

# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

*For the year ended 31 March 2002*

## 1. GENERAL INFORMATION

The Company was incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”). The principal activities of the Company and its subsidiaries (“the Group”) were the design, manufacture and marketing of antennae and car-related consumer products as well as strategic development, investment and general trading. However, the listing of the Company’s shares on the Stock Exchange has been suspended since 19 October 2001. Most of the companies within the Group have ceased trading in October 2001, except for a subsidiary in Tianjin, People’s Republic of China, which is engaged in the manufacturing of car mirrors.

On 22 October 2001, pursuant to the terms of a composite guarantee and debenture dated 19 October 1999 (“the Debenture”) granted by the Company and twenty-five of its subsidiaries (“the Charging Companies”) to their secured creditors, John Robert Lees, Desmond Chung Seng Chiong and Kelvin Edward Flynn were appointed as joint and several receivers and managers (“the Receivers”) of all the property and assets of the Charging Companies with immediate effect.

The Debenture was granted by the Charging Companies to the secured creditors (being certain banks and other financial institutions which had provided loan and other relevant banking and financing facilities in Hong Kong to various members of the Charging Companies) in exchange for those secured creditors entering into formal standstill arrangements in respect of the indebtedness due to them by certain members of the Charging Companies.

The Receivers have been appointed to enforce and/or to preserve the security granted under the Debenture. The Receivers act as agents of each of the Charging Companies in respect of which they are appointed without personal liability.

The directors of the Charging Companies remain in office as directors, but the powers of the directors are suspended as regards the assets and business of the Charging Companies subject to the Debenture.

Subsequent to year end, on 10 July 2002, the Receivers, the Company and Power Assets Enterprises Limited, a private company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by the Gouw family trust (“the New Investor”) entered into a compromise agreement, a subscription agreement and an escrow agreement (collectively called “the Restructuring Agreements”). The Restructuring Agreements set 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. The Company will submit to the Stock Exchange a resumption proposal, which is subject to approval by the Listing Committee of the Stock Exchange as soon as possible.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 March 2002*

## 1. GENERAL INFORMATION *(Continued)*

The Restructuring Proposal is subject to the approval of all parties, including the relevant 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 terms of 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 New 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 par value each to HK\$0.0005 par value each. The reduced shares will then be consolidated into new shares in the ratio of twenty reduced shares for one new share.

The Restructuring Proposal also sets out the compromise of indebtedness owing by the Group to all of its creditors. Under the proposed terms of the compromise, the Company will pay HK\$52.5 million by way of cash and issue 800 million new shares at HK\$0.01 each pro-rata to the amount of indebtedness owed to each of the secured creditors of the Debenture. In addition, a cash amount of HK\$1 million will be made available to unsecured creditors of the Company.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

As regards the assets and business of the Company and the Charging Companies since the appointment of the Receivers on 22 October 2001, the directors of the Company have relied on information supplied by the Receivers. The financial statements for the year ended 31 March 2002 have been prepared on a going concern basis, as modified by the write-down of assets to their estimated recoverable amounts, save for the assets of Tianjin Guangying Automotive Mirror Company Limited which are carried at their book values. In view of the matters stated in Note 1 above, in the opinion of the Receivers, the Company and the Group may not have been a going concern at the balance sheet date.

Only two executive directors remain in office, and one of them, the Chairman, Chang Lien-hing, Stephen is no longer contactable. Two of the independent non-executive directors of the Company, Selwyn Mar and Alistair Macleod ("the New Directors") were appointed in May 2002, which was subsequent to the end of the Company's current reporting financial year. The financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, no representations as to the completeness of the books and records of the Group during the period from 1 April 2001 to 31 March 2002 could be given by the New Directors although due care has been taken in the preparation of the financial statements. The New Directors are therefore, unable to represent that all transactions entered into in the name of the Company and its subsidiaries during the period from 1 April 2001 to 31 March 2002 have been included in the financial statements. Notwithstanding the foregoing, the Receivers and the current directors have, in the assessment of the Company's and the Group's assets and liabilities, taken such steps as they considered practicable, to establish the existence and valuation of these assets and liabilities based on the information of which they are aware of and have made provisions and adjustments as they considered appropriate in the preparation of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

For the year ended 31 March 2002

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

Property, plant and equipment, intangible assets and long term investments are stated at the Receivers' best estimates of their respective net realisable values. For presentation purposes, they are shown as non-current assets.

Current assets are stated at the Receivers' best estimates of their respective net realisable values.

Bank loans and overdrafts, convertible note and interest payable ("the Restructuring Liabilities") have been adjusted to reflect the amount of indebtedness confirmed by the respective financial institutions upon appointment of the Receivers, that is as at 22 October 2001.

The interest payable on bank loans and overdrafts and convertible note should be accrued and calculated to 31 March 2002. However, for the purpose of dividend distribution to the secured creditors, the directors and the Receivers have reached an agreement with the secured creditors to calculate the interest up to and including 22 October 2001. The secured creditors have not provided information on the interest accrued for the period from 23 October 2001 to 31 March 2002. However, in the opinion of the directors and the Receivers, upon successful completion of the proposed debt restructuring of the Group, all unpaid interest among the existing group of secured creditors will be schemed out and deemed satisfied.

Current liabilities, save for the Restructuring Liabilities up to 22 October 2001, have not been adjusted to anticipated net amounts due as 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.

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 property, plant and equipment and other long term assets as current assets.

The consolidated financial statements do not contain statements of cash flows as required by Statement of Standard Accounting Practice ("SSAP") 15 "Cash flow statements" issued by the HKSA, as there is insufficient information available to prepare such a statement.

## 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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

### 3. IMPACT OF NEW SSAPS (Continued)

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:

- Property, plant and equipment;
- Intangible assets;
- Interests in subsidiaries; and
- Property held for sale.

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 income statement.

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.

# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

For the year ended 31 March 2002

## 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 2 above, are as follows:

### (a) Basis of accounting

To the extent possible, these financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong, certain of the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

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) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March 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 income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Certain subsidiaries within the Group have been deconsolidated from the consolidated financial statements as of 1 April 2001 because in the opinion of the directors and the Receivers, the Group has lost control over these subsidiaries and it will be misleading to the users if these subsidiaries are consolidated in the Group's results and assets and liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 March 2002*

## 4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (c) 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.

### (d) 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, if necessary, for impairment loss.

### (e) Associates

An associate is an enterprise, over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The results of associates are accounted for by the Group using the equity method of accounting. The Group's investments in associates are stated at the Group's share of the net assets of the associates or net liabilities to the extent of the loans advanced to the associates by the Group.

### (f) Recognition of revenue

Revenue from the sale of goods is recognised when the goods are delivered and title has passed to the customers.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

For the year ended 31 March 2002

## 4. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (g) Property, plant and equipment, depreciation and amortisation

Property, plant and equipment other than investment properties are stated at cost or valuation less depreciation or amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the property, plant and equipment.

Any surplus arising on revaluation of property, plant and equipment other than investment properties is credited to revaluation reserve to the extent that this exceeds the deficit, if any, charged to the income statement relating to the previous revaluation of the particular assets. A decrease in net carrying amount arising on revaluation of property, plant and equipment is charged to the income statement to the extent that this exceeds the surplus, if any, held in revaluation reserve relating to the previous revaluation of the particular assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement. Any revaluation surplus relating to the assets under disposal is transferred to retained profits/accumulated losses.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives, using the reducing balance method, at the following rates per annum:

Plant and machinery	10% to 30%
Moulds	10% to 30%
Instruments and appliances	30%
Furniture and equipment	30%
Motor vehicles	30%

Utility installations are amortised over 10 years by equal annual instalments.

Long term leasehold land is amortised over the remaining unexpired period of the lease, including the renewal periods.

Buildings on long term leasehold land are depreciated over their estimated useful lives, using the straight line method, at the rate of 1.5% to 2% per annum.

Medium term leasehold land and buildings are amortised over the remaining period of the lease using the straight line method.

No provision for depreciation is made until the asset is put into use.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 March 2002*

## 4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (h) Intangible assets

Intangible assets represent trademarks, patents and technology transfers.

Trademarks are stated at cost less provision for any diminution in value which is considered to be permanent.

Patents are stated at cost less amortisation. Cost represents the cost of purchases of permanent, universe wide licenses. Patents are amortised over six years by equal annual instalments.

Technology transfers are stated at cost less amortisation. Cost represents the cost of purchases of know-how of technology. Technology transfers are amortised over five years by equal annual instalments.

### (i) Long term investments

Long term investments are stated at cost less any provision for impairment, as deemed appropriate by the directors and/or the Receivers.

### (j) Properties held for sale

Properties held for sale are stated at cost comprising land cost, development expenditure and interest charges capitalised less any provision for anticipated loss, and are included in current assets.

### (k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials computed using 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.

### (l) 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 income statement on a straight line basis over the lease terms.



# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

For the year ended 31 March 2002

## 4. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (m) 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 income statement.

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.

### (n) 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 revaluation decrease.

Notwithstanding the foregoing, the Receivers and the directors 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 income statement for the year ended 31 March 2002.

### (o) Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are charged to the income statement in the year in which they are incurred unless they can be capitalised in accordance with SSAP 19 issued by the HKSA (see also note (j) above).

### (p) 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.

### (q) Retirement benefits

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

### 5. TURNOVER AND CONTRIBUTIONS TO LOSS FROM OPERATIONS

Turnover represents total net invoiced value of goods supplied to customers outside the Group.

An analysis of the Group's turnover and contributions to loss from operations for the year ended 31 March 2002 by principal activities and geographical markets are as follows:

	Turnover		Loss from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
By principal activities				
Manufacturing and trading	69,952	156,071	(36,699)	(171,355)
By geographical markets				
Europe	24,273	65,331	(13,605)	(71,729)
America	26,052	49,528	(14,602)	(54,378)
Asia	9,104	20,861	(2,594)	(22,904)
Australia and Oceania	4,951	10,569	(2,775)	(11,604)
Others	5,572	9,782	(3,123)	(10,740)
	69,952	156,071	(36,699)	(171,355)

# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

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## 6. LOSS BEFORE TAXATION

	2002 HK\$'000	2001 HK\$'000
Loss before taxation is arrived at after charging:–		
Auditors' remuneration		
– for the current year	475	1,120
– underprovision in prior years	48	464
Amortisation of development costs	–	2,434
Amortisation of intangible assets	3,900	3,900
Deconsolidation of subsidiaries (see Note (i) below)	124,033	–
Deficit on revaluation of investment property (included in other operating expenses)	–	5,700
Deficit on revaluation of leasehold land and buildings	–	39,248
Deficit on revaluation of properties held for sale (included in other operating expenses)	–	9,262
Depreciation of property, plant and equipment	24,087	29,971
Exchange loss	35	–
Loss on disposal of property, plant and equipment	–	4,193
Operating lease charges in respect of rented premises	*	352
Professional fees in relation to debts restructuring	3,058	2,490
Provision for bad and doubtful debts (included in other operating expenses)	53	27,922
Provisions for impairment and write offs:		
Cash and cash equivalents unaccounted for	8,069	–
Intangible assets written off	312	–
Inventories written off	68,506	–
Loss on freezing of Dongguan assets (see Note 32 below)	33,522	–
Property, plant and equipment written off (see Note 11(e) below)	92,232	–
Provision for impairment in value of property, plant and equipment (see Note 11 below)	31,202	–
Provision for impairment in value of property held for sale (see Note 17 below)	2,090	–
Provision for loans advanced (see Note 18(b) below)	12,164	–
Trade and other receivables written off	9,806	–
Write back of loan in connection with Dongguan assets (see Note 32 below)	(17,205)	–
	240,698	–
Provision for long term investments (included in other operating expenses)	230	280
Receivers' remuneration	3,683	–
Staff costs	10,050	25,218
And after crediting:		
Exchange gain	–	1,085
Gain on deconsolidation of subsidiaries	–	1,029
Gain on disposal of short term investments	128	–
Interest income	128	346

\* Information is not available.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

## 6. LOSS BEFORE TAXATION (Continued)

Note:

- (i) Deconsolidation of subsidiaries in the amount of HK\$124,033,000 represents the excess of assets over liabilities at 31 March 2001 of three PRC subsidiaries, Innovative International (Tianjin) Development Company Limited, Tianjin Hechuan Construction Development Company Limited and Tianjin Ying Tao Development Company Limited in respect of which the Receivers and the directors consider the Company lost control of during the year (see Note 12 below).

