



1. GENERAL INFORMATION

The Company is a Hong Kong listed company incorporated in Bermuda. The principal activities of the Group are design, manufacture and marketing of antennae and car-related consumer products as well as strategic development, investment and general trading.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

As shown in the financial statements, the Group reported net current liabilities of HK\$625,388,000 as at 31st March 2001 (2000: HK\$497,794,000) and incurred a net loss of HK\$226,717,000 (2000: HK\$291,599,000) for the year then ended. In 1999, the Company and certain of its subsidiaries received demands from certain of their bank creditors for the repayment of certain loans under various banking facilities. The Company then commenced debts restructuring discussions and negotiations with its bank creditors and holders of the convertible note (together "the Lenders").

Since April 1999, the Company has been negotiating a restructuring arrangement, which included assets sales and debt repayment programmes with the Lenders with the following objectives:

- (a) to enhance the profitability and cash flows of the Group's core businesses so as to enhance the Group's debt service capability; and
- (b) to reduce the Group's debts through increased profitability and the sale of certain non-core assets.

In October 1999, the Group entered into a standstill agreement (the "Standstill Agreement") with the Lenders. Under the Standstill Agreement, the Lenders were granted a security over the assets of the Group. The Lenders have agreed not to make demand or pursue legal proceedings against the Group in relation to facilities for an initial period up to 31st March 2000. The standstill period may be extended each time for a further one-month period at the discretion of the Lenders.

On 17th July 2001, the Company and the Lenders signed a debts restructuring and rescheduling agreement (the "Restructuring Agreement"). Under the Restructuring Agreement, the Company will issue two series of 1% convertible redeemable notes (the "CRN") with a due date in 2006 totalling HK\$300,000,000. The holders of the CRN are entitled to convert the original principal amount of the CRN into shares of the Company at a conversion price in the range of HK\$0.25 to HK\$0.375 before the fifth anniversary of the issue of the CRN. The remaining portion of the debts due to the Lenders will be repaid by 20 consecutive quarterly instalments commencing on the first anniversary of the closing date, which should be within 2 months from 17th July 2001, of the Restructuring Agreement. Interest will be charged at HIBOR plus margin of 1.5% per Annum.



2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

The financial statements have been prepared on a going concern basis because the directors believe that:

- (a) after completion of the Restructuring Agreement, the Group's management will have more time to focus on the Group's core businesses and the Group should be able to generate sufficient cash flow to meet the Group's obligations on a timely basis and should be able to comply with the terms of the Restructuring Agreement;
- (b) through disposal of certain non-core assets, the Group's debt and liquidity positions will be improved; and
- (c) continuing financial support of the Group's Lenders will be available and given.

Should the Group be unable to generate positive cash flows, the Group may not be able to continue in business as a going concern. Accordingly, adjustments would have to be made to restate the values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively.

The financial statements on pages 22 to 58 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention as modified by the revaluation of certain properties and investments in securities.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year. All material inter-company transactions and balances are eliminated on consolidation.

The consolidated financial statements also include the Group's share of post-acquisition results and reserves of its associated companies.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Goodwill or capital reserve arising on consolidation

Goodwill or capital reserve arising on consolidation represents the excess or shortfall of purchase consideration over the fair values ascribed to the net assets of subsidiaries and associated companies acquired and is written off or credited directly to reserves in the year of acquisition.

On deconsolidation of a subsidiary, the attributable amount of goodwill previously eliminated against reserves is included in the determination of the profit or loss on deconsolidation of the subsidiary.

(c) Subsidiaries

A subsidiary is a company in which the Company directly or indirectly controls more than half of the voting power, or holds more than half of the issued share capital, or controls the composition of the board of directors. Control exists when the Company has the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date on which that control ceases.

Investments in subsidiaries are carried at cost less impairment loss in the Company's balance sheet.

(d) Associated companies

An associated company is a company, other than a subsidiary, in which the Group has a long term equity interest and over which the Group is in a position to exercise significant influence on its financial and operating policy decisions.

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



3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment

(i) Depreciation and amortisation

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.

(ii) Measurement bases

Property, plant and equipment other than investment properties are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

(ii) Measurement bases (Continued)

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.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

(f) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential. No depreciation is provided on investment properties held on leases with unexpired periods longer than twenty years.

