TO THE MEMBERS OF
INNOVATIVE INTERNATIONAL (HOLDINGS) LIMITED
(RECEIVERS AND MANAGERS APPOINTED)
(incorporated in Bermuda with limited liability)

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CERTIFIED PUBLIC ACCOUNTANTS

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馬施雲
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We have audited the financial statements on pages 22 to 62 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. As more fully explained in Notes 1 and 2 to the financial statements, the Company is currently in receivership, and the directors are not able to provide all the relevant information in this regard.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants ("the HKSA"), except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as set out in detail in the following paragraphs.

As more fully explained in Note 1 to the financial statements, the Company and certain of its subsidiaries ("the Charging Companies") were placed into receivership on 22 October 2001. The listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") has been suspended since 19 October 2001. John Robert Lees, Desmond Chung Seng Chiong and Kelvin Edward Flynn were appointed as receivers and managers ("the Receivers") of the Charging Companies with effect from 22 October 2001 pursuant to the terms of a composite guarantee and debenture dated 19 October 1999 ("the Debenture") granted by the Charging Companies to their secured creditors.

BASIS OF OPINION *(Continued)*

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 indebtedness of the Company and certain of its subsidiaries and the Company's share capital, and will 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.

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.

The Rules Governing the Listing of Securities ("the Listing Rules") issued by the Stock Exchange require, inter alia, that companies whose shares are listed on the Stock Exchange submit audited financial statements to shareholders within four months of the balance sheet date. However, the audit of the final results of the Company and its subsidiaries for the year ended 31 March 2002 was necessarily delayed while the Restructuring Proposal was being finalised.

We were appointed auditors on 22 August 2002 which was subsequent to the end of the Company's financial year. The Company was placed into receivership on 22 October 2001. Although the company's directors remain in office upon appointment of the Receivers, the powers of the directors are suspended with regard to the assets and the business of the Company. Currently only two executive directors remain in office and of these, the Chairman was not contactable to assist us. Two of the independent non-executive directors, Selwyn Mar and Alistair Macleod ("the New Directors") were only appointed in May 2002 which is after the balance sheet date. The other executive directors, including the Chairman, were not able to provide us with all the information that we required in relation to our audit for the year ended 31 March 2002. In consequence, we were unable to carry out all of the auditing procedures necessary to obtain adequate assurance regarding the assets, liabilities, income and expenses appearing in the financial statements. There were no satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the accuracy and completeness of assets, liabilities, income and expenses.

In view of all the circumstances referred to above and below in this report, and in Notes 1 and 2 to the financial statements, the present directors did not consider that they were in a position to provide a formal letter of representation, as requested by us under Statement of Auditing Standards 440 "Representations by Management" issued by the HKSA. However, representations in writing on certain matters were obtained from the Receivers.

BASIS OF OPINION *(Continued)*

We were not appointed as auditors of any of the subsidiaries since at the date of our appointment only Tianjin Guangying Automotive Mirror Company Limited ("Tianjin Guangying") had any operations and this company was already audited by a firm of Certified Public Accountants in the People's Republic of China. All other active subsidiaries of the Group either ceased operations in October 2001 or were deconsolidated during the year ended 31 March 2002 where the directors and the Receivers considered control to have been lost. Accordingly, we were unable to satisfy ourselves that whether proper books of accounts were maintained by the subsidiaries. As more fully disclosed in Note 12 to the financial statements, the Group consolidation includes subsidiaries on the basis of unaudited information. Accordingly, we have been unable to establish whether the amounts consolidated fairly reflect the position at 31 March 2002 and the results for the year then ended of the Group.

Since we were only appointed auditors on 22 August 2002, which was subsequent to the end of the Company's financial year, we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the quantities and condition of inventories and work in progress, appearing in the balance sheet at 31 March 2002 at HK$963,000 and the write off to the income statement in the amount of HK$68,506,000 of all remaining inventories. There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the existence and value of inventories and work in progress. Any adjustment to the figure would have a consequential significant effect on the loss for the year and net liabilities at 31 March 2002.

