

## Consolidated Cash Flow Statement

For the year ended 31st March 2005

	Note	2005 US\$ million	2004 US\$ million
<b>Operating activities</b>			
Operating profit		62.7	49.5
Depreciation charges	2	18.2	17.9
Amortisation of leasehold land payments	2	—	0.1
Loss on disposal of tangible assets	2	—	1.9
Gain on disposal of subsidiaries	2	(1.0)	(1.1)
Gain on disposal of assets held for sale	2	(0.8)	—
Increase in stocks		(28.1)	(12.1)
Increase in debtors and prepayments		(21.8)	(14.0)
Increase in creditors and accruals		31.0	28.9
Increase in provisions		0.5	—
<b>Cash generated from operations</b>		<b>60.7</b>	<b>71.1</b>
Interest received		1.3	0.7
Interest paid		(0.3)	(0.3)
Taxes paid		(12.1)	(6.3)
<b>Net cash generated from operating activities</b>		<b>49.6</b>	<b>65.2</b>
<b>Investing activities</b>			
Proceeds from disposal of tangible assets		0.3	1.3
Proceeds from disposal of assets held for sale		8.8	—
Proceeds from disposal of subsidiaries		1.0	1.1
Purchase of tangible assets	9	(21.5)	(19.5)
<b>Net cash used in investing activities</b>		<b>(11.4)</b>	<b>(17.1)</b>
<b>Financing activities</b>			
Net repayment of borrowings		(2.4)	(0.1)
Dividends paid	7	(18.1)	(11.3)
Dividend paid to minority shareholder		—	(0.8)
<b>Net cash used in financing activities</b>		<b>(20.5)</b>	<b>(12.2)</b>
Effect of exchange rate changes		1.0	(1.1)
<b>Increase in cash and cash equivalents</b>		<b>18.7</b>	<b>34.8</b>
Cash and cash equivalents at beginning of the year		105.2	70.4
<b>Cash and cash equivalents at end of the year</b>		<b>123.9</b>	<b>105.2</b>
<b>Analysis of the balance of cash and cash equivalents</b>			
Cash at bank and deposits		123.9	105.2

The notes on pages 34 to 53 form part of these financial statements.

## Principal Accounting Policies

### A Principal Activities, Organisation and Basis of

**Preparation** The Group's principal activities and separable segments are set out in note 1 to the financial statements.

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

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards ("IAS") and related Interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Bermuda Companies Act 1981.

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

The accounting policies described in note (B) to note (V) have been consistently applied by the Group.

The International Accounting Standards Board has issued a number of new and revised IFRS and IAS ("new IFRS"), which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new IFRS in the financial statements for the year ended 31st March 2005.

The Group has made a preliminary assessment of the impact of these new IFRS and has so far concluded that the adoption of IFRS2 "Share-based payments" will have an impact on its consolidated financial statements as set out below:

- (i) At present, when the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

## Principal Accounting Policies (continued)

### A Principal Activities, Organisation and Basis of Preparation (continued)

- (ii) IFRS2 requires the Group to recognise the share-based payment transaction, from the date of the grant until the vesting date. The measurement of the share-based payment transaction (e.g. grant of the share options) is based on the fair value of the equity instruments measured at grant date, where IFRS2 requires a valuation model to be applied.

For the accounting periods beginning 1st April 2005, the Group will adopt the requirements of IFRS2 and will take advantage of the transitional provisions of IFRS2. The preliminary assessment indicates that the adoption of IFRS2 and other new IFRS would not have a significant impact on its financial position as at 31st March 2005 and its results of operations for the year then ended.

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

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

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases, and the share attributable to minority interests is deducted from or added to profit after taxation. Investments in subsidiaries are stated at cost less impairment losses (see note (I)) in the Company's balance sheet.

Associates are those entities, not being subsidiaries, in which the Group exercises significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates under the equity method, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of that associate. Investments in associates are stated at cost less impairment losses (see note (I)) in the company's balance sheet.

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

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

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

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

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

# Notes to the Financial Statements

## Principal Accounting Policies (continued)

**E Research and Development** Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities.

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

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

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

**F Intangible Assets** Intangible assets that are acquired by the Group are carried at cost less any accumulated amortisation and any impairment losses (see note (I)). Amortisation commences from the date when the developed product is available for use.

**G Tangible Assets and Depreciation** Land and buildings are stated at cost or valuation performed by professional valuers every three years less amounts provided for depreciation except in the case of freehold land which is not depreciated. In the intervening years the directors review the carrying value and adjustment is made where there has been a material change. The valuations are on an open market value basis and are incorporated in the financial statements. Increases in valuation are credited to the revaluation reserve; decreases are first set off against increases on earlier valuations in respect of the same assets and thereafter are charged to the consolidated income statement. Upon the disposal of a revalued property, the relevant portion of the realised revaluation reserve

in respect of previous revaluations is transferred from revaluation reserve to revenue reserve.

