necessary or desirable for the purpose of giving effect to or implementing any of the foregoing."

4. "**THAT**, conditional upon approval of the resolutions numbered 1, 2, 3, 5, 6 and 7 set out in the Notice and the Schemes becoming effective in accordance with the Cayman Law and the Companies Ordinance, the issue and allotment of 248,053,000 New Shares to the Scheme Administrators or their nominees pursuant to the Schemes be and is hereby approved."

5. "**THAT**, conditional upon approval of the resolutions numbered 1, 2, 3, 4, 6 and 7 set out in the Notice and the Schemes becoming effective in accordance with the Cayman Law and the Companies Ordinance, the disposal of all the Company's Assets and the assignment of all the Company's claims against the Existing Subsidiaries to TrustCo for HK$1.00 pursuant to the Restructuring Agreement (as such terms are defined in the Circular to which the notice convening this meeting is attached) be and are hereby confirmed and approved and that the Provisional Liquidators and the directors of the Company be and are hereby authorised to sign, and where required, to affix the common seal of the Company to any documents, instruments or agreements and to do any acts and things deemed by them to be necessary, expedient or desirable in connection with such disposal and assignment.

6. "**THAT**, conditional upon approval of the resolutions numbered 1, 2, 3, 4, 5 and 7 set out in the Notice and the Schemes becoming effective in accordance with the Cayman Law and the Companies Ordinance, the Deed of Sale and Purchase and the Finance Documents (as such terms are defined and the material terms of which are set out in the Circular to which the notice convening this meeting is attached), and all transactions contemplated therein and the performance thereof by certain of the Company's subsidiaries be and are hereby approved and that the Provisional Liquidators and the directors of the Company be and are hereby authorised to sign, and where required, to affix the common seal of the Company to any documents, instruments or agreements and to do any acts and things deemed by them to be necessary, expedient or desirable in connection with the transactions contemplated thereunder."

WHITEWASH WAIVER

7. "**THAT**, conditional upon the Schemes becoming effective in accordance with Cayman Law and the Companies Ordinance and upon the resolutions numbered 1 to 3 inclusive set out in the Notice being passed and for the purposes of giving effect to the Restructuring Proposal as described in the Circular to which the notice convening this meeting is attached, the waiver for Northern Resources Limited and parties acting in concert with it from their obligations which may otherwise arise under Rule 26 of the Hong Kong Code on Takeovers and Mergers to make a mandatory general offer for all the shares of the Company not already owned by them as a result of the completion of the subscription for the New Shares pursuant to the Subscription Agreement be and is hereby approved."

GENERAL MANDATE TO ALLOT, ISSUE AND DEAL WITH ADDITIONAL NEW SHARES

8. "**THAT**, conditional upon the capital restructuring pursuant to resolution numbered 1 set out in the Notice (the "Capital Restructuring") becoming effective:

(a) subject to paragraph (b) below, the Provisional Liquidators and the directors of the Company be and are hereby generally and unconditionally authorised to exercise during the Relevant Period (as defined below) all the powers of the Company to allot, issue and deal with additional New Shares and to make or grant offers, agreements and options (including warrants, bonds and debentures, notes and any securities which carry rights to subscribe for or are convertible into ordinary shares of the Company) which would or might require the exercise of any of such powers during or after the end of the Relevant Period;

(b) the aggregate nominal amount of the New Shares of the Company allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, other than pursuant to (i) a Rights Issue (as defined below); or (ii) an issue of ordinary shares of the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into ordinary shares of the Company; or (iii) an issue of ordinary shares of the Company by way of scrip dividend pursuant to the Amended Memorandum and Articles from time to time; or (iv) the exercise of any option granted under any option, scheme or similar arrangement for the time being adopted for the grant or issue to eligible participants of the Company and/or its subsidiaries, of options to subscribe for, or rights to acquire, shares of the Company, shall not in total exceed 20% of the aggregate of (aa) the total nominal amount of the share capital of the Company in issue at the date of passing of this resolution immediately following the Capital Restructuring; (bb) the nominal amount of the New Shares to be issued pursuant to the Subscription Agreement; (cc) the nominal amount of the New Shares to be issued pursuant to the Schemes; (dd) the nominal amount of the New Shares to be issued pursuant to the exercise in full of the conversion rights under the Working Capital Convertible Bond and the said approval shall be limited accordingly;

(c) for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting; or

(iii) the expiration of the period within which the next annual general meeting of the Company is required by the Amended Memorandum and Articles, or any applicable laws, to be held; and

"Rights Issue" means an offer of shares for subscription open for a fixed period by the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

GENERAL MANDATE TO PURCHASE NEW SHARES

9. "**THAT**, conditional upon approval of the Capital Restructuring becoming effective:

(a) subject to paragraph (b) of this resolution, the exercise by the directors of the Company during the Relevant Period of all the power of the Company to purchase its own securities on the Stock Exchange or on another stock exchange recognised for this purpose by the Securities and Futures Commission and the Stock Exchange be and is hereby generally and unconditionally approved;

(b) the total nominal amount of the shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate of (aa) the total nominal amount of the share capital of the Company in issue at the date of passing of this resolution immediately following completion of the Capital Restructuring; (bb) the nominal amount of the New Shares to be issued pursuant to the Subscription Agreement; (cc) the nominal amount of the New Shares to be issued pursuant to the Schemes; and (dd) the nominal amount of the New Shares to be issued pursuant to the exercise in full of the conversion rights under the Working Capital Convertible Bond and the said approval shall be limited accordingly; and

(c) for the purposes of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting; and

(iii) the expiration of the period within which the next annual general meeting of the Company is required by the Amended Memorandum and Articles or any applicable laws to be held.

