1. GENERAL

The Company is an exempted company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. The Group continues to be engaged in the manufacture and sales of electronic products, toys and home appliances. During the year, the Company acquired the business for the manufacture and sales of snap off blade cutters, details of which are set out in note 18. The acquisition of the Cutters Business was completed on 31st December, 2000.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities of approximately HK$33,058,000 as at 31st March, 2001.

The Group has been operating under adverse market conditions and has incurred losses in recent years. The Group has been continuously seeking potential customers and diversifying its products mix so as to improve its results and to generate additional cash flows. As a result, the Group acquired the business for the manufacture and sales of snap off blade cutters during the year.

However, the Group is dependent upon the continuing support of its bankers and its ability to obtain new equity funds. As explained in note 34, in June 2001, the Group raised net proceeds of approximately HK$8,500,000 by means of placing 300,000,000 new shares of HK$0.01 each in the Company at a price of HK$0.029 per share. Against this background, the directors are currently negotiating with relevant bankers to re-schedule the Group's existing short-term bank loans and are confident that agreements will be reached with the bankers in the near future.

Provided that the agreements will be reached with the bankers to re-schedule the Group's existing short-term bank loans, the directors consider that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and land and buildings, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The results of 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 significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets over the purchase consideration at the date of acquisition of a subsidiary, is credited to reserves.

Any premium or discount arising on the acquisition of an interest in an associate, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On disposal of investments in subsidiaries or associates, the attributable amount of goodwill, previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its boards of directors or equivalent governing body.

Investments in subsidiaries are stated at cost less any impairment loss.

Interests in associates

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

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year and the consolidated balance sheet includes the Group's share of the net assets of the associates.

Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Sub-contracting service income is recognised when services are provided.

Rental income, including rentals invoiced in advance, from properties let under operating leases is recognised on a straight line basis over the period of the respective leases.

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

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on annual professional valuation at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit on a portfolio basis, in which case the excess of deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance in the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms of more than 20 years.

Property, plant and equipment

Property, plant and equipment, other than land and buildings, are stated at cost less depreciation and amortisation at the balance sheet date.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has 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 the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

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.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation and amortisation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on the revaluation of land and buildings is credited to the other property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case, this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in the net carrying amount arising on the revaluation of an asset is charged to the income statement to the extent that it exceeds the balance, if any, on the other property revaluation reserve relating to a previous revaluation of that asset. On the subsequent disposal or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

The valuation of leasehold land is amortised over the period of the lease using the straight line method.

The valuation of buildings is depreciated over 50 years or over the period of the lease, if shorter, using the straight line method.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold improvements	20%
Furniture and equipment	20%
Motor vehicles	25%
Plant and machinery	20% – 25%

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

Research costs are recognised as an expense in the period in which they are incurred.

Expenditure on development is charged to the income statement in the period in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are deferred and written off over the life of the project from the date of commencement of commercial operation.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under 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.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation, the assets and liabilities of operations which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date and the income and expense items are translated at the average rate for the financial period. All exchange differences arising on translation are dealt with in reserves.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks which are repayable within three months from the dates of the advances.

4. SEGMENT INFORMATION

An analysis of the Group's turnover and loss from operations by business and geographical segments for the year ended 31st March, 2001 are as follows:

Business segments

	Turnover		Loss from operations	
	2001	2000	**2001**	2000
	HK$	*HK$*	***HK$***	*HK$*
Sales of goods	**38,797,187**	34,450,955	**(19,832,522)**	(12,471,487)
Sub-contracting service income	**1,080,189**	5,743,766	**(991,336)**	(2,079,284)
	39,877,376	40,194,721	**(20,823,858)**	(14,550,771)

Geographical segments (by location of customers)

	Turnover		Profit (loss) from operations	
	2001	2000	**2001**	2000
	HK$	*HK$*	***HK$***	*HK$*
North America	**15,452,095**	13,997,112	**(9,882,578)**	(5,911,847)
Western Europe	**12,003,800**	7,490,479	**(4,697,447)**	(3,163,693)
Hong Kong	**10,266,316**	9,185,610	**(6,301,613)**	(1,453,704)
South East Asia	**1,347,554**	6,983,362	**305,568**	(2,949,506)
Others	**807,611**	2,538,158	**(247,788)**	(1,072,021)
	39,877,376	40,194,721	**(20,823,858)**	(14,550,771)

