Principal Accounting Policies

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2003

	Note	2003 US$ million	2002 US$ million
Operating activities			
Operating profit		**59.5**	23.0
Depreciation charges	2	**24.1**	33.8
Amortization of leasehold land payments	2	**0.1**	0.1
Impairment of leasehold land payments	2	**0.2**	—
Impairment of tangible assets	2	**—**	3.6
Impairment of investment properties	2	**—**	0.5
Loss on disposal of tangible assets and leasehold land	2	**1.4**	2.0
Gain on settlement of a lawsuit	3	**(34.0)**	—
Write down of discontinued stocks		**—**	1.7
Decrease in stocks		**10.4**	91.4
Decrease in debtors and prepayments		**25.4**	90.8
Decrease in creditors and accruals		**(7.7)**	(63.4)
Increase/(decrease) in provisions		**1.2**	(27.2)
Cash generated from operations		**80.6**	156.3
Net proceeds on settlement of a lawsuit	3	**34.0**	—
Interest received		**1.2**	3.0
Interest paid		**(2.2)**	(11.6)
Taxes paid		**(3.0)**	(0.9)
Net cash generated from operating activities		**110.6**	146.8
Investing activities			
Proceeds from disposal of tangible assets and leasehold land		**1.9**	9.1
Proceeds from disposal of assets held for sale		**7.7**	18.9
Purchase of tangible assets	9	**(14.1)**	(13.3)
Purchase of associates		**—**	(0.4)
Purchase of subsidiaries and businesses		**—**	(0.1)
Net cash (used in)/generated from investing activities		**(4.5)**	14.2
Financing activities			
Net repayment of current borrowings		**(29.9)**	(109.9)
Repayments of non-current borrowings		**(63.0)**	(41.3)
Dividend paid	7	**(3.4)**	—
Dividend paid to minority shareholder		**(0.1)**	—
Proceeds from issuance of share capital		**—**	0.1
Net cash used in financing activities		**(96.4)**	(151.1)
Effect of exchange rate changes		**(2.4)**	(0.2)
Increase in cash and cash equivalents		**7.3**	9.7
Cash and cash equivalents at beginning of the year		**63.1**	53.4
Cash and cash equivalents at end of the year		**70.4**	63.1
Analysis of the balance of cash and cash equivalents			
Cash at bank and deposits		**70.4**	63.3
Bank overdrafts		**—**	(0.2)
		70.4	63.1

The notes on pages 33 to 48 form part of these financial statements.

A BASIS OF PREPARATION The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards ("IAS") and related Interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Company is incorporated in Bermuda. In view of the international nature of the Group's operations, the financial statements are presented in United States Dollars, rounded to the nearest million.

The financial statements are prepared on a historical cost basis as modified by revaluation of certain properties.

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

The Group's separable segments are set out in note 1 to the financial statements.

B BASIS OF CONSOLIDATION The consolidated financial statements include the financial statements of the Company and its subsidiaries together with the Group's share of the results and retained post acquisition reserves of its associates under the equity method of accounting drawn up for the year ended 31st March. All significant inter-company balances and transactions and any unrealized gains arising from inter-company transactions are eliminated on consolidation.

Subsidiaries are those companies controlled by the Group, where the Group, directly or indirectly, has an interest held for the long term, of more than 50% of the voting rights and is able to exercise control over the operations. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases, and the share attributable to minority interests is deducted from or added to profit after taxation. Investments in subsidiaries are stated at cost less provision for impairment losses (refer to note L) in the Company's balance sheet.

B BASIS OF CONSOLIDATION (continued) Associates are those companies, not being subsidiaries, in which the Group has an attributable interest of 20% or more of the voting rights held for the long term or over which the Group exercises significant influence, but not control. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates under the equity method, from the date that significant influence commences until the date that significant influences ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of that associate. Investments in associates are stated at cost less provision for impairment losses (refer to note L) in the Company's balance sheet.

C GOODWILL Goodwill arising on acquisition represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate. Goodwill is stated at cost less accumulated amortization and impairment losses (refer to note L). Amortization of goodwill is calculated using the straight-line method over its estimated useful life not exceeding five years.

The profit or loss on disposal of a subsidiary or an associate is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill which remains unamortized.

D NEGATIVE GOODWILL Negative goodwill arising on the acquisition represents the excess fair values of the net identifiable assets and liabilities acquired over the cost of the acquisition.

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill will be recognized as income in the income statement when the future losses and expenses are recognized.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses at the date of acquisition, negative goodwill will be recognized as income in the income statement on a systematic basis over the remaining useful life of the identifiable acquired depreciable/amortizable assets. The amount of any negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognized immediately in the income statement.

The gain or loss on disposal of a subsidiary or an associate includes the unamortized balance of negative goodwill relating to the subsidiary or associate disposed of.

