

## DIRECTORS' REPORT

The Directors herein present their annual report together with the audited financial statements for the year ended 31 March 2002. So far as the assets and business of the Company and the Charging Companies since the appointment of the Receivers on 22 October 2001 are concerned, the directors of the Company have in the preparation of the directors' report relied on information supplied by the Receivers.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in Note 12 to the financial statements. As more fully explained in the Statement from Directors and Receivers and Note 1 to the financial statements, the Group was experiencing financial difficulties and certain of its subsidiaries were placed into receivership during the year. The Group ceased operations save for Tianjin Guangying Automotive Mirror Company Limited, a 51% owned subsidiary incorporated in the People's Republic of China, engaged in the manufacturing of car mirrors.

### SEGMENTAL INFORMATION

The analysis of the consolidated turnover and contribution to profit/(loss) from operating activities by geographical locations and principal activity for the year ended 31 March 2002 are provided as follows:

Turnover Breakdown by Geographical Locations and by Activities

|                                   | Turnover                |                         | Contribution to profit/(loss) from operating activities |                         |
|-----------------------------------|-------------------------|-------------------------|---|-------------------------|
|                                   | 2002<br><i>HK\$'000</i> | 2001<br><i>HK\$'000</i> | 2002<br><i>HK\$'000</i>                                 | 2001<br><i>HK\$'000</i> |
| <b>By geographical locations:</b> |                         |                         |   |                         |
| 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)                |
|                                   | <b>69,952</b>           | <b>156,071</b>          | <b>(36,699)</b>   | <b>(171,355)</b>        |
| <b>By activities:</b>             |                         |                         |   |                         |
| Manufacturing and trading         | <b>69,952</b>           | <b>156,071</b>          | <b>(36,699)</b>   | <b>(171,355)</b>        |

## MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the largest customer and the next four largest customers accounted for 10% (2001: 7%) and 35% (2001: 23%) of the Group's total turnover respectively for the year.

Purchases from the largest supplier and the next four largest suppliers accounted for 4% (2001: 6%) and 19% (2001: 23%) of the Group's total purchases respectively for the year.

As at 31 March 2002, none of the directors of the Company, their associates, or any shareholders which to the knowledge of the directors of the Company owns more than 5% of the Company's issued share capital has beneficial interest in any of the Group's five largest customers or five largest suppliers as mentioned in the preceding paragraphs.

## DIVIDENDS

The Board of Directors does not recommend any payment of dividend for the year ended 31 March 2002 (2001: NIL).

## RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 27 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are shown in Note 11 to the financial statements.

The additions to property, plant and equipment of the Group during the year amounted to HK\$1.2 million.

## DISCLOSURE OF MATERIAL LOANS TO ASSOCIATES

### Financial assistance to associates

As at 31 March 2002, certain financial assistance provided by the Group to its associates amounted to approximately HK\$93.3 million, the details of which are as follows:

| Name of associates                          | Nature of<br>financial<br>assistance | Percentage<br>of interest | Outstanding<br>balance as at<br>31 March 2002<br><i>(HK\$'000)</i> |
|---|--------------------------------------|---------------------------|--|
| Walden Investment Limited ("Walden")        | Loan                                 | 50%                       | 73,277   |
| Richness Hill Co. Limited ("Richness Hill") | Loan                                 | 50%                       | 2,281  |
| Group Empire Limited ("Group Empire")       | Loan                                 | 50%                       | 17,788   |
|   |                                      | Total                     | 93,346   |

The above-named associates are collectively referred as "Associates".

Walden and Richness Hill together hold 100% interest in Group Empire, an investment holding company of the property development project in Causeway Bay, Hong Kong ("the Project"). The loans of HK\$73.2 million to Walden and HK\$2.2 million to Richness Hill by the Group were subsequently made to Group Empire for investment into the Project. The said financial assistance was funded by internal resources and/or bank borrowings and the loans were unsecured, interest free and repayable on demand.

As at 31 March 2002, the aggregate financial assistance to the Associates by the Group amounted to HK\$93.3 million. On 1 December 2000, the Project was sold to an independent third party as defined under the Listing Rules at a consideration of approximately HK\$52 million by public auction. The sale proceeds were applied by the mortgagee bank to repay the mortgage loan. Given that a full provision had been made, there would be no additional adverse impact to the Group after the disposal.

Full provisions had been made in previous years' financial statements in relation to the financial assistance provided by the Group to the Associates as stated above. The amounts have remained unchanged since then.