All other tangible assets are stated at cost less accumulated depreciation and impairment losses (see note (I)).

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

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

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

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

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

Leasehold land payments are up-front payments to acquire long-term leasehold interests in land. These payments are stated at cost and are amortised on a straight-line basis over the respective period of the leases.

## Principal Accounting Policies (continued)

**H Leases (continued)** When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

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

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

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

**J Construction in Progress** Construction in progress represents machinery and equipment under construction and pending installation and is stated at cost less impairment losses (see note (I)). Cost comprises the purchase costs of equipment and the related installation costs.

Construction in progress is transferred to machinery and equipment when the asset is substantially ready for its intended use and depreciation will be provided at the appropriate rates in accordance with the depreciation policies specified in note (G).

No depreciation is provided in respect of construction in progress.

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

**L Stocks and Assets Held for Sale** (i) Stocks are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average or the first-in-first-out basis, and comprises materials, direct labour and an appropriate share of production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less estimates of costs of completion and selling expenses.

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

**M Trade Debtors** Trade debtors are carried at anticipated realisable value. An allowance is made for doubtful debts based upon the evaluation of the recoverability of these outstanding amounts at the balance sheet date. Bad debts are written off in the income statement during the year in which they are identified.

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

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

**O Trade and Other Creditors** Trade and other creditors are stated at their cost.

# Notes to the Financial Statements

## Principal Accounting Policies (continued)

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

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

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

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

**Q Income Tax** Income tax comprises current and deferred tax. Current tax is calculated on taxable income by applying the applicable tax rates. Deferred tax is provided using the balance sheet liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purpose. Deferred tax is calculated on the basis of the enacted tax rates that are expected to apply in the period when the asset is being realised or the liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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

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

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

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

**(iii) Equity and equity related compensation benefits** The Company has a number of share option schemes which may grant options to certain employees of the Company and subsidiaries of the Group. No compensation cost of the obligation is recognised at the date of the grant. The option exercise prices are set out in note 19 on the financial statements. When the options are exercised, shareholders' funds is increased by the amount of the proceeds received.

## Principal Accounting Policies *(continued)*

**S Financial Instruments** The Group's activities expose it to financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swap contracts to hedge certain exposures.

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

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

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 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.

**T Borrowings** Borrowings are recognised as the proceeds are received, net of transaction costs incurred.

**U Dividends** Dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date.

**V 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 electronics products. The telecommunication and electronic products business is the principal business segment of the Group.

### Primary reporting format — business segments

Year ended 31st March 2005

	Telecommunication and electronic products US\$ million	Other activities US\$ million	Total US\$ million
<b>i Segment revenue</b>	<b>1,020.3</b>	<b>1.7</b>	<b>1,022.0</b>
<b>Segment result</b>	<b>62.4</b>	<b>0.9</b>	<b>63.3</b>
Unallocated corporate expenses			(0.6)
<b>Operating profit</b>			<b>62.7</b>
Net finance income			1.0
<b>Profit from ordinary activities before taxation</b>			<b>63.7</b>
Taxation			(6.8)
<b>Profit attributable to shareholders</b>			<b>56.9</b>
<b>ii Segment assets</b>	<b>390.8</b>	<b>1.2</b>	<b>392.0</b>
Associates	—	0.1	0.1
Unallocated assets			91.3
<b>Total assets</b>			<b>483.4</b>
<b>Segment liabilities</b>	<b>261.2</b>	<b>1.6</b>	<b>262.8</b>
Unallocated liabilities			17.3
<b>Total liabilities</b>			<b>280.1</b>
<b>iii Capital expenditure, depreciation and other non-cash revenue</b>			
Capital expenditure	21.1	0.4	21.5
Depreciation	17.5	0.7	18.2
Other non-cash revenue	(0.7)	—	(0.7)

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.

### Primary reporting format — business segments

Year ended 31st March 2004

	Telecommunication and electronic products US\$ million	Other activities US\$ million	Total US\$ million
<b>i Segment revenue</b>	<b>913.0</b>	<b>2.2</b>	<b>915.2</b>
<b>Segment result</b>	<b>55.6</b>	<b>0.2</b>	<b>55.8</b>
Unallocated corporate expenses			(6.3)
<b>Operating profit</b>			<b>49.5</b>
Net finance income			0.4
<b>Profit from ordinary activities before taxation</b>			<b>49.9</b>
Taxation			(3.6)
<b>Profit attributable to shareholders</b>			<b>46.3</b>
<b>ii Segment assets</b>	<b>335.6</b>	<b>1.3</b>	<b>336.9</b>
Associates	—	0.1	0.1
Unallocated assets			85.2
<b>Total assets</b>			<b>422.2</b>
<b>Segment liabilities</b>	<b>234.8</b>	<b>1.5</b>	<b>236.3</b>
Unallocated liabilities			23.3
<b>Total liabilities</b>			<b>259.6</b>
<b>iii Capital expenditure, depreciation and other non-cash expenses</b>			
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

# Notes to the Financial Statements

## 1 Segment Information *(continued)*

### 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 Special Administrative Region and the Group's principal manufacturing operations are located in mainland China.