## 7. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and overdrafts	44,091	47,232
Convertible note interest	5,237	8,475
	<hr/> 49,328	<hr/> 55,707

## 8. TAXATION

	2002 HK\$'000	2001 HK\$'000
The tax charge/(credit) comprises:		
Current tax		
Hong Kong profits tax		
- Company and subsidiaries	-	47
Deferred tax		
- Company and subsidiaries (Note 25)	-	-
	<hr/> -	<hr/> 47

No Hong Kong and overseas profits tax has been provided in the financial statements as the Group did not derive any assessable profit for the year.

## 9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of approximately HK\$603,182,000 (2001: HK\$8,673,000) dealt with in the financial statements of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

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## 10. LOSS PER SHARE

The basic loss per share is calculated based on the loss attributable to shareholders of HK\$444,368,000 (2001: HK\$226,717,000) and on the weighted average of 579,039,594 ordinary shares (2001: weighted average of 579,039,594 ordinary shares) in issue during the year.

As the exercise prices of options, warrants and the convertible note outstanding during the year are higher than the average market price of the Company's shares during the year, the diluted loss per share for the year ended 31 March 2002 is not presented because the impact of the options, warrants and convertible note is anti-dilutive. As disclosed in Note 26 below, the share option scheme expired in September 2001.

# NOTES TO THE FINANCIAL STATEMENTS

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## 11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings outside Hong Kong HK\$'000	Investment property HK\$'000	Utility installation HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Moulds HK\$'000	Instruments and appliances HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost/valuation</b>										
At 1 April 2001	109,970	61,300	27,673	22,178	146,235	88,784	9,961	18,383	5,952	490,436
Additions	-	-	-	9	606	590	-	38	-	1,243
Loss on freezing of Dongguan assets (Notes 6,32)	(33,522)	-	-	-	-	-	-	-	-	(33,522)
Written off	(17,485)	-	-	(13,793)	(138,964)	(88,974)	(9,853)	(13,476)	(2,252)	(284,797)
Reclassification (Note 18(c))	(2,019)	-	-	-	-	-	-	-	-	(2,019)
Subsidiaries deconsolidated	(340)	(61,300)	(27,673)	(8,186)	(3,768)	-	-	(4,069)	(3,475)	(108,811)
<b>At 31 March 2002</b>	<b>56,604</b>	<b>-</b>	<b>-</b>	<b>208</b>	<b>4,109</b>	<b>400</b>	<b>108</b>	<b>876</b>	<b>225</b>	<b>62,530</b>
<b>Depreciation/amortisation</b>										
At 1 April 2001	-	-	19,702	15,880	68,598	52,117	8,301	15,497	5,295	185,390
Charge for the year	1,664	-	-	554	7,579	12,970	499	770	51	24,087
Impairment	31,202	-	-	-	-	-	-	-	-	31,202
Written back on revaluation	4,548	-	-	-	20,295	-	-	191	-	25,034
Written off	(717)	-	-	(12,977)	(91,439)	(64,687)	(8,692)	(11,920)	(2,133)	(192,565)
Subsidiaries deconsolidated	-	-	(19,702)	(3,249)	(2,638)	-	-	(3,662)	(2,988)	(32,239)
<b>At 31 March 2002</b>	<b>36,697</b>	<b>-</b>	<b>-</b>	<b>208</b>	<b>2,395</b>	<b>400</b>	<b>108</b>	<b>876</b>	<b>225</b>	<b>40,909</b>
<b>Net book value</b>										
At 31 March 2002	19,907	-	-	-	1,714	-	-	-	-	21,621
At 31 March 2001	109,970	61,300	7,971	6,298	77,637	36,667	1,660	2,886	657	305,046
<b>The analysis of cost/ valuation of the above assets is as follows:</b>										
At valuation -										
31 March 2002	19,907	-	-	-	-	-	-	-	-	19,907
At cost	-	-	-	-	1,714	-	-	-	-	1,714
	19,907	-	-	-	1,714	-	-	-	-	21,621

# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

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## 11. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

- (a) On 28 March 2002, a subsidiary, the Receivers and a purchaser entered into a conditional Sale and Purchase Agreement in respect of the sale of the entire capital investment in another subsidiary which holds legal title to the leasehold land and building outside Hong Kong for a consideration of HK\$19,457,000 (net of legal fees of HK\$543,000). The agreement was only completed on 28 May 2002. A provision for impairment in value of the leasehold land and building outside Hong Kong amounting to approximately HK\$30,614,000 has been charged to the consolidated income statement during the year, in order to write down this leasehold land and building to its net realisable value.
- (b) Leasehold land outside Hong Kong at 31 March 2002 is held under medium term lease.
- (c) Various creditors have applied to the PRC courts for, and have obtained freezing orders over the assets (which included plant and machinery and inventories) at the Dongguan and Pinghu factories. The PRC courts subsequently disposed of the assets at the Dongguan and Pinghu factories under the freezing orders.
- (d) Included in land and buildings outside Hong Kong was a property situated in Shenzhen, PRC. Based on a valuation report dated 9 September 2002 by Vigers Hong Kong Limited, Chartered Surveyors, the fair market value of the property is valued at HK\$450,000 on 31 March 2002. A provision for impairment in value of the property amounting to HK\$588,000 has been charged to the consolidated income statement during the year, in order to reflect the revalued amount.
- (e) Plant and machinery with a net book value of HK\$1,714,000 is situated at the factory owned by Tianjin Guangying Automotive Mirror Company Limited.
- (f) For the remaining assets, as either no information is available as to the whereabouts of these assets, they have been fully written off during the year.

