

1. SEGMENT INFORMATION

The Group's operations comprise two main business segments: telecommunication and electronic products and e-Business related services. Telecommunication and electronic products include the design, manufacture and distribution of telephones, electronic learning, information appliances, interactive set top boxes and other electronic products. e-Business related services include the design, manufacture and distribution of web services, learning web, a global positioning system and other e-Business related activities.

The design, manufacture and distribution of interactive set top boxes has been reclassified and included under the "Telecommunication and electronic products" segment instead of the "e-Business related services" segment as shown in the annual financial statements for the year ended 31st March 2000 as the directors believe this is a fairer classification of the nature of those activities.

Primary reporting format — business segments

		2001	2000
		US\$ million	US\$ million
i	Turnover		
	Telecommunication and electronic products	1,333.9	1,043.8
	e-Business related services	1.0	2.1
		1,334.9	1,045.9
	Segment operating (loss)/profit and share of results of associates		
	Telecommunication and electronic products	(183.7)	63.2
	e-Business related services		
	Company and subsidiaries	(15.0)	(15.4)
	Share of results of associates	(0.5)	(0.1)
		(15.5)	(15.5)
		(199.2)	47.7
	Unallocated corporate expenses	(1.4)	(1.4)
	Operating (loss)/profit after share of results of associates	(200.6)	46.3
	Net finance (costs)/income	(12.5)	1.3
	(Loss)/profit before taxation	(213.1)	47.6
	Taxation	(1.8)	(2.5)
	(Loss)/profit after taxation	(214.9)	45.1
	Minority interests	(0.1)	(0.1)
	(Loss)/profit attributable to shareholders	(215.0)	45.0

1. SEGMENT INFORMATION (Continued)

ii Segment assets

	Segment assets		Income/Deferred				Total	
			tax assets		Other assets			
	2001	2000	2001	2000	2001	2000	2001	2000
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Telecommunication and electronic products	606.7	696.6	—	—	—	—	606.7	696.6
e-Business related services	5.0	5.9	—	—	—	—	5.0	5.9
Unallocated	—	—	7.6	7.4	21.3	20.8	28.9	28.2
	611.7	702.5	7.6	7.4	21.3	20.8	640.6	730.7

Segment liabilities

	Segment liabilities		Income/Deferred				Total	
			tax liabilities		Other liabilities			
	2001	2000	2001	2000	2001	2000	2001	2000
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Telecommunication and electronic products	550.0	417.6	—	—	—	—	550.0	417.6
e-Business related services	1.8	3.4	—	—	—	—	1.8	3.4
Unallocated	—	—	2.3	4.8	5.8	7.3	8.1	12.1
	551.8	421.0	2.3	4.8	5.8	7.3	559.9	433.1

iii Capital expenditure, depreciation and other net non-cash expenses

	Capital expenditure		Depreciation		Other net non-cash expenses	
	2001	2000	2001	2000	2001	2000
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Telecommunication and electronic products	28.4	28.9	43.2	33.1	44.9	14.5
e-Business related services	1.7	0.1	0.2	0.1	—	—
Others	0.6	0.9	1.2	1.8	—	—
	30.7	29.9	44.6	35.0	44.9	14.5

1. SEGMENT INFORMATION (Continued)

Secondary reporting format — geographical segments

Although the Group's two business segments are managed on a worldwide basis, they operate in the following geographical areas:

USA and Mexico — the operations are principally the manufacturing of telecommunication products and the distribution of telecommunication and electronic consumer products.

Europe — the operations are principally the distribution of electronic consumer products.

Asia Pacific — the Group's headquarters are in Hong Kong and the Group's principal manufacturing operations are in the People's Republic of China.

The USA and Mexico segments have been combined into one segment "USA and Mexico" instead of two separate segments as shown in the annual financial statements for the year ended 31st March 2000 as the directors believe this is a fairer classification of the nature of those operations.

Turnover represents the amounts received and receivable for sale of goods to third parties.

	Turnover		Operating profit/(loss)		Capital expenditure		Total assets	
	2001	2000	2001	2000	2001	2000	2001	2000
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
USA and Mexico	1,047.2	759.1	(156.9)	22.6	8.1	1.7	332.6	402.2
Europe	181.6	196.0	(10.0)	18.6	2.3	2.3	62.9	46.7
Asia Pacific	51.0	36.1	(36.1)	1.4	20.3	25.1	227.1	268.9
Others	55.1	54.7	2.9	3.8	—	0.8	18.0	12.9
Total	1,334.9	1,045.9	(200.1)	46.4	30.7	29.9	640.6	730.7

2. OPERATING (LOSS)/PROFIT

The following items have been charged/(credited) in arriving at operating (loss)/profit:

	Note	2001 US\$ million	2000 US\$ million
Depreciation charges	9	44.6	35.0
Provision for stock obsolescence		30.5	13.7
Operating leases on land and buildings		12.6	10.1
Royalties		15.5	6.0
Repair and maintenance expenditure		3.0	3.0
Loss on disposal of tangible assets		1.2	0.7
Recognition of negative goodwill (Note)	10	(31.9)	—
Amortization of goodwill	12	0.3	0.3
Provision for doubtful debts		3.6	0.5
Auditors' remuneration		0.8	0.8
Exchange loss/(gain)		0.7	(1.0)
Staff related costs:			
— salaries and wages		139.3	106.3
— severance payments		1.1	0.1
— defined contribution pension costs	18	1.5	0.6
— defined benefit pension costs	18	1.4	2.0
Restructuring and impairment charges	3	110.4	—

Note: The negative goodwill arising on the acquisition of the Lucent consumer telephone operations (note 3 below) amounting to US\$31.9 million has been recognized as income in the consolidated income statement to offset selling and distribution costs in the amount of US\$16.1 million, administrative and other operating expenses in the amount of US\$12.6 million and research and development expenses in the amount of US\$3.2 million arising from the business acquired.