Investment properties held on leases with unexpired periods longer than twenty years are valued annually by a professionally qualified valuer and at least every three years by external professional valuers. The valuations are on an open market value basis related to individual properties. The valuations are incorporated in the annual financial statements. Increases in valuation are credited to the investment properties revaluation reserve or credited to the income statement to the extent of any deficit previously charged; decreases are first offset against increases on earlier valuations on a portfolio basis and thereafter are charged to the income statement.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) 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.

(h) 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.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost 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 is calculated as the actual or estimated selling price less all further costs to completion and estimated costs necessary to make the sale.

(j) Investments in securities

Investment securities are securities which are intended to be held on a continuing basis for an identified long-term purpose. Investment securities are stated in the balance sheet at cost less any provision for diminution in value. Provisions are made when the fair value of such securities has declined below the carrying amounts, unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the income statement.

Provisions against the carrying value of investment securities are written back to income when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

All other securities, whether held for trading or otherwise, are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise.

Dividend income from investments in securities is accounted for to the extent of amounts received and receivable.



3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Deferred tax/Future tax benefit

Deferred tax is provided using the liability method, on all significant timing differences, other than those which are not expected to crystallise in the foreseeable future.

Future tax benefit is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation.

(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.

(m) Research and development costs

Research and development costs are charged to the income statement in the period in which they are incurred, except that development costs are recognised as an asset and amortised on a straight line basis over a period of between three to five years where it is expected that the product under development will be profitable and will be produced, and its technical feasibility has been demonstrated.

(n) Foreign currencies

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

The financial statements of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Profits and losses arising on exchange are dealt with as a movement in reserve.

(o) Retirement benefit costs

The Group contributes to a defined contribution retirement scheme which is available to all employees. The assets of the schemes are held separately from those of the Group in an independently administered funds. The contributions are calculated as a percentage of employees' salaries and are expensed as incurred in the income statement. Other than mandatory provident fund contribution, the Group's contributions may be reduced by contributions forfeited by those employees who leave prior to vesting fully in the contribution.



3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Recognition of revenue

Revenue from the sale of goods is recognised when the goods are delivered to the customers.

Revenue from the sale of investment properties and properties held for sale is recognised when sales and purchases agreements have been signed and the deposits received are not less than the profit attributable to the properties being sold.

(q) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and amounts repayable on demand with banks and short-term highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

4. 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 31st March 2001 by principal activities and geographical markets are as follows:

	Turnover		Loss from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By principal activities				
Manufacturing and trading	156,071	226,943	(171,355)	(240,920)
By geographical markets				
Europe	65,331	80,947	(71,729)	(85,624)
America	49,528	101,802	(54,378)	(108,287)
Asia	20,861	24,014	(22,904)	(25,544)
Australia and Oceania	10,569	10,043	(11,604)	(10,683)
Others	9,782	10,137	(10,740)	(10,782)
	156,071	226,943	(171,355)	(240,920)

NOTES To The Financial Statements

For the year ended 31st March 2001



Innovative International (Holdings) Limited

5. LOSS BEFORE TAXATION

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Loss before taxation is arrived at after charging:-		
Auditors' remuneration		
– for current year	1,120	1,070
– underprovision in prior years	464	–
Amortisation of development costs	2,434	5,332
Amortisation of intangible assets	3,900	3,900
Cost of inventories recognised as expense	181,958	221,121
Deficit on revaluation of investment property (Included in other operating expenses)	5,700	12,000
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	–
Loss on deconsolidation of subsidiaries (Included in other operating expenses)	–	13,288
Depreciation of property, plant and equipment	29,971	31,478
Loss on disposal of property, plant and equipment	4,193	106
Loss on disposal of property held for development (Included in other operating expenses)	–	22,877
Operating lease charges in respect of rented premises	352	281
Professional fees in relation to debts restructuring (Included in other operating expenses)	2,490	4,900
Provision for bad and doubtful debts (Included in other operating expenses)	27,922	120,264
Provision for long term investments (Included in other operating expenses)	280	7,252
Staff costs	25,218	35,802
and crediting:		
Dividend income from listed investments	–	56
Exchange gain	1,085	–
Gain on deconsolidation of subsidiaries	1,029	–
Interest income	346	799
Gain on disposal of short term investments	–	423



6. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	27,613	27,699
Interest on other borrowings and loans wholly repayable with five years	19,619	18,040
Convertible note interest	8,475	8,943
	55,707	54,682

7. TAXATION

	2001 HK\$'000	2000 HK\$'000
The tax charge/(credit) comprises:		
Current tax		
Hong Kong profits tax		
– Company and subsidiaries	47	129
Deferred tax		
– Company and subsidiaries (<i>note 23</i>)	–	(7,820)
	47	(7,691)

The tax charges for current tax represent underprovision in previous years.