## 12. INTERESTS IN SUBSIDIARIES

	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	200,340	200,340
Amounts due from subsidiaries	498,964	499,523
Less: Provisions	(699,304)	(699,863)
At 31 March 2002/2001	–	–

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

## 12. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries at 31 March 2002 are as follows:

Name	Place of incorporation/ operation	Nominal value of issued and fully paid/ Registered capital	Percentage held by the		Principal activities or former principal activities
			Company	Group	
Autotenna (HK) Limited <sup>#</sup>	Hong Kong	100 ordinary shares of HK\$1 each	100%	100%	Dormant
Bright Focus Development Limited <sup>#0</sup>	Hong Kong	10,000 ordinary shares of HK\$1 each	–	100%	Investment holding and general trading
Bright Focus Development Limited <sup>#0</sup>	British Virgin Islands	10,000 ordinary shares of US\$1 each	100%	100%	Investment holding
Cordless Technology Company Limited <sup>#</sup>	Hong Kong	2 ordinary shares of HK\$10 each	–	100%	Investment holding
Crownville Development Limited <sup>#</sup>	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Investment holding
Finsen Trading Limited <sup>#</sup>	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Dormant
Gingell Toys Limited <sup>0</sup>	Hong Kong	2 ordinary shares of HK\$1 each and 129,100 non-voting deferred ordinary shares of HK\$1 each	–	75%	Subcontracting services
Global Fame Resources Limited <sup>#0</sup>	British Virgin Islands	1 ordinary share of US\$1 each	–	100%	Investment holding
Golday Worldwide Enterprises Limited <sup>#</sup>	British Virgin Islands	1,000 shares of US\$1 each	85%	85%	Investment holding



# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

For the year ended 31 March 2002

## 12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Nominal value of issued and fully paid/ Registered capital	Percentage held by the		Principal activities or former principal activities
			Company	Group	
Golden Bond Resources Limited <sup>#0</sup>	Hong Kong/ People's Republic of China	5,000,000 ordinary shares of HK\$1 each	–	85%	Dormant
Hanfine International Limited* <sup>o</sup>	Hong Kong	10,000 ordinary shares of HK\$1 each	–	100%	Investing activities
Hua Ngai Advertising Agency Limited* <sup>o</sup>	Hong Kong	200,000 ordinary shares of HK\$1 each	–	100%	Dormant
Hua Ngai Printing Factory Limited <sup>#</sup>	Hong Kong/ People's Republic of China	15,000 ordinary shares of HK\$1 each	–	100%	Printing
Innovative Consultants Limited <sup>#</sup>	Hong Kong/ People's Republic of China	2 ordinary shares of HK\$1 each	–	100%	Provision of sub- contracting services
Innovative Development Company Limited <sup>#</sup>	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Investment holding and provision of consultancy and management services
Innovative Electrical Manufacturing Limited* <sup>o</sup>	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Manufacturing of powder metallurgy
Innovative International (H.K.) Limited <sup>#00</sup>	Hong Kong	187,500,000 deferred shares of HK\$0.10 each and 100,000 ordinary shares of HK\$0.10 each	100%	100%	Design and marketing of antennae and car accessories

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

## 12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Nominal value of issued and fully paid/ Registered capital	Percentage held by the		Principal activities or former principal activities
			Company	Group	
Innovative International (Tianjin) Development Company Limited <sup>d#o</sup> <i>(note (d) below)</i>	People's Republic of China	US\$2,100,000	–	100%	General trading
Innovative Manufacturing Limited <sup>#o</sup>	British Virgin Islands	1 ordinary share of US\$1 each	–	100%	Investment holding
Innovative Teletechnology Limited <sup>#</sup>	Hong Kong/ People's Republic of China	1,000 ordinary shares of HK\$1 each	100%	100%	Dormant
Innovative Trading Limited <sup>d#o</sup>	British Virgin Islands/People's Republic of China	1 ordinary share of US\$1 each	–	100%	Dormant
Join Cosmos Development Limited <sup>#</sup>	Hong Kong	100 ordinary shares of HK\$1 each	–	100%	Investment holding
Northern China Power Sources Investments Ltd <sup>#o</sup>	British Virgin Islands	1 ordinary share of US\$1 each	–	100%	Investment holding
Rhino International (BVI) Limited <sup>o</sup>	British Virgin Islands	105,084 shares of US\$1 each	–	75%	Investment holding
Rhino International (Holdings) Limited <sup>o</sup>	Bermuda	150,000,000 ordinary shares of HK\$0.10 each	–	75%	Investment holding

# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

For the year ended 31 March 2002

## 12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Nominal value of issued and fully paid/ Registered capital	Percentage held by the		Principal activities or former principal activities
			Company	Group	
Smithfield Mould Manufacturing Limited <sup>o</sup>	Hong Kong/ People's Republic of China	4,000,000 ordinary shares of HK\$1 each	–	100%	Manufacturing of moulds
Swanson Pacific Limited <sup>#</sup>	British Virgin Islands	50,000 ordinary shares of US\$1 each	100%	100%	Dormant
Tanbond Limited <sup>#</sup>	Hong Kong	2 ordinary shares of HK\$1 each	–	85%	Property holding
Tianjin Guangying Automotive Mirror Company Limited	People's Republic of China	US\$500,000	–	51%	Manufacturing of car mirrors
Tianjin Hechuan Construction Development Company Limited (see note (d) below) <sup>o</sup>	People's Republic of China	US\$7,500,000	–	70%	Property development
Tianjin Ying Tao Development Company Limited <sup>#o</sup> (see note (d) below)	People's Republic of China	US\$4,980,000	–	100%	Investment holding
Top Rank Assets Limited <sup>#o</sup>	British Virgin Islands	1 ordinary share of US\$1 each	–	100%	Investment holding
Vincent Sino Limited <sup>#</sup>	Hong Kong	350 ordinary shares of HK\$1 each	–	100%	Investment holding

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

## 12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Nominal value of issued and fully paid/ Registered capital	Percentage held by the		Principal activities or former principal activities
			Company	Group	
Yin Cheong (Shenzhen) Enterprises Limited <sup>β</sup>	People's Republic of China	HK\$10,000,000	-	100%	General trading
Yinshau Limited <sup>#</sup>	Hong Kong	10,000 ordinary shares of HK\$1 each	-	100%	Investment holding

\* Members of these subsidiaries applied for strike-off on 1 July 1999.