3. RESTRUCTURING AND IMPAIRMENT CHARGES

The Group announced a comprehensive restructuring plan in March 2001. The restructuring measures undertaken during the year and to be undertaken as part of the plan include the re-organization and rationalization of the consumer telephone operations in the United States to achieve greater cost efficiencies. Factories in Mexico, which were acquired from Lucent Technologies Consumer Products, L.P. and Lucent Technologies Inc ("Lucent") on 31st March 2000, will be divested. The electronic learning products operations in Europe will be centralized under regional management. In addition, e-Business related services and other development stage businesses such as mobile phones will be downsized and re-organized. The information appliances and multimedia communication business units will be merged into the consumer telephone and contract manufacturing services units respectively. Discontinued stocks have been written down to estimated realizable value. The restructuring costs and associated impairment charges for tangible and intangible assets are as follows:

	Note	2001 US\$ million	2000 US\$ million
Severance payments		36.0	—
Impairment of intangible assets	10	25.2	—
Impairment of fixed assets	9	17.2	—
Write-down of discontinued stocks		17.1	—
Other closure and termination costs		14.9	—
	2	110.4	—

As set out in the consolidated financial statements for the year ended 31st March 2000, the Group acquired certain assets and assumed certain liabilities from Lucent related to their consumer telephone manufacturing operations on 31st March 2000. The results of the Group were significantly impacted by the Lucent consumer telephone operations and the operating loss of those operations for the year ended 31st March 2001 were included in the consolidated income statement as follows:

	Note	2001 US\$ million	2000 US\$ million
Turnover		319.8	—
Cost of sales		(268.6)	—
Gross profit		51.2	—
Selling and distribution costs		(87.1)	—
Administrative and other operating expenses		(22.1)	—
Research and development expenses		(13.5)	—
Restructuring and impairment charges*		(58.1)	—
Recognition of negative goodwill	2	31.9	—
Operating loss		(97.7)	—

* Restructuring and impairment charges of US\$58.1 million are included in the total restructuring charges of US\$110.4 million above.

4. DIRECTORS' AND SENIOR EXECUTIVE'S EMOLUMENTS

Directors' emoluments

The emoluments of the directors of the Company are as follows:

	2001 US\$ million	2000 US\$ million
Salaries, allowances and benefits in kind	3.3	3.1
Bonuses	0.3	2.3
Fees	0.1	0.1
Contributions to retirement benefit schemes	0.2	0.2
Compensation for loss of office	0.9	—
	4.8	5.7

The table below shows the number of directors whose emoluments were within the bands stated:

US\$	2001 Number of directors	2000 Number of directors
Nil – 128,000	3	2
192,001 – 256,000	—	1
320,001 – 384,000	—	1
384,001 – 448,000	1	—
448,001 – 512,000	2	—
512,001 – 576,000	—	1
576,001 – 640,000	—	1
768,001 – 832,000	2	1
896,001 – 960,000	2	—
1,152,001 – 1,216,000	—	1
1,792,001 – 1,856,000	—	1

Emoluments of independent non-executive directors included above amounted to US\$37,000 (2000: US\$30,000) in respect of directors' fees.

Senior executive's emoluments

The directors' emoluments set out above exclude a senior executive (2000: Nil) whose emoluments were among the five highest earning employees of the Group. Details of the emoluments in aggregate for this executive are set out below.

	2001 US\$ million	2000 US\$ million
Salaries, allowances and benefits in kind	0.4	—
Bonuses	0.2	—
	0.6	—

5. NET FINANCE COSTS/(INCOME)

	2001	2000
	US\$ million	US\$ million
Interest expense		
Wholly repayable within five years:		
Bank loans and overdrafts	14.8	1.5
Not wholly repayable within five years:		
Bank loans	0.9	0.5
Interest income	(3.2)	(3.3)
	12.5	(1.3)

6. TAXATION

	2001	2000
Note	US\$ million	US\$ million
Current tax	1.6	1.9
Deferred tax	0.2	0.6
	1.8	2.5

Tax on profits has been calculated at the rates of taxation prevailing in the countries in which the Group operates and includes Hong Kong profits tax charge of US\$ 0.9 million (2000: US\$3.3 million), United Kingdom corporation tax credit of US\$ 0.1 million (2000: tax charge of US\$0.4 million) and a tax charge in the USA of US\$ 1.0 million (2000: tax credit of US\$1.1 million).

The consolidated effective income tax rate for the year ended 31st March 2001 was -0.8% (2000: 5.3%). This effective income tax rate is reconciled to the statutory domestic income tax rate as follows:

	2001	2000
	%	%
Statutory domestic income tax rate	(16.0)	16.0
Difference in overseas income tax rates	—	1.3
Non-temporary differences	(2.2)	(14.6)
Tax loss not recognized	15.0	2.7
Others	2.4	(0.1)
Effective income tax rate	(0.8)	5.3

7. DIVIDENDS

	2001	2000
	US\$ million	US\$ million
Final dividend in respect of 2000 of US12.5 cents (1999: US12.5 cents) per share	26.9	26.5
Interim dividend in respect of 2000 of US5.0 cents per share	—	10.6
	26.9	37.1

The final dividend in respect of 2000 was satisfied by the payment of cash of US\$10.8 million and the balance of US\$16.1 million by the allotment of 5,114,154 new ordinary shares in the Company by way of scrip dividend. The board has not recommended any dividend (2000: US17.5 cents per share) for the year.

8. (LOSS)/EARNINGS PER SHARE

The calculations of basic and diluted loss/earnings per share are based on the Group's loss attributable to shareholders of US\$215.0 million (2000: profit of US\$45.0 million).

The basic loss/earnings per share is based on the weighted average of 222.4 million (2000: 214.3 million) ordinary shares in issue during the year. Since diluted loss per share is decreased when taking share options into account, the options are anti-dilutive and are ignored in the calculation of diluted loss per share. Therefore, diluted loss per share is US96.7 cents. The diluted earnings per share in 2000 was based on 214.9 million ordinary shares which is the weighted average number of ordinary shares in issue during 2000 after adjusting for the weighted average of 0.6 million ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised at 31st March 2000.

