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.

Notes to the Financial Statements

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.

1 SEGMENT INFORMATION (continued)

Primary reporting format — business segments (continued)

Year ended 31st March 2002

	Telecommunication and electronic products US$ million	Other activities US$ million	Total US$ million
i **Segment revenue**	957.7	2.1	959.8
Segment result	30.9	(6.1)	24.8
Unallocated corporate expenses			(1.8)
Operating profit			23.0
Net finance costs			(8.6)
Share of results of associates	—	(0.5)	(0.5)
Profit from ordinary activities before taxation			13.9
Taxation			(2.6)
Profit from ordinary activities after taxation			11.3
Minority interest			(0.1)
Profit attributable to shareholders			11.2
ii **Segment assets**	390.8	2.3	393.1
Associates	0.1	0.2	0.3
Unallocated assets			22.9
Total assets			416.3
Segment liabilities	315.1	2.2	317.3
Unallocated liabilities			8.8
Total liabilities			326.1
iii **Capital expenditure, restructuring cost, depreciation and other net non-cash expenses**			
Capital expenditure	13.0	0.3	13.3
Depreciation	30.9	2.9	33.8
Amortization of leasehold land payments	—	0.1	0.1
Impairment charges	3.6	0.5	4.1
Restructuring costs	9.5	0.9	10.4
Other non-cash expenses	12.3	—	12.3

Secondary reporting format — geographical segments Although the Group's business segments are managed on a worldwide basis, they principally operate in the following geographical areas:

North America — the operations are principally the distribution of telecommunication and electronic consumer products.

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

Asia Pacific — the Group is headquartered in the Hong Kong SAR and the Group's principal manufacturing operations are located in mainland China.

	Revenue 2003 US$ million	Revenue 2002 US$ million (restated)	**Operating profit/(loss) 2003 US$ million**	Operating profit/(loss) 2002 US$ million (restated)
North America	**680.3**	770.2	**67.9**	12.2
Europe	**149.5**	148.5	**(6.2)**	17.1
Asia Pacific	**29.2**	37.9	**(2.0)**	(7.2)
Others	**7.5**	3.2	**(0.2)**	0.9
	866.5	959.8	**59.5**	23.0

	Capital expenditure 2003 US$ million	Capital expenditure 2002 US$ million (restated)	**Total assets 2003 US$ million**	Total assets 2002 US$ million (restated)
North America	**2.4**	2.6	**154.9**	192.9
Europe	**0.5**	0.6	**47.7**	49.0
Asia Pacific	**11.2**	10.1	**153.4**	174.4
Others	**—**	—	**2.6**	—
	14.1	13.3	**358.6**	416.3

2 OPERATING PROFIT

The operating profit is arrived at after charging/(crediting) the following:

	Note	**2003 US$ million**	2002 US$ million (restated)
Staff related costs			
— salaries and wages		**88.1**	93.4
— pension costs: defined contribution schemes	18	**1.5**	1.3
— pension costs: defined benefit scheme	18	**1.0**	1.3
— severance payments		**4.4**	1.6
Depreciation charges	9		
— owned assets		**23.9**	33.6
— leased assets		**0.2**	0.2
Amortization of leasehold land payments	10	**0.1**	0.1
Impairment of leasehold land payments	10	**0.2**	—
Impairment of tangible assets		**—**	3.6
Impairment of investment properties		**—**	0.5
Loss on disposal of tangible assets and leasehold land		**1.4**	2.0
Auditors' remuneration		**0.6**	0.8
Operating leases on land and buildings		**8.7**	6.4
Provision for stock obsolescence		**2.0**	4.5
Provision for doubtful debts		**3.7**	9.5
Repairs and maintenance expenditure		**2.6**	1.1
Royalties		**16.5**	9.1
Exchange (gain)/loss		**(2.6)**	0.2
Forward contracts: fair value loss/(gain) on cash flow hedge transferred from hedging reserve	21	**0.4**	(0.3)

Restructuring and impairment charges of US$14.0 million which were separately disclosed on the consolidated income statement for the year ended 31st March 2002 have been reclassified according to their nature into cost of sales and administrative and other operating expenses in the amounts of US$1.7 million and US$12.3 million respectively.

3 GAIN ON SETTLEMENT OF A LAWSUIT On 25th January 2001, the Group filed a complaint against Lucent Technologies Inc. ("Lucent") and Lucent Technologies Consumer Products, L.P. in the United States District Court for the Southern District of New York seeking damages and related relief arising out of the acquisition by the Group of Lucent's Wired Consumer Products Business in 2000.

On 7th June 2002, the Group and Lucent settled the lawsuit filed by the Group against Lucent in January 2001 in a mutually satisfactory manner. There was no admission of wrongdoing by either party. Under the terms of the settlement, Lucent has agreed to adjust the purchase price of the acquisition downward by US$50.0 million. The amount has been fully settled. The net receipt from the settlement, after deducting incidental expenses, has been credited to the consolidated income statement.