5. LOSS FROM OPERATIONS

	2001	2000
	HK$	*HK$*
Loss from operations has been arrived at after charging:		
Staff costs	**14,367,204**	13,120,449
Retirement benefits scheme contributions, net of forfeited contributions of HK$49,594 (2000: HK$143,712)	**120,416**	129,131
Total staff costs including directors' emoluments	**14,487,620**	13,249,580
Less: Staff costs included in research and development costs	**(744,403)**	(845,883)
	13,743,217	12,403,697
Auditors' remuneration		
– current year	**450,000**	405,000
– overprovision in prior years	**(75,000)**	–
Deficit arising on revaluation of investment properties	**130,000**	820,000
Deficit arising on revaluation of land and buildings	**8,000**	170,118
Depreciation and amortisation	**5,342,847**	2,001,149
Operating lease rentals in respect of land and buildings	**339,890**	317,548
Provision for bad and doubtful debts	**4,779,718**	–
Provision for slow-moving inventories	**3,200,000**	2,000,000
Research and development costs	**1,122,726**	1,032,035
and after crediting:		
Gross rental income from investment properties before deduction of outgoings of HK$76,019 (2000: HK$14,646)	**1,120,895**	1,308,700

6. FINANCE COSTS

	2001	2000
	HK$	*HK$*
Interest on bank borrowings		
– wholly repayable within five years	**(2,433,387)**	(2,510,031)
– not wholly repayable within five years	**(483,599)**	(458,199)
	(2,916,986)	(2,968,230)

7. DIRECTORS' EMOLUMENTS

	2001	2000
	HK$	*HK$*
Directors' fees:		
Executive	**–**	–
Independent non-executive	**200,000**	200,000
Other non-executive	**–**	–
	200,000	200,000
Other emoluments (executive directors):		
Salaries and other benefits	**4,202,510**	3,329,908
Retirement benefits scheme contributions	**32,850**	44,325
	4,235,360	3,374,233
Total directors' emoluments	**4,435,360**	3,574,233

The emoluments of the directors were within the following bands:

	2001 Number of directors	2000 Number of directors
Nil to HK$1,000,000	**10**	10
HK$1,500,001 to HK$2,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	–

8. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals for the year included two (2000: three) executive directors of the Company, whose emoluments are included in note 7 above. The aggregate emoluments of the remaining three (2000: two) highest paid individuals are as follows:

	2001	2000
	HK$	HK$
Salaries and other benefits	1,171,981	929,500
Retirement benefits scheme contributions	39,975	42,900
	1,211,956	972,400

None of the emoluments of the employees were in excess of HK$1 million.

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no director waived any emoluments during the year.

9. TAXATION

	2001	2000
	HK$	HK$
The charge comprises:		
Hong Kong Profits Tax calculated at 16% on the estimated assessable profit for the year	(517,102)	–
Underprovision of Hong Kong Profits Tax in prior years	–	(120,352)
Mainland China Income Tax	(2,437)	–
	(519,539)	(120,352)

No provision for Hong Kong Profits Tax had been made in the financial statements in 2000 as the Group had no assessable profit for that year.

Income tax in the Mainland China (the "PRC") is calculated at the rates pursuant to the relevant laws and regulations in the PRC.

10. NET LOSS FOR THE YEAR

Of the Group's net loss for the year, a net loss of HK$17,992,093 (2000: HK$13,020,006) has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK$25,578,285 (2000: HK$22,038,342) and on the weighted average of 3,307,079,623 (2000: 2,460,031,509) shares in issue during the year.

No diluted loss per share amount has been presented as the effect of the potential shares outstanding during the year was anti-dilutive.

12. INVESTMENT PROPERTIES

	THE GROUP
	HK$
At 1st April, 1999	6,950,000
Deficit arising on revaluation	(820,000)
At 31st March, 2000	6,130,000
Deficit arising on revaluation	(130,000)
At 31st March, 2001	6,000,000

The Group's investment properties were revalued at 31st March, 2001 on an open market value basis by LCH (Asia-Pacific) Surveyors Limited, an independent firm of Chartered Surveyors. The deficit arising on the revaluation has been charged to the income statement.