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.

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders included a loss of approximately \$8,673,000 (2000: \$269,662,000) dealt with in the financial statements of the Company.

9. LOSS PER SHARE

The basic loss per share is calculated based on the loss attributable to shareholders of HK\$226,717,000 (2000: HK\$291,599,000) and on weighted average of 579,039,594 ordinary shares (2000: weighted average of 579,039,594 ordinary shares) in issue during the year.

As the exercise prices of options and convertible note outstanding during the year are higher than the average market price of the Company's share during the year, the diluted loss per share for the year ended 31st March 2001 is not presented because the impact of the options and convertible note is anti-dilutive.

NOTES To The Financial Statements

For the year ended 31st March 2001



Innovative International (Holdings) Limited

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings outside Hong Kong HK\$'000	Freehold land and buildings outside Hong Kong HK\$'000	Investment property HK\$'000	Utility installation HK\$'000	Leasehold improve- ments 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
Cost/valuation											
At 1st April 2000	199,046	5,882	67,000	27,673	19,208	146,521	88,381	9,961	18,348	6,310	588,330
Additions	-	-	-	-	2,970	1,447	403	-	272	-	5,092
Revaluation	(88,127)	-	(5,700)	-	-	-	-	-	-	-	(93,827)
Disposal	(949)	(5,882)	-	-	-	(1,733)	-	-	(237)	(358)	(9,159)
At 31st March 2001	109,970	-	61,300	27,673	22,178	146,235	88,784	9,961	18,383	5,952	490,436
Accumulated depreciation/amortisation											
At 1st April 2000	16,146	119	-	16,936	12,916	59,990	44,320	7,589	13,674	5,286	176,976
Charge for the year	4,286	-	-	2,766	2,964	9,208	7,797	712	1,885	353	29,971
Written back on revaluation	(20,207)	-	-	-	-	-	-	-	-	-	(20,207)
Written back on disposal	(225)	(119)	-	-	-	(600)	-	-	(62)	(344)	(1,350)
At 31st March 2001	-	-	-	19,702	15,880	68,598	52,117	8,301	15,497	5,295	185,390
Net book value											
At 31st March 2001	109,970	-	61,300	7,971	6,298	77,637	36,667	1,660	2,886	657	305,046
At 31st March 2000	182,900	5,763	67,000	10,737	6,292	86,531	44,061	2,372	4,674	1,024	411,354
The analysis of cost/valuation of the above assets is as follows:											
At valuation											
31st March 1993	-	-	-	-	-	-	-	-	4,465	-	4,465
31st July 1994	-	-	-	-	-	66,682	13,775	-	-	-	80,457
31st March 2001	109,970	-	61,300	-	-	-	-	-	-	-	171,270
At cost											
	-	-	-	27,673	22,178	79,553	75,009	9,961	13,918	5,952	234,244
	109,970	-	61,300	27,673	22,178	146,235	88,784	9,961	18,383	5,952	490,436



10. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes

- (a) Leasehold land outside Hong Kong at 31st March 2001 is held under medium term lease.
- (b) Investment property at 31st March 2001, which is situated at 168 Nanjing Road, Heping Qu, Tianjin, People's Republic of China, is held under a medium term lease for the commercial portion and a long term lease for the residential portion.

The investment property was revalued by DTZ Debenham Tie Leung Limited, an independent professional valuer, at 31st March 2001 on an open market basis. The revaluation deficit arising from the revaluation amounting to HK\$5,700,000 (2000: HK\$12,000,000) was charged to the current year's income statement.