	2003 US$ million	2002 US$ million
Receipt from settlement of a lawsuit	50.0	—
Less: incidental expenses	(16.0)	—
	34.0	—

4 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' emoluments

	2003 US$ million	2002 US$ million
The emoluments of the directors of the Company are as follows:		
Fees	0.1	0.1
Salaries, allowances and benefits in kind	1.8	2.2
Bonuses	0.8	0.6
Contribution to retirement benefit schemes	0.1	0.1
Deemed profit on share option exercise	—	—
Inducement for joining the Group	—	—
Compensation for loss of office	—	—
	2.8	3.0

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

	2003 Number of directors	2002 Number of directors
US$		
Nil – 128,000	4	6
128,001 – 192,000	—	1
192,001 – 256,000	—	1
256,001 – 320,000	—	1
320,001 – 384,000	—	1
512,001 – 576,000	—	1
640,001 – 704,000	1	—
704,001 – 768,000	—	2
896,001 – 960,000	1	—
1,088,001 – 1,152,000	1	—

Emoluments of independent non-executive directors included above amounted to US$60,000 (2002: US$63,000), being wholly in the form of directors' fees.

Senior executives' emoluments The directors' emoluments set out above exclude 2 senior executives (2002: 2) whose emoluments were among the five highest earning employees of the Group. Details of the emoluments in aggregate for these executives are set out below:

	2003 US$ million	2002 US$ million
Salaries, allowances and benefits in kind	0.9	0.5
Bonuses	1.2	0.3
Contribution to retirement benefit schemes	—	—
Deemed profit on share option exercise	—	—
Inducement for joining the Group	—	—
Compensation for loss of office	—	—
	2.1	0.8

The emoluments fell within the following bands:

	2003 Individuals	2002 Individuals
US$		
320,001 – 384,000	—	1
448,001 – 512,000	1	1
1,650,000 – 1,800,000	1	—
	2	2

5 NET FINANCE COSTS

	2003 US$ million	2002 US$ million
Interest expense		
Wholly repayable within five years:		
Bank loans and overdrafts	2.1	11.4
Finance leases	—	0.1
Not wholly repayable within five years:		
Bank loans	0.1	0.1
Interest income	(1.2)	(3.0)
	1.0	8.6

6 TAXATION

	2003 US$ million	2002 US$ million
Current tax		
— Hong Kong	6.4	1.7
— Overseas	0.5	0.4
(Over)/underprovision in prior years		
— Hong Kong	10.8	—
— Overseas	(0.3)	0.5
	17.4	2.6

Tax on profits has been calculated at the rates of taxation prevailing in the countries in which the Group operates.

6 TAXATION (continued) The consolidated effective income tax rate for the year ended 31st March 2003 was 29.8% (2002: 18.7%). This effective income tax rate is reconciled to the statutory domestic income tax rate as follows:

	2003 %	2002 %
Statutory domestic income tax rate	16.0	16.0
Difference in overseas income tax rates	0.2	3.4
Non-temporary differences	(9.8)	(17.7)
Tax losses not recognized	5.7	10.2
Underprovision in prior years	18.0	3.4
Others	(0.3)	3.4
Effective income tax rate	29.8	18.7

The Group is currently in discussions with Hong Kong IRD regarding a dispute over the offshore income claims made by certain subsidiaries of the Group in prior years. Whilst management considers that the subsidiaries have grounds to support these claims, the outcome of the dispute remains undetermined. The directors consider it prudent to establish a provision of US$11.0 million for the directors' best estimate of any liabilities which may arise on settlement of this dispute, which has been charged to the consolidated income statement for the year ended 31st March 2003.

7 DIVIDENDS

	Note	2003 US$ million	2002 US$ million
Interim dividend declared and paid of US1.5 cents per share (2002: nil)	21	3.4	—
Final dividend of US2.0 cents per share (2002: nil) proposed after the balance sheet date		4.5	—

The final dividend proposed after the balance sheet date has not been recognized as a liability at the balance sheet date.

8 EARNINGS PER SHARE The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of US$40.8 million (2002: US$11.2 million).

The basic earnings per share is based on the weighted average of 225.5 million (2002: 225.3 million) ordinary shares in issue during the year. The diluted earnings per share is based on 225.5 million (2002: 225.3 million) ordinary shares which is the weighted average number of ordinary shares in issue during the year. There were no potential dilutive ordinary shares in existence for both years presented.