	Revenue 2005 US\$ million	Revenue 2004 US\$ million	Operating profit/(loss) 2005 US\$ million	Operating profit/(loss) 2004 US\$ million
North America	621.1	681.8	19.7	43.7
Europe	336.0	200.3	33.2	8.4
Asia Pacific	45.9	23.4	5.2	(5.8)
Others	19.0	9.7	4.6	3.2
	<b>1,022.0</b>	915.2	<b>62.7</b>	49.5

	Capital expenditure 2005 US\$ million	Capital expenditure 2004 US\$ million	Total assets 2005 US\$ million	Total assets 2004 US\$ million
North America	0.7	2.5	131.3	142.1
Europe	0.3	0.3	67.2	54.1
Asia Pacific	20.5	16.7	284.1	216.8
Others	—	—	0.8	9.2
	<b>21.5</b>	19.5	<b>483.4</b>	422.2

## 2 Operating Profit

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

	Note	2005 US\$ million	2004 US\$ million
Staff related costs			
— salaries and wages		103.9	95.5
— pension costs: defined contribution schemes	17	1.9	1.7
— pension costs: defined benefit scheme	17	1.2	1.5
— severance payments		2.3	2.3
Depreciation charges	9		
— owned assets		18.1	17.8
— leased assets		0.1	0.1
Amortisation of leasehold land payments	10	—	0.1
Loss on disposal of tangible assets		—	1.9
Gain on disposal of subsidiaries		(1.0)	(1.1)
Gain on disposal of assets held for sale		(0.8)	—
Auditors' remuneration		0.6	0.5
Operating leases			
— land and buildings		9.9	11.2
— others		2.9	1.7
Provision for stock obsolescence		(0.7)	6.9
Provision for doubtful debts		—	(1.8)
Royalties		19.0	12.3
Exchange gain		(6.4)	(8.6)
Forward contracts: fair value losses on cash flow hedges transferred from hedging reserve	20	3.1	3.6

## 3 Net Receipts from an Indemnification Claim

In September 2004, the Group and Lucent Technologies Inc. ("Lucent") agreed to settle a claim made by the Group relating to certain indemnifications previously provided by Lucent and Lucent Technologies Consumer Products, L.P. in connection with the acquisition by the Group of certain assets and liabilities of Lucent's Wired Consumer Products Business in 2000.

Net receipts of US\$6.7 million, after deducting incidental expenses, were received by the Group pursuant to this settlement and were credited to the consolidated income statement during the year ended 31st March 2005.



# Notes to the Financial Statements

## 4 Directors' and Senior Executives' Emoluments

### Directors' emoluments

	2005 US\$ million	2004 US\$ million
The emoluments of the directors of the Company are as follows:		
Fees	0.1	0.1
Salaries, allowances and benefits in kind	1.4	1.8
Bonuses	3.0	2.7
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	—	—
	<b>4.6</b>	<b>4.7</b>

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

	2005 Number of directors	2004 Number of directors
US\$		
0 – 64,000	4	4
896,001 – 960,000	—	1
1,344,001 – 1,408,000	1	—
1,536,001 – 1,600,000	—	1
2,112,001 – 2,176,000	—	1
3,136,001 – 3,200,000	1	—
	<b>6</b>	<b>7</b>

Emoluments of independent non-executive directors included above amounted to US\$60,000 (2004: US\$60,000), being wholly in the form of directors' fees.

**Senior executives' emoluments** The directors' emoluments set out above exclude 3 senior executives (2004: 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:

	2005 US\$ million	2004 US\$ million
Salaries, allowances and benefits in kind	0.9	0.8
Bonuses	2.6	1.1
Contribution to retirement benefit schemes	0.1	—
Deemed profit on share option exercise	—	—
Inducement for joining the Group	—	—
Compensation for loss of office	—	—
	<b>3.6</b>	<b>1.9</b>

The emoluments fell within the following bands:

	2005 Individuals	2004 Individuals
US\$		
576,001 – 640,000	—	1
640,001 – 704,000	2	—
1,216,001 – 1,280,000	—	1
2,176,001 – 2,240,000	1	—
	<b>3</b>	<b>2</b>

## 5 Net Finance Income

	2005 US\$ million	2004 US\$ million
Interest expenses on bank loans and overdrafts which are:		
— Wholly repayable within five years	(0.2)	(0.2)
— Not wholly repayable within five years	(0.1)	(0.1)
Interest income	1.3	0.7
	<b>1.0</b>	<b>0.4</b>