In addition to the general limitation on the scope of our work as referred to in the paragraphs above, we were unable to specifically ascertain the following:

(i) the ownership and existence of certain property, plant and equipment as set out in Note 11 to the financial statements;

(ii) the shareholdings in various subsidiaries as set out in Note 12 to the financial statements at the balance sheet date and at the date of this report;

(iii) whether it is appropriate to consolidate as set out in Notes 4 (d) and 12 (c) to the financial statements, the Company's 51% indirect shareholding in Tianjin Guangying in the financial statements for the year ended 31 March 2002. Legal opinion was still being obtained at the date of finalisation of these financial statements. Included in the financial statements in respect of Tianjin Guangying are property, plant and equipment of HK$1,714,000; current assets of HK$8,581,000, including inventories carried at HK$963,000; current liabilities of HK$3,925,000; income of HK$4,273,000 and profit before minority interests and taxation of HK$1,273,000;

(iv) the completeness, accuracy and existence of debtors and creditors of HK$7,564,000 and HK$121,285,000 respectively as at 31 March 2002 as no independent confirmations have been received;

(v) the completeness and accuracy of related party disclosures as set out in Note 18 (b) to the financial statements as required by Statement of Standard Accounting Practice ("SSAP") 20 "Related party disclosures", issued by the HKSA and Sections 161 and 162 of the Companies Ordinance;

BASIS OF OPINION *(Continued)*

(vi) the completeness, accuracy and formal authorisation of directors' and senior management's remuneration as set out in Note 29 to the financial statements;

(vii) the completeness, accuracy and existence of capital commitments and contingent liabilities as set out in Notes 31 and 32 to the financial statements;

(viii) the completeness and accuracy of the Group's financial information by segment as set out in Note 5 to the financial statements as required by SSAP 26 "Segment reporting; and

(ix) the loss on deconsolidation of subsidiaries in the amount of HK$124,033,000 appearing in the consolidated income statement does not include any adjustments for goodwill or capital reserve arising on the purchase of the respective subsidiaries as these details were not available at the date of signing this report.

Fundamental uncertainties relating to the basis of preparation of financial statements

The Receivers are agents of the Charging Companies. They do not act in any personal capacity and are not directors of the Charging Companies. Their principal function is to enforce and/or to preserve the security granted under the Debenture. The Receivers act as agents of each of the Charging Companies over which they are appointed without personal liability.

As more fully disclosed in Note 2 to the financial statements, currently only two executive directors remain in office and, of these, the Chairman, Chang Lien-hing, Stephen was not contactable to assist us. In addition, the New Directors, Selwyn Mar and Alistair Macleod were appointed in May 2002, which was subsequent to the Company's current reporting financial year. The New Directors of the Company are therefore not in a position 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.

Save for the aforementioned, assets and liabilities of the Company and the Group have been included in the respective balance sheets based on the Receivers' current best estimates of their respective net realisable values or net amounts due.

The consolidated financial statements show a net deficiency of shareholders' funds of HK$785,870,000 at 31 March 2002. As disclosed in Note 2 to the financial statements, the consolidated financial statements have been prepared on a going concern basis as modified by the write-down of assets to their estimated recoverable amounts. In the opinion of the directors and/or the Receivers, the Group and the Company may not have been a going concern at the balance sheet date.

If the Restructuring Proposal is not successfully implemented, adjustments might have to be made to further reduce the value of assets to revised 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.

BASIS OF OPINION *(Continued)*

Fundamental uncertainties relating to the basis of preparation of financial statements *(Continued)*

We consider that appropriate disclosures have been made in the financial statements concerning this situation, but we also consider that the uncertainties surrounding the circumstances under which the financial statements have been prepared are such that they form part of our overall disclaimer on the view given by the financial statements for the year ended 31 March 2002.

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of the possible effects of the various limitations in evidence available to us, as set out in the Basis of Opinion section of our report above, we are unable to form an opinion as to whether the financial statements present fairly the state of affairs of the Company and the Group as at 31 March 2002 and of the Group's loss for the year then ended. In addition, the financial statements do not contain all the disclosures required by the Companies Ordinance as set out in the Listing Rules.

As more fully explained in Note 2 to the financial statements, the financial statements do not contain a statement of cash flows. This is not in accordance with the requirements of SSAP 15 "Cash flow statements". The decrease in cash and cash equivalents for the year ended 31 March 2002 amounted to HK$68,445,000 and in our opinion information about the Group's cash flows is necessary for a proper understanding of the Group's state of affairs and loss.

As explained above, the directors were not able to provide us with all the information that we required in relation to our audit and as a result, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit and we were unable to determine whether proper books of account have been maintained.

Moore Stephens
Certified Public Accountants

Hong Kong
20 September 2002