Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognised in the 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 recognised 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 the hedging reserve at that time remains in the hedging reserve and is recognised, when the committed or forecasted transaction ultimately is recognised 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 the 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 recognised as the proceeds are received, net of transaction costs incurred.

W DIVIDENDS Dividends proposed or declared after the balance sheet date are not recognised 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 2004

		Telecommunication and electronic products US$ million	Other activities US$ million	Total US$ million
i	**Segment revenue**	913.0	2.2	915.2
	Segment result	55.6	0.2	55.8
	Unallocated corporate expenses			(6.3)
	Operating profit			49.5
	Net finance income			0.4
	Profit from ordinary activities before taxation			49.9
	Taxation			(3.6)
	Profit from ordinary activities after taxation			46.3
	Minority interest			—
	Profit attributable to shareholders			46.3
ii	**Segment assets**	335.6	1.3	336.9
	Associates	—	0.1	0.1
	Unallocated assets			85.2
	Total assets			422.2
	Segment liabilities	234.8	1.5	236.3
	Unallocated liabilities			23.3
	Total liabilities			259.6
iii	**Capital expenditure, depreciation and other non-cash expenses**			
	Capital expenditure	19.1	0.4	19.5
	Depreciation	17.2	0.7	17.9
	Amortisation of leasehold land payments	—	0.1	0.1
	Other non-cash expenses	5.1	—	5.1

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 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 non-cash expenses**			
	Capital expenditure	13.6	0.5	14.1
	Depreciation	22.5	1.6	24.1
	Amortisation of leasehold land payments	—	0.1	0.1
	Impairment charges	—	0.2	0.2
	Other non-cash expenses	5.7	—	5.7

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 products.

Europe — the operations are principally the distribution of telecommunication and electronic 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 2004 US$ million	Revenue 2003 US$ million	**Operating profit/(loss) 2004 US$ million**	Operating profit/(loss) 2003 US$ million
North America	**681.8**	680.3	**43.7**	67.9
Europe	**200.3**	149.5	**8.4**	(6.2)
Asia Pacific	**23.4**	29.2	**(5.8)**	(2.0)
Others	**9.7**	7.5	**3.2**	(0.2)
	915.2	866.5	**49.5**	59.5

	Capital expenditure 2004 US$ million	Capital expenditure 2003 US$ million	**Total assets 2004 US$ million**	Total assets 2003 US$ million
North America	**2.5**	2.4	**142.1**	154.9
Europe	**0.3**	0.5	**54.1**	47.7
Asia Pacific	**16.7**	11.2	**216.8**	153.4
Others	**—**	—	**9.2**	2.6
	19.5	14.1	**422.2**	358.6

2 **OPERATING PROFIT** The operating profit is arrived at after charging/(crediting) the following:

	Note	**2004 US$ million**	2003 US$ million
Staff related costs			
— salaries and wages		**95.5**	88.1
— pension costs: defined contribution schemes	16	**1.7**	1.5
— pension costs: defined benefit scheme	16	**1.5**	1.0
— severance payments		**2.3**	4.4
Depreciation charges	8		
— owned assets		**17.8**	23.9
— leased assets		**0.1**	0.2
Amortisation of leasehold land payments	9	**0.1**	0.1
Impairment of leasehold land payments	9	**—**	0.2
Loss on disposal of tangible assets and leasehold land		**1.9**	1.4
Gain on disposal of subsidiaries		**(1.1)**	—
Auditors' remuneration		**0.5**	0.6
Operating leases			
— land and buildings		**11.2**	8.7
— others		**1.7**	2.2
Provision for stock obsolescence		**6.9**	2.0
Provision for doubtful debts		**(1.8)**	3.7
Repairs and maintenance expenditure		**2.7**	2.6
Royalties		**12.3**	16.5
Exchange gain		**(8.6)**	(2.6)
Forward contracts: fair value losses on cash flow hedges transferred from hedging reserve	19	**3.6**	0.4

3 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' emoluments

	2004 US$ million	2003 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	1.8
Bonuses	2.7	0.8
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	—	—
	4.7	2.8

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

	2004 Number of directors	2003 Number of directors
US$		
0 — 64,000	4	4
640,001 — 704,000	—	1
896,001 — 960,000	1	1
1,088,001 — 1,152,000	—	1
1,536,001 — 1,600,000	1	—
2,112,001 — 2,176,000	1	—
	7	7

Emoluments of independent non-executive directors included above amounted to US$60,000 (2003: US$60,000), being wholly in the form of directors' fees.