AUTHORISATION OF EXTENSION OF GENERAL MANDATE TO ALLOT NEW SHARES

10. "**THAT**, subject to the passing of the resolutions numbered 8 and 9 set out in the Notice, the general mandate granted to the directors of the Company to exercise the power of the Company to issue, allot and deal with the New Shares in the Company pursuant to the said resolution be and is hereby extended by the addition to the aggregate nominal amount of share capital that may be allotted, issued or dealt with or agreed to be allotted, issued or dealt with pursuant to such general mandate of an amount representing the total nominal amount of shares in the capital of the Company repurchased by the Company pursuant to the exercise by the directors of the Company of the power of the Company to repurchase such shares, provided that such amount shall not exceed 10% of the aggregate of (aa) the total nominal amount of the share capital of the Company in issue at the date of passing of this resolution immediately following completion of the Capital Restructuring; (bb) the nominal amount of the New Shares to be issued pursuant to the Subscription Agreement; (cc) the nominal amount of the New Shares to be issued pursuant to the Schemes; and (dd) the nominal amount of the New Shares to be issued pursuant to the exercise in full of the conversion rights under the Working Capital Convertible Bond.

11. "**THAT**, conditional upon and with effect from completion of the Restructuring Agreement:

    (a) each of Messrs. Pan Fengqiang, Wang Baoping, Liu Wei, Peng Jianguo and Liu Xiang Mao be appointed as executive directors of the Company;

    (b) each of Messrs. Lau Chi Wah, Alex and Huang Baozhong be appointed as independent non-executive directors of the Company; and

    (c) to the extent that there exists any previous resolution of the Company that prescribes a maximum number of directors of the Company, such resolution shall be revoked,

    and that the Provisional Liquidators be and are hereby generally and unconditionally authorised to appoint such other new executive directors and new independent non-executive directors of the Company upon completion of the Restructuring Agreement as they deem appropriate."

SPECIAL RESOLUTIONS

12. "**THAT**, the appointment of Messrs. Moore Stephens with effect from 4 July 2003 as the auditors of the Company for the years ended 31 May 2002 and 2003 be and is hereby approved, confirmed and ratified."

13. "**THAT**, conditional upon and with effect from completion of the Restructuring Agreement, each of Messrs. Chan Man Chuen, Vong Pak Cheong, Chan Kai Yiu, Hung Yat Ming, Yau Ting Kwok and Tsang Fan Wan be removed as directors of the Company and that the Provisional Liquidators be and are hereby generally and unconditionally authorised to remove all other current directors of the Company (if any) upon completion of the Restructuring Agreement as they deem appropriate."

For and on behalf of
BAKER GROUP INTERNATIONAL HOLDINGS LIMITED
(Provisional Liquidators Appointed)
Mr. Stephen Liu Yiu Keung
Mr. Yeo Boon Ann
Mr. Don Wayne Ebanks
Joint and Several Provisional Liquidators

Hong Kong 29 October 2003

Notes:

1. A member entitled to attend and vote at the EGM by the above notice is entitled to appoint another person as his proxy to attend and vote on his behalf. A member may appoint more than one proxy to attend the EGM or any adjournment thereof. A proxy need not be a member of the Company.

2. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarised certified copy of such power of attorney or authority, MUST be deposited at the office of the Provisional Liquidators, at 17/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Under Article 91 of the existing Memorandum and Articles of Association of the Company, a vote given in accordance with the terms of the proxy shall be valid notwithstanding the revocation of the proxy or power of attorney or other authority under which the proxy was executed provided that no intimation in writing of such revocation shall have been received by the Company at 17/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than two hours before the holding of the EGM or any adjourned EGM.

3. Where there are joint holders of any Share of the Company, any one of such persons may vote at the EGM either personally or by proxy in respect of such Share as if he were solely entitled thereto, but if more than one of such joint holders be present at the EGM personally or by proxy, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of such joint holding.

4. A form of proxy for use in connection with the EGM is enclosed.

5. In accordance with Note 1 to the Notes on dispensation from Rule 26 of the Hong Kong Code on Takeovers and Mergers, the resolutions numbered 2 and 7 set out in the Notice shall be determined by Independent Shareholders of the Company by way of a poll.

6. An explanatory statement regarding the resolution numbered 9 set out in the Notice is contained in the circular of which this notice forms part.