- (c) Had the leasehold land and buildings outside Hong Kong, investment property, plant and machinery, moulds and furniture and equipment been carried at cost less accumulated depreciation, their carrying amounts would have been HK\$149,146,000 (2000: HK\$153,449,000), HK\$151,051,000 (2000: HK\$151,051,000), HK\$68,822,000 (2000: HK\$76,155,000), HK\$46,761,000 (2000: HK\$51,554,000) and HK\$2,963,000 (2000: HK\$4,136,000) respectively.

11. INTERESTS IN SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	200,340	200,340
Amounts due from subsidiaries	499,523	491,775
Less: Provisions	(699,863)	(692,115)
	-	-

Particulars of the principal subsidiaries at 31st March 2001 are as follows:

Name	Place of incorporation/ operation	Nominal value of issued and fully paid/ registered capital	Percentage of capital held by the Company Group		Principal activities
Bright Focus Development Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	-	100%	Investment holding and general trading
Bright Focus Development Limited	British Virgin Islands	10,000 ordinary shares of US\$1 each	100%	100%	Investment holding



11. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Nominal value of issued and fully paid/ registered capital	Percentage of capital held by the		Principal activities
			Company	Group	
Cordless Technology Company Limited	Hong Kong	20 ordinary shares of HK\$1 each	–	100%	Investment holding
Crownville Development Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Investment holding
Hua Ngai Printing Factory Limited	Hong Kong/ People's Republic of China	15,000 ordinary shares of HK\$1 each	–	100%	Printing
Innovative Consultants Limited	Hong Kong/ People's Republic of China	2 ordinary shares of HK\$1 each	–	100%	Provision of sub- contracting services
Innovative Development Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Investment holding and provision of consultancy and management services
Innovative International (H.K.) Limited	Hong Kong	187,500,000 deferred shares of HK\$0.10 each and 100,000 ordinary shares of HK\$.010 each	100%	100%	Design and marketing of antennae and car accessories



11. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Nominal value of issued and fully paid/ registered capital	Percentage of capital held by the Company		Principal activities
				Group	
Innovative International (Tianjin) Development Company Limited	People's Republic of China	US\$2,100,000	–	100%	General trading
Innovative Manufacturing Limited	British Virgin Islands	1 ordinary shares of US\$1 each	–	100%	Investment holding
Innovative Teletechnology Limited	Hong Kong/ People's Republic of China	1,000 ordinary shares of HK\$1 each	–	100%	Dormant
Innovative Trading Limited	British Virgin Islands/ People's Republic of China	1 share of US\$1 each	–	100%	Dormant
Join Cosmos Development Limited	Hong Kong	100 ordinary shares of HK\$1 each	–	100%	Investment holding
Smithfield Mould Manufacturing Limited	Hong Kong/ People's Republic of China	4,000,000 ordinary shares of HK\$1 each	–	100%	Manufacturing of moulds
Swanson Pacific Limited	British Virgin Islands	50,000 shares of US\$1 each	100%	100%	Dormant



11. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Nominal value of issued and fully paid/ registered capital	Percentage of capital held by the		Principal activities
			Company	Group	
Tianjin Hechuan Construction Development Company Limited	People's Republic of China	US\$7,500,000	–	70%	Property development
Tianjin Ying Tao Development Co. Ltd.	People's Republic of China	US\$4,980,000	–	100%	Investment holding
Vincent Sino Limited	Hong Kong	350 ordinary shares of HK\$1 each	–	100%	Investment holding
Golday Worldwide Enterprises Limited	British Virgin Islands	1,000 shares of US\$1 each	85%	85%	Investment holding
Golden Bond Resources Limited	Hong Kong	5,000,000 ordinary shares of HK\$1 each	–	85%	Dormant
Tanbond Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	85%	Property holding
Tianjin Guangying Automotive Mirror Co. Ltd.	People's Republic of China	US\$500,000	–	51%	Manufacturing of car mirrors



12. INTERESTS IN ASSOCIATED COMPANIES

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Share of net liabilities other than goodwill	(93,346)	(93,326)
Loans to associated companies	93,346	93,326
	-	-

Particulars of the principal associated companies at 31st March 2001 are as follows:

Name	Place of incorporation/ operation	Nominal value of issued and fully paid/ registered capital	Percentage of held indirectly	Principal activities
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

13. INTANGIBLE ASSETS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Trademarks, at cost	312	312
Patents, at cost	702	702
Technology transfers, at cost	19,500	19,500
	20,514	20,514
Less: Amount amortised	(16,302)	(12,402)
	4,212	8,112