Senior executives' emoluments The directors' emoluments set out above exclude 2 senior executives (2003: 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:

	2004 US$ million	2003 US$ million
Salaries, allowances and benefits in kind	0.8	0.9
Bonuses	1.1	1.2
Contribution to retirement benefit schemes	—	—
Deemed profit on share option exercise	—	—
Inducement for joining the Group	—	—
Compensation for loss of office	—	—
	1.9	2.1

The emoluments fell within the following bands:

	2004 Individuals	2003 Individuals
US$		
448,001 — 512,000	—	1
576,001 — 640,000	1	—
1,216,001 — 1,280,000	1	—
1,650,001 — 1,714,000	—	1
	2	2

4 NET FINANCE INCOME/(COSTS)

	2004 US$ million	2003 US$ million
Interest expense		
Wholly repayable within five years:		
Bank loans and overdrafts	(0.2)	(2.1)
Not wholly repayable within five years:		
Bank loans	(0.1)	(0.1)
Interest income	0.7	1.2
	0.4	(1.0)

5 TAXATION

	2004 US$ million	2003 US$ million
Current tax		
— Hong Kong	4.7	6.4
— Overseas	1.4	0.5
(Over)/underprovision in prior years		
— Hong Kong	(3.5)	10.8
— Overseas	—	(0.3)
Deferred tax		
— Origination and reversal of temporary differences	1.0	—
	3.6	17.4

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

In previous year, the Group made a provision of US$11.0 million representing the directors' best estimate of liability regarding a dispute with the Hong Kong Inland Revenue Department ("HKIRD") over the offshore income claims made by certain subsidiaries of the Group. The Group reached a compromised settlement agreement with the HKIRD in April 2004. The overprovision for taxation resulting from the compromised settlement was credited to the income statement for the year ended 31st March 2004.

5 TAXATION (continued)

The consolidated effective income tax rate for the year ended 31st March 2004 was 7.2% (2003: 29.8%). This effective income tax rate is reconciled to the statutory domestic income tax rate as follow:

	2004 **%**	2003 %
Statutory domestic income tax rate	**17.5**	16.0
Difference in overseas income tax rates	**0.2**	0.2
Non-temporary differences	**(4.3)**	(9.8)
Tax loss not recognised	**1.0**	5.7
(Over)/underprovision in prior years	**(6.9)**	18.0
Others	**(0.3)**	(0.3)
Effective income tax rate	**7.2**	29.8

6 DIVIDENDS

	Note	**2004 US$ million**	2003 US$ million
Interim dividend of US3.0 cents (2003: US1.5 cents) per share declared and paid	19	**6.8**	3.4
Final dividend of US7.0 cents (2003: US2.0 cents) per share proposed after the balance sheet date	19	**15.8**	4.5

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

7 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of US$46.3 million (2003: US$40.8 million).

The basic earnings per share is based on the weighted average of 225.5 million (2003: 225.5 million) ordinary shares in issue during the year. The diluted earnings per share is based on 226.0 million (2003: 225.5 million) ordinary shares which is the weighted average number of ordinary shares in issue during the year after adjusting for the number of dilutive potential ordinary shares arising from the outstanding warrants and under the employee share option scheme.

