VTech is Back on Track

vtech

VTech Holdings Ltd 偉易達集團

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

Interim Report 2003 中期報告書

for the six months to 30th September 2002
二零零二年四月一日至二零零二年九月三十日

Corporate Information

Board of Directors

Executive Directors

Allan WONG Chi Yun
Chairman

Albert LEE Wai Kuen
Deputy Chairman

Paddy LAW Wai Leung
Group Chief Executive Officer

Independent Non-Executive Directors

Raymond CH'IEN Kuo Fung
William FUNG Kwok Lun
Michael TIEN Puk Sun
Patrick WANG Shui Chung

Board of Management

Paddy LAW Wai Leung
Edwin YING Lin Kwan
Andy LEUNG Hon Kwong
James C. KRALIK
Kent WONG Wah Shun
Alan TSO Yan Wing
Paul R. MILLER

Audit Committee

Raymond CH'IEN Kuo Fung
William FUNG Kwok Lun
Michael TIEN Puk Sun

Company Secretary

CHANG Yu Wai

Registered Office

Clarendon House
Church Street,
Hamilton HM11, Bermuda

Principal Office

23rd Floor, Tai Ping Industrial Centre,
Block 1, 57 Ting Kok Road,
Tai Po, New Territories, Hong Kong

Principal Bankers

The Hongkong & Shanghai Banking
Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank

Auditors

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

Principal Registrars

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre, 11 Bermudiana Road,
Pembroke, Bermuda

UK Branch Registrars

Capita IRG Plc
Bourne House, 34 Beckenham Road,
Kent BR3 4TU, DX91750,
Beckenham West, United Kingdom

Hong Kong Branch Registrars

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17th Floor,
Hopewell Centre,
183 Queen's Road East, Hong Kong

ADR Depositary

The Bank of New York
101 Barclay Street, 22nd Floor-West,
New York, N.Y. 10286, USA

Overview

"IN the first half of the financial year 2003, VTech built on the gains made during the past two years to record further improvement in profits. As importantly, we settled the lawsuit against Lucent Technologies Inc. in June 2002. The net cash received in July 2002, which amounted to US$34.0 million, was recorded as income during the period ended 30th September 2002. As a consequence of these factors, VTech achieved a more rapid than expected strengthening of its balance sheet and had moved back to net cash position since July 2002. This puts VTech back on a solid financial footing and allows us to focus on building our business for the future.

At the same time, we will maintain a much leaner operational structure and adhere to our customer-centric approach. We continued to make gains in these areas during the past six-month period by successfully reorganizing our sales teams and extending our cell-based manufacturing process to our core businesses. This has raised operational efficiency, and at the same time improved our production flexibility, giving us the ability to reduce inventory for both our customers and ourselves.

In addition, we reaffirmed our leadership in technology innovation, as demonstrated in August 2002 by the delivery of the industry's first 5.8GHz cordless phones, and the continued success of our 2.4GHz models."

REVIEW OF OPERATIONS

Group Results

Group turnover for the six-month period ended 30th September 2002 fell to US$468.7 million, an 11.5% decrease over the corresponding period of last year. The decrease was due primarily to the weakening in sales of electronic learning products and reduced Original Design Manufacturing (ODM) business for telecommunication products.

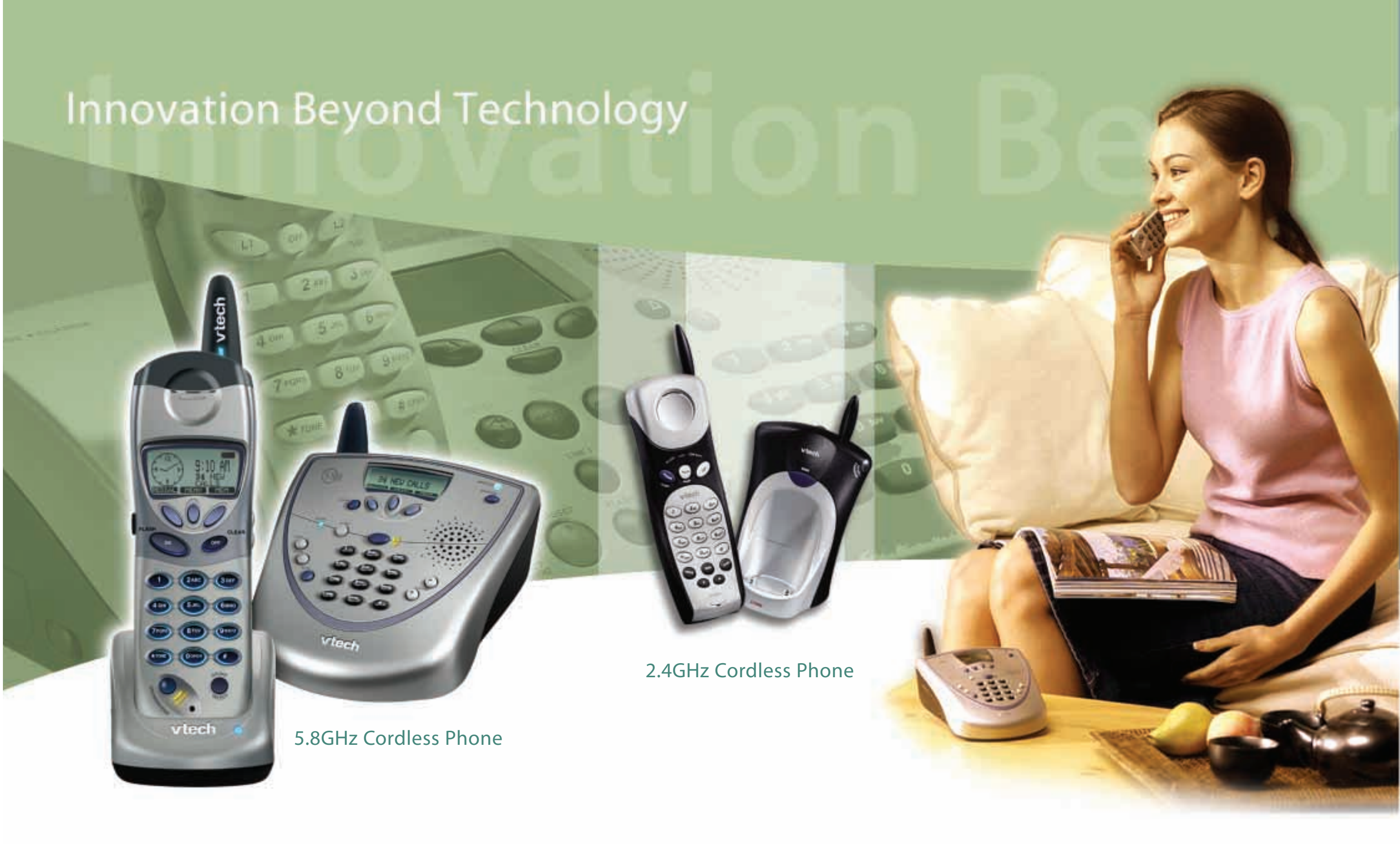
Profit attributable to shareholders increased from US$3.3 million to US$50.1 million. The improved result reflects an improved product mix as well as lower raw material and component costs, particularly in our telecommunication products business. It also includes exceptional income of US$34.0 million, being the net gain arising from the settlement of our lawsuit against Lucent Technologies Inc..