The Group's investment properties are situated in Hong Kong under medium-term leases and are rented out under operating leases. They have been pledged to a bank to secure credit facilities granted to the Group.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvements	Furniture and equipment	Motor vehicles	Plant and machinery	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
THE GROUP						
COST OR VALUATION						
At 1st April, 2000	84,300,000	3,903,541	8,760,819	1,375,597	30,094,946	128,434,903
Additions	139,201	163,947	671,576	–	128,950	1,103,674
Acquired on acquisition of the Cutters Business (note 26)	1,656,761	371,127	72,593	–	1,035,519	3,136,000
Currency realignment	–	2,792	–	–	7,436	10,228
Net surplus arising on revaluation	1,384,038	–	–	–	–	1,384,038
At 31st March, 2001	87,480,000	4,441,407	9,504,988	1,375,597	31,266,851	134,068,843
Comprising:						
At cost	–	4,441,407	9,504,988	1,375,597	31,266,851	46,588,843
At valuation - 2001	87,480,000	–	–	–	–	87,480,000
	87,480,000	4,441,407	9,504,988	1,375,597	31,266,851	134,068,843
DEPRECIATION AND AMORTISATION						
At 1st April, 2000	–	1,037,601	8,160,734	1,375,597	30,094,946	40,668,878
Provided for the year	3,716,353	853,920	281,992	–	490,582	5,342,847
Eliminated on revaluation	(3,716,353)	–	–	–	–	(3,716,353)
At 31st March, 2001	–	1,891,521	8,442,726	1,375,597	30,585,528	42,295,372
NET BOOK VALUES						
At 31st March, 2001	87,480,000	2,549,886	1,062,262	–	681,323	91,773,471
At 31st March, 2000	84,300,000	2,865,940	600,085	–	–	87,766,025

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's land and buildings were revalued at 31st March, 2001 on an open market value basis and on the basis of depreciated replacement cost, as appropriate, by LCH (Asia-Pacific) Surveyors Limited, an independent firm of Chartered Surveyors. They have been pledged to a bank to secure credit facilities granted to the Group.

The net surplus of HK$5,100,391 arising on the revaluation of the Group's land and buildings has been dealt with as follows:

(i) a surplus of HK$5,108,391 has been credited to the other property revaluation reserve; and

(ii) a deficit of HK$8,000 has been charged to the income statement.

Had the Group's land and buildings not been revalued, they would have been included on a historical cost basis at the following amounts:

	THE GROUP
	HK$
Cost	86,573,000
Accumulated depreciation and amortisation	(11,435,000)
Net book value at 31st March, 2001	75,138,000
Net book value at 31st March, 2000	75,032,000

	THE GROUP	
	2001	2000
	HK$	*HK$*
The net book value of the Group's land and buildings comprise:		
Properties situated in Hong Kong held under long lease *(note i)*	**4,400,000**	–
Properties situated in the PRC held under		
– long-term lease *(note i)*	**580,000**	600,000
– medium-term lease *(note ii)*	**82,500,000**	83,700,000
	87,480,000	84,300,000

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(i) The properties were valued on an open market value basis.

(ii) The properties were specially designed properties which, due to their specialised nature, have an utility restricted to particular uses or users, and are rarely, if ever, sold on the open market, except as part of a sale of the business in occupation. As there are no readily market sales comparable, the buildings and structures cannot be valued on the basis of open market value. They have therefore been valued on the basis of their depreciated replacement cost.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK$	*HK$*
Unlisted shares, at cost	**35,741,016**	35,741,016
Amounts due from subsidiaries	**56,717,353**	225,597,087
	92,458,369	261,338,103
Provision for impairment in value	**(66,856,837)**	(261,239,087)
	25,601,532	99,016

Details of the Company's principal subsidiaries at 31st March, 2001 are set out in note 35.

15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2001	2000
	HK$	*HK$*
Share of associates' net assets	**820,543**	408,732
Amounts due from associates less provision	**2,200,000**	2,200,000
	3,020,543	2,608,732

The investment in principal associate at 31st March, 2001 represents the Group's 40% equity interest in Northern Newland Engineering Limited, which is a company incorporated in Hong Kong and engaged in the provision of engineering services.