8 TANGIBLE ASSETS

	Land and buildings US$ million	**Moulds, machinery and equipment** US$ million	**Motor vehicles, furniture and fixtures and leasehold improvements** US$ million	**Construction in progress** US$ million	**Total** US$ million
Cost or valuation					
At 1st April 2003	37.0	177.8	58.8	—	273.6
Additions	—	10.5	6.0	3.0	19.5
Disposals	(0.4)	(4.6)	(7.0)	—	(12.0)
Effect of changes in exchange rate	1.2	1.1	0.8	—	3.1
At 31st March 2004	**37.8**	**184.8**	**58.6**	**3.0**	**284.2**
Accumulated depreciation					
At 1st April 2003	16.4	158.5	50.7	—	225.6
Charge for the year	1.6	11.1	5.2	—	17.9
Disposals	—	(3.4)	(6.2)	—	(9.6)
Effect of changes in exchange rate	—	0.9	0.7	—	1.6
At 31st March 2004	**18.0**	**167.1**	**50.4**	**—**	**235.5**
Net book value at 31st March 2004	**19.8**	**17.7**	**8.2**	**3.0**	**48.7**
Net book value at 31st March 2003	20.6	19.3	8.1	—	48.0
Cost or valuation of tangible assets is analysed as follows:					
At cost	25.0	184.8	58.6	3.0	271.4
At professional valuation — 2003 (note (c))	12.8	—	—	—	12.8
	37.8	**184.8**	**58.6**	**3.0**	**284.2**

(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 2004, the net book value of tangible assets held under finance leases amounted to US$0.2 million (2003: US$0.3 million).

(b) **Security** The net book value of tangible assets pledged as security for borrowings at 31st March 2004 amounted to US$2.6 million (2003: US$ 2.5 million).

(c) The amount included valuation of overseas freehold land and buildings denominated in Euro dollar which were last revalued by independent valuers as at 31st March 2003. The carrying value of these properties in US dollars as at 31st March 2004 is changed due to the effect of changes in exchange rates.

8 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 2003	12.0	25.0	37.0
Disposals	(0.4)	—	(0.4)
Effect of changes in exchange rate	1.2	—	1.2
At 31st March 2004	**12.8**	**25.0**	**37.8**
Accumulated depreciation			
At 1st April 2003	0.9	15.5	16.4
Charge for the year	0.3	1.3	1.6
At 31st March 2004	**1.2**	**16.8**	**18.0**
Net book value at 31st March 2004	**11.6**	**8.2**	**19.8**
Net book value at 31st March 2003	11.1	9.5	20.6
Cost or valuation of tangible assets is analysed as follows:			
At cost	—	25.0	25.0
At professional valuation — 2003 (note (c))	12.8	—	12.8
	12.8	**25.0**	**37.8**
Net book value of land and buildings comprises:			
Hong Kong			
Long-term leasehold buildings (not less than 50 years)	1.0	—	1.0
Overseas			
Freehold land and buildings	10.6	—	10.6
Short-term leasehold buildings	—	8.2	8.2
	10.6	8.2	18.8
Net book value of revalued land and buildings had the assets been carried at cost less accumulated depreciation	6.1	—	6.1

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.

9 LEASEHOLD LAND PAYMENTS

	Note	2004 US$ million	2003 US$ million
Net book value at 1st April		**2.7**	3.1
Disposals		**(0.8)**	(0.1)
Amortisation	2	**(0.1)**	(0.1)
Impairment charges	2	**—**	(0.2)
Net book value at 31st March		**1.8**	2.7
Leasehold land payments in respect of:			
Owner-occupied properties		**1.8**	2.7

10 DEFERRED TAXATION

The deferred tax assets and liabilities and the deferred tax account movements for the years ended 31st March 2003 and 31st March 2004 are attributable to the following items:

	1st April 2002 US$ million	Credited/ (charged) to income statement US$ million	31st March 2003 and 1st April 2003 US$ million	Credited/ (charged) to income statement US$ million	31st March 2004 US$ million
Deferred tax assets					
Provisions	0.5	(0.4)	0.1	(0.1)	**—**
Tax losses carried forward	1.6	(0.6)	1.0	1.3	**2.3**
Other deductible temporary differences	2.6	0.2	2.8	(1.4)	**1.4**
	4.7	(0.8)	3.9	(0.2)	**3.7**
Deferred tax liabilities					
Accelerated tax depreciation	(1.6)	0.8	(0.8)	(0.8)	**(1.6)**
Net deferred tax assets	3.1	—	3.1	(1.0)	**2.1**

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:

	2004 US$ million	2003 US$ million
Deferred tax assets	**3.7**	3.9
Deferred tax liabilities	**(1.6)**	(0.8)
	2.1	3.1

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. Deferred tax assets of US$47.6 million (2003: US$63.2 million) arising from unused tax losses of US$145.0 million (2003: US$213.5 million) have not been recognised at the end of the year.