9. TANGIBLE ASSETS

	Land and buildings		Construction in progress		Moulds, machinery and equipment		Other assets		Total	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Cost or valuation										
At 1st April	92.1	59.6	0.5	1.8	220.1	133.4	67.3	53.8	380.0	248.6
Additions	2.8	0.4	—	0.5	18.8	16.0	9.1	13.0	30.7	29.9
Acquisition of subsidiaries	—	32.5	—	—	1.0	74.6	—	2.6	1.0	109.7
Transfer between categories	—	0.6	—	(1.7)	(0.3)	(0.8)	0.3	1.9	—	—
Revaluation	—	(0.7)	—	—	—	—	—	—	—	(0.7)
Disposals	(4.8)	—	—	—	(10.5)	(1.7)	(4.1)	(3.2)	(19.4)	(4.9)
Impairment charge	(3.4)	—	—	—	(12.4)	—	(1.4)	—	(17.2)	—
Transfers to assets held for sale (Note 14)	(21.2)	—	—	—	(37.3)	—	—	—	(58.5)	—
Effect of changes in exchange rate	(0.7)	(0.3)	—	(0.1)	(0.4)	(1.4)	(0.7)	(0.8)	(1.8)	(2.6)
At 31st March	64.8	92.1	0.5	0.5	179.0	220.1	70.5	67.3	314.8	380.0
Accumulated depreciation										
At 1st April	12.3	11.3	—	—	149.2	92.6	45.7	35.6	207.2	139.5
Charge for the year	3.9	3.2	—	—	30.1	19.8	10.6	12.0	44.6	35.0
Acquisition of subsidiaries	—	—	—	—	—	38.6	—	1.0	—	39.6
Transfer between categories	—	—	—	—	(0.1)	0.4	0.1	(0.4)	—	—
Revaluation	—	(2.0)	—	—	—	—	—	—	—	(2.0)
Disposals	(0.5)	—	—	—	(8.0)	(1.5)	(2.6)	(2.4)	(11.1)	(3.9)
Transfers to assets held for sale (Note 14)	(1.1)	—	—	—	(27.0)	—	—	—	(28.1)	—
Effect of changes in exchange rate	—	(0.2)	—	—	(0.2)	(0.7)	(0.4)	(0.1)	(0.6)	(1.0)
At 31st March	14.6	12.3	—	—	144.0	149.2	53.4	45.7	212.0	207.2
Net book value at 31st March	50.2	79.8	0.5	0.5	35.0	70.9	17.1	21.6	102.8	172.8
Cost or valuation of tangible assets is analysed as follows:										
At cost	26.8	26.8	0.5	0.5	179.0	220.1	70.5	67.3	276.8	314.7
At professional valuation										
— 2000	35.0	65.3	—	—	—	—	—	—	35.0	65.3
— 2001	3.0	—	—	—	—	—	—	—	3.0	—
	64.8	92.1	0.5	0.5	179.0	220.1	70.5	67.3	314.8	380.0

The net book value of fixed assets held under finance lease as at 31st March 2001 is US\$0.6 million (2000: Nil).

The net book value of tangible assets pledged as security for liabilities at 31st March 2001 amounted to US\$7.0 million (2000: US\$12.3 million).

9. TANGIBLE ASSETS (Continued)

Land and buildings comprise:

	Freehold and long-term leasehold land and buildings		Short-term leasehold land and buildings		Investment properties		Total	
	2001 US\$ million	2000 US\$ million	2001 US\$ million	2000 US\$ million	2001 US\$ million	2000 US\$ million	2001 US\$ million	2000 US\$ million
Cost or valuation								
At 1st April	62.3	29.9	26.8	26.3	3.0	3.4	92.1	59.6
Additions	2.8	0.4	—	—	—	—	2.8	0.4
Acquisition of subsidiaries	—	32.5	—	—	—	—	—	32.5
Transfer between categories	—	—	—	0.6	—	—	—	0.6
Revaluation	—	(0.4)	—	—	—	(0.3)	—	(0.7)
Disposal	(4.8)	—	—	—	—	—	(4.8)	—
Impairment charge	(3.4)	—	—	—	—	—	(3.4)	—
Transfers to assets held for sale (Note 14)	(21.2)	—	—	—	—	—	(21.2)	—
Effect of changes in exchange rate	(0.7)	(0.1)	—	(0.1)	—	(0.1)	(0.7)	(0.3)
At 31st March	35.0	62.3	26.8	26.8	3.0	3.0	64.8	92.1
Accumulated depreciation								
At 1st April	—	0.9	12.3	10.4	—	—	12.3	11.3
Charge for the year	2.5	1.1	1.4	2.1	—	—	3.9	3.2
Acquisition of subsidiaries	—	—	—	—	—	—	—	—
Transfer between categories	—	—	—	—	—	—	—	—
Revaluation	—	(2.0)	—	—	—	—	—	(2.0)
Disposal	(0.5)	—	—	—	—	—	(0.5)	—
Transfers to assets held for sale (Note 14)	(1.1)	—	—	—	—	—	(1.1)	—
Effect of changes in exchange rate	—	—	—	(0.2)	—	—	—	(0.2)
At 31st March	0.9	—	13.7	12.3	—	—	14.6	12.3
Net book value at 31st March	34.1	62.3	13.1	14.5	3.0	3.0	50.2	79.8
Cost or valuation of tangible assets is analysed as follows:								
At cost	—	—	26.8	26.8	—	—	26.8	26.8
At professional valuation — 2000	35.0	62.3	—	—	—	3.0	35.0	65.3
At professional valuation — 2001	—	—	—	—	3.0	—	3.0	—
	35.0	62.3	26.8	26.8	3.0	3.0	64.8	92.1
Net book value of land and buildings comprises:								
Hong Kong								
Long-term leasehold (not less than 50 years)	10.5	11.0	—	—	3.0	3.0	13.5	14.0
Overseas								
Freehold	23.6	51.3	—	—	—	—	23.6	51.3
Short-term leasehold	—	—	13.1	14.5	—	—	13.1	14.5
	23.6	51.3	13.1	14.5	—	—	36.7	65.8
Net book value of revalued tangible assets had the assets been carried at cost less depreciation:	24.8	47.4			2.2	2.2	27.0	49.6

Investment properties were revalued at 31st March 2001 by Chung, Chan & Associates (Hong Kong), independent professional valuers, on an open market value basis. The directors have reviewed the carrying value of freehold and long-term leasehold land and buildings, as at 31st March 2001.

