

Introduction

As a result of shareholders of the Company requisitioning a special general meeting ("SGM") of the Company held on 21st June, 2002, all former directors of the Company (except one independent non-executive director) resigned prior to the SGM or were removed at the SGM and a new board of directors was elected. An investigation committee was established at a board meeting held on 24th June, 2002 to implement a thorough review of the current financial position and operations of the Company and its subsidiaries (the "Group"). However, despite repeatedly requested and demanded access to the books and records of the Group's major subsidiaries in Shanghai from the previous Chairman, the Company has not been able to access such records as of the date of this Report.

The Company had announced on 29th April, 2002 that the Group was experiencing financial and operational difficulties which resulted in the Company's stated inability to satisfy the requirement of maintaining tangible assets of sufficient value or a sufficient level of operation for continuing listing. Thus the Company has been placed in the first stage of the de-listing procedure according to Practice Note 17 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). Trading in the shares of the Company has been suspended since 23rd April, 2002 and remains suspended as of the date of this Report. The announcement of 29th April, 2002 was issued at the time the Company was managed by its former directors and there are no records indicating that the contents of such announcement had been discussed or authorized in any board meeting and that the contents of such announcement reflected the view of the board of directors.

The former directors did not publish the interim report for the period ended 30th September, 2001 until 13th May, 2002 which constituted a breach of Paragraphs 10(1) and 11(6) of the Listing Agreement.

This annual report should have originally be published and sent to the shareholders of the Company by 31st July, 2002. The Current Directors understand that the delay in publishing this annual report may constitute a breach of certain provisions of the Listing Rules. However, such failure results from matters beyond the control of the Current Directors. The Current Directors are investigating the financial dealings of the previous directors and management team, and will take necessary action to protect and recover assets of the Group, including legal remedies against former directors and/or management.

Financial results for the year and information in this report

Under normal circumstances, directors of a company should take all reasonable steps to ensure that Group companies maintained proper books and records and to comply with all relevant regulatory requirements.

The Current Directors have taken all reasonable steps and have used their best endeavors to prepare the financial results for the year ended 31st March, 2002 as well as to disclose in this Report relevant information of the Group and the Company as required by the Listing Rules and the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants. However, due to the inability to gain access to certain books and records of Group and the Company companies, the extent of work of the Current Directors were limited to those company books and records passed to them by certain former staff. The Current Directors disclaim any liabilities on the financial statements of the Group and the Company for the year under review and the information of the Group and the Company disclosed in this Report for reasons which included the significance of the possible effects of the following limitations:

- (i) incomplete books and records of the Group and the Company;
- (ii) matters which prevented the Current Directors from satisfying themselves concerning conduct and business dealings of the former directors; and
- (iii) matters which prevented the Current Directors from satisfying themselves concerning the business of the Group which were handled by the former directors including, without limitation, information on the turnover, costs of sales, investments, etc.. which are detailed in note 2 to the financial statements.

Because of the significance of the above matters, the Current Directors were unable to satisfy themselves as to whether the financial and other information of the Group and the Company contained in this Report are complete and accurate.

Financial highlights

Turnover for the year under review was approximately HK\$10.08 million (2001: HK\$40.04 million). The Group's net loss for the year was approximately HK\$55.91 million (2001: HK\$243.18 million). Information in respect of the reasons for the fluctuation of the Group's turnover and net loss for the year under review as compared with last year is not available.

Dividend

The Directors do not recommend the payment of any dividend for the year (2001: Nil). Details of dividends for the preference shares are set out in note 11 to the financial statements.

Liquidity and financial resources

The Company has cash reserve of less than HK\$10,000 and have secured interim funding of about HK\$200,000 from a minority shareholder. Information in respect of the total indebtedness and capital commitments of the Group and the Company as at 31st March, 2002 was not available. Accordingly, calculations of financial ratios are deemed inappropriate.

Treasury management

Information in respect of the followings is not available:

- Denomination of the Group's cash and borrowings as at 31st March, 2002;
- Extent of exposure of the Group to any significant foreign currency as at 31st March, 2002; and
- Extent of exposure of the Group to any interest rate risk as at 31st March, 2002.

With a new management team, the Group now maintains a conservative approach to cash management and risk controls and all treasury activities are centralised.

Number and remuneration of employees, remuneration policies, bonus and share option scheme and training scheme

There is no information available to the Current Directors regarding the total number of employees and the remuneration policies, bonus and training scheme as of 31st March, 2002. The Company has adopted a share option scheme in 1992, however, such share option scheme expired during the year under review. Therefore, no more option can be granted to employees under the current share option scheme. There was no option granted during the year and all outstanding options lapsed as the all the option holders have left the Company.

Future prospects

Trading in the shares of the Company was suspended since 23rd April, 2002.

The Current Directors will try to recover the Group's assets including the books and records. The Current Directors are reviewing restructuring plans to either build on the current businesses or to introduce new growth businesses to the Group. At the same time, the Group will try to seek investors to recapitalize the Company so that it will be in a position to embark new business ventures. The Current Directors will endeavor to submit proposals to the Stock Exchange for the resumption of trading once a restructuring plan has been finalized.

Adoption of a new Chinese name

To avoid confusion with the Chinese name of another listed company, a resolution will be proposed in the forthcoming Annual General Meeting of the Company to change the Chinese translation of the Company name (for identification purposes) from 力普有限公司 to 力特有限公司.

Wilton Timothy Carr Ingram

Chairman

Hong Kong, 27th September, 2002