# Receivers and managers appointed on 22 October 2001.

β Subsequent to year end, on 28 May 2002, the disposal of the Group's entire investment capital of Yin Cheong (Shenzhen) Enterprises Limited was completed at a consideration of HK\$20,000,000.

∂ The Official Receiver was appointed as the provisional liquidator pursuant to the winding up order dated 5 August 2002 granted against the subsidiary.

∅ Information on the Group's shareholding in these subsidiaries is not available – included on the basis of the best available information to the Receivers and the directors.

### Notes:

(a) No audited financial statements were available for any of the above subsidiaries, except as disclosed in (c) below. Moore Stephens are not auditors of any of the subsidiaries.

(b) The Receivers and the directors are currently not in a position to determine which of the subsidiaries will continue in the Group, which will be disposed of and which will be liquidated, other than the disposal of Yin Cheong (Shenzhen) Enterprises Limited subsequent to year end.

(c) Tianjin Guangying Automotive Mirror Company Limited has been consolidated since in the opinion of the Receivers, the Group has the power to govern the financial and operating policies of this subsidiary. The financial information included has been based on financial statements audited by PRC auditors made up to 31 December 2001 and the management accounts made up to 31 March 2002.

# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

For the year ended 31 March 2002

## 12. INTERESTS IN SUBSIDIARIES (Continued)

- (d) Innovative International (Tianjin) Development Company Limited, Tianjin Hechuan Construction Development Company Limited and Tianjin Ying Tao Development Company Limited have been deconsolidated as, based on advice from the Receivers, in the opinion of the Receivers and the directors, the Company no longer has control over them since no information can be obtained in respect of these subsidiaries as a result of lack of co-operation from these PRC subsidiaries (see also Note 6 (i) above). The executive directors are not able to provide any information on this matter.
- (e) All remaining subsidiaries, have been consolidated on the basis of available information, including management accounts.

## 13. INTERESTS IN ASSOCIATES

	2002 HK\$'000	2001 HK\$'000
Loans to associates	93,346	93,346
Share of net liabilities other than goodwill	(93,346)	(93,346)
At 31 March 2002/2001	—	—

Particulars of the associates at 31 March 2002 are as follows:

Name	Place of incorporation/ operation	Nominal value of issued and fully paid/ Registered capital	Percentage held by the Group	Principal activities
Group Empire Limited	Hong Kong	10 ordinary shares of HK\$1 each	50%	Property development
Richness Hill Company Limited	Hong Kong	100 ordinary shares of HK\$1 each	50%	Investment holding
Walden Investment Limited	Hong Kong	70 ordinary shares of HK\$1 each	50%	Investment holding

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

## 14. INTANGIBLE ASSETS

	2002 HK\$'000	2001 HK\$'000
Trademarks, at cost	–	312
Patents, at cost	702	702
Technology transfers, at cost	19,500	19,500
	<hr/>	<hr/>
	20,202	20,514
Less: Accumulated amortisation	(20,202)	(16,302)
	<hr/>	<hr/>
At 31 March 2002/2001	–	4,212

Technology transfers represented technologies in air compressor production lines and technology control computer systems for diesel generators.

During the year, the trademarks were fully written off as in the opinion of the Receivers and the directors, they will not derive any future economic benefit for the Group.

## 15. LONG TERM INVESTMENTS

	2002 HK\$'000	2001 HK\$'000
Investment securities:		
Unlisted investments, at cost		
Hong Kong	1	1
Overseas	7,532	7,532
Less: Provision for diminution in value	(7,532)	(7,532)
	<hr/>	<hr/>
At 31 March 2002/2001	1	1
Unlisted debentures, at cost	980	1,375
	<hr/>	<hr/>
At 31 March 2002/2001	981	1,376

Unlisted debentures represent club memberships in Hong Kong.

# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

For the year ended 31 March 2002

## 16. INVENTORIES

	2002 HK\$'000	2001 HK\$'000
Raw materials	*	38,323
Work in progress	*	19,197
Finished goods	*	11,588
At 31 March 2002/2001	963	69,108

\* Information on the analysis of inventories is not available.

All inventories were written off during the year, save for those held by a PRC subsidiary which is still in operation, as there is no information available to confirm the existence of the inventories and if the inventories were stated at the lower of cost and net realisable value.

## 17. PROPERTIES HELD FOR SALE

	2002 HK\$'000	2001 HK\$'000
Leasehold land and buildings in Hong Kong		
under a medium term lease, at cost less provision	19,410	21,500
Completed property outside Hong Kong, at cost less provision	–	73,900
At 31 March 2002/2001	19,410	95,400

The completed property outside Hong Kong was situated in the People's Republic of China, held under a medium term lease for the commercial portion and a long term lease for the residential portion.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

## 17. PROPERTIES HELD FOR SALE (Continued)

Particulars of the properties held for sale at 31 March 2002 are set out below:

Location	Approximate gross floor area (sq. m.)	Use	Group's interest
Factories A and B, 4th floor, and flat roof appertaining to Factory A, Everwin Centre, 72 Hung To Road Kwun Tong Kowloon Hong Kong ("Kwun Tong warehouse") (see Note (i))	951	Warehouse	100%
Workshop Nos. 410-13, Tower 1, Harbour Centre, 1 Hok Cheung Street, Hung Hom, Kowloon Hong Kong ("Hung Hom property") (see Note (ii))	2,507	Commercial and warehouse	100%

Note:

- (i) The Kwun Tong warehouse was pledged to a bank in Hong Kong to secure trading facilities granted to a subsidiary. During the year, the property was repossessed and held for sale by the bank. On 20 August 2002, the bank entered into a provisional sale and purchase agreement for the sale of the Kwun Tong warehouse for a total consideration of HK\$3,750,000. A provision for impairment in value amounting to HK\$250,000 has been charged to the consolidated income statement for the year, in order to reflect the net realisable value from subsequent sale.
- (ii) Subsequent to year end, on 16 May 2002, the subsidiaries and the Receivers entered into an agreement for the sale and purchase of Workshop Nos. 411-13 of the Hung Hom property with Jetfull International Investment Limited for a total consideration of HK\$13,000,000.