10. INTANGIBLE ASSETS

	Note	Negative goodwill US\$ million	Purchased research & development US\$ million	Total US\$ million
At 1st April 2000		(32.2)	—	(32.2)
Transferred from other investments	12	—	1.3	1.3
Additions during the year	22	—	23.9	23.9
Fair value adjustment	22	0.3	—	0.3
Recognized as income	2	31.9	—	31.9
Impairment charges	3	—	(25.2)	(25.2)
At 31st March 2001		—	—	—

11. DEFERRED TAXATION

The deferred tax assets and liabilities and the deferred tax account movements for the year ended 31st March 2001 are attributable to the following items:

	1st April 2000 US\$ million	Credited/ (charged) to income statement US\$ million	31st March 2001 US\$ million
Deferred tax assets			
Provisions	1.6	(1.0)	0.6
Tax loss carry forwards	1.0	0.7	1.7
Other deductible temporary differences	2.7	(0.2)	2.5
	5.3	(0.5)	4.8
Deferred tax liabilities			
Accelerated tax depreciation	(2.0)	0.3	(1.7)
Asset revaluation	(0.4)	—	(0.4)
	(2.4)	0.3	(2.1)
Net deferred tax assets	2.9	(0.2)	2.7

11. DEFERRED TAXATION (Continued)

The deferred tax assets and liabilities and the deferred tax account movements for the year ended 31st March 2000 are attributable to the following items:

	1st April 1999 US\$ million	Credited/ (charged) to income statement US\$ million	Charged to other properties revaluation reserve US\$ million	31st March 2000 US\$ million
Deferred tax assets				
Provisions	1.3	0.3	—	1.6
Tax loss carry forwards	1.3	(0.3)	—	1.0
Other deductible temporary differences	2.8	(0.1)	—	2.7
	5.4	(0.1)	—	5.3
Deferred tax liabilities				
Accelerated tax depreciation	(1.5)	(0.5)	—	(2.0)
Asset revaluation	(0.2)	—	(0.2)	(0.4)
	(1.7)	(0.5)	(0.2)	(2.4)
Net deferred tax assets/(liabilities)	3.7	(0.6)	(0.2)	2.9

Deferred tax assets and liabilities are offset when the taxes relate to the same fiscal authority. The following amounts are shown in the consolidated balance sheet:

	2001 US\$ million	2000 US\$ million
Deferred tax assets	4.0	4.3
Deferred tax liabilities	(1.3)	(1.4)
	2.7	2.9

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. Deferred taxation of US\$61.1 million (2000: US\$28.6 million) arising from unused tax losses of US\$218.3 million (2000: US\$121.6 million) has not been recognized at the end of the year.

12. INVESTMENTS

	Note	2001 US\$ million	2000 US\$ million
i) Associates			
Unlisted shares, at cost		2.1	1.3
Share of post acquisition retained reserves less losses		(1.1)	(0.6)
Amortization of goodwill	2	(0.6)	(0.3)
Share of net tangible assets		0.4	0.4
ii) Other investments			
Unlisted investments, at cost	10	0.1	1.4
		0.5	1.8

13. STOCKS

	2001 US\$ million	2000 US\$ million
Raw materials	40.7	77.0
Work in progress	6.4	16.0
Finished goods	140.4	163.8
	187.5	256.8
Analysis by product category:		
Telecommunication and electronic products	187.5	255.4
e-Business related services	—	1.4
	187.5	256.8

At 31st March 2001, there were US\$0.7 million stocks pledged as security for liabilities (2000: Nil).

Stocks carried at net realizable value at 31st March 2001 amounted to US\$51.9 million (2000: US\$4.1 million).

14. ASSETS HELD FOR SALE

	2001 US\$ million	2000 US\$ million
Land and buildings	20.1	—
Machinery and equipment	10.3	—
	30.4	—

As a consequence of the restructuring plan described in note 3 above, certain lands, buildings and equipment are no longer required for the purposes for which they were originally intended. These assets have been written down to their estimated recoverable amounts.

15. DEBTORS AND PREPAYMENTS

	Note	2001 US\$ million	2000 US\$ million
Trade debtors		195.3	188.0
Trade debtors due from associates		—	0.9
Other debtors and prepayments		58.2	54.2
Pension assets	18	2.1	1.4
		255.6	244.5

At 31st March 2001, there were no trade debtors pledged as security for liabilities (2000: Nil).

Included in other debtors in 2000 above was an amount due from a former director of the Company, Mr. Paul Anthony MURPHY. The amount had been fully repaid during the year (2000: US\$0.2 million) and the maximum amount outstanding during the year was US\$0.2 million (2000: US\$0.7 million). Interest was charged at the Hong Kong prime rate.

An ageing analysis of trade debtors by transaction date is as follows:

	0-30 days US\$ million	31-60 days US\$ million	61-90 days US\$ million	>90 days US\$ million	Total US\$ million
Balance at 31st March 2001	81.3	75.4	25.2	13.4	195.3
Balance at 31st March 2000	99.3	61.4	10.2	17.1	188.0

The majority of the Group's sales are on letter of credit and on open credit with varying terms of 30 to 90 days. Certain open credit sales are covered by credit insurance or bank guarantees.