## 6 Taxation

	2005 US\$ million	2004 US\$ million
Current tax		
— Hong Kong	5.5	4.7
— Overseas	1.6	1.4
Overprovision in respect of prior years		
— Hong Kong	(0.4)	(3.5)
— Overseas	(0.1)	—
Deferred tax		
— Origination and reversal of temporary differences	0.2	1.0
	<b>6.8</b>	<b>3.6</b>

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

The consolidated effective income tax rate for the year ended 31st March 2005 was 10.7% (2004: 7.2%). The effective income tax rate is reconciled to the statutory domestic income tax rate as follow:

	2005 %	2004 %
Statutory domestic income tax rate	17.5	17.5
Difference in overseas income tax rates	—	0.2
Non-temporary differences	(7.1)	(4.3)
Tax losses not recognised	4.1	1.0
Overprovision in prior years	(0.8)	(6.9)
Others	(3.0)	(0.3)
Effective income tax rate	<b>10.7</b>	<b>7.2</b>

## 7 Dividends

	Note	2005 US\$ million	2004 US\$ million
Interim dividend of US1.0 cent (2004: US3.0 cents) per share declared and paid	20	2.3	6.8
Final dividend of US12.0 cents (2004: US7.0 cents) per share proposed after the balance sheet date	20	27.3	15.8

The final dividend proposed after the balance sheet date has not been recognised 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\$56.9 million (2004: US\$46.3 million).

The basic earnings per share is based on the weighted average of 225.6 million (2004: 225.5 million) ordinary shares in issue during the year. The diluted earnings per share is based on 228.9 million (2004: 226.0 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.

## 9 Tangible Assets

	Land and buildings US\$ million	Moulds, machinery and equipment US\$ million	Computers, motor vehicles, furniture and fixtures and leasehold improvements US\$ million	Construction in progress US\$ million	Total US\$ million
<b>Cost or valuation</b>					
At 1st April 2004	37.8	184.8	58.6	3.0	284.2
Additions	—	10.3	8.8	2.4	21.5
Disposals	—	(12.5)	(2.0)	—	(14.5)
Transfer between categories	—	—	3.0	(3.0)	—
Effect of changes in exchange rate	0.6	1.2	0.6	—	2.4
<b>At 31st March 2005</b>	<b>38.4</b>	<b>183.8</b>	<b>69.0</b>	<b>2.4</b>	<b>293.6</b>
<b>Accumulated depreciation</b>					
At 1st April 2004	18.0	167.1	50.4	—	235.5
Charge for the year	1.1	10.3	6.8	—	18.2
Disposals	—	(12.2)	(2.0)	—	(14.2)
Effect of changes in exchange rate	—	1.1	0.4	—	1.5
<b>At 31st March 2005</b>	<b>19.1</b>	<b>166.3</b>	<b>55.6</b>	<b>—</b>	<b>241.0</b>
<b>Net book value at 31st March 2005</b>	<b>19.3</b>	<b>17.5</b>	<b>13.4</b>	<b>2.4</b>	<b>52.6</b>
Net book value at 31st March 2004	19.8	17.7	8.2	3.0	48.7
Cost or valuation of tangible assets is analysed as follows:					
At cost	25.0	183.8	69.0	2.4	280.2
At professional valuation — 2003 (note (c))	13.4	—	—	—	13.4
	<b>38.4</b>	<b>183.8</b>	<b>69.0</b>	<b>2.4</b>	<b>293.6</b>

(a) **Leased machinery and equipment** The Group leases machinery and equipment under finance lease arrangement. At the end of the lease the Group has the option to purchase the equipment at a beneficial price. At 31st March 2005, the net book value of tangible assets held under finance leases amounted to US\$0.1 million (2004: US\$0.2 million).

(b) **Security** The net book value of tangible assets pledged as security for borrowings at 31st March 2005 amounted to US\$0.1 million (2004: US\$ 2.6 million).

(c) **Property revaluation** The amount included valuation of land and buildings denominated in Hong Kong dollar or Euro which were revalued by independent valuers as at 31st March 2003 on an open market value basis. The carrying value of these properties in US dollar as at 31st March 2005 is changed due to the effect of changes in exchange rates.