As our financial position continues to improve, the directors have declared an interim dividend of US1.5 cents per ordinary share to reward and express our appreciation to our shareholders for their continuous support to VTech.

Liquidity and Financial Resources

The Group's liquidity position has continued to improve markedly. As at 30th September 2002, the Group had net cash of US$23.2 million. The debt to equity ratio stood at 10.2%, compared with 191.8% at the same period of last year. Total debt decreased by 91.2% from US$159.6 million as at 30th September 2001 to US$14.1 million as at 30th September 2002. Long term borrowings decreased from US$109.5 million as at 30th September 2001 to US$4.6 million as at 30th September 2002, which represents 3.3% of the capital employed as at 30th September 2002, compared with 130.2% as at 30th September 2001. A majority of the Group's borrowings are denominated in United States dollars and are on a floating rate basis. The maturity profile of indebtedness is contained in note 13 to the condensed consolidated financial statements. With internal resources and banking facilities, the Group has adequate working capital to meet its working capital requirements.

Appropriate treasury policies have been adopted by the Group to manage its exposures to fluctuations in foreign currency exchange rates and interest rates on specific transactions. It is the Group's policy not to engage in speculative activities. Forward foreign exchange contracts and interest rate swaps were used to hedge certain exposures.



5.8GHz Cordless Phone

2.4GHz Cordless Phone

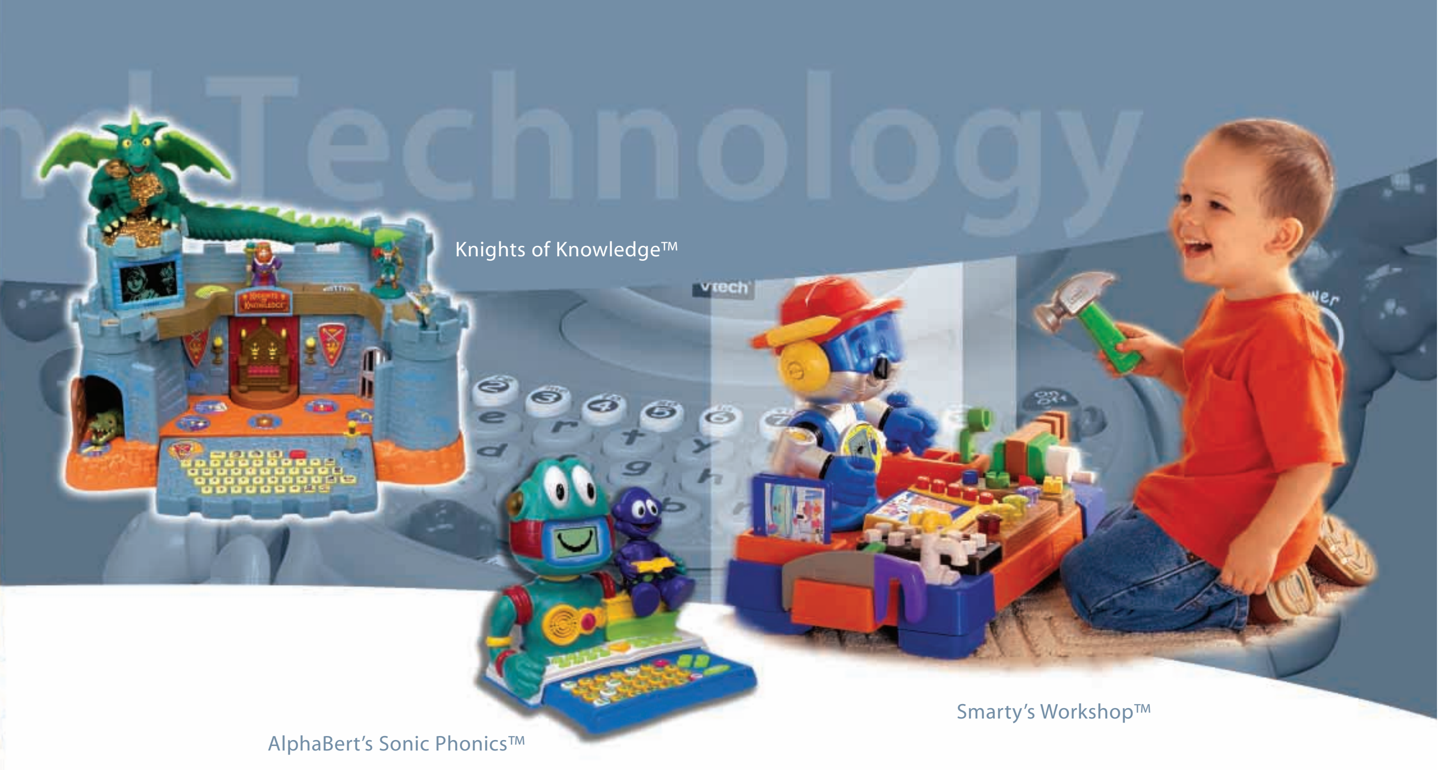
Telecommunication Products

During the period under review, the telecommunication products business performed well. Sales of our AT&T and VTech branded products grew substantially as we introduced a new range of well-received products, and our focused approach to serving our key customers took hold. The increased sales, however, were not enough to make up for the loss in ODM sales as one of our major customers exited the market. As a result, total turnover fell by 8.5% to US$327.8 million.

Profitability improved significantly. The increase in profitability was largely due to a favorable change in product mix, as sales of our higher margin 2.4GHz phones increased significantly to account for nearly 50% of sales, compared with 25% for the same period last year. At the same time, we were able to achieve continued improvements in our components and manufacturing costs, and made further improvements to our supply chain and working capital management.

In July, we completed the implementation of cell-based manufacturing in our Dongguan factory. This has resulted in a substantial increase in our operating efficiency. More importantly, our newly configured operations also provide us with greater flexibility and allow us to tailor production levels more closely to our customer needs. By linking our manufacturing operations to the specific needs of our customers, we have been able to achieve an important milestone in transforming our business into a truly customer-centric operation.

Finally, in August, we began delivery of the 5.8GHz cordless phones, which were well received by the market. VTech was the first in the industry to launch and deliver this high-end product, reaffirming our leadership in technology innovation. Management continues to focus its efforts on the development of new and innovative products. In the coming months, new AT&T and VTech 2.4GHz models will be joining the recently launched 5.8GHz products, maintaining the momentum of our 2.4GHz sales in the second half of the financial year 2003. Plans are also well under way for additional 5.8GHz products to be launched in the next financial year.