16. CREDITORS AND PROVISIONS

	Note	2001 US\$ million	2000 US\$ million
Trade creditors		106.2	108.1
Provisions for liabilities and charges	19	66.3	37.9
Other creditors and accruals		135.4	96.4
Obligations under finance leases	17	0.1	—
		308.0	242.4

An ageing analysis of trade creditors by transaction date is as follows:

	0-30 days US\$ million	31-60 days US\$ million	61-90 days US\$ million	>90 days US\$ million	Total US\$ million
Balance at 31st March 2001	30.1	38.8	9.6	27.7	106.2
Balance at 31st March 2000	68.5	22.6	7.2	9.8	108.1

17. BORROWINGS

Note	2001 US\$ million	2000 US\$ million
Bank loans, overdrafts and finance lease obligations		
Repayable by instalments, any one of which is due for repayment after five years:		
Secured bank loans	4.6	4.5
Repayable by instalments, all of which are due for repayment within five years:		
Unsecured bank loans and overdrafts	241.4	178.8
Secured bank loans	3.1	2.6
Obligations under finance leases	0.5	—
	245.0	181.4
Less: amounts due within one year included under current liabilities:		
Unsecured bank loans and overdrafts	(111.3)	(16.2)
Secured bank loans	(1.3)	—
Obligations under finance leases	16 (0.1)	—
	(112.7)	(16.2)
	136.9	169.7
Bank loans, overdrafts and finance lease commitments are repayable as follows:		
Between one and two years	50.5	163.9
Between two and five years	81.9	1.3
In more than five years	4.5	4.5
	136.9	169.7

The secured bank loans are secured against land and buildings. Bank loans and overdrafts are mainly denominated in United States dollars, Hong Kong dollars and French Francs. Interest rates vary from 5.09% to 8.68%. (2000: 3.43% to 8.68%)

18. PENSION SCHEMES

Total retirement benefit costs recognized in the income statement for the year ended 31st March 2001 amounted to US\$2.9 million (2000: US\$2.6 million). For the defined contribution schemes operated for overseas employees, the retirement benefit cost expensed in the income statement amounted to US\$1.5 million (2000: US\$0.6 million). For the defined benefit scheme ("the Scheme") operated for Hong Kong employees, contributions made by the Group during the year were set based on advice from Watson Wyatt Hong Kong Limited ("Watson Wyatt"), independent actuaries and consultants. The Scheme is valued annually. The latest actuarial valuation was completed by Watson Wyatt as at 31st March 2001 using the projected unit credit method.

18. PENSION SCHEMES (Continued)

For the defined benefit scheme, the amounts recognized in the balance sheet are as follows:

	Note	2001 US\$ million	2000 US\$ million
Fair value of Scheme assets		12.3	15.6
Present value of the defined benefit obligation		(12.4)	(13.0)
Unrecognized actuarial gains/(losses)		2.2	(1.2)
Assets recognized in the balance sheet	15	2.1	1.4
The amounts recognized in the income statement are as follows:			
Current service cost		1.9	2.0
Interest cost		1.0	1.0
Expected return on plan assets		(1.5)	(1.1)
Net actuarial losses recognized in the year		—	0.1
Expenses recognized in the income statement*	2	1.4	2.0
The actual return on plan assets was as follows:			
Expected return on plan assets		1.5	1.1
Actuarial (losses)/gains on plan assets		(4.4)	2.0
Actual return on plan assets		(2.9)	3.1
Movement in the assets recognized in the balance sheet:			
At beginning of year		1.4	1.4
Total expenses as above*		(1.4)	(2.0)
Contributions paid		2.1	2.0
At end of year		2.1	1.4
The principal actuarial assumptions used for accounting purposes were:			
Discount rate		7.0%	8.0%
Expected return on plan assets		8.0%	9.0%
Future salary increases		6.0%	8.0%

19. PROVISIONS FOR LIABILITIES AND CHARGES

	Warranties US\$ million	Returns US\$ million	Restructuring costs US\$ million	Employee compensated leave entitlements US\$ million	Total US\$ million
At 1st April 2000	23.1	14.0	—	0.8	37.9
Additional provision	36.6	7.4	50.9	(0.8)	94.1
Unused amount reversed	—	(1.3)	—	0.8	(0.5)
Charged to income statement	36.6	6.1	50.9	—	93.6
Utilized during the year	(39.2)	(5.4)	(20.6)	—	(65.2)
At 31st March 2001	20.5	14.7	30.3	0.8	66.3

19. PROVISIONS FOR LIABILITIES AND CHARGES (Continued)**Warranties**

The Group gives one year warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision is recognized for expected warranty claims based on past experience of the level of repairs and returns. It is expected that the majority of the provision will be utilized in the next financial year.

Returns

The Group provides for loss of margin and cost of materials scrapped on estimated product returns.

Restructuring charges

Restructuring charges include the costs of terminating employees and other closure costs to be incurred on the cessation or streamlining of business activities. As set out in note 3 above, a comprehensive restructuring plan was announced in March 2001.

20. SHARE CAPITAL

			2001 US\$ million	2000 US\$ million
<i>Authorized</i>				
Ordinary shares: 400,000,000 (2000: 400,000,000) of US\$0.05 each				
			20.0	20.0
			2001 US\$ million	2000 US\$ million
<i>Issued and fully paid</i>				
Ordinary shares of US\$0.05 each:				
		214,454,787	10.7	10.6
		4,000	—	—
	22	5,578,292	0.3	—
	7	5,114,154	0.3	0.1
Balance as at 31st March 2001		225,151,233	11.3	10.7

20. SHARE CAPITAL (Continued)**Share option schemes**

Pursuant to the share option scheme adopted on 24th September 1991 (the "Scheme"), the board of directors is authorized to grant options to certain directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company at prices to be determined by the board in accordance with the terms of the Scheme. The movements in the number of share options under the Scheme during the year were as follows:

	Number of options granted under the Scheme	
	2001	2000
Balance as at 1st April 2000	5,265,300	5,473,300
Granted during the year	40,000	370,000
Cancelled during the year	(580,000)	(405,000)
Exercised during the year	(4,000)	(173,000)
Balance as at 31st March 2001	4,721,300	5,265,300

On 16th November 2000, the Company granted to an employee options to subscribe for an aggregate of 40,000 shares in the Company at a price of US\$1.76 per share. During the year, 4,000 options were exercised in the following months: August 2000, 2,000 options; September 2000, 2,000 options.