# Notes to the Financial Statements

## 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
<b>Cost or valuation</b>			
At 1st April 2004	12.8	25.0	37.8
Effect of changes in exchange rate	0.6	—	0.6
<b>At 31st March 2005</b>	<b>13.4</b>	<b>25.0</b>	<b>38.4</b>
<b>Accumulated depreciation</b>			
At 1st April 2004	1.2	16.8	18.0
Charge for the year	0.4	0.7	1.1
<b>At 31st March 2005</b>	<b>1.6</b>	<b>17.5</b>	<b>19.1</b>
<b>Net book value at 31st March 2005</b>	<b>11.8</b>	<b>7.5</b>	<b>19.3</b>
Net book value at 31st March 2004	11.6	8.2	19.8
Cost or valuation of tangible assets is analysed as follows:			
At cost	—	25.0	25.0
At professional valuation — 2003 (note (c))	13.4	—	13.4
	<b>13.4</b>	<b>25.0</b>	<b>38.4</b>
Net book value of land and buildings comprises:			
<b>Hong Kong</b>			
Long-term leasehold buildings (not less than 50 years)	0.9	—	0.9
<b>Overseas</b>			
Freehold land and buildings	10.9	—	10.9
Short-term leasehold buildings	—	7.5	7.5
	<b>10.9</b>	<b>7.5</b>	<b>18.4</b>
Net book value of revalued land and buildings had the assets been carried at cost less accumulated depreciation	6.1	—	6.1

## 10 Leasehold Land Payments

	Note	2005 US\$ million	2004 US\$ million
Net book value at 1st April		<b>1.8</b>	2.7
Disposals		—	(0.8)
Amortisation	2	—	(0.1)
<b>Net book value at 31st March</b>		<b>1.8</b>	1.8
Leasehold land payments in respect of:			
Owner-occupied properties		<b>1.8</b>	1.8

## 11 Deferred Tax

The deferred tax assets and liabilities and the deferred tax account movements for the years ended 31st March 2004 and 31st March 2005 are attributable to the following items:

	1st April 2003 US\$ million	Credited /(charged) to income statement US\$ million	31st March 2004 and 1st April 2004 US\$ million	Credited /(charged) to income statement US\$ million	31st March 2005 US\$ million
<b>Deferred tax assets</b>					
Provisions	0.1	(0.1)	—	0.4	<b>0.4</b>
Tax losses carried forward	1.0	1.3	2.3	(0.2)	<b>2.1</b>
Other deductible temporary differences	2.8	(1.4)	1.4	0.3	<b>1.7</b>
	<b>3.9</b>	<b>(0.2)</b>	<b>3.7</b>	<b>0.5</b>	<b>4.2</b>
<b>Deferred tax liabilities</b>					
Accelerated tax depreciation	(0.8)	(0.8)	(1.6)	(0.7)	<b>(2.3)</b>
<b>Net deferred tax assets</b>	<b>3.1</b>	<b>(1.0)</b>	<b>2.1</b>	<b>(0.2)</b>	<b>1.9</b>

## 11 Deferred Tax (continued)

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:

	2005 US\$ million	2004 US\$ million
Deferred tax assets	2.6	3.7
Deferred tax liabilities	(0.7)	(1.6)
	<b>1.9</b>	<b>2.1</b>

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\$57.9 million (2004: US\$47.6 million) arising from unused tax losses of US\$173.4 million (2004: US\$145.0 million) have not been recognised at the end of the year.

## 12 Investments

	2005 US\$ million	2004 US\$ million
i) <b>Associates</b>		
Share of net tangible assets	0.1	0.1
ii) <b>Other investments</b>		
Unlisted investments, at cost	0.1	0.1
	<b>0.2</b>	<b>0.2</b>

## 13 Stocks

	2005 US\$ million	2004 US\$ million
Telecommunication and electronic products		
Raw materials	33.2	27.1
Work in progress	11.4	8.9
Finished goods	79.6	60.1
	<b>124.2</b>	<b>96.1</b>

Stocks carried at net realisable value at 31st March 2005 amounted to US\$33.9 million (2004: US\$25.4 million).

## 14 Debtors and Prepayments

Note	2005 US\$ million	2004 US\$ million
Trade debtors (Net of provision for doubtful debts of US\$3.7 million (2004: US\$3.9 million))	<b>162.3</b>	137.6
Other debtors and prepayments	<b>11.7</b>	14.7
Pension assets	<b>1.7</b>	1.6
	<b>175.7</b>	<b>153.9</b>

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

	2005 US\$ million	2004 US\$ million
0-30 days	<b>73.2</b>	80.8
31-60 days	<b>53.9</b>	34.0
61-90 days	<b>21.3</b>	14.5
>90 days	<b>13.9</b>	8.3
Total	<b>162.3</b>	<b>137.6</b>

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.

## 15 Creditors and Accruals

	2005 US\$ million	2004 US\$ million
Trade creditors	<b>98.2</b>	93.0
Other creditors and accruals	<b>133.1</b>	107.3
	<b>231.3</b>	<b>200.3</b>

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

	2005 US\$ million	2004 US\$ million
0-30 days	<b>45.2</b>	45.6
31-60 days	<b>23.5</b>	23.6
61-90 days	<b>18.1</b>	14.3
>90 days	<b>11.4</b>	9.5
Total	<b>98.2</b>	<b>93.0</b>

# Notes to the Financial Statements

## 16 Provisions

At 31st March 2005, provisions of US\$41.2 million (2004: US\$40.7 million) includes provisions for defective goods returns of US\$37.2 million (2004: US\$36.0 million).