11 INVESTMENTS

		2004 US$ million	2003 US$ million
i)	**Associates**		
	Share of net tangible assets	**0.1**	0.1
ii)	**Other investments**		
	Unlisted investments, at cost	**0.1**	0.1
		0.2	0.2

12 STOCKS

	2004 US$ million	2003 US$ million
Telecommunication and electronic products		
Raw materials	**27.1**	13.9
Work in progress	**8.9**	4.6
Finished goods	**60.1**	65.5
	96.1	84.0

Stocks carried at net realisable value at 31st March 2004 amounted to US$25.4 million (2003: US$16.2 million).

13 DEBTORS AND PREPAYMENTS

	Note	2004 US$ million	2003 US$ million
Trade debtors (Net of provision for doubtful debts of US$3.9 million (2003: US$5.8 million))		**137.6**	123.0
Other debtors and prepayments		**14.7**	15.1
Pension assets	16	**1.6**	1.8
		153.9	139.9

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

	2004 US$ million	2003 US$ million
0–30 days	**80.8**	54.5
31–60 days	**34.0**	41.6
61–90 days	**14.5**	10.2
>90 days	**8.3**	16.7
Total	**137.6**	123.0

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.

14 CREDITORS AND ACCRUALS

	2004 US$ million	2003 US$ million
Trade creditors	**93.0**	59.5
Other creditors and accruals	**107.3**	111.9
	200.3	171.4

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

	2004 US$ million	2003 US$ million
0–30 days	**45.6**	28.7
31–60 days	**23.6**	11.5
61–90 days	**14.3**	11.9
>90 days	**9.5**	7.4
Total	**93.0**	59.5

15 PROVISIONS

	Defective goods returns US$ million	Restructuring costs US$ million	Other employee benefits US$ million	Total US$ million
At 1st April 2003	36.6	1.8	2.0	40.4
Effect of changes in exchange rate	0.3	—	—	0.3
Additional provisions	32.7	—	2.9	35.6
Unused amounts reversed	(2.3)	—	—	(2.3)
Charged to income statement	30.4	—	2.9	33.3
Utilised during the year	(31.3)	(1.1)	(0.9)	(33.3)
At 31st March 2004	**36.0**	**0.7**	**4.0**	**40.7**

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 recognised 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 previous years.

Other employee benefits Other employee benefits include employee compensated leave entitlements which are the expected costs of accumulated compensated absences and the gratuity payment to certain employees upon completion of the service contract.

16 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 costs expensed in the income statement amounted to US$1.5 million (2003: US$1.4 million) and US$0.2 million (2003: 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 2004 using the projected unit credit method.

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

	Note	**2004** US$ million	2003 US$ million
Fair value of the Scheme assets		**11.3**	8.7
Present value of funded defined benefit obligations		**(12.3)**	(11.4)
Unrecognised actuarial gains		**2.6**	4.5
Assets recognised in the balance sheet	13	**1.6**	1.8
The amounts recognised in the income statement are as follows:			
Current service cost		**1.3**	1.1
Interest cost		**0.6**	0.7
Expected return on plan assets		**(0.6)**	(0.8)
Net actuarial losses recognised in the year		**0.2**	—
Expenses recognised in the income statement*	2	**1.5**	1.0
The actual return on plan assets was as follows:			
Expected return on plan assets		**0.6**	0.8
Actuarial gains/(losses) on plan assets		**2.6**	(2.0)
Actual return on plan assets		**3.2**	(1.2)
Movement in the assets recognised in the balance sheet:			
At 1st April		**1.8**	1.8
Expenses recognised in the income statement *		**(1.5)**	(1.0)
Contributions paid		**1.3**	1.0
At 31st March		**1.6**	1.8

	2004	2003
The principal actuarial assumptions used for accounting purposes were:		
Discount rate	**5.0%**	5.5%
Expected return on plan assets	**7.0%**	7.0%
Future salary increases	**5.0%**	5.0%