The 4,721,300 options outstanding at 31st March 2001 include 316,300 options that may be exercised at a price of US\$0.733 per share, 4,025,000 options that may be exercised at a price of US\$2.9 per share, 200,000 options that may be exercised at a price of US\$2.72 per share, 140,000 options that may be exercised at a price of US\$2.3 per share and 40,000 options that may be exercised at a price of US\$1.76 per share.

Warrants

Pursuant to a warrant instrument dated 19th January 2000 issued by the Company to AT&T Corp. ("AT&T") as part of a brand license agreement between the Company and AT&T pursuant to which AT&T granted the Company the exclusive right to use the AT&T brand for 10 years in connection with the manufacture and sale of wireless telephones and accessories in the United States and Canada, the Company granted AT&T warrants carrying rights to subscribe for 3,000,000 shares in the Company at a subscription price of HK\$20.00 per share on or before 18th January 2012. No warrants have been exercised since the date of grant.

21. RESERVES

	Note	Group		Company	
		2001 US\$ million	2000 US\$ million	2001 US\$ million	2000 US\$ million
Revenue reserves		(11.0)	230.1	35.3	209.8
Exchange reserve		(6.4)	(2.5)	(1.2)	(1.2)
Investment properties revaluation reserve		1.0	1.0	—	—
Other properties revaluation reserve		10.7	11.5	—	—
Share premium		74.2	46.0	74.2	46.0
		68.5	286.1	108.3	254.6
An analysis of movements on reserves is set out below:					
Revenue reserves					
Brought forward					
— as previously reported		230.1	195.1	209.8	96.9
— effect of adopting IAS 10 (revised 1999)	7	—	26.5	—	26.5
— effect of adopting IAS 19 (revised 1998)		—	0.6	—	—
— as restated		230.1	222.2	209.8	123.4
(Loss)/profit attributable to shareholders		(215.0)	45.0	(147.6)	123.5
Interim dividends paid	7	—	(10.6)	—	(10.6)
Final dividends paid	7	(26.9)	(26.5)	(26.9)	(26.5)
Disposal of properties previously revalued		0.8	—	—	—
Carried forward		(11.0)	230.1	35.3	209.8
Exchange reserve					
Brought forward					
		(2.5)	(0.5)	(1.2)	0.5
Exchange translation differences		(3.9)	(2.0)	—	(1.7)
Carried forward		(6.4)	(2.5)	(1.2)	(1.2)
Investment properties revaluation reserve					
Brought forward					
		1.0	1.3	—	—
Deficit arising on revaluation	9	—	(0.3)	—	—
Carried forward		1.0	1.0	—	—
Other properties revaluation reserve					
Brought forward					
		11.5	10.1	—	—
Surplus arising on current year revaluation		—	1.6	—	—
Deferred tax on provision against a freehold property		—	(0.2)	—	—
Disposal of properties previously revalued		(0.8)	—	—	—
Carried forward		10.7	11.5	—	—
Share premium					
Brought forward					
		46.0	39.3	46.0	39.3
Premium on exercise of share options		—	0.1	—	0.1
Shares issued on the acquisition of a subsidiary		12.4	—	12.4	—
Shares issued in lieu of scrip dividend	7	15.8	6.6	15.8	6.6
Carried forward		74.2	46.0	74.2	46.0

Reserves of the Company available for distribution to shareholders amounted to US\$35.3 million (2000: US\$209.8 million).

22. NOTE TO CONSOLIDATED CASH FLOW STATEMENT**Purchase of subsidiaries and businesses**

	Note	2001 US\$ million	2000 US\$ million
Tangible assets		1.0	70.1
Stocks		—	92.4
Debtors and prepayments		3.0	56.9
Cash at bank and deposits		1.4	2.5
Trade creditors		(4.8)	(33.5)
Other creditors and accruals		(0.8)	(29.7)
Current tax liabilities		—	(0.4)
Fair value at acquisition		(0.2)	158.3
Negative goodwill	10	—	(32.2)
Purchased research and development	10	23.9	—
Total consideration		23.7	126.1
Satisfied by			
Cash		11.0	126.1
Shares		12.7	—
		23.7	126.1
Net cash outflow arising on acquisition		11.0	126.1
Bank balances and cash acquired		(1.4)	(2.5)
Cashflow on acquisition net of cash acquired		9.6	123.6

On 5th July 2000, the Group entered into an agreement to acquire the entire issued share capital of VTech Mobile Limited (formerly Sensei Limited), other than those shares already owned by the Group. VTech Mobile Limited is engaged in the development of premium tier mobile phones for manufacture and distribution and has expertise in the commercial and technical aspects of the mobile telecommunications sector. The assets and liabilities acquired are set out above and further details of the acquisition are set out in the announcements dated 6th July and 26th September 2000. The consideration for the acquisition was US\$23.7 million comprising US\$11.0 million in cash and the issue of ordinary shares in the Company. On 26th September 2000, completion of the transaction took place and control of VTech Mobile Limited was effectively transferred to the Company. On the same date, the Company allotted and issued 5,578,292 of its shares in accordance with the sales and purchase agreement. The fair value of the shares issued, based on the closing price of the Company's shares on the Hong Kong Stock Exchange of HK\$17.70 (US\$2.28) on 26th September 2000 was US\$12.7 million.

As a consequence of the restructuring plan described in note 3 above, the Group has decided to close the research and development operations of VTech Mobile Limited and the intangible asset arising from the acquisition has been fully written-off as an impairment charge for the year ended 31st March 2001.