	Defective goods returns US\$ million
At 1st April 2004	36.0
Effect of changes in exchange rate	0.2
Additional provisions	29.7
Unused amounts reversed	(4.1)
Charged to income statement	25.6
Utilised during the year	(24.6)
<b>At 31st March 2005</b>	<b>37.2</b>

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.

## 17 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\$1.7 million (2004: US\$1.5 million) and US\$0.2 million (2004: US\$0.2 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 2005 using the projected unit credit method.

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

	Note	2005 US\$ million	2004 US\$ million
Fair value of the Scheme assets		12.0	11.3
Present value of funded defined benefit obligations		(13.4)	(12.3)
Unrecognised actuarial gains		3.1	2.6
<b>Assets recognised in the balance sheet</b>	14	<b>1.7</b>	<b>1.6</b>
The amounts recognised in the income statement are as follows:			
Current service cost		1.3	1.3
Interest cost		0.6	0.6
Expected return on plan assets		(0.8)	(0.6)
Net actuarial losses recognised in the year		0.1	0.2
<b>Expenses recognised in the income statement*</b>	2	<b>1.2</b>	<b>1.5</b>
The actual return on plan assets was as follows:			
Expected return on plan assets		0.8	0.6
Actuarial gains on plan assets		0.1	2.6
Actual return on plan assets		0.9	3.2
Movement in the assets recognised in the balance sheet:			
At 1st April		1.6	1.8
Expenses recognised in the income statement*		(1.2)	(1.5)
Contributions paid		1.3	1.3
At 31st March		1.7	1.6

	2005	2004
The principal actuarial assumptions used for accounting purposes were:		
Discount rate	4.8%	5.0%
Expected return on plan assets	7.0%	7.0%
Future salary increases	5.0%	5.0%

# Notes to the Financial Statements

## 18 Borrowings

	2005 US\$ million	2004 US\$ million
<b>Bank loans and finance lease obligations</b>		
<b>Repayable by instalments, any one of which is due for repayment after five years:</b>		
Secured bank loans	—	1.0
<b>Repayable by instalments, all of which are due for repayment within five years:</b>		
Secured bank loans	0.1	1.4
Obligations under finance leases (Note)	0.1	0.2
	0.2	1.6
<b>Less: amounts due within one year included under current liabilities:</b>		
Secured bank loans	—	(0.5)
Obligations under finance leases (Note)	(0.1)	(0.1)
	(0.1)	(0.6)
	0.1	2.0
<b>Bank loans and finance lease obligations are repayable as follows:</b>		
Between one and two years	—	0.4
Between two and five years	0.1	0.6
In more than five years	—	1.0
	0.1	2.0

Note: The amounts are net of future finance charges of less than US\$0.1 million (2004: US\$ 0.1 million).

Details of the bank loans and overdrafts are as follows:

	2005 US\$ million	2004 US\$ million
<b>Euro</b>		
Secured bank loans at an average fixed interest rate of 5.1% (2004: 5.4%)	0.1	2.4

## 19 Share Capital, Share Options and Warrants

### Share Capital

	2005 US\$ million	2004 US\$ million
<i>Authorised</i>		
Ordinary shares: 400,000,000 (2004 : 400,000,000) of US\$0.05 each	20.0	20.0

	2005 No of shares	2005 US\$ million	2004 No of shares	2004 US\$ million
<i>Issued and fully paid</i>				
Ordinary shares of US\$0.05 each:				
Balance as at 1st April	225,527,133	11.3	225,527,133	11.3
Exercise of share options (Note 1)	100,000	—	—	—
Balance as at 31st March	225,627,133	11.3	225,527,133	11.3

Note 1: In April 2004, 100,000 ordinary shares were issued upon the exercise of 100,000 share options undertaken in March 2004 at the exercise price of HK\$10.20 per share. The average closing price of the Company's shares traded on the Hong Kong Stock Exchange for the five business days immediately before the date of which options were exercised, was HK\$13.58 per share.

Note 2: As at 22nd June 2005, the issued and fully paid share capital of the Company was increased to 227,494,133 ordinary shares upon the exercise of 1,867,000 share options since April 2005 at the exercise price of HK\$10.20 per share.

### 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.

# Notes to the Financial Statements

## 19 Share Capital, Share Options and Warrants

(continued)

### Share Options (continued)

**(i) The 2001 Scheme (continued)** Pursuant to the Chapter 17 of 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 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 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 Hong Kong Stock Exchange 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 Hong Kong Stock Exchange 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 Hong Kong Stock Exchange respectively on 19th April 2004 was HK\$14.95 per share, on 18th November 2004 was HK\$10.70 per share and on 22nd March 2005 was HK\$11.50 per share, all being the dates immediately before the dates on which the relevant options were granted.