E FOREIGN CURRENCIES Transactions denominated in foreign currencies are translated into United States dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the rates of exchange ruling at the balance sheet date. Income statements of foreign entities are translated into the Group's reporting currency at average exchange rates for the year and balance sheets are translated at the exchange rates ruling at the balance sheet date.

Net exchange differences arising from the translation of the financial statements of subsidiaries and associates expressed in foreign currencies are taken directly to exchange reserve. All other exchange differences are dealt with in the consolidated income statement.

F REVENUE RECOGNITION Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue is stated net of sales taxes and discounts, after eliminating sales within the Group.

Revenue from the provision of services is recognized when the services are rendered.

Interest income is recognized on a time-apportioned basis that takes into account the effective yield on the asset. Dividend income is recognized when the Group's right to receive payment is established.

G RESEARCH AND DEVELOPMENT Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities.

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Expenditure on development activities is capitalized only if the product or process is clearly defined, technically and commercially feasible, the attributable expenditure is separately identifiable and the Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the cost of materials, direct labour and an appropriate proportion of overheads which are directly attributable to development activities. Capitalized development costs are stated at cost less accumulated amortization and impairment losses (refer to note L). Development expenditure that does not meet the above criteria is recognized as an expense in the period in which it is incurred.

Amortization is calculated to write off capitalized development costs on a straight-line basis over their estimated useful lives, commencing from the date when the products are put into commercial production.

H INTANGIBLE ASSETS Intangible assets that are acquired by the Group are carried at cost less any accumulated amortization and any impairment losses (refer to note L). Amortization commences from the date when the developed product is available for use.

I TANGIBLE ASSETS AND DEPRECIATION Land and buildings except for investment properties (refer to note J) below, are stated at cost or valuation performed by professional valuers every three years less amounts provided for depreciation except in the case of freehold land which is not depreciated. In the intervening years the directors review the carrying value and adjustment is made where there has been a material change. The valuations are on an open market value basis and are incorporated in the annual financial statements. Increases in valuation are credited to the revaluation reserve; decreases are first set off against increases on earlier valuations in respect of the same assets and thereafter are charged to the consolidated income statement. Upon the disposal of a revalued property, the relevant portion of the realized revaluation reserve in respect of previous revaluations is transferred from revaluation reserve to revenue reserve.

All other tangible assets are stated at cost less accumulated depreciation and impairment losses (refer to note L).

Gains or losses arising from the disposals of tangible assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognized in the income statement on the date of disposal.

Depreciation is calculated to write off the cost or valuation of assets on a straight-line basis over their estimated useful lives which are as follows:

Long-term leasehold buildings	Lease term
Freehold buildings, short-term leasehold buildings and leasehold improvements	10 to 30 years or lease term, if shorter
Machinery and equipment	3 to 5 years
Motor vehicles, furniture and fixtures	3 to 7 years
Moulds	1 year

J INVESTMENT PROPERTIES Investment property is stated at fair value determined annually by professional valuers. The valuations are on an open market value basis, by reference to the current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognized in the income statement.

K LEASES Leases of property, plant and equipment in terms of which that the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease less accumulated depreciation and impairment losses. Finance charges are charged to the income statement in proportion of the capital balances outstanding.

Leases of assets under which all the benefits and risks of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leasehold land payments are up-front payments to acquire long-term leasehold interests in land. These payments are stated at cost and are amortized over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

L IMPAIRMENT OF ASSETS The carrying amounts of the Group's assets including property, plant and equipment and other non-current assets, including goodwill and other intangible assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement.

The recoverable amount is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discounted rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.
An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

M OTHER INVESTMENTS Other investments held by the Group are stated at fair value, with any resultant gain or loss being recognized in the income statement. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognized to the income statement as they arise.

N STOCKS AND ASSETS HELD FOR SALE (i) Stocks are stated at the lower of cost and net realizable value. Cost is calculated on the weighted average or the first-in-first-out basis, and comprises materials, direct labour and an appropriate share of production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less estimates of costs of completion and selling expenses.

(ii) Assets held for sale are stated at anticipated realizable value.

O TRADE DEBTORS Trade debtors are carried at anticipated realizable value. An allowance is made for doubtful receivables based upon the evaluation of the recoverability of these outstanding amounts at the balance sheet date. Bad debts are written off during the year in which they are identified.

P CASH AND CASH EQUIVALENTS For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits with banks and other financial institutions, short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value and which have a maturity of three months or less at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

For the purpose of the balance sheet, cash and cash equivalents are cash on hand, deposits with banks and others financial institutions, which are not restricted in its use. Bank overdrafts are included in borrowings in current liabilities.

Q TRADE CREDITORS Trade and other creditors are stated at their cost.

R PROVISIONS A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The Group recognizes the estimated liability on expected return claims with respect to products sold. This provision is calculated based on past experience of the level of repairs and returns.

The Group provides for expenses related to closure of business locations and reorganizations of the Group's operations which are subject to detailed formal plans that are under implementation or have been communicated to those affected by the plans.