Together with the Kwun Tong warehouse (see note (i) above), Workshop No. 410 of the Hung Hom property ("the Repossessed Workshop") was repossessed and held for sale by the bank. Based on a valuation report dated 5 September 2002 from AA Property Services Ltd, the forced sale value of the Repossessed Workshop was estimated at HK\$2,660,000. A total provision for impairment amounting to HK\$1,840,000 has been charged to the consolidated income statement for the year, in order to reflect the net realisable value of the Hung Hom property.



# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

For the year ended 31 March 2002

## 18. TRADE AND OTHER RECEIVABLES

	2002 HK\$'000	2001 HK\$'000
Trade receivables (note (a))	5,228	30,629
Prepayments and deposits	2,336	1,255
Loans to related companies (note (b))	–	12,515
Other receivables (note (c))	2,019	3,125
At 31 March 2002/2001	9,583	47,524

(a) As at 31 March 2002, the ageing analysis of the trade receivables was as follows:

	2002 HK\$'000	2001 HK\$'000
Within 3 months	*	21,792
4 to 6 months	*	643
Over 6 months	*	8,194
At 31 March 2002/2001	5,228	30,629

\* No information is available on the ageing analysis of the trade receivables.

The normal credit period granted to trade debtors is 30 to 90 days. Since the appointment of the Receivers, the Group ceased operations save for a subsidiary operating in the PRC.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

### 18. TRADE AND OTHER RECEIVABLES (Continued)

- (b) Included in trade and other receivables were certain loans advanced by the Group to companies controlled by a director as follows:

	Profit Link	
<b>Name of borrower</b>	Properties Limited	Kowloon Assets Limited
<b>Director in connection with the borrower</b>	Chang Lien-hing, Stephen	Chang Lien-hing, Stephen
<b>Relationship</b>	90% shareholder	90% shareholder
<b>Amount outstanding at</b>		
1 April 2001	HK\$4,583,000	HK\$7,865,000
31 March 2002	HK\$Nil #	HK\$Nil
<b>Maximum amount outstanding during the year</b>	HK\$4,583,000	HK\$7,866,000
<b>Terms</b>	Interest bearing at prime rate, unsecured and repayable on demand	Interest bearing at prime rate, unsecured and repayable on demand

- # The amount receivable included management fee receivable of HK\$3,865,000 in respect of provision of management services to Profit Link Properties Limited by one of the subsidiaries of the Group in previous years.

The Receivers have taken and continued to pursue recovery action in respect of these amounts. For the purpose of this report, they have been deemed not recoverable and therefore, have been fully provided during the year. Interest receivable has similarly been provided.

- (c) Included in trade and other receivables is an amount of HK\$2,019,000 being proceeds receivable from the assignment of rights, title and interest in a processing contract dated 5 August 1992 pursuant to the Assignment dated 28 March 2002 entered into between Hua Ngai Printing Factory Limited, one of the subsidiaries, the Receivers and Sun Nice Development Limited, the Assignee. The Assignment was completed on 28 May 2002.

# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

For the year ended 31 March 2002

## 19. SHORT TERM INVESTMENTS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Other listed investments, at fair value		
Hong Kong	–	248
Overseas	–	96
Market value of other listed investments	–	344

The short term investments were disposed of by the Receivers during the year.

## 20. BANK LOANS AND OVERDRAFTS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Bank overdrafts (secured)	108,147	44,909
Bank loans (secured)	372,814	462,003
At 31 March 2002/2001	480,961	506,912

The bank overdrafts and bank loans are stated according to the confirmation of indebtedness from the respective banks at 22 October 2001, that is the date of appointment of the Receivers. Details of the interest payable under the bank overdrafts and bank loans are set out in Note 23 below.

## 21. CONVERTIBLE NOTE

	Group and Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Convertible note	92,880	92,880

On 21 July 1998, two independent investors subscribed in cash for a US\$12,000,000 Convertible note issued by the Company at par. The Convertible note carries the right at any time from the first anniversary of the issue of the Convertible note in amounts of not less than US\$1,000,000 on each conversion, to convert into shares of HK\$0.10 each, ranking pari passu in all respects with the existing shares, at a price of HK\$1.65 per share subject to adjustments. The Convertible note bears interest at the rate of 9% per annum on the principal and is repayable on the third anniversary of the date of issue for principal moneys outstanding with all interest accrued. Details of the interest payable under the Convertible note are set out in Note 23 below.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

### 21. CONVERTIBLE NOTE (Continued)

As explained in Note 1 to the financial statements, on 10 July 2002, the Company, the Receivers and the New Investor signed the Restructuring Agreements setting out the terms of the Restructuring Proposal.

### 22. TRADE AND OTHER PAYABLES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	50,705	50,006	–	–
Other payables and accruals	70,580	96,359	2,774	2,865
At 31 March 2002/2001	121,285	146,365	2,774	2,865

As at 31 March 2002, the ageing analysis of the trade payables was as follows:

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 3 months	*	19,234	–	–
4 to 6 months	*	7,989	–	–
Over 6 months	*	22,783	–	–
At 31 March 2002/2001	50,705	50,006	–	–

\* Information on the ageing analysis is not available.

### 23. INTEREST PAYABLE

As at 31 March 2002, the analysis of the interest payable was as follows:

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	117,064	66,197	–	–
Convertible note interest	23,813	18,576	23,813	18,576
At 31 March 2002/2001	140,877	84,773	23,813	18,576

# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

For the year ended 31 March 2002

## 23. INTEREST PAYABLE (Continued)

The interest payable on bank loans and overdrafts and convertible note should be accrued and calculated to 31 March 2002. However, for the purpose of dividend distribution to the secured creditors, the Receivers and the directors have reached an agreement with the secured creditors to calculate the interest up to and including 22 October 2001. The secured creditors have not provided information on the interest accrued for the period from 23 October 2001 to 31 March 2002. In any event, upon successful completion of the proposed debt restructuring of the Group, all unpaid interest among the existing group of secured creditors will be schemed out and deemed satisfied.