9 TANGIBLE ASSETS

	Land and buildings US$ million	Moulds, machinery and equipment US$ million	Motor vehicles, furniture and fixtures and leasehold improvements US$ million	Total US$ million
Cost or valuation				
At 1st April 2002	36.9	171.2	64.5	272.6
Additions	0.1	9.7	4.3	14.1
Revaluation	(0.9)	—	—	(0.9)
Disposals	(1.6)	(4.2)	(11.5)	(17.3)
Effect of changes in exchange rate	2.5	1.1	1.5	5.1
At 31st March 2003	37.0	177.8	58.8	273.6
Accumulated depreciation				
At 1st April 2002	15.9	146.1	52.6	214.6
Charge for the year	1.9	16.2	6.0	24.1
Revaluation	(1.4)	—	—	(1.4)
Disposals	(0.8)	(4.2)	(9.1)	(14.1)
Effect of changes in exchange rate	0.8	0.4	1.2	2.4
At 31st March 2003	16.4	158.5	50.7	225.6
Net book value at 31st March 2003	20.6	19.3	8.1	48.0
Net book value at 31st March 2002	21.0	25.1	11.9	58.0
Cost or valuation of tangible assets is analysed as follows:				
At cost	25.0	177.8	58.8	261.6
At professional valuation — 2003	12.0	—	—	12.0
	37.0	177.8	58.8	273.6

(a) Leased machinery and equipment The Group leases machinery and equipment under a number of finance lease arrangements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31st March 2003, the net book value of tangible assets held under finance leases amounted to US$0.3 million (2002: US$0.5 million).

(b) Security The net book value of tangible assets pledged as security for borrowings at 31st March 2003 amounted to US$2.5 million (2002: US$2.3 million).

9 TANGIBLE ASSETS (continued) Land and buildings comprise:

	Freehold land and buildings and long-term leasehold buildings US$ million	Short-term leasehold buildings US$ million	Total US$ million
Cost or valuation			
At 1st April 2002	10.5	26.4	36.9
Additions	0.1	—	0.1
Revaluation	(0.9)	—	(0.9)
Disposals	—	(1.6)	(1.6)
Effect of changes in exchange rate	2.3	0.2	2.5
At 31st March 2003	12.0	25.0	37.0
Accumulated depreciation			
At 1st April 2002	1.0	14.9	15.9
Charge for the year	0.5	1.4	1.9
Revaluation	(1.4)	—	(1.4)
Disposals	—	(0.8)	(0.8)
Effect of changes in exchange rate	0.8	—	0.8
At 31st March 2003	0.9	15.5	16.4
Net book value at 31st March 2003	11.1	9.5	20.6
Net book value at 31st March 2002	9.5	11.5	21.0
Cost or valuation of tangible assets is analysed as follows:			
At cost	—	25.0	25.0
At professional valuation - 2003	12.0	—	12.0
	12.0	25.0	37.0
Net book value of land and buildings comprises:			
Hong Kong			
Long-term leasehold buildings (not less than 50 years)	1.5	—	1.5
Overseas			
Freehold land and buildings	9.6	—	9.6
Short-term leasehold buildings	—	9.5	9.5
	9.6	9.5	19.1
Net book value of revalued land and buildings had the assets been carried at cost less accumulated depreciation	6.4	—	6.4

The Group's freehold and long-term leasehold land and buildings were last revalued by independent valuers as at 31st March 2003, on an open market value basis.

10 LEASEHOLD LAND PAYMENTS

	Note	2003 US$ million	2002 US$ million
Net book value at 1st April		3.1	7.0
Disposals		(0.1)	(3.8)
Amortization	2	(0.1)	(0.1)
Impairment charges	2	(0.2)	—
Net book value at 31st March		2.7	3.1
Leasehold land payments in respect of:			
Owner-occupied properties		2.7	3.1

11 DEFERRED TAXATION

The deferred tax assets and liabilities and the deferred tax account movements for the years ended 31st March 2002 and 31st March 2003 are attributable to the following items:

	1st April 2002 US$ million	Credited/ (charged) to income statement US$ million	31st March 2003 US$ million
Deferred tax assets			
Provisions	0.5	(0.4)	0.1
Tax losses carried forward	1.6	(0.6)	1.0
Other deductible temporary differences	2.6	0.2	2.8
	4.7	(0.8)	3.9
Deferred tax liabilities			
Accelerated tax depreciation	(1.6)	0.8	(0.8)
Net deferred tax assets	3.1	—	3.1

	1st April 2001 US$ million	Charged to other properties revaluation reserve US$ million	Credited/ (charged) to income statement US$ million	31st March 2002 US$ million
Deferred tax assets				
Provisions	0.6	—	(0.1)	0.5
Tax losses carried forward	1.7	—	(0.1)	1.6
Other deductible temporary differences	2.5	—	0.1	2.6
	4.8	—	(0.1)	4.7
Deferred tax liabilities				
Accelerated tax depreciation	(1.7)	—	0.1	(1.6)
Asset revaluation	(0.4)	0.4	—	—
	(2.1)	0.4	0.1	(1.6)
Net deferred tax assets	2.7	0.4	—	3.1

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:

	2003 US$ million	2002 US$ million
Deferred tax assets	3.9	4.3
Deferred tax liabilities	(0.8)	(1.2)
	3.1	3.1

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 tax assets of US$63.2 million (2002: US$ 80.3 million) arising from unused tax losses of US$213.5 million (2001: US$255.4 million) have not been recognized at the end of the year.