15. INTERESTS IN ASSOCIATES (continued)

The above list the associate of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

16. INVENTORIES

	THE GROUP	
	2001	2000
	HK$	*HK$*
Raw materials	**7,553,050**	2,247,721
Work in progress	**1,233,893**	1,099,745
Finished goods	**1,793,929**	1,105,557
	10,580,872	4,453,023

At 31st March, 2000, inventories were stated at cost except that raw materials of HK$2,247,721 were carried at net realisable value.

17. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2001	2000
	HK$	*HK$*
Trade receivables	**4,368,204**	3,494,610
Other receivables	**873,063**	1,477,788
	5,241,267	4,972,398

17. TRADE AND OTHER RECEIVABLES (continued)

The Group allows an average credit period of 60 days. The following is an aged analysis of the trade receivables at the balance sheet date:

	THE GROUP	
	2001	2000
	HK$	*HK$*
Age		
0 to 60 days	**3,568,259**	3,138,864
61 to 90 days	**149,780**	124,938
Over 90 days	**650,165**	230,808
	4,368,204	3,494,610

18. AMOUNT DUE FROM A RELATED COMPANY

Pursuant to an agreement dated 19th September, 2000 entered into amongst the Company, Twin Base Limited ("Twin Base"), a company in which Mr. Chong Sing Yuen ("Mr. Chong") has a beneficial interest, and Mr. Chong (the "Cutters Business Agreement"), the Company acquired from Twin Base the business for the manufacture and sales of snap off blade cutters comprising, in terms of separable net assets, the office premises with two carparks, certain property, plant and equipment and all of the inventories of Twin Base as well as the net assets of Tung Hing Plastic (Panyu) Co., Ltd. (the "Cutters Business"). The consideration was satisfied by issuing 1,200,000,000 new shares of HK$0.01 each in the Company. In accordance with the terms of the Cutters Business Agreement, Twin Base guaranteed that the amount of net tangible assets value of the Cutters Business would be at least HK$12,152,000 at the completion date of the Cutters Business Agreement. The acquisition of the Cutters Business was completed on 31st December, 2000 with a net tangible assets value of the Cutters Business amounting to approximately HK$9,163,000. The shortfall of approximately HK$2,989,000, being the difference between the net tangible assets value of the Cutters Business as at the completion date of the Cutters Business Agreement and the guaranteed amount of HK$12,152,000 as stated in the Cutters Business Agreement, had been recorded as an amount receivable from Twin Base in the balance sheet at 31st March, 2001.

19. TRADE AND OTHER PAYABLES

	THE GROUP	
	2001	2000
	HK$	*HK$*
Trade payables	**7,671,834**	3,381,673
Other payables	**13,413,794**	10,768,884
	21,085,628	14,150,557

The following is an aged analysis of the trade payables at the balance sheet date:

	THE GROUP	
	2001	2000
	HK$	*HK$*
Age		
0 to 60 days	**5,199,916**	2,638,799
61 to 90 days	**266,733**	359,405
Over 90 days	**2,205,185**	383,469
	7,671,834	3,381,673

20. SECURED BANK LOANS

	THE GROUP	
	2001	2000
	HK$	*HK$*
The secured bank loans are repayable as follows:		
Within one year	**188,105**	154,341
More than one year but not exceeding two years	**206,347**	169,560
More than two years but not exceeding five years	**719,174**	626,041
More than five years	**3,070,454**	3,375,012
	4,184,080	4,324,954
Less: Amount due within one year shown under current liabilities	**188,105**	154,341
Amount due after one year	**3,995,975**	4,170,613

21. BANK OVERDRAFTS

	THE GROUP		THE COMPANY	
	2001	2000	**2001**	2000
	HK$	*HK$*	***HK$***	*HK$*
Bank overdrafts				
– secured	**397,070**	–	**–**	–
– unsecured	**131,316**	–	**131,316**	–
	528,386	–	**131,316**	–

22. SHARE CAPITAL

	Number of shares	Amount
		HK$
Authorised:		
At 31st March, 1999 and 31st March, 2000, ordinary shares of HK$0.05 each	6,000,000,000	300,000,000
Reduction of capital from HK$0.05 each to HK$0.01 each on 30th June, 2000	24,000,000,000	–
At 31st March, 2001, ordinary shares of HK$0.01 each	30,000,000,000	300,000,000