## 24. LIABILITY ARISING FROM GUARANTEES

Liability arising from guarantees represents the Receivers' best estimate of the Company's liability arising from the crystallisation of the guarantees given in connection with the Group's bank borrowings (see also Notes 23 and 28).

## 25. DEFERRED TAX

The movements in the deferred tax account are as follows:

	2002 HK\$'000	2001 HK\$'000
Balance at 1 April 2001/2000	560	560
Reclassified to current liabilities	(560)	–
Balance at 31 March 2002/2001	–	560

At 31 March 2002, the amount of deferred tax liabilities on timing differences provided for is as follows:

	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:		
Accelerated depreciation	–	560
Tax losses	–	–
At 31 March 2002/2001	–	560

Deferred taxation has not been provided on the revalued assets as the revaluation is not deemed to be a timing difference.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

## 26. SHARE CAPITAL

	2002 HK\$'000	2001 HK\$'000
<i>Authorised:</i>		
At beginning of the year:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
Increased on 3 September 2001:		
3,000,000,000 ordinary shares of HK\$0.10 each	300,000	–
At end of the year:		
4,000,000,000 ordinary shares of HK\$0.10 each	400,000	100,000
<i>Issued and fully paid:</i>		
579,039,594 ordinary shares of HK\$0.10 each	57,904	57,904

### (a) Share option scheme

Pursuant to the Share Option Scheme adopted on 12 September 1991, the directors may at their discretion grant options to directors of the Company and employees of the Group to subscribe for shares in the Company in accordance with the terms of the Share Option Scheme, subject to a maximum of 10 per cent of the issued share capital of the Company from time to time.

On 25 April 1995, the directors granted options to directors of the Company and certain employees of the Group to subscribe for 22,000,000 ordinary shares of the Company at a price of HK\$1.16 per share exercisable within the period from 1 May 1995 to 11 September 2001. During the years ended 31 March 1996 and 31 March 1997, options were exercised to subscribe for 12,000,000 and 9,000,000 ordinary shares of the Company respectively.

On 29 October 1997, the directors granted options to certain employees of the Group to subscribe for 20,000,000 ordinary shares of the Company at a price of HK\$1.14 per share exercisable within the period from 29 October 1997 to 11 September 2001.

No options were exercised during the year ended 31 March 2002, before the expiry of the scheme in September 2001.

### (b) Repurchases of shares

No shares were repurchased during the year ended 31 March 2002.

# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

For the year ended 31 March 2002

## 27. RESERVES

Group	Share	Assets	Exchange	Capital	Capital	Enterprises	Accumulated	Total
	premium	revaluation	reserve	reserve	redemption	development	losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Company and subsidiaries	445,895	54,537	(13,057)	27,489	1,868	803	(551,965)	(34,430)
Associates	-	-	-	-	-	-	(96,326)	(96,326)
At 1 April 2000	445,895	54,537	(13,057)	27,489	1,868	803	(648,291)	(130,756)
Exchange differences on translation of the financial statements of foreign subsidiaries	-	-	637	-	-	-	-	637
Write back of goodwill on deconsolidation of a subsidiary	-	(29,503)	-	-	-	-	-	(29,503)
Loss for the year	-	-	-	-	-	-	(226,717)	(226,717)
At 31 March 2001	445,895	25,034	(12,420)	27,489	1,868	803	(875,008)	(386,339)
Company and subsidiaries	445,895	25,034	(12,420)	27,489	1,868	803	(778,662)	(289,993)
Associates	-	-	-	-	-	-	(96,346)	(96,346)
At 31 March/1 April 2001	445,895	25,034	(12,420)	27,489	1,868	803	(875,008)	(386,339)
Exchange differences on translation of the financial statements of foreign subsidiaries	-	-	267	-	-	-	-	267
Exchange differences arising on deconsolidation of subsidiaries	-	-	11,700	-	-	-	-	11,700
Deficit on revaluation of property, plant and equipment and property held for sale	-	(25,034)	-	-	-	-	-	(25,034)
Transfer	-	-	-	(27,489)	-	-	27,489	-
Loss for the year	-	-	-	-	-	-	(444,368)	(444,368)
At 31 March 2002	445,895	-	(453)	-	1,868	803	(1,291,887)	(843,774)
Company and subsidiaries	445,895	-	(453)	-	1,868	803	(1,195,531)	(747,418)
Associates	-	-	-	-	-	-	(96,356)	(96,356)
At 31 March 2002	445,895	-	(453)	-	1,868	803	(1,291,887)	(843,774)

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

## 27. RESERVES (Continued)

### Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2000	445,895	79,723	1,868	(690,948)	(163,462)
Loss for the year	–	–	–	(8,673)	(8,673)
At 31 March/1 April 2001	445,895	79,723	1,868	(699,621)	(172,135)
Loss for the year	–	–	–	(603,182)	(603,182)
At 31 March 2002	445,895	79,723	1,868	(1,302,803)	(775,317)

Contributed surplus represented amount arising from group reorganisation in prior years. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders subject to a solvency test.

## 28. BANK BORROWINGS

At 31 March 2002, the Group's bank borrowings were secured by certain assets of the Group and corporate guarantees given by the Company.

As more fully explained in Note 1 above, on 22 October 2001, pursuant to the terms of a composite guarantee and debenture dated 19 October 1999 granted by the Charging Companies to their secured creditors, the Receivers were appointed as joint and several receivers and managers of all the property and assets of the Charging Companies with immediate effect.

Subsequent to year end, on 10 July 2002, the Company, the Receivers and the New Investor entered into the Restructuring Agreements setting out the terms of the Restructuring Proposal.

The bank borrowings are stated according to the confirmation of indebtedness from the respective secured creditors at 22 October 2001, that is the date of appointment of the Receivers. The interest payable on bank borrowings shall be accrued and calculated to 31 March 2002. However, for the purpose of dividend distribution to the secured creditors, the Receivers and the directors have reached an agreement with the secured creditors to calculate the interest up to and including 22 October 2001. The secured creditors have not provided information on the interest accrued for the period from 23 October 2001 to 31 March 2002. In any event, upon successful completion of the proposed debt restructuring of the Group, all unpaid interest among the existing group of secured creditors will be schemed out and deemed satisfied.



# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

For the year ended 31 March 2002

## 29. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

### (a) Directors' remuneration

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Fees		
Executive directors	250	300
Independent non-executive directors	208	400
	<hr/> 458	<hr/> 700
Other emoluments for executive directors		
Salaries and other benefits	1,096	2,357
Retirement benefits scheme contributions	–	9
	<hr/> 1,096	<hr/> 2,366
	<hr/> 1,554	<hr/> 3,066

The emoluments of the Directors fell within the following bands:

Emoluments bands	Number of directors	
	2002	2001
HK\$Nil – HK\$1,000,000	7	7
HK\$1,000,001 – HK\$1,500,000	–	1

During the year, no share options were granted to the directors.

During the year, no directors waived remuneration and no emolument of the directors was incurred as an inducement to join or upon joining the Group or as compensation for loss of office.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

## 29. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (Continued)

### (b) Five highest paid individuals

The five highest paid individuals of the Group for the year included two (2001: four) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (2001: one) employees were as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Salaries and other benefits	866	551
Retirement benefits scheme contributions	26	3
	892	554

The emoluments were within the following bands:

Emoluments bands	Number of individuals	
	2002	2001
HK\$Nil – HK\$1,000,000	3	1

## 30. RETIREMENT BENEFITS SCHEME

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Retirement benefits scheme contributions to the Mandatory Provident Fund/Group's defined contribution scheme	153	96
Less: Forfeited contributions	–	(99)
	153	(3)

The Group stopped contributions to the defined contribution scheme in prior years and registered with the Mandatory Provident Fund ("MPF") effective December 2000.

At 31 March 2002, there were no forfeited contributions available to offset future contributions payable by the Group (2001: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

For the year ended 31 March 2002

## 31. CAPITAL COMMITMENTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Capital expenditure contracted but not provided for in the financial statements	*	894

\* Information is not available.

## 32. CONTINGENT LIABILITIES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to bankers for banking facilities granted to the subsidiaries	–	–	–	781,125

Guarantees at 31 March 2001 represent guarantees given to subsidiaries which were either deconsolidated in the year ended 31 March 2002 or consolidated for the year ended 31 March 2002 and have crystallised during the year (see Note 24).

During the year ended 31 March 2002, property, plant and equipment with a net book value of HK\$50,727,000 representing leasehold land and building situated in Dongguan, PRC (“Dongguan assets”) engaged in the production of car accessories, was frozen by the PRC court (see Note 11 (c) above). In consequence of the freezing order, a loan from Agricultural Bank of China in the amount of HK\$17,205,000 at 31 March 2002 to one of the subsidiaries, Innovative Teletechnology Limited was written back and credited against the property, plant and equipment written off since the proceeds from the realisation of the Dongguan assets are to be used to settle the loan from Agricultural Bank of China. In the opinion of the Receivers and the directors, the proceeds from the disposal of the Dongguan assets will exceed the bank loan advanced and, accordingly, no amount is provided for the settlement of the amount due to Agricultural Bank of China in these financial statements. Certain advisers of the Receivers have estimated that the Dongguan assets will realise HK\$47,169,000 upon disposal. In the unlikely event that the proceeds from the disposal are insufficient to repay the loan from Agricultural Bank of China, the Group may be liable for any shortfall.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 March 2002*

## 33. PENDING LITIGATION

During the year and subsequent to the appointment of the Receivers, Innovative International (H.K.) Limited (Receivers and Managers Appointed) (“Innovative HK”) received three writs of summons issued by its trade creditors. Subsequent to the issue of the writ of summons, one of the trade creditors pursued winding-up proceedings which were filed on 14 March 2002. Upon the presentation of the winding-up petition against Innovative HK, other creditors had not joined the petitioning creditor in its petition. No further action was taken by the remaining trade creditors against Innovative HK. Pursuant to the winding-up petition filed, the High Court of the Hong Kong Special Administrative Region Court ordered, on 5 August 2002, that Innovative HK be wound up and the Official Receiver be appointed the provisional liquidator.

With the commencement of winding up petition against Innovative HK, all pending litigation against Innovative HK has been stayed and cannot be continued. Except for the above, the directors are not aware of any outstanding litigation against the Company and any of its subsidiaries. Further, the Receivers are of the view that the winding up of Innovative HK will not materially impact on the restructuring.

## 34. POST BALANCE SHEET EVENTS

- (a) On 28 March 2002, certain of the subsidiaries, the Receivers and Linker International Investment (HK) Limited entered into an agreement for the sale and purchase of the Group’s entire investment capital of Yin Cheong (Shenzhen) Enterprises Limited at a consideration of HK\$20,000,000. The agreement was completed on 28 May 2002.
- (b) On 28 March 2002, Hua Ngai Printing Factory Limited (“Hua Ngai”), the Receivers and Sun Nice Development Limited entered into an assignment of such right, title and interest that Hua Ngai had in the processing contract dated 5 August 1992 at a consideration of HK\$2,000,000. The assignment was completed on 28 May 2002.
- (c) On 16 May 2002, two of the subsidiaries, the Receivers and Jetfull International Investment Limited entered into an agreement for the sale and purchase of the Hung Hom property at a sale consideration of HK\$13,000,000. The details of the Hung Hom property are set out in Note 17(ii) above.
- (d) On 10 July 2002, the Receivers, the Company and Power Assets Enterprises Limited, a private company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by the Gouw family trust (“the New Investor”) entered into various Restructuring Agreements. The Restructuring Agreements set out the framework for implementation of the Restructuring Proposal. If completed, the Restructuring Proposal will result in the restructuring of both 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. The Company will submit to the Stock Exchange a resumption proposal, which is subject to approval by the Listing Committee of the Stock Exchange as soon as possible.

# NOTES TO THE FINANCIAL STATEMENTS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

*For the year ended 31 March 2002*

## 34. POST BALANCE SHEET EVENTS *(Continued)*

The Restructuring Proposal is subject to the approval of all parties, including the relevant 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 terms of 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 New Investor and parties acting in concert with it.

## 35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were authorized and approved for issue by the board of directors on 20 September 2002.