12 INVESTMENTS

	2003 US$ million	2002 US$ million
i) **Associates**		
Share of net tangible assets	**0.1**	0.3
ii) **Other investments**		
Unlisted investments, at cost	**0.1**	0.1
	0.2	0.4

13 STOCKS

	2003 US$ million	2002 US$ million
Telecommunication and electronic products		
Raw materials	**13.9**	18.0
Work in progress	**4.6**	1.8
Finished goods	**65.5**	74.6
	84.0	94.4

Stocks carried at net realizable value at 31st March 2003 amounted to US$16.2 million (2002: US$15.3 million).

14 ASSETS HELD FOR SALE

	2003 US$ million	2002 US$ million
Land and buildings		
Hong Kong	**—**	4.7
Overseas	**8.0**	19.8
	8.0	24.5

The assets have been written down to their estimated recoverable amounts.

15 DEBTORS AND PREPAYMENTS

	Note	2003 US$ million	2002 US$ million
Trade debtors (Net of provision for doubtful debts of US$5.8 million (2002: US$7.2 million))		**123.0**	128.9
Other debtors and prepayments		**15.1**	34.1
Pension assets	18	**1.8**	1.8
Forward foreign exchange contracts	22	**—**	0.5
		139.9	165.3

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

	2003 US$ million	2002 US$ million
0-30 days	**54.5**	75.3
31-60 days	**41.6**	31.6
61-90 days	**10.2**	8.6
>90 days	**16.7**	13.4
Total	**123.0**	128.9

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 ACCRUALS

	Note	2003 US$ million	2002 US$ million
Trade creditors		**59.5**	76.3
Other creditors and accruals		**111.9**	110.7
Interest rates swaps	22	**—**	0.9
		171.4	187.9

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

	2003 US$ million	2002 US$ million
0-30 days	**28.7**	36.7
31-60 days	**11.5**	20.5
61-90 days	**11.9**	11.0
>90 days	**7.4**	8.1
Total	**59.5**	76.3

17 BORROWINGS

	2003 US$ million	2002 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	**1.0**	1.0
Repayable by instalments, all of which are due for repayment within five years:		
Unsecured bank loans and overdrafts	**—**	93.0
Secured bank loans	**1.4**	1.3
Obligations under finance leases (Note)	**0.3**	0.5
	1.7	94.8
Less : amounts due within one year included under current liabilities:		
Unsecured bank loans and overdrafts	**—**	(30.2)
Secured bank loans	**(0.4)**	(0.3)
Obligations under finance leases (Note)	**(0.1)**	(0.1)
	(0.5)	(30.6)
	2.2	65.2
Bank loans, overdrafts and finance lease obligations are repayable as follows:		
Between one and two years	**0.5**	63.2
Between two and five years	**0.7**	1.0
In more than five years	**1.0**	1.0
	2.2	65.2

Note:
The amounts are net of future finance charges of US$0.1 million (2002: US$0.1 million).

17 BORROWINGS (continued) Details of the bank loans and overdrafts are as follows:

	2003 US$ million	2002 US$ million
United States dollars		
Unsecured bank loans and overdrafts at an average floating rate of 5.8% in 2002, after taking into account of interest rate swaps	—	93.0
Euros		
Secured bank loans at an average fixed interest rate of 6.0% (2002: 6.7%)	2.4	2.3
	2.4	95.3

18 PENSION SCHEMES The Group operated a defined benefit scheme and a defined contribution scheme in Hong Kong. The defined contribution scheme operated in Hong Kong complied with the requirements under the Mandatory Provident Fund ("MPF") Ordinance. For the defined contribution schemes operated for overseas employees and Hong Kong employees under the MPF Ordinance, the retirement benefit cost expensed in the income statement amounted to US$1.4 million (2002: US$1.2 million) and US$0.1 million (2002: US$0.1 million) respectively. For the defined benefit scheme ("the Scheme") operated for Hong Kong employees, contributions made by the Group during the year were calculated 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 2003 using the projected unit credit method.

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

	Note	2003 US$ million	2002 US$ million
Fair value of Scheme assets		8.7	11.5
Present value of funded defined benefit obligations		(11.4)	(10.1)
Unrecognized actuarial gains		4.5	0.4
Assets recognized in the balance sheet	15	1.8	1.8
The amounts recognized in the income statement are as follows:			
Current service cost		1.1	1.4
Interest cost		0.7	0.9
Expected return on plan assets		(0.8)	(1.0)
Expenses recognized in the income statement*	2	1.0	1.3
The actual return on plan assets was as follows:			
Expected return on plan assets		0.8	1.0
Actuarial losses on plan assets		(2.0)	(1.4)
Actual return on plan assets		(1.2)	(0.4)
Movement in the assets recognized in the balance sheet:			
At 1st April		1.8	2.1
Expenses recognized in the income statement*		(1.0)	(1.3)
Contributions paid		1.0	1.0
At 31st March		1.8	1.8
The principal actuarial assumptions used for accounting purposes were:			
Discount rate		5.5%	7.0%
Expected return on plan assets		7.0%	7.0%
Future salary increases		5.0%	5.0%