	Number of shares	Amount
		HK$
Issued and fully paid:		
At 1st April, 1999, ordinary shares of HK$0.05 each	2,193,858,141	109,692,907
Exercise of share options	28,315,000	1,415,750
Issue of shares on private placement	400,000,000	20,000,000
Issue of shares pursuant to the scheme of arrangement	384,884,564	19,244,228
At 31st March, 2000, ordinary shares of HK$0.05 each	3,007,057,705	150,352,885
Reduction of capital from HK$0.05 each to HK$0.01 each	–	(120,282,308)
Issue of shares for the acquisition of the Cutters Business	1,200,000,000	12,000,000
Exercise of share options	29,000,000	290,000
At 31st March, 2001, ordinary shares of HK$0.01 each	4,236,057,705	42,360,577

22. SHARE CAPITAL (continued)

During the year ended 31st March, 2001, the following changes in the share capital of the Company took place:

(a) Pursuant to special resolutions passed in the special general meeting held on 30th June, 2000 to effect the reduction of capital of the Company, the following changes in the share capital of the Company took place:

(i) the nominal value of the issued shares of HK$0.05 each was reduced by HK$0.04 to HK$0.01. The issued share capital of the Company of HK$150,352,885 was, accordingly, reduced by HK$120,282,308 to HK$30,070,577 (comprising the same number of issued shares);

(ii) the surplus amount of HK$120,282,308 arising from such reduction was set off against the deficit of the Company;

(iii) the share premium of the Company amounting to approximately HK$141,656,660 was cancelled and the credit arising therefrom was applied to set off against the deficit of the Company; and

(iv) each of the authorised but unissued shares (which included, without limitation, those unissued shares resulting from the capital reduction pursuant to (a) (i) above) was sub-divided into five shares and the authorised capital remained as HK$300,000,000.

(b) Pursuant to the Cutters Business Agreement, the Company acquired the Cutters Business from Twin Base by issuing 1,200,000,000 new shares of HK$0.01 each in the Company. The acquisition of the Cutters Business was completed on 31st December, 2000.

(c) In February 2001, 29,000,000 share options were exercised at a subscription price of HK$0.027 per share, resulting in the issue of 29,000,000 shares of HK$0.01 each in the Company.

All the shares issued during the year ended 31st March, 2001 rank pari passu with the then existing shares in all respects.

23. SHARE OPTION SCHEME

Under the terms of the share option scheme which became effective on 10th September, 1992, the board of directors of the Company may for a notional consideration offer to any director or full time employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

Details of the movements in the number of share options granted under the scheme are as follows:

			Number of share options		
Exercisable period	**Exercise price per share** *HK$*	**Outstanding at 1st April, 2000**	**Granted during the year**	**Exercised during the year**	**Outstanding at 31st March, 2001**
25th June, 1999 to 10th September, 2002	0.050	70,910,000	–	–	70,910,000
25th November, 2000 to 10th September, 2002	0.027	–	105,000,000	(29,000,000)	76,000,000

24. RESERVES

	Share premium HK$	Other property revaluation reserve HK$	Goodwill HK$	Translation reserve HK$	Special reserve HK$	Accumulated profit (Deficit) HK$	Total HK$
THE GROUP							
At 1st April, 1999	117,458,977	12,039,976	(1,927,691)	–	(11,152,801)	(195,823,727)	(79,405,266)
Premium arising on issue of shares	24,197,683	–	–	–	–	–	24,197,683
Surplus arising on revaluation	–	61,498	–	–	–	–	61,498
Net loss for the year	–	–	–	–	–	(22,038,342)	(22,038,342)
At 31st March, 2000	141,656,660	12,101,474	(1,927,691)	–	(11,152,801)	(217,862,069)	(77,184,427)
Premium arising on issue of shares, net of expenses of HK$3,872,669	19,420,331	–	–	–	–	–	19,420,331
Effect of capital reduction *(note 22(a))*	(141,656,660)	–	–	–	–	261,938,968	120,282,308
Surplus arising on revaluation	–	5,108,391	–	–	–	–	5,108,391
Impairment in value of goodwill on de-registration of a subsidiary	–	–	1,426,984	–	–	–	1,426,984
Impairment in value of goodwill attributable to an associate	–	–	500,707	–	–	–	500,707
Write-off of goodwill arising on acquisition of the Cutters Business	–	–	(22,648,000)	–	–	–	(22,648,000)
Exchange differences arising on translation of financial statements of overseas operations	–	–	–	51,728	–	–	51,728
Net loss for the year	–	–	–	–	–	(25,578,285)	(25,578,285)
At 31st March, 2001	19,420,331	17,209,865	(22,648,000)	51,728	(11,152,801)	18,498,614	21,379,737