Knights of Knowledge™

AlphaBert's Sonic Phonics™

Smarty's Workshop™

Electronic Learning Products (ELP)

Conditions remained challenging for our Electronic Learning Products business. Turnover fell 25.9% to US$85.9 million for the six-month ended 30th September 2002. This was the result of severe competition, particularly in the United States, and a shifting in consumer preferences from traditional electronic learning aids to computer games. Despite such challenges, VTech remains a dominant brand in Europe.

Sales of our products for the year to date have failed to meet our expectations, especially in the United States. VTech in every market enjoys a number of "annuity" products that remain popular year after year. But revenues are dependent on the launch of new products. The latest VTech range, which includes award-winning products such as Smarty's Workshop™, Voyager and XL Series, achieved an excellent level of acceptance by retailers despite a very competitive marketplace. Sales of these items were not particularly strong, however, as our shelf space in-store was limited and the aggressive new marketing and sales campaigns had yet to make their full impact.

We have launched much more dramatic in-store promotions that leverage both the products and the new brand identity to excite consumer interests. In Europe, 2.5 meters high moving models of the character from Smarty's Workshop™ and the use of a DaimlerChrysler Voyager vehicle in a consumer competition are two examples of these initiatives. Beginning in October 2002, a series of television commercials has been launched to help the sales push in the important Christmas period.

Lower revenues resulted in a fall in profits for the business. The increase in our sales and marketing expenses for the financial year 2003 that should help drive product acceptance and sales in the second half also affected margins. We have, however, made some progress in reducing costs at the operational level. In particular, centralization of the European operations and greater use of outsourcing are improving efficiencies.

While we expect the second half of the financial year to remain challenging, our effort has paved the way for the recovery of the business. VTech is now much more market-focused in its product development and is better able to bring to market products customers want. The tremendous success of our Smart book™ in the UK market during the six months is encouraging evidence of this. We are building on this approach by increasing our understanding of consumer preferences and reducing our time to market with revamped product lines. We have restructured our product design

team so that concept generation for new products can be conducted more effectively. A dedicated team with talent in product design and marketing was also formed to work for the 2004 product line.

The new management team we announced in October 2002 will help drive the business forward. Edwin YING, a 16-year ELP veteran at VTech with experience and thorough understanding in all areas of the ELP business, was appointed the new CEO of the division.

VTech is also widening its horizons geographically. The growing importance of Europe to the business and our competitive advantage in the areas of non-English language and culture are encouraging us to target immediate expansion in these areas. We already have distribution in Portugal and Italy. From zero sales one year ago, we are beginning to expand in Mexico, Chile and Central America. We intend soon to enter the markets of Poland, Hungary, Greece, Turkey and Scandinavia, and in the longer term we expect to achieve further growth in the Asia Pacific region.