17 BORROWINGS

	2004 US$ million	2003 US$ million
Bank loans 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:		
Secured bank loans	**1.4**	1.4
Obligations under finance leases (Note)	**0.2**	0.3
	1.6	1.7
Less : amounts due within one year included under current liabilities:		
Secured bank loans	**(0.5)**	(0.4)
Obligations under finance leases (Note)	**(0.1)**	(0.1)
	(0.6)	(0.5)
	2.0	2.2
Bank loans and finance lease obligations are repayable as follows:		
Between one and two years	**0.4**	0.5
Between two and five years	**0.6**	0.7
In more than five years	**1.0**	1.0
	2.0	2.2

Note: *The amounts are net of future finance charges of US$0.1 million (2003: US$ 0.1 million).*

Details of the bank loans and overdrafts are as follows:

	2004 US$ million	2003 US$ million
Euros		
Secured bank loans at an average fixed interest rate of 5.4% (2003: 6.0%)	**2.4**	2.4

18 SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Share capital

	2004 US$ million	2003 US$ million
Authorised		
Ordinary shares:		
400,000,000 (2003 : 400,000,000)		
of US$0.05 each	**20.0**	20.0

	Number of shares	2004 US$ million	2003 US$ million
Issued and fully paid			
Ordinary shares of US$0.05 each:			
Beginning of year and end of year *(Note 1)*	225,527,133	**11.3**	11.3

Note 1: In April 2004, the issued and paid up share capital of the Company was increased by 100,000 ordinary shares to 225,627,133 ordinary shares upon the exercise of 100,000 share options by a grantee in March 2004.

Share options

(i) The 2001 Scheme Pursuant to the share option scheme adopted on 10th August 2001 (the "2001 Scheme"), the directors are authorised, 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 or 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.

Pursuant to the Chapter 17 of the Listing Rules, the Company can issue options so that the number of shares that may be issued upon exercise of all options to be granted under 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 must be accepted within 30 days from the date of offer, upon payment of a non-refundable sum of HK$1.0 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 on which an offer is made, 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 on which an offer is made; 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 date immediately before the date on which options were granted) was HK$9.70 and on 9th July 2002 (being the date immediately before the date on which options were 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 of speculative assumptions. Accordingly, the directors believe that any calculation of the value of options will not be meaningful and may be misleading to shareholders.

As at 31st March 2004, the number of shares issuable under the options granted pursuant to the 2001 Scheme was 15,700,000, which represented approximately 7% 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:

18 SHARE CAPITAL, SHARE OPTIONS AND WARRANTS (continued)

Share options (continued)

Date of grant (Note 1)	Exercise price	Exercisable period (Note 2)	Balance in issue at 1st April 2003	Number of share options granted during the year	Number of share options exercised during the year (Note 3)	Number of share options lapsed during the year (Note 4)	Balance in issue at 31st March 2004
26th February 2002 to 26th March 2002	HK$10.2	26th February 2005 to 25th March 2007	15,430,000	—	(100,000)	(970,000)	**14,360,000**
10th July 2002 to 8th August 2002	HK$8.71	10th July 2005 to 7th August 2007	1,720,000	—	—	(380,000)	**1,340,000**
			17,150,000	—	(100,000)	(1,350,000)	**15,700,000**

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 Annual 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 accepted and shall not be exercisable after 60 months from the date on which such options were accepted. However, options shall be automatically vested to the grantees when the grantees reach 60 years of age.

Note 3: Following the exercise of 100,000 options in March 2004, 100,000 new ordinary shares were issued and allotted in April 2004. The closing price of the Company's shares traded on The Stock Exchange of Hong Kong Limited on 11th March 2004 (being the date immediately before the date on which options were exercised) was HK$13.3.

Note 4: No options were cancelled during the year.

Note 5: In April 2004, the Company granted 2,670,000 options to certain employees of the Company and its subsidiaries pursuant to the 2001 Scheme to subscribe for an aggregate of 2,670,000 ordinary shares of the Company at a price of HK$15.0 per ordinary share.

(ii) HomeRelay Plan Pursuant to the stock option plan adopted by a subsidiary, HomeRelay Communications, Inc. ("HomeRelay") 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% Employees (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.