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



14. LONG TERM INVESTMENTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Investment securities:		
Unlisted investments, at cost		
Hong Kong	1	1
Overseas	7,532	7,532
Less: Provision for diminution in value	(7,532)	(7,252)
Unlisted debentures, at cost	1,375	1,375
	1,376	1,656

15. DEVELOPMENT COSTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
At cost, less amount amortised	–	2,434

16. INVENTORIES

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Raw materials	38,323	50,514
Work in progress	19,197	45,131
Finished goods	11,588	25,599
	69,108	121,244

The above analysis includes inventories of HK\$9,665,000 (2000: HK\$3,482,000) which are carried at net realisable value.



17. PROPERTIES HELD FOR SALE

	2001	2000
	HK\$'000	HK\$'000
Leasehold land and buildings in Hong Kong under a medium term lease, at cost less provision	21,500	23,300
Completed property outside Hong Kong, at cost less provision	73,900	82,193
	95,400	105,493

The property held for sale, which is situated in the People's Republic of China, is held under a medium term lease for the commercial portion and a long term lease for the residential portion.

Particulars of the properties held for sale at 31st March 2001 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	951	Warehouse	100%
Workshop Nos. 410-13, Tower I Harbour Centre, 1 Hok Cheung Street, Hung Hom, Kowloon Hong Kong	2,507	Commercial and warehouse	100%
168 Nanjing Road Heping Qu, Tianjin, People's Republic of China	13,351	Commercial and residential	70%



18. TRADE AND OTHER RECEIVABLES

	2001 HK\$'000	2000 HK\$'000
Trade receivables (note (a))	30,629	27,508
Prepayments and deposits	1,255	5,735
Loan to related companies (note (b))	12,515	13,027
Other receivables	3,125	22,200
	47,524	68,470

(a) As at 31st March 2001, the ageing analysis of the trade receivables was as follows:

	2001 HK\$'000	2000 HK\$'000
Within 3 months	21,792	18,589
4 to 6 months	643	1,431
Over 6 months	8,194	7,488
	30,629	27,508

The normal credit period granted to trade debtors is 30 to 90 days.

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

Name of borrower	Profit Link Properties Limited	Kowloon Assets Limited
Director in connection with the borrower	Chang Lien-hing, Stephen	Chang Lien-hing, Stephen
Relationship	90% shareholder	90% shareholder
Amount outstanding at 1st April 2000	HK\$5,135,000	HK\$7,859,000
31st March 2001	HK\$4,583,000 *	HK\$7,865,000



18. TRADE AND OTHER RECEIVABLES (Continued)

Name of borrower	Profit Link Properties Limited	Kowloon Assets Limited
Maximum amount outstanding during the year	HK\$5,139,000	HK\$7,865,000
Terms	Interest bearing at prime rate, unsecured and repayable on demand	Interest bearing at prime rate, unsecured and repayable on demand

* The receivable balance of HK\$4,583,000 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.

19. SHORT TERM INVESTMENTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Other listed investments, at fair value		
Hong Kong	248	279
Overseas	96	170
	344	449

20. BANK LOANS AND OVERDRAFTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Bank overdrafts (secured)	44,909	34,016
Bank overdrafts (unsecured)	–	1,710
Bank loans (secured)	462,003	462,453
	506,912	498,179



21. CONVERTIBLE NOTE

	Group and Company	
	2001 HK\$'000	2000 HK\$'000
Convertible note	92,880	92,880

On 21st July 1998, two independent investors have subscribed in cash for US\$12,000,000 Convertible Note (the "Note") issued by the Company at par. The Note carries the right at any time from the first anniversary of the issue of the 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 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. However, as explained in note 2 to the financial statements, the Company has signed Restructuring Agreement with the Lenders and the directors consider that, pending the completion of the Restructuring Agreement, the Note should be classified under current liabilities.