Contract Manufacturing Services (CMS)

Our Contract Manufacturing Services business continued to produce stable results despite challenging conditions. Turnover for the period under review slightly decreased 0.9% to US$53.8 million, while profitability improved.

The weak global economy and the slump in the technology sector saw volumes for the contract manufacturing industry fall, hitting earnings. Our ability to maintain revenues and profits reflects a sound strategy of focusing on medium-sized customers and working ever more closely with them. Our New Product Introduction (NPI) teams, introduced last year, are a key component of this approach. By dedicating our engineers to customers and providing a comprehensive service from an early design stage, a strong incentive is created for the continuity of customer relationships.

This way of working also contributed to profitability. With already a lean operation following earlier initiatives, we were unable to cut costs significantly at the CMS business. We were, however, able to refine our manufacturing processes with existing customers so as to produce more efficiently. In addition, the Group's solid financial position and the large scale of its manufacturing gave it the strong purchasing power to improve its cost of materials. Since material cost accounts for a significant portion of the product cost, our success in this area was critical to reducing the product cost for customers as well as our overall performance.

At the same time as addressing current issues, the CMS business made enhancements to its operations that should help drive future growth. We upgraded our

ISO9001:1994 certification to ISO9001:2000 version and gained the TL9000 certification that recognizes quality of manufacture in telecommunication products. These certifications will allow us to market our services more aggressively.

In another important development, we established a new R&D center in Shenzhen, Mainland China, that allows us to provide full support in product design according to our customers' specifications, filling a gap in the "one-stop shop" service we offer. Increasingly, the customers we target are looking for this type of arrangement, since it allows them to focus more of their efforts on sales and marketing.

Finally, we have completed the introduction of a lead-free soldering process. Although demand for this type of soldering is not great at present, in response to increasing environmental concerns demand will undoubtedly grow, initially in Japan and Europe and later in the United States. We are hence well positioned for the opportunities that will arise.

Employees

Once again, I express my sincere thanks to everyone at VTech for their dedication and commitment during the most difficult times, which have allowed us to achieve such a rapid turnaround in our financial results.

As at 30th September 2002, the Group had approximately 19,000 employees. The majority of these employees work in Hong Kong and China. The Group has adopted an incentive bonus scheme and share option program to motivate and reward employees at all levels.

OUTLOOK

The outlook for the second half for VTech is difficult to predict, given the highly uncertain prospects for the markets in which we operate. In particular, we take a very cautious view of the United States economy, where consumer sentiment is becoming more sensitive to the economic and financial downturn. There may still be some effect from the labor disruption in the US West Coast ports. Although we are well placed relative to our competitors and began our contingency planning for this event as early as April 2002, including increasing our US warehouse inventory and reserving air cargo space, an extended duration of the disruption may cause supply chain difficulties.

VTech's net cash position means that we will be able to bring more resources to bear on positioning the Group for revenue growth. Constrained by the cash flow in the past two years, we were forced to relinquish many opportunities and indeed turn away business that was offered to us. We can now begin to capture these opportunities and pursue other new areas of growth.

We will also continue to drive further improvements in supply chain management and make further progress on becoming more customer-centric, with a greater emphasis on marketing. At the same time, VTech will also devote more resources to R&D in order to bring more innovation to our product line to meet consumers' needs. We will also continue to diversify revenues geographically, especially Mainland China as a region of long term potential.

In telecommunication products, retailers continue to search for category leaders as they rationalize their sources of supply. With both AT&T and VTech brands, and our customer-centric approach, VTech is well positioned to increase its overall market share and become a category leader at selected leading retailers. While total revenue may be lower in the second half of the financial year due to the uncertainty of US economy, we expect continuous growth of our AT&T and VTech branded sales, driven primarily by our new 2.4GHz and 5.8GHz products. We also intend to build on the success of the 5.8GHz launch to maintain our technology leadership through a range of innovative products. At the same time, we will continue to focus considerable effort on reducing our manufacturing and operating expenses. In particular, the full introduction of our cell-based manufacturing approach will enable us to achieve additional cost and supply chain improvements as we are better able to link our manufacturing activities to the changing needs of our key customers.

In ELP, we will continue to face major challenges from competition and having limited shelf space. The results of the ELP business in the second half are expected to be worse than the first half. VTech's increasing co-operation with retailers to greatly improve in-store marketing will mitigate this effect. Improvements at the retail level will also be supported by our exciting television marketing campaign that is expected to give a lift to the important Christmas season.

In the longer term, we will work with retailers to increase shelf space and build on the successes of our marketing campaigns. We are also excited by the longer term possibilities in new markets in Europe and Asia Pacific, where our experience in multi-language and multi-cultural product design gives us a distinct competitive edge. An ELP product line designed specifically for the China market, which currently includes more than 10 products, is under development and will be introduced in the next financial year.

In CMS, we are convinced that our market focus and product mix are the right ones. We now intend to expand our customer base through a much more aggressive marketing effort. We firmly believe that our business model of providing a comprehensive service to medium-sized manufacturers will allow us to achieve the steady organic growth that has been the hallmark of our success in this area to date. In addition, we plan to attain QS9000 certification by July 2003. QS9000 is a quality certification required for manufacturing automotives parts. With the communications industry experiencing its downturn, the industry of automotives will be one of the business areas we intend to develop in the future.

The whole year results are therefore unlikely to see further improvements, given the difficult economic conditions globally and the challenges faced by the ELP business. VTech is, however, firmly back on track and resting on a solid financial platform from which to pursue future growth. We look forward to further rewarding the shareholders who have supported the Group through its most challenging period as our performance continues to improve.