19 PROVISIONS

	Defective goods returns US$ million	Restructuring costs US$ million	Employee compensated leave entitlements US$ million	Total US$ million
At 1st April 2002	33.0	4.6	1.5	39.1
Effect of changes in exchange rate	—	0.1	—	0.1
Additional provisions	40.1	—	1.3	41.4
Unused amounts reversed	(5.8)	(0.3)	—	(6.1)
Charged to income statement	34.3	(0.3)	1.3	35.3
Utilized during the year	(30.7)	(2.6)	(0.8)	(34.1)
At 31st March 2003	**36.6**	**1.8**	**2.0**	**40.4**

Defective goods returns The Group undertakes to repair or replace items that fail to perform satisfactorily in accordance with the terms of the sale. A provision is recognized for expected return claims, which included cost of repairing or replacing defective goods, loss of margin and cost of materials scrapped, based on past experience of the level of repairs and returns.

Restructuring costs Restructuring costs include the costs of terminating employees and other closure costs relating to the cessation or streamlining of business activities arising from the restructuring plan launched in March 2001. Details of the plan have been provided in the annual financial statements for the year ended 31st March 2001.

20 SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Share capital

	2003 US$ million	2002 US$ million
Authorized		
Ordinary shares: 400,000,000 (2002 : 400,000,000) of US$0.05 each	20.0	20.0

	Number of shares	2003 US$ million	2002 US$ million
Issued and fully paid			
Ordinary shares of US$0.05 each: Beginning of year and end of year	225,527,133	11.3	11.3

Share options

The 1991 Scheme Pursuant to the share option scheme adopted on 24th September 1991 (the "1991 Scheme"), the directors may, at their discretion, at any time during the ten years from the date of approval of the 1991 Scheme, invite employees of the Company and subsidiaries of the Group, including directors, to take up share options of the Company for incentive purposes.

20. SHARE CAPITAL, SHARE OPTIONS AND WARRANTS (continued)

The maximum number of shares on which options may be granted may not exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares in respect of which options may be granted under the 1991 Scheme to any one participant (including shares issued and issuable to him under all the options previously granted to him) is limited to 25% of the maximum aggregate number of shares of the Company subject to the 1991 Scheme. The offer of a grant of options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1.0 in total by the grantee. The exercise price in relation to each option offer shall be determined by the directors at their absolute discretion, but in any event shall not be less than the greater of (i) 80% of the average of the official closing price of the shares on the London Stock Exchange plc and The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the relevant offer date and (ii) the nominal value of the shares. The terms of the 1991 Scheme provide that an option may be exercised at any time during the period beginning with the commencement date (being the first anniversary of the date of grant of the option) and ending with the date which is 10 years after the date of grant of the option and in the first 48 months following the commencement date, a grantee may only exercise to the extent of 25% of shares comprised in the options granted to him in any 12 month period. The 1991 Scheme expired on 23rd September 2001. Options granted and not yet exercised under the 1991 Scheme will continue to remain effective.

As at 31st March 2003, all options granted pursuant to the 1991 Scheme have lapsed. The movements in the number of share options under the 1991 Scheme during the year were as follows:

Date of grant	Exercise price	Exercisable period	Balance in issue at 1st April 2002	Number of share options granted during the year	Number of share options exercised during the year	Number of share options lapsed/cancelled during the year	Balance in issue at 31st March 2003
1st May 1998	US$2.9	1st May 1998 to 30th April 2008	190,000	—	—	(190,000)	—
17th December 1999	US$2.3	17th December 1999 to 16th December 2009	80,000	—	—	(80,000)	—
			270,000	—	—	(270,000)	—

The 2001 Scheme Pursuant to the share option scheme adopted on 10th August 2001 (the "2001 Scheme"), the directors are authorized, at any time during the 10 years from the date of approval of the 2001 Scheme, to grant options to certain employees of the Company and subsidiaries of the Group, including executive directors (but excluding non-executive directors) to subscribe for shares in the Company at prices to be determined by the directors in accordance with the terms of the 2001 Scheme. On 1st September 2001, Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") was amended whereby if the Company wishes to grant options under the 2001 Scheme on or after 1st September 2001, it must comply with the new requirements set out therein.

Pursuant to the Listing Rules, the Company can issue options so that number of shares that may be issued upon exercise of all options to be granted under all the schemes does not in aggregate exceed 10% of the relevant class of shares in issue from time to time. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular. The Company may also seek separate shareholders' approval for granting options beyond the 10% limit to eligible employees specifically identified by the Company, subject to shareholders' approval and the issue of a circular. The Company can issue options so that shares to be issued upon exercise of all outstanding options does not exceed 30% of the relevant class of shares in issue from time to time. The maximum entitlement for any one eligible employee is that the total number of shares issued and to be issued upon exercise of options granted and to be granted in any 12-month period up to the date of the last grant does not exceed 1% of the relevant class of shares in issue. The Company can grant further options in excess of this limit, subject to shareholders' approval (with that eligible employee and his associates abstaining from voting) and the issue of a circular. The offer of a grant of options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1.0 in total by the grantee. The 2001 Scheme has a life of 10 years and will expire on 9th August 2011.