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade payables	50,006	57,603	–	–
Other payables and accruals	96,359	93,528	21,441	12,769
	146,365	151,131	21,441	12,769

As at 31st March 2001, the ageing analysis of the trade payables was as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within 3 months	19,234	18,618	–	–
4 to 6 months	7,989	10,693	–	–
Over 6 months	22,783	28,292	–	–
	50,006	57,603	–	–



23. DEFERRED TAX

The movements in the deferred tax account are as follows:

	2001 HK\$'000	2000 <i>HK\$'000</i>
Balance at 1st April 2000	560	8,380
Transferred to income statement (<i>note 7</i>)	–	(7,820)
Balance at 31st March 2001	560	560

At 31st March 2001, the amount of deferred tax liabilities on timing differences provided for is as follows:

	2001 HK\$'000	2000 <i>HK\$'000</i>
Tax effect of timing differences attributable to:		
Accelerated depreciation	560	885
Tax losses	–	(325)
	560	560

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



24. SHARE CAPITAL

	2001	2000
	HK\$'000	HK\$'000
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	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 12th 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 25th 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 1st May 1995 to 11th September 2001. During the year ended 31st March 1996 and 31st March 1997, options were exercised to subscribe for 12,000,000 and 9,000,000 ordinary shares of the Company respectively.

On 29th 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 29th October 1997 to 11th September 2001.

No options were exercised during the year ended 31st March 2001.

(b) Repurchases of shares

No shares were repurchased during the year ended 31st March 2001.

NOTES To The Financial Statements

For the year ended 31st March 2001



Innovative International (Holdings) Limited

25. RESERVES

Group

	Enterprises							Total HK\$'000
	Share premium HK\$'000	Assets revaluation reserve HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	develop- ment reserve HK\$'000	Accumu- lated losses HK\$'000	
Company and subsidiaries	445,895	54,537	(12,850)	27,489	1,868	803	(289,719)	228,023
Associated companies	-	-	-	-	-	-	(94,048)	(94,048)
At 1st April 1999	445,895	54,537	(12,850)	27,489	1,868	803	(383,767)	133,975
Exchange differences on translation of the financial statements of foreign subsidiaries	-	-	(207)	-	-	-	-	(207)
Written back of goodwill on deconsolidation of a subsidiary	-	-	-	-	-	-	27,075	27,075
Loss for the year	-	-	-	-	-	-	(291,599)	(291,599)
At 31st March 2000	445,895	54,537	(13,057)	27,489	1,868	803	(648,291)	(130,756)
Company and subsidiaries	445,895	54,537	(13,057)	27,489	1,868	803	(551,965)	(34,430)
Associated companies	-	-	-	-	-	-	(96,326)	(96,326)
At 31st March 2000	445,895	54,537	(13,057)	27,489	1,868	803	(648,291)	(130,756)



25. RESERVES (Continued)

Group

	Enterprises							Total HK\$'000
	Share premium HK\$'000	Assets revaluation reserve HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	develop- ment reserve HK\$'000	Accumu- lated losses HK\$'000	
Company and subsidiaries	445,895	54,537	(13,057)	27,489	1,868	803	(551,965)	(34,430)
Associated companies	-	-	-	-	-	-	(96,326)	(96,326)
At 1st 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
Deficit on revaluation of property, plant and equipment and properties held for sale	-	(29,503)	-	-	-	-	-	(29,503)
Loss for the year	-	-	-	-	-	-	(226,717)	(226,717)
At 31st 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)
Associated companies	-	-	-	-	-	-	(96,346)	(96,346)
At 31st March 2001	445,895	25,034	(12,420)	27,489	1,868	803	(875,008)	(386,339)

**25. RESERVES (Continued)****Company**

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 1999	445,895	79,723	1,868	(421,286)	106,200
Loss for the year	–	–	–	(269,662)	(269,662)
At 31st March 2000	445,895	79,723	1,868	(690,948)	(163,462)
At 1st April 2000	445,895	79,723	1,868	(690,948)	(163,462)
Loss for the year	–	–	–	(8,673)	(8,673)
At 31st March 2001	445,895	79,723	1,868	(699,621)	(172,135)

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

26. BANK BORROWINGS

At 31st March 2001, the Group's bank borrowings were secured by certain assets of the Group and the corporate guarantees given by the Company.



27. 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:

	2001 HK\$'000	2000 HK\$'000
Fees		
Executive directors	300	–
Independent non-executive directors	400	–
	700	–
Other emoluments for executive directors		
Salaries and other benefits	2,357	3,315
Retirement benefits scheme contributions	9	–
	2,366	3,315
	3,066	3,315

The emoluments of the directors fell within the following bands:

Emoluments bands	Number of directors	
	2001	2000
HK\$Nil – HK\$1,000,000	7	8
HK\$1,000,001 – HK\$1,500,000	1	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 inducement to join or upon joining the Group or as compensation for loss of office.



27. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (Continued)

(b) Five highest paid individuals

The five highest paid individuals of the Group for the year included four (2000: three) executive directors, details of whose emoluments are set out above. The emoluments of the remaining one (2000: two) employee were as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Salaries and other benefits	551	995
Retirement benefits scheme contributions	3	–
	554	995

The emoluments were within the following bands:

Emoluments bands	Number of individuals	
	2001	2000
HK\$Nil – HK\$1,000,000	1	2

28. RETIREMENT BENEFITS SCHEME

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Retirement benefits scheme contributions to the Group's defined contribution scheme	96	–
Less: Forfeited contributions	(99)	(389)
	(3)	(389)



28. RETIREMENT BENEFITS SCHEME (Continued)

Defined contribution scheme

The Group operates a defined contribution retirement benefits scheme for all qualified employees. The assets of the scheme are held separately from those of the Group in funds under the control of an independent trustee.

The retirement benefits scheme contributions represent amounts paid and payable by the Group to the funds at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions made by the employer, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The Group had stopped the contributions to the scheme in prior year.

At 31st March 2001, there were no forfeited contributions available to offset future contributions payable by the Group (2000: Nil). Commencing from 1st December 2000, the Group was required to contribute to the Mandatory Provident Fund based on applicable rates of monthly salaries in accordance with the regulations.

29. CAPITAL COMMITMENTS

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Capital expenditure contracted but not provided for in the financial statements	894	2,650

The Company did not have capital commitments at the year end date.

30. CONTINGENT LIABILITIES

	Group		Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Guarantees give to bankers for banking facilities granted to the subsidiaries	–	–	781,125	914,000



31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Loss before taxation	(227,082)	(297,880)
Interest income	(346)	(799)
Interest expenses	55,707	54,682
Depreciation of property, plant and equipment	29,971	31,478
Dividend income from listed investments	–	(56)
Share of losses of associated companies	20	2,278
Amortisation of pre-operating expenses	–	160
Amortisation of development costs	2,434	5,332
Amortisation of intangible assets	3,900	3,900
Loss on disposal of property, plant and equipment	4,193	106
(Gain)/Loss on deconsolidation of subsidiaries	(1,029)	13,288
Loss on disposal of property held for development	–	22,877
Written back of loans to associated companies	–	(2,179)
Written off of loan to an investee company	13,230	–
Provision for long term investments	280	7,252
Decrease in short term investments	105	2,301
Deficit on revaluation of investment property	5,700	12,000
Deficit on revaluation of leasehold land and buildings	39,248	–
Change in inventories	52,136	40,964
Change in trade and other receivables	17,251	139,288
Change in trade and other payables	564	1,786
Change in properties held for sale	9,262	2,350
Net cash inflow from operating activities	5,544	39,128



31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Minority interests	Bank loans
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 1st April 1999	12,123	466,301
Repayment of bank loans	–	(3,848)
Share of profit for the year	1,410	–
Balance at 31st March 2000	13,533	462,453
Balance at 1st April 2000	13,533	46,453
Repayment of bank loans	–	(450)
Share of loss for the year	(412)	–
Balance at 31st March 2001	13,121	462,003



31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Deconsolidation of subsidiaries

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net liabilities deconsolidated		
Property, plant and equipment	–	1,116
Pre-operating expenses	–	898
Inventories	–	6,047
Trade and other receivables	3,695	8,188
Cash at banks and in hand	66	562
Amounts due to group companies	(7,350)	(114,216)
Bank loan and overdrafts	(97)	–
Trade and other payables	(4,693)	(30,598)
	(8,379)	(128,003)
Goodwill written back	–	27,075
Written off of amounts due to group companies	7,350	114,216
	(1,029)	13,288

Analysis of the net cash and cash equivalents disposed of in respect of deconsolidation of subsidiaries

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cash at banks and in hand disposed of	66	562
Bank loan and overdrafts disposed of	(97)	–
	(31)	562

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 22 to 58 were approved by the Board of Directors on 26th July 2001.