Allan WONG Chi Yun
Chairman
Hong Kong, 27th November 2002

		(Unaudited) Six months ended 30th September		(Audited) Year ended 31st March
	Note	**2002 US$ million**	2001 US$ million	2002 US$ million
Turnover	2	**468.7**	529.6	959.8
Cost of sales		**(317.0)**	(371.6)	(671.0)
Gross profit		**151.7**	158.0	288.8
Selling and distribution costs		**(81.9)**	(91.0)	(153.8)
Administrative and other operating expenses		**(33.6)**	(29.5)	(65.0)
Research and development expenses		**(16.6)**	(16.3)	(33.0)
Restructuring and impairment charges		**—**	(9.9)	(14.0)
Gain on settlement of a lawsuit	3	**34.0**	—	—
Operating profit	4	**53.6**	11.3	23.0
Net finance costs	5	**(1.3)**	(6.5)	(8.6)
Share of results of associates		**(0.4)**	(0.2)	(0.5)
Profit before taxation		**51.9**	4.6	13.9
Taxation	6	**(1.5)**	(1.3)	(2.6)
Profit after taxation		**50.4**	3.3	11.3
Minority interests		**(0.3)**	—	(0.1)
Profit attributable to shareholders	15	**50.1**	3.3	11.2
Dividend	7	**3.4**	Nil	Nil
Earnings per share (in US cents)	8			
— Basic		**22.2**	1.5	5.0
— Diluted		**22.2**	1.5	5.0

The notes on pages 11 to 20 form an integral part of these condensed consolidated financial statements.

	Note	(Unaudited) Six months ended 30th September 2002 US$ million	(Unaudited) Six months ended 30th September 2001 US$ million	(Audited) Year ended 31st March 2002 US$ million
Impairment charge on previously revalued long term leasehold buildings		**—**	—	(1.6)
Deferred tax reversed upon disposal of property previously revalued		**—**	—	0.4
Exchange differences on translation of the financial statements of foreign subsidiaries	15	**(0.4)**	0.5	(0.2)
Fair value losses on cash flow hedges	15	**(2.3)**	(0.4)	(0.4)
Net (losses)/gains not recognized in the income statement		**(2.7)**	0.1	(1.8)
Profit attributable to shareholders		**50.1**	3.3	11.2
Total recognized gains		**47.4**	3.4	9.4

The notes on pages 11 to 20 form an integral part of these condensed consolidated financial statements.

	Note	(Unaudited) 30th September 2002 US$ million	2001 US$ million	(Audited) 31st March 2002 US$ million
Non-current assets				
Tangible assets	9	**53.1**	81.4	58.0
Leasehold land payments		**3.0**	6.9	3.1
Deferred tax assets		**4.3**	4.1	4.3
Investments		**0.2**	0.7	0.4
		60.6	93.1	65.8
Current assets				
Stocks		**143.4**	161.9	94.4
Assets held for sale	10	**8.0**	16.1	24.5
Debtors and prepayments	11	**229.8**	284.0	165.3
Taxation recoverable		**3.2**	2.8	3.0
Cash at bank and deposits		**37.3**	34.7	63.3
		421.7	499.5	350.5
Current liabilities				
Creditors and accruals	12	**(280.1)**	(304.2)	(187.9)
Provisions		**(44.7)**	(42.3)	(39.1)
Borrowings	13	**(9.5)**	(50.1)	(30.6)
Taxation payable		**(3.5)**	(1.0)	(2.1)
		(337.8)	(397.6)	(259.7)
Net current assets		**83.9**	101.9	90.8
Total assets less current liabilities		**144.5**	195.0	156.6
Long term liabilities				
Borrowings	13	**(4.6)**	(109.5)	(65.2)
Deferred tax liabilities		**(1.2)**	(1.4)	(1.2)
		(5.8)	(110.9)	(66.4)
		138.7	84.1	90.2
Share capital	14	**11.3**	11.3	11.3
Reserves	15	**126.3**	71.9	78.1
Shareholders' funds		**137.6**	83.2	89.4
Minority interests		**1.1**	0.9	0.8
		138.7	84.1	90.2

The notes on pages 11 to 20 form an integral part of these condensed consolidated financial statements.

	(Unaudited) Six months ended 30th September		(Audited) Year ended 31st March
	2002 **US$ million**	2001 US$ million	2002 US$ million
Cash generated from operations	**25.6**	62.5	156.3
Net interest paid	**(1.3)**	(6.5)	(8.6)
Tax paid	**(0.2)**	(0.4)	(0.9)
Net cash generated from operating activities	**24.1**	55.6	146.8
Investing activities			
Purchase of tangible assets	**(8.8)**	(6.9)	(13.3)
Proceeds on disposal of tangible assets and leasehold land	**0.5**	8.9	9.1
Proceeds on disposal of assets held for sale	**7.7**	10.6	18.9
Net receipt from settlement of a lawsuit	**34.0**	—	—
Purchase of associates	**—**	(0.4)	(0.4)
Purchase of subsidiaries and businesses	**—**	(0.1)	(0.1)
Net cash generated from investing activities	**33.4**	12.1	14.2
Financing activities			
Issue of share capital	**—**	—	0.1
Repayments of long term borrowings	**(60.6)**	(39.2)	(41.3)
Net repayment of short term borrowings	**(20.9)**	(51.6)	(109.9)
Net cash used in financing activities	**(81.5)**	(90.8)	(151.1)
Effect of exchange rate changes	**(1.8)**	0.9	(0.2)
(Decrease)/increase in cash and cash equivalents	**(25.8)**	(22.2)	9.7
Cash and cash equivalents at beginning of period	**63.1**	53.4	53.4
Cash and cash equivalents at end of period	**37.3**	31.2	63.1
Analysis of the balance of cash and cash equivalents			
Cash at bank and deposits	**37.3**	34.7	63.3
Bank overdrafts	**—**	(3.5)	(0.2)
	37.3	31.2	63.1

1. ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 — Interim Financial Reporting.