18 SHARE CAPITAL, SHARE OPTIONS AND WARRANTS
(continued)

Share options (continued)

Prior to 10th September 2003, the number of common stock issuable under outstanding stock options granted pursuant to the HomeRelay Plan was 705,475, which represented approximately 9.5% of the then issued stock capital of HomeRelay. All outstanding options lapsed since 10th September 2003 as a result of the termination of employment of the relevant grantees under the HomeRelay Plan. Certain information concerning changes during the year in the number of outstanding stock options under the HomeRelay Plan is set forth below:

Date of grant *(Note 1)*	Weighted average exercise price	Exercisable period	Balance in issue at 1st April 2003	Number of share options granted during the year	Number of share options exercised during the year	Number of share options lapsed during the year *(Note 2)*	Balance in issue at 31st March 2004
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 from 1st September 2000 to 22nd February 2001 and the information can only be shown within a reasonable range in this Annual Report.

Note 2: No options were cancelled during the year.

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 ordinary shares in the Company at a exercise price of HK$20.0 per share on or before 18th January 2012.

Pursuant to a Revised AT&T Brand Licence Agreement dated 24th January 2002, the exercise price of these warrants was revised to HK$8.43 (being the lower of the initial exercise 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) and the expiration date of these warrants was amended to 12th December 2011.

No warrants have been exercised since the date of grant.

19 RESERVES

	Note	Group 2004 US$ million	Group 2003 US$ million	Company 2004 US$ million	Company 2003 US$ million
Share premium		**74.3**	74.3	**74.3**	74.3
Other properties revaluation reserve		**6.1**	6.8	**—**	—
Revenue reserve		**77.6**	41.9	**41.3**	46.3
Exchange reserve		**(6.7)**	(6.8)	**(1.2)**	(1.2)
Hedging reserve		**—**	—	**—**	—
		151.3	116.2	**114.4**	119.4
An analysis of movements in reserves is set out below:					
Share premium					
Brought forward and carried forward		**74.3**	74.3	**74.3**	74.3
Other properties revaluation reserve					
Brought forward		**6.8**	6.6	**—**	—
Disposal of properties previously revalued		**(0.7)**	(0.3)	**—**	—
Surplus arising on revaluation of other properties		**—**	0.5	**—**	—
Carried forward		**6.1**	6.8	**—**	—

	Note	Group 2004 US$ million	Group 2003 US$ million	Company 2004 US$ million	Company 2003 US$ million
Revenue reserve					
Brought forward		**41.9**	4.2	**46.3**	36.6
Profit attributable to shareholders		**46.3**	40.8	**6.3**	13.1
Final dividend in respect of the previous year	6	**(4.5)**	—	**(4.5)**	—
Interim dividend in respect of the current year	6	**(6.8)**	(3.4)	**(6.8)**	(3.4)
Disposal of properties previously revalued		**0.7**	0.3	**—**	—
Carried forward		**77.6**	41.9	**41.3**	46.3
Exchange reserve					
Brought forward		**(6.8)**	(6.6)	**(1.2)**	(1.2)
Exchange translation differences		**0.1**	(0.2)	**—**	—
Carried forward		**(6.7)**	(6.8)	**(1.2)**	(1.2)
Hedging reserve					
Brought forward		**—**	(0.4)	**—**	—
Transfer to income statement	2	**3.6**	0.4	**—**	—
Fair value losses on hedging during the year		**(3.6)**	—	**—**	—
Carried forward		**—**	—	**—**	—

19 RESERVES (continued)

The consolidated profit attributable to shareholders includes a profit of US$6.3 million (2003: US$13.1 million) which has been dealt with in the financial statements of the Company.

Reserves of the Company available for distribution to shareholders amounted to US$41.3 million (2003: US$46.3 million).

20 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 debtors. The Group's cash equivalents and short-term deposits are placed with major financial institutions. Trade debtors are presented net of the allowance for doubtful debts. Credit risk with respect to trade debtors 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.

Forward foreign exchange contracts The net fair value gains/(losses) at 31st March 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.

Details of the movements of fair value gains/(losses) arising from forward foreign exchange contracts entered by the Group are set out in note 19 on the financial statements.