Pursuant to the Listing Rules, the subscription price payable for each share under the 2001 Scheme shall be at least the highest of (i) the closing price of the shares as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited on the date of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant; and (iii) the par value of the shares. The closing price of the Company's shares traded on The Stock Exchange of Hong Kong Limited respectively on 25th February 2002 (being the day immediately before the date on which options were granted or deemed to be granted) was HK$9.7 and on 9th July 2002 (being the day immediately before the date on which options were granted or deemed to be granted) was HK$8.55.

The directors are of the view that value of options granted during the period depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical basis and speculative assumptions. Accordingly, the directors believed that any calculation of the value of options will not be meaningful and may be misleading to shareholders in the circumstances.

20. SHARE CAPITAL, SHARE OPTIONS AND WARRANTS (continued)

As at 31st March 2003, the number of shares issuable under the options granted pursuant to the 2001 Scheme was 17,150,000, which represented approximately 7.6% of the issued share capital of the Company. The movements in the number of share options under the 2001 Scheme during the year were as follows:

Date of grant (Note 1)	Exercise price	Exercisable period (Note 2)	Balance in issue at 1st April 2002	Number of share options granted during the year	Number of share options exercised during the year	Number of share options lapsed/cancelled during the year	Balance in issue at 31st March 2003
26th February 2002 to 26th March 2002	HK$10.2	26th February 2002 to 25th March 2012	18,535,000	—	—	(3,105,000)	**15,430,000**
10th July 2002 to 8th August 2002	HK$8.71	10th July 2002 to 7th August 2012	—	2,125,000	—	(405,000)	**1,720,000**
			18,535,000	2,125,000	—	(3,510,000)	**17,150,000**

Note 1: Due to the large number of employees participating in the 2001 Scheme, the information can only be shown within a reasonable range in this report. For options granted to employees, the options were granted during the underlying periods for acceptance of the offer of such options by the employees concerned.

Note 2: As one of the conditions of grant, the employees concerned agreed with the Company that the options shall not be exercisable within the period of 36 months from the date on which such options were granted or deemed to be granted and accepted and shall not be exercisable after 60 months from the date on which such options were granted or deemed to be granted and accepted.

HomeRelay Plan Pursuant to the stock option plan adopted by HomeRelay Communications, Inc. ("HomeRelay" formerly known as Unbound Communications, Inc.) in August 2000 (the "HomeRelay Plan"), the directors of HomeRelay may grant options to the employees of HomeRelay up to 10% of HomeRelay's common stock in issue from time to time for incentive purposes. Options for common stock may be incentive stock options or non-statutory stock options. A committee designated by the directors of HomeRelay may fix the terms and vesting of all stock options; however, in no event will the contractual term exceed 10 years. Unless specified otherwise, stock options vest 25% one year from the grant date and the remaining 75% vest in successive equal semi-annual instalments over the succeeding three year period until the stock options are fully vested. The HomeRelay Plan has a life of 10 years and will expire on 29th August 2010.

No stock option may be granted to any employee if it would result in the total amount of stock option to be issued or already issued to him under the HomeRelay Plan exceeding 25% of the maximum aggregate amount of stock subject to the HomeRelay Plan. The exercise price under the HomeRelay Plan will be as follows: (i) incentive stock options — an amount equal to not less than 100% of the Fair Market Value (as defined in the HomeRelay Plan) of the stock at the date of grant; (ii) non-statutory stock options — an amount equal to not less than 85% of the Fair Market Value of the stock at the date of grant; and (iii) incentive stock options to 10% (as defined in the HomeRelay Plan) — an amount equal to not less than 110% of the Fair Market Value of the stock at the date of grant.

As at 31st March 2003, the number of shares issuable under the stock options granted pursuant to the HomeRelay Plan was 705,475, which represented approximately 8.8% of the issued share capital of HomeRelay. The movements in the number of stock options under the HomeRelay Plan during the year were as follows:

Date of grant (Note 1)	Weighted average exercise price	Exercisable period	Balance in issue at 1st April 2002	Number of share options granted during the year	Number of share options exercised during the year	Number of share options lapsed/cancelled during the year	Balance in issue at 31st March 2003
1st September 2000 to 22nd February 2001	US$1.0	1st September 2000 to 21st February 2011	705,475	—	—	—	**705,475**

Note 1: The stock options were granted to the employees concerned during the said period and the information can only be shown within a reasonable range in this report.

Warrants Pursuant to a warrant instrument dated 19th January 2000 issued by the Company to AT&T Corp. ("AT&T") as part of a trademark licence 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$20.0 per share on or before 18th January 2012.

Pursuant to a Revised AT&T Brand License Agreement dated 24th January 2002, the subscription price of these warrants was revised to HK$8.43 (being the lower of the initial subscription price of HK$20.0 and the average of the closing price of the shares of the Company as quoted on The Stock Exchange of Hong Kong Limited for the five (5) dealing days immediately preceding 15th July 2002).