The accounting policies used in the interim consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31st March 2002.

2. SEGMENT INFORMATION

The telecommunication and electronic products business is the principal business segment of the Group. It includes the design, manufacture and distribution of telephones, electronic learning and other electronic products.

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

Primary reporting format — business segments

	(Unaudited) Six months ended 30th September			
	Turnover		Operating Profit	
	2002 US$ million	2001 US$ million	**2002 US$ million**	2001 US$ million
Telecommunication and electronic products	**467.5**	528.3	**55.6**	16.0
Other activities	**1.2**	1.3	**(2.0)**	(4.7)
	468.7	529.6	**53.6**	11.3

Secondary reporting format — geographical segments

	(Unaudited) Six months ended 30th September			
	Turnover		Operating Profit	
	2002 US$ million	2001 US$ million	**2002 US$ million**	2001 US$ million
North America	**386.1**	430.1	**51.8**	10.8
Europe	**61.3**	77.5	**1.5**	7.0
Asia Pacific	**17.7**	20.3	**0.2**	(6.8)
Others	**3.6**	1.7	**0.1**	0.3
	468.7	529.6	**53.6**	11.3

3. GAIN ON SETTLEMENT OF A LAWSUIT

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

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

	(Unaudited) Six months ended 30th September	
	2002 US$ million	2001 US$ million
Receipt from settlement of a lawsuit	**50.0**	—
Less: incidental expenses	**(16.0)**	—
	34.0	—

4. OPERATING PROFIT

The operating profit is arrived at after charging the following:

		(Unaudited) Six months ended 30th September	
	Note	**2002 US$ million**	2001 US$ million
Depreciation	9	**13.6**	17.8
Loss on disposal of tangible assets and leasehold land		**1.0**	0.9

5. NET FINANCE COSTS

	(Unaudited) Six months ended 30th September	
	2002 US$ million	2001 US$ million
Interest expense	**2.3**	7.4
Interest income	**(1.0)**	(0.9)
	1.3	6.5

6. TAXATION

	(Unaudited) Six months ended 30th September	
	2002	2001
	US$ million	US$ million
Company and subsidiaries		
Hong Kong	**1.2**	1.1
United Kingdom	**(0.1)**	0.1
U.S.A.	**0.3**	—
Other countries	**0.1**	0.1
	1.5	1.3

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

In March 2002, the Inland Revenue Department of the HKSAR issued estimated assessments to certain subsidiaries of the Group in respect of their potential tax liabilities for prior year. The Inland Revenue Department of the HKSAR has commenced a review of the Group's taxation affairs from 1996 to 2001. The concerned subsidiaries have formally objected to the estimated assessments as, in the opinion of the directors of the subsidiaries, these estimated assessments are incorrect. The outcome of the objections has yet to be determined. The directors consider that it is impracticable to estimate whether it might give rise to any tax liabilities. Accordingly, no provision has been made in the financial statements for the period ended 30th September 2002.

7. DIVIDEND

The directors have declared an interim dividend of US1.5 cents per ordinary share for the six months ended 30th September 2002 (2001: Nil).

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$50.1 million (2001: US$3.3 million).

The basic earnings per share is based on the weighted average of 225.5 million (2001: 225.2 million) ordinary shares in issue during the period. The diluted earnings per share is based on 225.5 million (2001: 225.2 million) ordinary shares which is the weighted average number of ordinary shares in issue during the period after adjusting for the weighted average number of ordinary shares deemed to be issued at no consideration if all outstanding share options and warrants had been exercised at 30th September 2002. No ordinary shares are deemed to be issued at no consideration during the period (2001: Nil).

9. TANGIBLE ASSETS

	(Unaudited) US$ million
Balance as at 1st April 2002	58.0
Additions	8.8
Disposals	(1.4)
Depreciation	(13.6)
Translation differences	1.3
Balance as at 30th September 2002	**53.1**

10. ASSETS HELD FOR SALE

	(Unaudited) 30th September	(Audited) 31st March
	2002 US$ million	2002 US$ million
Land and buildings	**8.0**	24.5

Certain land and buildings are no longer required for the purposes for which they were originally intended. The assets have been written down to their estimated recoverable amounts.

11. DEBTORS AND PREPAYMENTS

Total debtors and prepayments of US$229.8 million (31st March 2002: US$165.3 million) includes trade debtors of US$194.1 million (31st March 2002: US$128.9 million).

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

	0-30 days US$ million	**31-60 days US$ million**	**61-90 days US$ million**	**Over 90 days US$ million**	**Total US$ million**
Balance at 30th September 2002	**112.4**	**51.5**	**16.9**	**13.3**	**194.1**
Balance at 31st March 2002	75.3	31.6	8.6	13.4	128.9

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

12. CREDITORS AND ACCRUALS

Total creditors and accruals of US$280.1 million (31st March 2002: US$187.9 million) includes trade creditors of US$137.9 million (31st March 2002: US$76.3 million).