At 31st March 2004, there were no outstanding forward foreign exchange contracts (2003: nil).

The Group does not anticipate any material adverse effect on its financial position resulting from its involvement in these financial instruments, nor does it anticipate non-performance by any of its counterparties.

Interest rate swaps At 31st March 2004, there were no outstanding interest rate swaps (2003: nil).

Fair values The fair value of trade debtors, bank balances, trade 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 1.1% (2003: 1.2%) and these deposits have an average maturity of 1 day.

21 COMMITMENTS

		2004 US$ million	2003 US$ million
(i)	Capital commitments for property, plant and equipment		
	Authorised but not contracted for	25.0	17.0
	Contracted but not provided for	7.6	3.2
		32.6	20.2
(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	6.5	6.9
	Between one and two years	6.4	6.1
	Between two and five years	8.2	11.9
	In more than five years	3.7	3.5
		24.8	28.4

21 COMMITMENTS (continued)

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 three separate leases which expire in 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 constructed in phases and leases to the Group a production facility in Liaobu, Dongguan. Under a fifty year lease agreement, the Group rented the first and second phases of the facility for non-cancellable periods of six and eight years after completion respectively. The Group also had 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 expiring 31st March 2010, 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 after 31st March 2004 amounted to US$80.4 million (2003: US$90.9 million), whereas the annual minimum royalty payment varies throughout the agreement period between US$11.5 million and US$15.6 million. The subsidiary can renew the agreement for two additional five year terms provided certain performance requirements are achieved.

During the financial year ended 31 March 2004, certain wholly-owned subsidiaries of the Group (the "licensees") entered into certain licensing agreements with various third party licensors for the granting of certain rights to use the relevant cartoon characters into the Group's electronic learning products. Under these licensing agreements, the licensees are required to make royalty payments to the licensors, calculated as a percentage of net sales of the relevant character licensed products, subject to certain minimum aggregate royalty payments. The percentage of royalty payable varies over time and between licensed characters. There is no maximum royalty payment. The aggregate minimum royalty payments as at 31st March 2004 amount to US$3.5 million (2003: US$ nil), of which US$1.1 million, US$1.4 million and US$1.0 million are payable in the financial years ended 31 March 2005, 2006 and 2007 respectively.

22 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 counsels, 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.

23 BALANCE SHEET OF THE COMPANY AS AT 31ST MARCH

	Note	**2004** US$ million	2003 US$ million
Non-current assets			
Subsidiaries		**102.6**	103.3
Current assets			
Amounts due from subsidiaries	(i)	**326.6**	259.6
Taxation recoverable		**0.2**	0.1
Cash and cash equivalents		**0.1**	0.1
		326.9	259.8
Current liabilities			
Amounts due to subsidiaries	(i)	**(302.0)**	(230.7)
Creditors and accruals		**(1.8)**	(1.7)
		(303.8)	(232.4)
Net assets		**125.7**	130.7
Capital and reserves			
Share capital	18	**11.3**	11.3
Reserves	19	**114.4**	119.4
Shareholders' funds		**125.7**	130.7

(i) The amounts due from/ (to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

24 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 2004 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 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
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 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 the Netherlands:			
VTech Electronics Europe B.V.	EURO 18,100	*100	Sale of electronic products
Incorporated and operating in Spain:			
VTech Electronics Europe, S.L.	EURO 2,322,200	*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 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

* Indirectly held by subsidiary companies

25 RELATED PARTY TRANSACTIONS With effect from 1st April 2003, the Group leases premises from Aldenham Company Limited ("Aldenham") for HK$250,000 per month, to provide housing for a director in accordance with the terms of his service contract for a term of 2 years. When the lease was entered into, Aldenham was 50% owned by the director's spouse and 50% owned by a trust, the beneficiaries of which were the director and his family members. As at the balance sheet date, Aldenham became wholly owned by the said trust, the beneficiaries of which are family members of the director.

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.

26 POST BALANCE SHEET EVENT In April 2004, the Group entered into a sale and purchase agreement with an independent third party for the disposal of the land and buildings held for sale. The consideration for the transaction was US$9.0 million.