The Group recognizes the expected costs of accumulating compensated absences when employees render a service that increases their entitlement to future compensated absences, measured as the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

S DEFERRED TAXATION Deferred taxation is provided using the balance sheet liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and the amounts used for taxation purpose.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profit will be available against which the asset can be utilized.

Provision for withholding tax which could arise on the remittance of earnings retained overseas is only made where there is a current intention to remit such earnings.

T EMPLOYEE BENEFITS The Group operates a number of defined contribution retirement schemes throughout the world, including Hong Kong, and a defined benefit retirement scheme in Hong Kong. The assets of all schemes are held separately from those of the Company and its subsidiaries.

(i) Defined contribution plans Contributions to the defined contribution schemes are at various funding rates that are in accordance with the local practice and regulations. Contributions relating to the defined contribution schemes are charged to the income statement as incurred.

(ii) Defined benefit plans For long-term employee benefits, pension costs arising under the defined benefit scheme are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plan every year. Plan assets are measured at fair value. Pension obligations are measured as the present value of the estimated future cash flows of benefits derived from employee past service, with reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liability. All actuarial gains and losses are spread forward over the average remaining service lives of employees. The net asset or liability resulting from the valuation of the plan is recognized in the Group's balance sheet.

(iii) Equity and equity related compensation benefits The Company has a number of share option schemes which may grant options to certain employees of the Company and subsidiaries of the Group. No compensation cost of obligation is recognized at the date of the grant and the option exercise price are set out in note 20 on the financial statements. When the options are exercised, shareholders' equity is increased by the amount of the proceeds received.

U FINANCIAL INSTRUMENTS The Group's activities expose it to financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swaps contracts to hedge certain exposures.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives.

Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently are remeasured at their fair value. The method of recognizing the resulting gain or loss is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either a hedge of the fair value of a recognized asset or liability (fair value hedge), a hedge of a forecasted transaction or of a firm commitment (cash flow hedge), or a hedge of a net investment in a foreign entity.

U FINANCIAL INSTRUMENTS (continued) Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the consolidated income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognized in hedging reserve. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in hedging reserve are transferred from hedging reserve and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in hedging reserve are transferred to the consolidated income statement and classified as revenue or expense in the same periods during which the hedged firm commitment or forecasted transaction affects the consolidated income statement.

If certain derivative transactions, while providing effective economic hedges under the Group's policies, do not qualify for hedge accounting under the specific rules in IAS 39, "Financial Instruments: Recognition and Measurement", changes in the fair value of these derivative instruments are recognized immediately in the consolidated income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in hedging reserve at that time remains in hedging reserve and is recognized, when the committed or forecasted transaction ultimately is recognized in the consolidated income statement. However, if a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in hedging reserve is immediately transferred to the consolidated income statement.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as risk management objective and strategy for undertaking various hedge transactions.

V BORROWINGS Borrowings are recognized as the proceeds are received, net of transaction costs incurred.

W DIVIDENDS Dividends proposed or declared after the balance sheet date are not recognized as a liability at the balance sheet date.

X SEGMENT REPORTING A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

1 SEGMENT INFORMATION Revenue represents turnover of the Group derived from the amounts received and receivable for sale of goods and rendering of services to third parties.

The principal activity of the Group is the design, manufacture and distribution of consumer electronic products. The telecommunication and electronic products business is the principal business segment of the Group.

Primary reporting format — business segments
Year ended 31st March 2003

		Telecommunication and electronic products US$ million	Other activities US$ million	Total US$ million
i.	**Segment revenue**	864.0	2.5	866.5
	Segment result	63.9	(3.0)	60.9
	Unallocated corporate expenses			(1.4)
	Operating profit			59.5
	Net finance costs			(1.0)
	Share of results of associates	—	(0.2)	(0.2)
	Profit from ordinary activities before taxation			58.3
	Taxation			(17.4)
	Profit from ordinary activities after taxation			40.9
	Minority interest			(0.1)
	Profit attributable to shareholders			40.8
ii	**Segment assets**	296.4	1.9	298.3
	Associates	—	0.1	0.1
	Unallocated assets			60.2
	Total assets			358.6
	Segment liabilities	217.2	3.4	220.6
	Unallocated liabilities			9.7
	Total liabilities			230.3
iii	**Capital expenditure, depreciation and other net non-cash expenses**			
	Capital expenditure	13.6	0.5	14.1
	Depreciation	22.5	1.6	24.1
	Amortization of leasehold land payments	—	0.1	0.1
	Impairment charges	—	0.2	0.2
	Other non-cash expenses	5.7	—	5.7

The Group evaluates the performance and allocates resources to its operating segments. There are no sales or transactions between the business segments. Corporate administrative costs and assets are not allocated to the operating segments.

Segment assets consist primarily of tangible assets, stocks, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation. Capital expenditure comprises additions to moulds, machinery and equipment, and other assets.