# DIRECTORS' REPORT

INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED

## PROFORMA COMBINED BALANCE SHEET OF ASSOCIATES

AS AT 31 DECEMBER 2001

|                                       | (Unaudited)<br>HK\$'000 |
|---------------------------------------|-------------------------|
| Property held for further development | 3,000                   |
| Current assets                        |                         |
| Trade and other receivables           | 16                      |
| Cash at bank                          | 608                     |
|                                       | <hr/> 624               |
| Current liabilities                   |                         |
| Bank loan (secured)                   | 30,100                  |
| Trade and other payables              | 19,329                  |
| Amounts due to group companies        | 190,090                 |
|                                       | <hr/> 239,519           |
| Net current liabilities               | (238,895)               |
| Net liabilities                       | (235,895)               |
| Share capital                         | @                       |
| Accumulated losses                    | (235,895)               |
| Shareholders' deficiency              | (235,895)               |

@ denotes HK\$170

## EMPLOYMENT AND REMUNERATION POLICIES

As at 31 March 2002, the Group had 4 employees in Hong Kong. Subsequent to the appointment of the receivers and managers, most of the employees of the Group were terminated. The remaining employees were remunerated on a daily contractual basis, without taking into account the composition of pay and the general market conditions. The remuneration policies are not subject to review by the Directors of the Group.

## SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Movements in share capital, share options and warrants of the Company during the year are shown in Note 26 to the financial statements.

On 3 September 2001, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$400,000,000 in order to have sufficient authorised and unissued share capital for the possible future issuance of shares, including but not limited to, the maximum of 3,000,000,000 new shares which may fall to be issued pursuant to the conversion of the Convertible note in full (based on the conversion price of HK\$0.10).

# DIRECTORS' REPORT

## DIRECTORS

The Directors of the Company during the year were:—

### Executive directors

Mr. CHANG Lien-hing, Stephen (*Chairman*)

Miss WHONG Shuk-ping, Anita

Mr. AU Wai-hung, Antonio (Resigned on 3 September 2001)

### Non-executive directors

Mr. TONG Wui-tung, Ronald

### Independent non-executive directors

Mr. LUM Chor-wah, Richard

Mr. Albert T. da ROSA, Jr. (Resigned on 3 September 2001)

Mr. LIU Chow-loy, Barry (Resigned on 23 October 2001)

In accordance with Article 99 of the Bye-Laws of the Company, other than the Chairman, one third of the directors is subject to retirement by rotation and such directors are eligible for re-election. However, in view of the Restructuring Proposal, it is proposed that Mr. Chang Lien-hing, Stephen be removed from his office by way of a special resolution in the forthcoming special general meeting, and that Miss Whong Shuk-ping, Anita, Mr. Tong Wui-tung, Ronald, Mr. Lum Chor-wah, Richard, Mr. Selwyn Mar and Mr. Alistair Macleod resign from their respective offices upon completion of the Restructuring Agreements. New directors will be appointed in their place at that time.

## CHANGE OF DIRECTORS

On 3 September 2001, Mr. AU Wai-hung, Antonio and Mr. Albert T. da ROSA, Jr. resigned their directorship in the Company.

On 23 October 2001, Mr. LIU Chow-loy, Barry resigned his directorship in the Company.

Subsequent to the year ended 31 March 2002, Mr. Alistair MACLEOD and Mr. Selwyn MAR were appointed as independent non-executive directors of the Company with effect from 14 May 2002.

## DIRECTORS' BIOGRAPHIES

### Executive Directors

#### *CHANG Lien-hing, Stephen*

Aged 61, Mr. Chang is the co-founder and currently the Chairman of the Company. He has a bachelor's degree in telecommunication engineering and has over 35 years' experience in manufacturing and business management.

#### *WHONG Shuk-ping, Anita*

Aged 33, Miss Whong is the Executive Director of the Company. She is a member of The Association of Chartered Certified Accountants and The Hong Kong Society of Accountants. She holds a bachelor's degree in finance. Miss Whong joined the Group in 2000 and has worked for an international manufacturing concern and an international accounting firm for more than 10 years.

### Non-executive Director

#### *TONG Wui-tung, Ronald*

Aged 52, Mr. Tong is a partner with the legal firm of Messrs. Cheung, Tong and Rosa and has been practising as a solicitor in Hong Kong for over 20 years. He is also a director of a number of other companies listed on The Stock Exchange of Hong Kong Limited.

### Independent non-executive Directors

#### *LUM Chor-wah, Richard*

Aged 42, Mr. Lum has 15 years' experience in administration, corporate development and finance. He holds a master of business administration degree and a bachelor of science degree. He is also a director of a number of other companies listed on The Stock Exchange of Hong Kong Limited.

#### *Alistair, MACLEOD*

Aged 47, Mr. Macleod is a career banker with over 23 years banking experience in Asia and Europe. After completing his Bachelors Degree in Economics and Politics from Glasgow Caledonian University, he joined Bank of America as a Graduate Trainee. In 1980, he moved to Hong Kong and joined Wardley Limited, now HSBC Investment Bank, in the loan syndications and trade finance departments. On returning to the UK, he rejoined Bank of America as Vice President and Manager of the Edinburgh Branch operations. In 1990, he joined Alliance & Leicester Giro Bank becoming General Manager, Corporate Banking (Marketing & Sales) for the UK. In 1994, he returned to take up the position of General Manager of Emirates Bank International, Asia Pacific operations. On 19 February 2002, he assumed the position of Chief Executive Officer of VIG Capital Management Limited, an investment management firm.