As set out in note 2 above, the Group acquired certain assets and assumed certain liabilities from Lucent related to their consumer telephone manufacturing operations on 31st March 2000. The consideration paid for the acquisition was US\$126.1 million, which was subsequently adjusted to US\$125.8 million. The US\$32.2 million negative goodwill arising on the acquisition was subsequently adjusted to US\$31.9 million and has been fully recognized as income in the year ended 31st March 2001 to offset losses arising from the business acquired.

23. FINANCIAL INSTRUMENTS

Off-balance sheet derivative financial instruments

The Group enters into foreign exchange forward contracts in order to manage its exposure to fluctuations in foreign currency exchange rates on specific transactions. The contracts are matched with anticipated future cash flows in foreign currencies, primarily from sales. The Group does not use derivative financial instruments for speculative purposes.

The following table summarizes by major currency the net amounts to be received/(paid) under forward contracts.

	2001			2000		
	Contract Amount	Fair value		Contract Amount	Fair value	
		Asset	Liability		Asset	Liability
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
United Kingdom						
Sterling Pounds	19.6	0.3	—	8.2	0.2	—
Euros	(21.2)	0.5	(0.5)	—	—	—

The fair value of the foreign exchange forward contracts represents the unrealized gains or losses on open contracts not recognized in the financial statements. These open contracts mature at various dates over the next 12 months.

Credit risk

Financial assets which potentially subject the Group to credit risk consist principally of cash, short-term deposits and trade receivables. The Group's cash equivalents and short-term deposits are placed with major financial institutions. Trade receivables are presented net of the allowance for doubtful receivables. Credit risk with respect to trade receivables is limited due to the large number of customers comprising the Group's customer base and their dispersion across different industries and geographical areas. Accordingly, the Group has no significant concentration of credit risk. In addition, credit risks are mitigated by the use of insurance plans.

With respect to the foreign exchange forward contracts, the Group's exposure is on the full amount of the foreign currency receivable on settlement. The Group manages these risks by monitoring credit ratings and limiting the aggregate risk to any individual counterparty.

Interest rate risk

The Group's short-term deposits are at fixed interest rates and mature within three months. All of the Group's borrowings bear interest based on floating interest rates except for term loans amounting to US\$7.0 million (2000: US\$3.6 million) which have fixed rates of interest.

23. FINANCIAL INSTRUMENTS (Continued)**Fair values**

The fair values of the Group's financial assets and liabilities, before taking account of hedging transactions, are summarized as follows:

	2001		2000	
	Carrying amount US\$ million	Fair value US\$ million	Carrying amount US\$ million	Fair value US\$ million
<i>Financial assets:</i>				
Investments	0.5	0.5	1.8	1.8
Debtors	195.3	195.3	188.9	188.9
Cash at bank and deposits	56.2	56.2	79.6	79.6
	252.0	252.0	270.3	270.3
<i>Financial liabilities:</i>				
Creditors and accruals	252.6	252.6	189.3	189.3
Bank overdrafts	2.8	2.8	12.1	12.1
Term loans	246.3	246.3	173.8	173.8
Obligations under finance leases	0.5	0.5	—	—
	502.2	502.2	375.2	375.2

The fair value of debtors, bank balances, creditors and accruals and bank overdrafts approximate their carrying amount due to the short-term maturities of these assets and liabilities. The fair value of term loans and obligations under finance leases is estimated using the expected future payments discounted at market interest rates.

Currency profile

The currency profile of the Group's financial assets and liabilities, before taking account of hedging transactions, is summarized as follows:

	2001		2000	
	Financial assets US\$ million	Financial liabilities US\$ million	Financial assets US\$ million	Financial liabilities US\$ million
<i>Currency:</i>				
United States Dollar	215.0	404.5	232.4	275.0
Euro	2.2	8.6	13.5	0.4
United Kingdom Sterling	6.8	5.3	7.4	2.7
Hong Kong Dollar	3.0	47.6	2.8	57.2
Dutch Guilder	2.1	—	1.7	3.4
Chinese Renminbi	1.4	19.7	1.8	16.8
Swiss Franc	0.7	0.2	0.6	0.4
Spanish Peseta	2.6	2.1	0.8	2.0
French Franc	9.3	8.3	4.8	12.3
Deutsch Mark	4.3	1.1	1.5	1.1
Others	4.6	4.8	3.0	3.9
	252.0	502.2	270.3	375.2

24. COMMITMENTS

	2001 US\$ million	2000 US\$ million
(i) Capital commitments for property, plant and equipment		
Authorized not contracted for	14.1	18.5
Contracted not provided for	3.2	3.7
	17.3	22.2
(ii) Operating lease commitments		
At 31st March the Group had total commitments under operating leases payable as follows:		
Land and buildings		
In one year or less	11.7	8.9
Between one and two years	11.6	8.5
Between two and five years	21.4	19.6
In more than five years	74.6	74.0
	119.3	111.0

The Group has entered into agreements with an independent third party in the People's Republic of China ("PRC") to lease factory premises in Houjie, Dongguan comprising several factory buildings. There are totally four separate leases which expire in 2003, 2004, 2022 and 2029 respectively. The lease expiring in 2029 has a non-cancellable period of eight years which expires in 2007. At the end of this non-cancellable period, the lease can only be cancelled on six months' notice with a penalty equivalent to three months' rentals. All other buildings have lease terms which can be cancelled upon three to six months' notice with penalties equivalent to three to twelve months' rentals. The operating lease commitments above include total commitments over the entire lease terms.

In December 1995, the Group entered into an agreement with an independent third party in the People's Republic of China ("PRC") whereby the PRC party will construct in phases and lease to the Group a new production facility in Liaobu, Dongguan. Under a fifty year lease agreement, the Group will rent the first and second phases of the facility for non-cancellable periods of six and eight years after completion respectively. The total estimated rental commitment to the end of the non-cancellable periods, after offsetting the interest bearing amount advanced for construction is US\$6.4 million (2000: US\$1.1 million). This amount is included in operating lease commitments above. The Group also has an option to purchase each phase of the production facility at any time within four and a half years after the completion of each phase. The first phase became fully operational in April 1998 and the second phase is expected to be operational in October 2001.