24. RESERVES (continued)

	Share premium *HK$*	Other property revaluation reserve *HK$*	Goodwill *HK$*	Translation reserve *HK$*	Special reserve *HK$*	Accumulated profit (Deficit) *HK$*	Total *HK$*
Attributed to:							
– the Company and subsidiaries	19,420,331	17,209,865	(22,648,000)	51,728	(11,152,801)	18,478,071	21,359,194
– associates	–	–	–	–	–	20,543	20,543
At 31st March, 2001	19,420,331	17,209,865	(22,648,000)	51,728	(11,152,801)	18,498,614	21,379,737

The special reserve of the Group represents the difference between the nominal amount of the Company's shares issued as consideration and the aggregate of the nominal amount of the share capital and share premium accounts of the subsidiaries acquired at the date of the group reorganisation.

	Share premium *HK$*	Contributed surplus *HK$*	Deficit *HK$*	Total *HK$*
THE COMPANY				
At 1st April, 1999	117,458,977	10,429,000	(280,540,875)	(152,652,898)
Premium arising on issue of shares	24,197,683	–	–	24,197,683
Net loss for the year	–	–	(13,020,006)	(13,020,006)
At 31st March, 2000	141,656,660	10,429,000	(293,560,881)	(141,475,221)
Premium arising on issue of shares, net of expenses of HK$3,872,669	19,420,331	–	–	19,420,331
Effect of capital reduction *(note 22(a))*	(141,656,660)	–	261,938,968	120,282,308
Transfers	–	(10,429,000)	10,429,000	–
Net loss for the year	–	–	(17,992,093)	(17,992,093)
At 31st March, 2001	19,420,331	–	(39,185,006)	(19,764,675)

24. RESERVES (continued)

The contributed surplus of the Company represented the difference between the consolidated shareholders' funds of Sharp Brave (B.V.I.) Limited at the date on which its shares were acquired by the Company under the group reorganisation and the nominal amount of the Company's shares issued as consideration for the acquisition. Pursuant to a resolution passed in a directors' meeting dated 17th May, 2000, the directors resolved to utilise the contributed surplus to set off against the deficit of the Company.

At the balance sheet date, the Company had no reserves available for distribution to shareholders.

25. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001	2000
	HK$	*HK$*
Loss before taxation	**(25,058,746)**	(21,917,990)
Interest income	**(197,978)**	(43,725)
Interest expenses	**2,916,986**	2,968,230
Share of results of an associate	**(411,811)**	453,194
Depreciation and amortisation	**5,342,847**	2,001,149
Deficit arising on revaluation of investment properties	**130,000**	820,000
Deficit arising on revaluation of land and buildings	**8,000**	170,118
Financial implication arising from the scheme of arrangement	**–**	3,989,520
Impairment in value of goodwill on de-registration of a subsidiary	**1,426,984**	–
Impairment in value of goodwill attributable to an associate	**500,707**	–
Provision for bad and doubtful debts	**4,779,718**	–
Provision for slow-moving inventories	**3,200,000**	2,000,000
Decrease in amounts due from associates	**–**	52,966
Increase in inventories	**(2,471,849)**	(4,366,549)
Increase in trade and other receivables	**(4,123,248)**	(2,696,373)
Increase in trade and other payables	**6,054,071**	87,569
(Decrease) increase in trade payable to a related company	**(1,747,444)**	1,747,444
Increase in amount due to an associate	**925,018**	–
Net cash outflow from operating activities	**(8,726,745)**	(14,734,447)

26. ACQUISITION OF THE CUTTERS BUSINESS

	2001	2000
	HK$	*HK$*
Net assets acquired:		
Property, plant and equipment	**3,136,000**	–
Inventories	**6,856,000**	–
Trade receivables	**12,000**	–
Bank balances and cash	**52,000**	–
Trade and other payables	**(881,000)**	–
Taxation	**(12,000)**	–
Net assets	**9,163,000**	–
Goodwill arising on acquisition	**22,648,000**	–
Consideration satisfied by issue of 1,200,000,000 new shares of HK$0.01 each in the Company at HK$0.029 per share as quoted on the Stock Exchange on the completion date of the transaction, less guaranteed net assets compensation receivable of HK$2,989,000 *(note 18)*	**31,811,000**	–
Analysis of cash inflow in acquisition of the Cutters Business:		
Bank balances and cash acquired	**52,000**	–

The Cutters Business acquired during the year contributed HK$4,735,330 to the Group's net operating cash flows, paid taxation of HK$12,000 and utilised HK$268,418 for investing activities.