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

	0-30 days US$ million	31-60 days US$ million	61-90 days US$ million	Over 90 days US$ million	Total US$ million
Balance at 30th September 2002	**58.8**	**47.2**	**23.4**	**8.5**	**137.9**
Balance at 31st March 2002	36.7	20.5	11.0	8.1	76.3

13. BORROWINGS

	(Unaudited) 30th September 2002 US$ million	(Audited) 31st March 2002 US$ million
Bank loans, overdrafts and finance lease obligations		
Repayable by instalments, all of which are due for repayment after five years:		
Secured bank loans	**1.0**	1.0
Repayable by instalments, all of which are due for repayment within five years:		
Unsecured bank loans and overdrafts	**11.3**	93.0
Secured bank loans	**1.4**	1.3
Obligations under finance leases	**0.4**	0.5
	13.1	94.8
Less: amounts due within one year included under current liabilities:		
Unsecured bank loans and overdrafts	**(9.0)**	(30.2)
Secured bank loans	**(0.4)**	(0.3)
Obligations under finance leases	**(0.1)**	(0.1)
	(9.5)	(30.6)
	4.6	65.2
Bank loans, overdrafts and finance lease obligations are repayable as follows:		
Between one and two years	**0.7**	63.2
Between two and five years	**2.9**	1.0
In more than five years	**1.0**	1.0
	4.6	65.2

The secured bank loans are secured against land and buildings. Bank loans and overdrafts are mainly denominated in United States dollars, Hong Kong dollars and Euro. Interest rates vary from 2.7% to 6.7% (31st March 2002: 5.0% to 8.7%).

14. SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Share Capital

	(Unaudited) 30th September 2002 US$ million	(Audited) 31st March 2002 US$ million
Authorized		
Ordinary shares:		
400,000,000 (31st March 2002 : 400,000,000) of US$0.05 each	**20.0**	20.0

	(Unaudited) 30th September 2002 No. of shares	(Unaudited) 30th September 2002 US$ million	(Audited) 31st March 2002 US$ million
Issued and fully paid			
Ordinary shares of US$0.05 each:			
Beginning of period and end of period	**225,527,133**	**11.3**	11.3

Share Options

The 1991 Scheme

Pursuant to the share option scheme adopted on 24th September 1991 (the "1991 Scheme"), the directors may, at their discretion, at any time during the 10 years from the date of approval of the 1991 Scheme, invite employees of the Company and subsidiaries of the Group, including directors, to take up share options of the Company. The 1991 Scheme expired on 23rd September 2001. Options granted and not yet exercised under the 1991 Scheme will continue to remain effective.

As at 30th September 2002, the number of shares issuable under the options granted pursuant to the 1991 Scheme was 15,000. The movements in the number of share options under the 1991 Scheme during the period were as follows:

Date of grant	Exercise price	Exercisable period	Balance in issue at 1st April 2002	Number of share options granted during the period	Number of share options exercised during the period	Number of share options lapsed/cancelled during the period	Balance in issue at 30th September 2002
1st May 1998	US$2.9	1st May 1998 to 30th April 2008	190,000	—	—	(190,000)	**—**
17th December 1999	US$2.3	17th December 1999 to 16th December 2009	80,000	—	—	(65,000)	**15,000**
			270,000	—	—	(255,000)	**15,000**

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

Share Options (continued)

The 2001 Scheme

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

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

As at 30th September 2002, the number of shares issuable under the options granted pursuant to the 2001 Scheme was 20,660,000, which represented approximately 9.2% of the issued share capital of the Company. The movements in the number of share options under the 2001 Scheme during the period were as follows:

Date of grant (Note 1)	Exercise price	Exercisable period (Note 2)	Balance in issue at 1st April 2002	Number of share options granted during the period	Number of share options exercised during the period	Number of share options lapsed/cancelled during the period	Balance in issue at 30th September 2002
26th February 2002 to 26th March 2002	HK$10.2	26th February 2002 to 25th March 2012	18,535,000	—	—	—	**18,535,000**
10th July 2002 to 8th August 2002	HK$8.71	10th July 2002 to 7th August 2012	—	2,125,000	—	—	**2,125,000**
			18,535,000	2,125,000	—	—	**20,660,000**

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

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

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

Share Options (continued)

HomeRelay Plan

Pursuant to the stock option plan adopted by HomeRelay Communications, Inc. ("HomeRelay" formerly known as Unbound Communications, Inc.) in August 2000 (the "HomeRelay Plan"), the directors of HomeRelay may grant options to the employees of HomeRelay up to 10.0% of HomeRelay's common stock in issue from time to time.

As at 30th September 2002, 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 issued share capital of HomeRelay. The movements in the number of stock options under the HomeRelay Plan during the period were as follows:

Date of grant (Note 1)	Weighted average exercise price	Exercisable period	Balance in issue at 1st April 2002	Number of stock options granted during the period	Number of stock options exercised during the period	Number of stock options lapsed/cancelled during the period	Balance in issue at 30th September 2002
1st September 2000 to 22nd February 2001	US$1.0	1st September 2000 to 21st February 2011	705,475	—	—	—	**705,475**

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

Warrants

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

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

No warrants have been exercised since the date of grant.