Under a Brand License Agreement, VTech USA Holdings LLC ("VTech USA"), a wholly-owned subsidiary, is required to make royalty payments to AT&T Corp., calculated as a percentage of net sales of the relevant categories of products, subject to certain minimum aggregate royalty payments. The percentage of net sales payable varies over time and between products. There is no maximum royalty payment. The aggregate minimum royalty payments as at 31st March 2001 amount to US\$171.0 million and the annual payment increases on a sliding scale from US\$15.7 million for the year ending 31st March 2002 to US\$21.2 million for the year ending 31st March 2010, when the agreement expires. VTech USA can renew the agreement for an additional five year term.

25. CONTINGENT LIABILITIES AND MATERIAL LEGAL PROCEEDINGS

The directors have been advised that certain accusations of infringements of patents, trademarks and tradenames have been lodged against the Company and its subsidiaries. In the opinion of legal counsel, it is too early to evaluate the likelihood of an unfavourable result. The directors are of the opinion that even if the accusations are found to be valid, there will be no material adverse effect on the financial position of the Group and believe adequate provisions have been made in these financial statements.

At 31st March 2001, there also existed a contingent liability in respect of bills discounted amounting to US\$0.6 million (2000: US\$1.4 million).

On 25th January 2001, the Company and a wholly-owned subsidiary VTech Electronics Netherlands BV, filed a complaint in the United States District Court for the Southern District of New York seeking damages in excess of US\$300 million against Lucent Technologies Inc. and Lucent Technologies Consumer Products L.P. for fraud and breaches of the Agreement for Purchase and Sale of Stock and Assets in connection with the acquisition from Lucent of their consumer telephone operations (see note 3 above).

26. COMPANY BALANCE SHEET

	Note	2001 US\$ million	2000 US\$ million
Non-current assets			
Subsidiaries		102.7	227.2
Associates		0.6	0.6
		103.3	227.8
Current assets			
Amounts due from subsidiaries	(i)	225.5	137.9
Amount due from an associate		—	1.0
Debtors and prepayments		1.0	0.5
Tax recoverable		0.4	—
Cash at bank and deposits		0.2	0.2
		227.1	139.6
Current liabilities			
Amounts due to subsidiaries	(i)	(208.9)	(101.4)
Creditors and provisions		(1.9)	(0.7)
		(210.8)	(102.1)
Net operating assets			
		119.6	265.3
Shareholders' funds			
Share capital	20	11.3	10.7
Reserves	21	108.3	254.6
		119.6	265.3

Note:

(i) The amounts due from/(to) subsidiaries have no fixed terms of repayment. Most of the amounts due are interest free.

27. PRINCIPAL SUBSIDIARIES

Details of the Company's interests in those subsidiaries which materially affect the results or assets of the Group as at 31st March 2001 are set out below:

Name of subsidiary	Fully paid issued share capital	Percentage of interest held by the Group	Principal activity
<i>Incorporated and operating in Hong Kong:</i>			
Perseus Investments Limited	Ordinary HK\$1,000 Deferred HK\$1,000	100	Property holding
Valentia Investment Limited	Ordinary HK\$1,000 Deferred HK\$1,000	100	Property holding
VTech Computers Systems Limited	Ordinary HK\$3,300,000	*100	Provision of IT training courses and online education services and the sale of consumer electronic products
VTech Electronics Limited	HK\$5,000,000	*100	Design, manufacture and distribution of electronic products
VTech Communications Limited	Ordinary HK\$1,000 Deferred HK\$5,000,000	*100	Design, manufacture and distribution of telecommunication equipment
VTech Telecommunications Limited	Ordinary HK\$1,000 Deferred HK\$5,000,000	*100	Design, manufacture and distribution of telecommunication equipment
<i>Incorporated and operating in France:</i>			
VTech Electronics France S.A.	FRF20,000,000	*100	Sale of electronic products

27. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Fully paid issued share capital	Percentage of interest held by the Group	Principal activity
<i>Incorporated and operating in Germany:</i>			
VTech Electronics Germany GmbH	DM5,085,158	*100	Sale of electronic products
<i>Incorporated and operating in Spain:</i>			
VTech Electronics Spain S.L.	ESP386,381,569	*100	Sale of electronic products
<i>Incorporated and operating in Mexico:</i>			
VTech Innovations, S.A. de CV	Class A PESO5,000 Class B PESO80,840,930	*100	Manufacture of telecommunication products
VTech Communications Mexico S.A. de C.V.	PESO25,490,000	*100	Manufacture and repair of telecommunication products
<i>Incorporated and operating in the U.S.:</i>			
VTech Industries, LLC.	US\$22,212,997	*100	Sale of electronic products
VTech Communications, Inc.	US\$300,000	*100	Sale of telecommunication products
VTech Innovation L.P.	US\$110,000,100	*100	Sale of telecommunication products
<i>Incorporated and operating in Canada:</i>			
VTech Electronics Canada Limited	Class A C\$5,000 Class B C\$195,000	*40 *100	Sale of electronic and telecommunication products

27. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Fully paid issued share capital	Percentage of interest held by the Group	Principal activity
<i>Incorporated and operating in the Netherlands:</i>			
VTech Electronics Netherlands B.V.	DFL33,550,000	*100	Sale of electronic products
<i>Incorporated and operating in the United Kingdom:</i>			
VTech Electronics (UK) Plc.	GBP500,000	*100	Sale of electronic products
<i>Incorporated in the British Virgin Islands and operating in the People's Republic of China:</i>			
Asian Luck Limited	US\$1	*100	Manufacture of electronic and telecommunication products

* indirectly held by subsidiary companies

28. RELATED PARTY TRANSACTIONS

In the normal course of business and on normal commercial terms, the Group undertakes a variety of transactions with certain of its associates. None of these transactions was material to the Group's results.

29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board on 27th June 2001.