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 2005, the number of shares issuable under the options granted pursuant to the 2001 Scheme was 15,520,000, which represented approximately 6.9% of the then 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 2004	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 6)	Balance in issue at 31st March 2005
26th February 2002 to 26th March 2002	HK\$10.2	26th February 2005 to 25th March 2007	14,360,000	—	—	(4,715,000)	9,645,000
10th July 2002 to 8th August 2002	HK\$8.71	10th July 2005 to 7th August 2007	1,340,000	—	—	(580,000)	760,000
20th April 2004 to 19th May 2004	HK\$15.0	20th April 2007 to 19th May 2009	—	2,670,000 (Note 3)	—	(535,000)	2,135,000
19th November 2004	HK\$11.03	22nd November 2007 to 21st November 2009	—	1,500,000 (Note 4)	—	—	1,500,000
23rd March 2005 to 22nd April 2005	HK\$11.41	23rd March 2008 to 22nd March 2010	—	1,480,000 (Note 5)	—	—	1,480,000
			15,700,000	5,650,000	—	(5,830,000)	15,520,000

## 19 Share Capital, Share Options and Warrants (continued)

### Share Options (continued)

- Note 1:* Due to the large number of employees participating in the 2001 Scheme, the relevant 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 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 deemed to be granted and accepted and shall not be exercisable after 60 months from the date on which such options were deemed to be granted and accepted. However, options shall be automatically vested to the grantees when the grantees reach 60 years of age.
- Note 3:* On 20th 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\$15.00 per ordinary share. The closing price of the Company's shares traded on the Hong Kong Stock Exchange on 19th April 2004, being the date immediately before the date on which options were granted during the period, was HK\$14.95 per share.
- Note 4:* On 19th November 2004, the Company granted 1,500,000 options to an employee of the Company and its subsidiaries pursuant to the 2001 Scheme to subscribe for 1,500,000 ordinary shares of the Company at a price of HK\$11.03 per ordinary share. The closing price of the Company's shares traded on the Hong Kong Stock Exchange on 18th November 2004, being the date immediately before the date on which options were granted during the period, was HK\$10.70 per share.
- Note 5:* On 23rd March 2005, the Company granted 1,480,000 options to certain employees of the Company and its subsidiaries pursuant to the 2001 Scheme to subscribe for an aggregate of 1,480,000 ordinary shares of the Company at a price of HK\$11.41 per ordinary share. The closing price of the Company's shares traded on the Hong Kong Stock Exchange on 22nd March 2005, being the date immediately before the date on which options were granted during the period, was HK\$11.50 per share.
- Note 6:* No options were cancelled during the year.
- Note 7:* As at 22nd June 2005, an aggregate of 1,867,000 share options were exercised at the exercise price of HK\$10.20 per share since April 2005. The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK\$11.16 per 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.

Prior to 10th September 2003, the number of common stock issuable under the 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. HomeRelay is now dormant.

**Warrants** Pursuant to a warrant instrument dated 19th January 2000 of the Company, the Company granted AT&T warrants (the "AT&T Warrants") carrying rights to subscribe for 3,000,000 ordinary shares in the Company at a subscription price of HK\$20.0 per share on or before 18th January 2012 as part of the consideration of a trademark licence agreement between the Company and AT&T Corp. whereby AT&T Corp. granted the Company the exclusive right to use the AT&T brand for 10 years in connection with the manufacture and sale of wireline telephones and accessories in the United States and Canada.

Pursuant to a Revised AT&T Brand Licence Agreement dated 24th January 2002, the subscription price of the AT&T Warrants was revised to HK\$8.43 per share (being the lower of the initial subscription price of HK\$20.0 per share 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.



# Notes to the Financial Statements

## 20 Reserves

Note	Group		Company	
	2005 US\$ million	2004 US\$ million	2005 US\$ million	2004 US\$ million
Share premium	74.4	74.3	74.4	74.3
Other properties revaluation reserve	6.1	6.1	—	—
Revenue reserve	116.4	77.6	90.4	41.3
Exchange reserve	(4.9)	(6.7)	(1.2)	(1.2)
Hedging reserve	—	—	—	—
	192.0	151.3	163.6	114.4
An analysis of movements in reserves is set out below:				
<b>Share premium</b>				
Brought forward	74.3	74.3	74.3	74.3
Exercise of share options	0.1	—	0.1	—
Carried forward	74.4	74.3	74.4	74.3
<b>Other properties revaluation reserve</b>				
Brought forward	6.1	6.8	—	—
Disposal of properties previously revalued	—	(0.7)	—	—
Carried forward	6.1	6.1	—	—
<b>Revenue reserve</b>				
Brought forward	77.6	41.9	41.3	46.3
Profit attributable to shareholders	56.9	46.3	67.2	6.3
Final dividend in respect of the previous year	7 (15.8)	(4.5)	(15.8)	(4.5)
Interim dividend in respect of the current year	7 (2.3)	(6.8)	(2.3)	(6.8)
Disposal of properties previously revalued	—	0.7	—	—
Carried forward	116.4	77.6	90.4	41.3
<b>Exchange reserve</b>				
Brought forward	(6.7)	(6.8)	(1.2)	(1.2)
Exchange translation differences	1.8	0.1	—	—
Carried forward	(4.9)	(6.7)	(1.2)	(1.2)
<b>Hedging reserve</b>				
Brought forward	—	—	—	—
Transfer to income statement	2 3.1	3.6	—	—
Fair value losses on hedging during the year	(3.1)	(3.6)	—	—
Carried forward	—	—	—	—