No warrants have been exercised since the date of grant.

21 RESERVES

	Note	Group 2003 US$ million	Group 2002 US$ million	Company 2003 US$ million	Company 2002 US$ million
Share premium		**74.3**	74.3	**74.3**	74.3
Other properties revaluation reserve		**6.8**	6.6	**—**	—
Revenue reserve		**41.9**	4.2	**46.3**	36.6
Exchange reserve		**(6.8)**	(6.6)	**(1.2)**	(1.2)
Hedging reserve		**—**	(0.4)	**—**	—
		116.2	78.1	**119.4**	109.7
An analysis of movements in reserves is set out below:					
Share premium					
Brought forward		**74.3**	74.2	**74.3**	74.2
Placing of shares		**—**	0.1	**—**	0.1
Carried forward		**74.3**	74.3	**74.3**	74.3
Other properties revaluation reserve					
Brought forward		**6.6**	10.6	**—**	—
Disposal of properties previously revalued		**(0.3)**	(2.8)	**—**	—
Deferred tax reversed upon disposal of a property previously revalued		**—**	0.4	**—**	—
Surplus/(deficit) arising on revaluation of other properties	9	**0.5**	(1.6)	**—**	—
Carried forward		**6.8**	6.6	**—**	—
Revenue reserve					
Brought forward		**4.2**	(9.8)	**36.6**	35.3
Profit attributable to shareholders		**40.8**	11.2	**13.1**	1.3
Dividends	7	**(3.4)**	—	**(3.4)**	—
Disposal of properties previously revalued		**0.3**	2.8	**—**	—
Carried forward		**41.9**	4.2	**46.3**	36.6
Exchange reserve					
Brought forward		**(6.6)**	(6.4)	**(1.2)**	(1.2)
Exchange translation differences		**(0.2)**	(0.2)	**—**	—
Carried forward		**(6.8)**	(6.6)	**(1.2)**	(1.2)
Hedging reserve					
Brought forward		**(0.4)**	0.3	**—**	—
Transfer to income statement	2	**0.4**	(0.3)	**—**	—
Fair value losses arising during the year		**—**	(0.4)	**—**	—
Carried forward		**—**	(0.4)	**—**	—

Reserves of the company available for distribution to shareholders amounted to US$46.3 million (2002:US$36.6 million).

22 FINANCIAL INSTRUMENTS The Group enters into foreign exchange contracts and interest rate swaps to hedge certain exposures on fluctuations of foreign currency exchange rates and interest rates respectively. The Group does not use derivative financial instruments for speculative purposes.

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.

The Group manages these risks by monitoring credit ratings and limiting the aggregate risk to any individual counterparty.

Foreign exchange risk The Group enters into foreign exchange contracts in order to manage its exposure to fluctuations in foreign currency exchange rates on specific transactions. Foreign exchange contracts are matched with anticipated future cash flows in foreign currencies, primarily from sales.

Interest rate risk The Group's income and operating cash flows are affected by the change in market interest rates in relation to its interest-bearing loans. The Group uses interest rate swaps as cash flow hedges of future interest payments to convert certain borrowings from floating rates to fixed rates.

Fair values The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

Derivative financial instruments Forward foreign exchange contracts and interest rate swaps contracts were designated as cash flow hedges and remeasured to fair values.

The net fair values of derivative financial instruments at 31st March designated for cash flow hedges were as follows:

	Note	2003 Positive fair value US$ million	2003 Negative fair value US$ million	2002 Positive fair value US$ million	2002 Negative fair value US$ million
Forward foreign exchange contracts	15	**—**	**—**	0.5	—
Interest rate swaps	16	**—**	**—**	—	(0.9)
		—	**—**	0.5	(0.9)

Forward foreign exchange contracts The net fair value gains at 31st March 2003 on open forward foreign exchange contracts which hedge anticipated future foreign currency sales and purchases will be transferred from the hedging reserve to the consolidated income statement when the forecasted sales and purchases occur, at various dates between 1 month to 6 months from the balance sheet date.

At 31st March 2003, there were no outstanding forward foreign exchange contracts (2002: contract amount of US$22.8 million).

22 FINANCIAL INSTRUMENTS (continued)

Interest rate swaps At 31st March 2003, there were no outstanding interest rate swaps (2002: fixed interest rate relating to interest rate swaps vary from 6.7% to 7.0% and notional principal amounts of US$40.0 million).

Fair values The fair value of debtors, bank balances, creditors and accruals and bank overdrafts approximate their carrying amounts 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.

* The weighted average effective interest rate on short term bank deposits was 1.2% (2002: 1.8%) and these deposits have average maturity of 1 day.