# DIRECTORS' REPORT

## DIRECTORS' BIOGRAPHIES (Continued)

### *Selwyn, MAR*

Aged 67, Mr. Mar graduated in Economics from the London School of Economics at London University. He is a Chartered Accountant, the Managing Partner of Charles Mar Fan & Co., Certified Public Accountants, and the Managing Director of Marfan & Associates Limited. He is also a Non-Executive Director of Standard Bank Asia Limited and The Delta Asia Financial Group. He was the President between 1989-1994 and Executive Director during 1974-1994 of The Sincere Company Limited. He was the President of the Hong Kong Society of Accountants in 1991 and was a member of the Securities & Futures Appeals Panel and a Governor of the Chinese International School. He was also a Director of Chen Hsong Holdings Limited. Mr Mar was involved in the plastics industry as President of the Lion Rock Group of Companies in the 1970's and an Executive Director of a company listed in the New York Stock Exchange.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATES

As at 31 March 2002, the beneficial interests of the directors and the chief executive or their associates in the share capital of the Company, as recorded in the register maintained under section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

| Directors                    | (Number of Ordinary Shares) |                  |                     | Total      |
|------------------------------|-----------------------------|------------------|---------------------|------------|
|                              | Personal interests          | Family interests | Corporate interests |            |
| Mr. CHANG Lien-hing, Stephen | 19,729,654                  | 14,511,043       | 23,000,000          | 57,240,697 |
|                              |                             | <i>Note a</i>    | <i>Note b</i>       |            |
| Miss WHONG Shuk-ping, Anita  | –                           | –                | –                   | –          |
| Mr. TONG Wui-tung, Ronald    | –                           | –                | –                   | –          |
| Mr. LUM Chor-wah, Richard    | 840,000                     | –                | –                   | 840,000    |

### Notes:

- Owned by Madam Wong Suek-bun, wife of Mr. Chang Lien-hing, Stephen ("Mr. Chang")
- These shares are held by Fenman Holdings Limited, a company in which Mr. Chang has interest.

None of the other directors and the chief executive or their associates had any interest in the share capital of the Company and its associates recorded in the register required to be kept under Section 29 of the SDI ordinance.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, the Company has been notified of the following interests, amounting to 10 per cent. or more of the share capital of the Company:-

|                        | Number of shares |
|------------------------|------------------|
| HKSCC Nominees Limited | 90,783,478       |

Save as disclosed herein, there is no person known to the directors of the Company who had registered an interest in the share capital of the Company required to be kept by the Company under Section 16(1) of the SDI Ordinance.

## SERVICE CONTRACTS OF DIRECTORS

No director of the Company proposed for re-election at the forthcoming annual general meeting of the Company have entered into any service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

## DIRECTORS' INTEREST IN CONTRACTS

The Group had previously invested in a company, Profit Link Properties Limited, in which Mr. Chang Lien-hing, Stephen is a 90% investor, which owns a property in Tsimshatsui, Kowloon, Hong Kong.

The Group had previously made advances to Kowloon Assets Limited and its subsidiary, Profit Link Properties Limited, particulars of which appear in Note 18(b) to the audited financial statements. The said advances were upon normal commercial terms and were no more than in proportion to the Company's respective equity interests in Profit Link Properties Limited and Kowloon Assets Limited.

Save for the foregoing, there were no other contracts of significance in relation to the Group's business to which the Group or any of its subsidiaries was a party, subsisting at the end of the year or at any time during the year, in which a director had, whether directly or indirectly, a material interest.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Under a share option scheme adopted by the Company on 12 September 1991, the directors may, at their discretion, grant options to employees of the Company or its subsidiaries, including executive directors of any of such companies, to subscribe for shares in the Company. Details of the share options were set out in Note 26 to the financial statements. The term of the share option scheme has now expired.

Save as disclosed above, at no time during the year was the Company, or any of its subsidiaries a party to any arrangement to enable the directors or the chief executive or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



# DIRECTORS' REPORT

## EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

Details of directors' emoluments and the highest paid employees are set out in Note 29 to the financial statements.

## NON-EXECUTIVE DIRECTORS – REMUNERATION

An aggregate of approximately HK\$208,000 was paid to the non-executive directors of the Company as directors' fee for the year ended 31 March 2002.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

## POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in Note 34 to the financial statements.

## AUDIT COMMITTEE

The audit committee of the Company presently comprises three independent non-executive directors. The audit committee has reviewed the announcements and discussed with the Board and the Receivers on matters relating to the financial reporting of the Group.

## CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31 March 2002, save for:

- (i) full board meetings were not held no less frequently than every six months during the period prior to the appointment of the Receivers on 22 October 2001 (paragraph 1); and
- (ii) the Audit Committee only started formal meetings from 16 August 2002 (paragraph 14).

Independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-Laws.

The directors consider that items (i) and (ii) occurred due to the operating and financial difficulties mentioned in the section headed "General Overview" in the Statement from Directors and Receivers. Steps are being taken to ensure full compliance is achieved in future.

## AUDITORS

On 22 August 2002, Grant Thornton resigned as auditors of the Company. Moore Stephens have been appointed with effect thereafter as auditors of the Company. Moore Stephens retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board  
**Whong Shuk-ping, Anita**  
*Director*  
Hong Kong

20 September 2002