27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium	Bank loans	Short-term bank loans	Amount due to a director	Amount due to a related company
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
At 1st April, 1999	227,151,884	4,450,249	22,489,143	1,302,000	–
Proceeds from issue of new shares	30,218,050	–	–	–	–
Borrowings raised	–	–	–	1,781,495	–
Repayment of borrowings	–	(125,295)	(773,709)	(1,302,000)	–
Other movements not involving cash flows:					
Shares issued to creditors	34,639,611	–	–	–	–
At 31st March, 2000	292,009,545	4,324,954	21,715,434	1,781,495	–
Currency realignment	–	–	872,230	–	–
Outgoings from issue of new shares, net of expenses	(3,089,669)	–	–	–	–
Borrowings raised	–	–	–	3,210,332	5,338,268
Repayment of borrowings	–	(140,874)	–	(1,781,495)	–
Other movements not involving cash flows:					
Shares issued for the acquisition of the Cutters Business	34,800,000	–	–	–	–
Effect of capital reduction	(261,938,968)	–	–	–	–
At 31st March, 2001	61,780,908	4,184,080	22,587,664	3,210,332	5,338,268

28. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2001	2000
	HK$	*HK$*
Bills receivable	**332,369**	–
Bank balances and cash	**4,041,165**	4,098,880
Trust receipt loans	**(2,262,040)**	(1,140,716)
Bank overdrafts	**(528,386)**	–
	1,583,108	2,958,164

29. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the Group and the Company has an unrecognised deferred tax asset of approximately HK$5,996,000 (2000: HK$5,740,000) and HK$5,201,000 (2000: HK$4,142,000) respectively which represents the tax effect of timing differences arising as a result of tax losses available to set off against future assessable profits. This deferred tax asset has not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

No provision for deferred taxation has been made in the financial statements in respect of the land appreciation tax arising on the revaluation of land and buildings in the PRC as, in the opinion of the directors, the respective properties are held for the Group's own use and are not intended to be held for resale in the foreseeable future.

30. OPERATING LEASE COMMITMENTS

While the Company had no outstanding operating lease commitments at the balance sheet date, the Company's subsidiaries were committed to make the following rental payments for land and buildings in the next year under non-cancellable operating leases which expire:

	THE GROUP	
	2001	2000
	HK$	*HK$*
Within one year	–	73,500
In the second to fifth year inclusive	**405,600**	–
	405,600	73,500

Included in the above are operating lease commitments under non-cancellable operating leases of HK$405,600 (2000: HK$36,000) which expire in December 2002 payable to Twin Base.

31. CONTINGENT LIABILITIES

	THE GROUP	
	2001	2000
	HK$	*HK$*
Export bills discounted with recourse	**1,019,484**	–

At the balance sheet date, the Company has given corporate guarantees to the extent of HK$20,500,000 (2000: HK$15,500,000) to certain banks in respect of credit facilities extended to certain subsidiaries.

32. RETIREMENT BENEFITS SCHEME

The Company operates defined contribution retirement benefits schemes under the Occupational Retirement Scheme Ordinance (the "ORSO Schemes") for all qualified employees. The assets of the ORSO Schemes are held separately in funds under the control of independent trustees. The retirement benefits scheme contributions charged to the income statement represents contributions payable to the ORSO Schemes by the Company at rates specified in the rules of the ORSO Schemes. Where there are employees who leave the ORSO Schemes prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contribution payable by the Group.

In light of the introduction of Mandatory Provident Fund (the "MPF") in Hong Kong, all qualifying employees of the Group were granted a one-off option to elect staying with the ORSO Schemes or switching to the MPF schemes. The Group has arranged for relevant employees to join the MPF schemes since December 2000. The Group and each of the employees make monthly mandatory contributions to the MPF schemes.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

At the balance sheet date, there was no significant forfeited contributions, which arose upon employees leaving the retirement benefits scheme, available to reduce the contribution payable in the future years.

33. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(I) CONNECTED PARTY TRANSACTIONS

(a) During the year, the Group had the following significant transactions with Twin Base:

	THE GROUP	
Nature of transactions	**2001**	2000
	HK$	*HK$*
Sub-contracting fees received *(note i)*	**–**	4,761,797
Property rental income and reimbursement of outgoings received *(note ii)*	**704,268**	782,520
Management fees paid *(note iii)*	**400,613**	421,200
Rentals paid on land and buildings *(note ii)*	**263,400**	216,000

33. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(I) CONNECTED PARTY TRANSACTIONS (continued)

(a) *Notes:*

(i) The subcontracting fees were charged on the basis of cost plus 5% profit mark-up.

(ii) The property rental income as well as rentals paid were charged in accordance with respective tenancy agreements and the prevailing rent approximate to the open market rentals estimated by the directors at the time when these tenancy agreements were contracted. Outgoings in connection with the property let to Twin Base were reimbursed on an actual incurred basis.

(iii) Management fees were charged on the basis to reimburse the actual staff costs incurred by Twin Base.

(b) During the year, the Company acquired the Cutters Business from Twin Base by issuing 1,200,000,000 new shares of HK$0.01 each in the Company and also had a guaranteed net assets compensation amounting to HK$2,989,000 receivable from Twin Base, details of which are set out in note 18.

(c) Pursuant to the Cutters Business Agreement, Twin Base has guaranteed the audited profit after taxation but before extraordinary items of the Cutters Business for the year ending 31st December, 2001 (the "Guaranteed Period") will not be less than HK$10,000,000 (the "Guaranteed Profit"). In the event that the audited profit after taxation but before extraordinary items of the Cutters Business for the Guaranteed Period falls `short of the Guaranteed Profit, Twin Base will pay to the Company the liquidated damages calculated on the basis of 4.5 times the shortfall of the Guaranteed Profit.

(II) RELATED PARTY, OTHER THAN CONNECTED PARTY, TRANSACTIONS

During the year, the Group purchased finished goods amounting to HK$657,185 (2000: HK$3,166,705) from an associate of the Group, 番禺精輝電路版有限公司. These transactions were carried out at market price.

In addition, as at 31st March, 2000 and 31st March, 2001, an associate of the Group held 48,138,279 shares of the Company resulting from the scheme of arrangement in its capacity as creditors of Sharp Brave Company Limited.

Details of the balances with connected and related parties at the balance sheet date are set out in the balance sheets, notes 15 and 18.

Details of the operating lease commitments with a connected party at the balance sheet date are set out in note 30.

34. POST BALANCE SHEET EVENT

On 14th June, 2001, a placing agreement was entered into between the Company and NSC Securities (Asia) Limited ("NSC") pursuant to which the Company through NSC placed a total of 300,000,000 new shares of HK$0.01 each in the Company (the "Placing Shares") to independent third parties at a price of HK$0.029 per share. The Placing Shares were fully subscribed in June 2001 and the net proceeds of approximately HK$8,500,000 raised were to be used as general working capital of the Company.

35. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are wholly-owned and indirectly held by the Company, at 31st March, 2001 are as follows:

Name of subsidiary	Place of incorporation or establishment and operations	Nominal value of issued/ registered capital	Principal activities
Goodfit Products Company Limited	Hong Kong	Ordinary – HK$1,000 Non-voting deferred – HK$1,000,000	Trading of toys, home appliances and electronic products
北方實業(番禺)有限公司 Northern Industrial (Panyu) Co., Ltd.	PRC	HK$95,000,000	Manufacture of electronic products
Richsharp Investment Limited	Hong Kong	Ordinary – HK$100 Non-voting deferred – HK$1,200,000	Property investment
Superior Trump Limited	Hong Kong	Ordinary – HK$10,000	Property investment
同興制品(番禺)有限公司 Tung Hing Plastic (Panyu) Co., Ltd.	PRC	US$1,800,000	Manufacture of snap off blade cutters
Tung Hing Products Company Limited	Hong Kong	Ordinary – HK$100	Trading of snap off blade cutters

35. PRINCIPAL SUBSIDIARIES (continued)

The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up. The Group has been granted an option by the holders of the deferred shares to acquire these shares at a nominal amount.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.