

# STATEMENT FROM DIRECTORS AND RECEIVERS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

We are pleased to present the annual report of Innovative International (Holdings) Limited (Receivers and Managers Appointed) and its subsidiaries (“the Group”) for the financial year ended 31 March 2002.

The past year was a challenging year for the Group, in view of the difficult business environment, which was attributed to the general worldwide economic downturn. In addition, the inability to close a debt restructuring resulted in the Company and certain of its subsidiaries being placed into receivership.

## GENERAL OVERVIEW

The Group has been in financial difficulties since 1999 when its financial and trading position began to deteriorate.

On 17 July 2001, the Company entered into a Debt Restructuring and Rescheduling Agreement (“the DRRA”) pursuant to which the Company’s capital structure would be restructured by a combination of (i) rescheduling of its debt and (ii) issue of convertible notes.

The DRRA lapsed in October 2001 due to non-fulfillment of certain conditions. In the then-prevailing Asian economic downturn, the Group was unable to identify any further investors prepared to invest on terms acceptable to the Group, the secured creditors, the banks and financial institutions.

As a result of the lapse of the DRRA, the Group continued to operate under difficult cash flow conditions and, given the market conditions, its business and operations continued to deteriorate. Ultimately, as a result of breaches of the terms of the composite guarantee and debenture (“the Debenture”), The Standard Chartered Bank (the “Security Trustee”) issued a notice of demand dated 22 October 2001 to declare that certain events of default had occurred under the Debenture and that the security constituted by the Debenture had become enforceable.

On 22 October 2001, pursuant to the terms of the Debenture, the Security Trustee appointed Messrs. John Robert Lees, Desmond Chung Seng Chiong and Kelvin Edward Flynn of Ferrier Hodgson Limited as the joint and several receivers and managers (“the Receivers”) over all the property and assets of the Company and certain of its subsidiaries. Since their appointment, the Receivers have endeavored to stabilise the Group’s financial and operational affairs with a view to implementing a restructuring of the Group. The Receivers remain appointed as the receivers and managers of all the property and assets of the Company.

Trading of the shares of the Company has been suspended since 2:30 pm on Friday, 19 October 2001 and will continue to be suspended while the Receivers remain appointed as the joint and several receivers and managers of the Group.

The Receivers have power under the terms of the Debenture and by law to continue the operations of the Company and to sell or otherwise realise for the benefit of the Security Trustee all of the assets of the Company charged under the terms of the Debenture.

# STATEMENT FROM DIRECTORS AND RECEIVERS

## GENERAL OVERVIEW *(Continued)*

Following their respective appointments, fifty-five potential investors approached the Receivers, thirty-three executed confidentiality agreements and twelve made preliminary proposals for the restructuring of the Group. One of the potential investors, China City Natural Gas Holdings Limited (formerly known as Hikari Tsushin International Limited) (“CCNGH”) entered into an escrow agreement with the Receivers, the Group and the firm of Deacons (“the Escrow Agent”) on 10 June 2002 (“the Announcement”) with a view to restructuring the Group’s indebtedness and share capital. The escrow agreement provided that if certain restructuring agreements were not executed by midnight on 10 July 2002, the Escrow Agent was required to return the deposit (together with interest) to CCNGH.

Subsequent to the Announcement, Power Assets Enterprises Limited (“the Investor”) approached the Receivers and offered a new proposal to the Receivers. The Receivers carefully considered the relative merits of the new proposal and after discussions with the Investor, the Receivers came to the view that the new proposal submitted by the Investor would place the Group and the shareholders in a much more favourable position than the terms offered by CCNGH.

An announcement was then published on 10 July 2002 to indicate that the Investor entered into the following agreements with a view to restructure and rescue the Group:

- (i) **the Compromise Agreement:** the conditional agreement dated 10 July 2002 between the Company, the Receivers, the Security Trustee and the Investor in respect of, inter alia, the compromise of all indebtedness secured by the Debenture and owing to its secured creditors;
- (ii) **the Subscription Agreement:** the conditional agreement dated 10 July 2002 between the Company, the Receivers and the Investor in respect of the subscription for 6,500,000,000 new shares in the Company;
- (iii) **the Escrow Agreement:** the agreement dated 10 July 2002 between the Company, the Receivers, the Investor and the Escrow Agent relating to the deposit of the sums of HKD54 million and HKD11 million deposited by the Investor with the Escrow Agent.

For the purposes of this Statement, the Compromise Agreement, the Subscription Agreement and the Escrow Agreement are collectively referred to as the Restructuring Agreements. The purpose of the Restructuring Agreements is to implement a restructuring proposal (“the Restructuring Proposal”). The Restructuring Proposal involves, inter alia, capital restructuring, asset transfers, share transfers, debt restructuring involving schemes of arrangement and subscriptions for new shares. Detailed information concerning the Restructuring Proposal and the Restructuring Agreements will be dispatched to the shareholders by way of a circular by no later than 31 October 2002.

# STATEMENT FROM DIRECTORS AND RECEIVERS

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

## PROSPECTS

The Group is in the second stage of the delisting procedures under Practice Note 17 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. In order to avoid delisting and to protect the interests of its shareholders, the Group and the Receivers have endeavoured to stabilise the Group's financial position by entering into the Restructuring Agreements with a view to implementing the Restructuring Proposal, which in the opinion of the Receivers will place the Group and its shareholders in a much more favourable position.

Miss Whong Shuk-ping, Anita, an executive director and the four non-executive directors, being Mr. Tong Wui-tung, Ronald, Mr. Lum Chor-wah, Richard, Mr. Selwyn Mar and Mr. Alistair Macleod, (the last three being the independent non-executive directors) will all resign from their respective offices upon completion of the Restructuring Agreements. It is proposed that Mr. Chang Lien-hing, Stephen, an executive director, will be removed by special resolution at the forthcoming special general meeting. Mr. Gouw Hiap Kian, Mr. Gouw Kar Yiu, Carl and Ms. Gouw San Bo, Elizabeth will be appointed as the new executive directors upon completion of the Restructuring Agreements.

We wish to extend our gratitude and sincere appreciation to all professional firms and individuals that have provided their strong support and valuable services and advice to the Group on the Restructuring Proposal.

**Whong Shuk-ping, Anita**  
*Director*

For and on behalf of  
**Innovative International (Holdings) Limited**  
*(Receivers and Managers Appointed)*  
**John Robert Lees**  
**Desmond Chung Seng Chiong**  
**Kelvin Edward Flynn**  
*Joint and Several Receivers and Managers*  
*acting as agents without personal liability*