The consolidated profit attributable to shareholders includes a profit of US\$67.2 million (2004: US\$6.3 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\$90.4 million (2004: US\$41.3 million).

## 21 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.

## 21 Financial Instruments (continued)

**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 20 on the financial statements.

At 31st March 2005, there were no outstanding forward foreign exchange contracts (2004: 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 2005, there were no outstanding interest rate swaps (2004: 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 2.6% (2004: 1.1%) and these deposits have an average maturity of 1 day.

## 22 Commitments

	2005 US\$ million	2004 US\$ million
(i) Capital commitments for property, plant and equipment		
Authorised but not contracted for	45.1	25.0
Contracted but not provided for	2.9	7.6
	<b>48.0</b>	<b>32.6</b>
(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	9.3	6.5
Between one and two years	8.2	6.4
Between two and five years	12.7	8.2
In more than five years	3.4	3.7
	<b>33.6</b>	<b>24.8</b>

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 two separate leases which expire in 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.

# Notes to the Financial Statements

## 22 Commitments (continued)

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 as at 31st March 2005 amounted to US\$68.9 million (2004: US\$80.4 million), whereas the annual minimum royalty payment varies throughout the agreement period between US\$12.6 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 31st March 2005, 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 2005 amount to US\$3.0 million (2004: US\$3.5 million), of which US\$1.7 million, US\$1.1 million and US\$0.2 million are payable in the financial years ended 31st March 2006, 2007 and 2008 respectively.

## 23 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 the 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.

Various group companies are involved in litigation arising in the ordinary course of their respective businesses. Having reviewed outstanding claims and taking into account legal advices 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.

## 24 Balance Sheet of the Company as at 31st March

	Note	2005 US\$ million	2004 US\$ million
<b>Non-current assets</b>			
Subsidiaries		170.2	102.6
<b>Current assets</b>			
Amounts due from subsidiaries	(i)	332.8	326.6
Taxation recoverable		0.2	0.2
Cash and cash equivalents		0.1	0.1
		333.1	326.9
<b>Current liabilities</b>			
Amounts due to subsidiaries	(i)	(326.6)	(302.0)
Creditors and accruals		(1.8)	(1.8)
		(328.4)	(303.8)
<b>Net assets</b>			
		174.9	125.7
<b>Capital and reserves</b>			
Share capital	19	11.3	11.3
Reserves	20	163.6	114.4
<b>Shareholders' funds</b>			
		174.9	125.7

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

## 25 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 2005 are set out below:

Name of subsidiary	Fully paid issued share capital	Percentage of interest held by the Group	Principal activity
<i>Incorporated and operating in Hong Kong:</i>			
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
<i>Incorporated and operating in Canada:</i>			
VTech Telecommunications Canada Limited	Class A C\$5,000 Class B C\$195,000	*100 *100	Sale of telecommunication products
<i>Incorporated and operating in France:</i>			
VTech Electronics Europe S.A.S.	EURO 2,067,310	*100	Sale of electronic products
<i>Incorporated and operating in Germany:</i>			
VTech Electronics Europe GmbH	EURO 2,600,000	*100	Sale of electronic products
<i>Incorporated and operating in the Netherlands:</i>			
VTech Electronics Europe B.V.	EURO 18,100	*100	Sale of electronic products

Name of subsidiary	Fully paid issued share capital	Percentage of interest held by the Group	Principal activity
<i>Incorporated and operating in Spain:</i>			
VTech Electronics Europe, S.L.	EURO 500,000	*100	Sale of electronic products
<i>Incorporated and operating in the United Kingdom:</i>			
VTech Electronics Europe plc	GBP 500,000	*100	Sale of electronic products
<i>Incorporated and operating in the United States:</i>			
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			

## 26 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 expiring on 31st March 2005. 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. Subsequently, Aldenham became a wholly indirect subsidiary of a trust in which the family members of the director are beneficiaries.

On 6th April 2005, subsequent to the balance sheet date, the Group renewed the lease with same principal terms for another 2 years commencing 1st April 2005 and expiring on 31st March 2007.

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