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

	2003		2002	
	Financial assets US$ million	Financial liabilities US$ million	Financial assets US$ million	Financial liabilities US$ million
Currency:				
United States Dollar	**159.5**	**47.2**	165.6	194.5
Euro	**21.1**	**5.3**	14.9	14.7
United Kingdom Sterling	**5.0**	**2.6**	7.5	1.6
Hong Kong Dollar	**3.5**	**23.9**	2.5	28.1
Dutch Guilder	**—**	**—**	0.1	0.1
Chinese Renminbi	**0.7**	**8.3**	1.5	6.9
Swiss Franc	**—**	**—**	0.1	0.2
Others	**3.8**	**5.7**	0.3	4.4
	193.6	**93.0**	192.5	250.5

23 COMMITMENTS

	2003 US$ million	2002 US$ million
(i) Capital commitments for property, plant and equipment		
Authorized but not contracted for	**17.0**	11.8
Contracted but not provided for	**3.2**	2.4
	20.2	14.2
(ii) Operating lease commitments		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Land and buildings		
In one year or less	**6.9**	10.9
Between one and two years	**6.1**	7.3
Between two and five years	**11.9**	12.4
In more than five years	**3.5**	5.9
	28.4	36.5

The Group has entered into agreements with an independent third party in the 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 non-cancellable period of the lease terms.

In January 1996, the Group entered into an agreement with an independent third party in the 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 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 completed production facility of the second phase became operational in October 2001. The operating lease commitments above include total commitments over the non-cancellable period of the lease terms.

The operating lease commitments in respect of the agreements with the above independent third party in the PRC reflect total commitments over the non-cancellable period of the lease terms.

Under a Brand License Agreement, a wholly-owned subsidiary of the Group 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 2003 amount to US$90.9 million (2002: US$94.6 million) and the annual payment increases on a sliding scale from US$10.5 million for the year ended 31st March 2004 to US$12.6 million for the year ending 31st March 2010, when the agreement expires. The subsidiary can renew the agreement for two additional five year terms provided certain performance requirement are achieved.

24 CONTINGENT LIABILITIES 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.

Certain subsidiaries of the Group are involved in litigation arising in the ordinary course of their respective businesses. Having reviewed outstanding claims and taking into account legal advice received, the directors are of the opinion that even if the claims are found to be valid, there will be no material adverse effect on the financial position of the Group.

25 BALANCE SHEET OF THE COMPANY AS AT 31ST MARCH

	Note	2003 US$ million	2002 US$ million
Non-current assets			
Subsidiaries		**103.3**	103.3
Current assets			
Amounts due from subsidiaries	(i)	**259.6**	223.5
Taxation recoverable		**0.1**	—
Cash and cash equivalents		**0.1**	0.2
		259.8	223.7
Current liabilities			
Amounts due to subsidiaries	(i)	**(230.7)**	(204.1)
Creditors and provisions		**(1.7)**	(1.8)
Taxation payable		**—**	(0.1)
		(232.4)	(206.0)
Net assets		**130.7**	121.0
Capital and reserves			
Share capital	20	**11.3**	11.3
Reserves	21	**119.4**	109.7
Shareholders' funds		**130.7**	121.0

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

26 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 2003 are set out below:

Name of subsidiary	Fully paid issued share capital	Percentage of interest held by the Group	Principal activity
Incorporated and operating in Hong Kong:			
VTech Communications Limited	Ordinary HK$1,000 Deferred HK$5,000,000	*100	Design, manufacture and sale of electronic equipment
VTech Electronics Limited	Ordinary HK$5,000,000	*100	Design, manufacture and distribution of electronic products
VTech Telecommunications Limited	Ordinary HK$1,000 Deferred HK$5,000,000	*100	Design, manufacture and distribution of telecommunication products
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
Incorporated and operating in France:			
VTech Electronics Europe S.A.	EURO 3,048,980	*100	Sale of electronic products
Incorporated and operating in Germany:			
VTech Electronics Europe GmbH	EURO 2,600,000	*100	Sale of electronic products
Incorporated and operating in Spain:			
VTech Electronics Europe, S.L. (formerly known as VTech Electronics Spain S.L.)	EURO 2,322,200	*100	Sale of electronic products
Incorporated and operating in the United States:			
VTech Electronics North America L.L.C.	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$110,000,056	*100	Sale of telecommunication products
Incorporated and operating in Canada:			
VTech Electronics Canada Ltd.	C$1	*100	Sale of electronic products
VTech Telecommunications Canada Ltd.	Class A C$5,000 Class B C$195,000	*100 *100	Sale of telecommunication products
Incorporated and operating in the Netherlands:			
VTech Electronics Europe B.V.	EURO 18,100	*100	Sale of electronic products
Incorporated and operating in the United Kingdom:			
VTech Electronics Europe plc	GBP 500,000	*100	Sale of electronic products
Incorporated in the British Virgin Islands and operating in the People's Republic of China:			
Asian Luck Limited	US$1	*100	Manufacture of electronic & telecommunication products

* Indirectly held by subsidiary companies

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

With effect from 1st April 2003, the Group leases premises from a director for HK$250,000 a month, to provide housing for him in accordance with the terms of his employment contract for 2 years. The premises are 50% owned by the director's wife and 50% owned by a trust, the beneficiaries of which are the director and his family members.