15. RESERVES

	(Unaudited) 30th September 2002 US$ million	(Unaudited) 30th September 2001 US$ million
Share premium	**74.3**	74.2
Other properties revaluation reserve	**6.6**	9.4
Revenue reserve	**54.3**	(5.4)
Exchange reserve	**(7.0)**	(5.9)
Hedging reserve	**(1.9)**	(0.4)
	126.3	71.9

An analysis of movements on reserves is set out below:

	2002 US$ million	2001 US$ million
Share premium		
At 1st April and carried forward	**74.3**	74.2
Other properties revaluation reserve		
At 1st April	**6.6**	10.7
Disposal of a property previously revalued	**—**	(1.3)
Carried forward	**6.6**	9.4
Revenue reserve		
At 1st April		
— as previously reported	**4.2**	(11.0)
— effect of adopting IAS 40	**—**	1.0
— as restated	**4.2**	(10.0)
Profit attributable to shareholders	**50.1**	3.3
Disposal of a property previously revalued	**—**	1.3
Carried forward	**54.3**	(5.4)
Exchange reserve		
At 1st April	**(6.6)**	(6.4)
Exchange translation differences	**(0.4)**	0.5
Carried forward	**(7.0)**	(5.9)
Hedging reserve		
At 1st April	**(0.4)**	—
Transfer to income statement	**0.8**	—
Fair value losses arising during the period	**(2.3)**	(0.4)
Carried forward	**(1.9)**	(0.4)

16. CAPITAL COMMITMENTS

	(Unaudited) 30th September 2002 US$ million	(Audited) 31st March 2002 US$ million
Authorized but not contracted for	**2.6**	11.8
Contracted but not provided for	**2.7**	2.4
	5.3	14.2

17. COMPARATIVES

Certain comparative figures have been reclassified to conform with current period's presentation.

	Six months ended 30th September				Year ended 31st March	
	2002		2001		2002	
	US$ million	**%**	US$ million	%	US$ million	%
Telecommunication Products						
North America	**308.9**	**94.2**	345.0	96.4	631.3	94.1
Europe	**10.2**	**3.1**	10.8	3.0	20.9	3.1
Asia Pacific	**6.5**	**2.0**	2.3	0.6	18.3	2.7
Others	**2.2**	**0.7**	—	—	0.7	0.1
	327.8	**100.0**	358.1	100.0	671.2	100.0
Electronic Learning Products						
North America	**45.4**	**52.9**	62.7	54.1	90.5	46.7
Europe	**35.8**	**41.7**	46.4	40.0	95.1	49.1
Asia Pacific	**3.3**	**3.8**	5.1	4.4	5.9	3.0
Others	**1.4**	**1.6**	1.7	1.5	2.2	1.2
	85.9	**100.0**	115.9	100.0	193.7	100.0
Contract Manufacturing Services						
North America	**30.6**	**56.9**	22.3	41.1	47.8	51.5
Europe	**15.3**	**28.4**	20.1	37.0	31.9	34.4
Asia Pacific	**7.9**	**14.7**	11.9	21.9	13.1	14.1
	53.8	**100.0**	54.3	100.0	92.8	100.0
Others						
North America	**1.2**	**100.0**	0.1	7.7	0.6	28.6
Europe	**—**	**—**	0.2	15.4	0.6	28.6
Asia Pacific	**—**	**—**	1.0	76.9	0.6	28.6
Others	**—**	**—**	—	—	0.3	14.2
	1.2	**100.0**	1.3	100.0	2.1	100.0

INTERIM DIVIDEND

The directors have declared the payment of an interim dividend of US1.5 cents per ordinary share to shareholders whose names appear on the register of members of the Company at the close of business on 27th December 2002.

The interim dividend will be payable on 6th January 2003 in United States dollars save that those shareholders with a registered address in Hong Kong will receive the equivalent amount in Hong Kong dollars and those shareholders whose names appear on the register of members of the Company in the United Kingdom will receive the equivalent amount in sterling pounds both calculated at the rates of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its mid rate of exchange prevailing on 19th December 2002.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20th December 2002 to 27th December 2002, both dates inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates, must be lodged with the share registrars of the Company for registration not later than 4:00 p.m., the local time of the share registrars, on 19th December 2002.

The principal registrar in Bermuda is Butterfield Fund Services (Bermuda) Limited, Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda, the branch registrar in the United Kingdom is Capita IRG Plc, Bourne House, 34 Beckenham Road, Kent BR3 4TU, DX91750, Beckenham West, United Kingdom, and the branch registrar in Hong Kong is Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the movements in share capital, share options and warrants of the Company are shown in note 14 to the condensed consolidated financial statements.

DIRECTORS' INTERESTS IN SHARES

According to the register of directors' interests maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance of Hong Kong and the records of notification made to the UK Listing Authority pursuant to Paragraphs 16.13 to 16.17 of the Listing Rules of the Financial Services Authority in the United Kingdom, as at 30th September 2002, the directors and their associates had the following interests in the shares of the Company. All of these interests were beneficial:

	Number of shares			
Name of director	**Personal interests**	**Family interests**	**Other interests**	**Total**
Allan WONG Chi Yun	14,906,830	3,968,683	74,101,153 (Note 1)	92,976,666
Albert LEE Wai Kuen	999,332	—	—	999,332
Paddy LAW Wai Leung	—	—	—	—
Raymond CH'IEN Kuo Fung	—	—	—	—
William FUNG Kwok Lun	1,045,630	—	—	1,045,630
Michael TIEN Puk Sun	1,123,000	—	—	1,123,000
Patrick WANG Shui Chung	—	—	—	—

Note 1: The shares were held beneficially as to 65,496,225 by Conquer Rex Limited, as to 1,416,325 by Honorex Limited and as to 7,188,603 by Twin Success Pacific Limited, which were owned by trusts, the discretionary objects of which were Mr. Allan WONG Chi Yun and members of his family.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the share option scheme adopted on 10th August 2001 (the "2001 Scheme"), the Company granted share options in favour of certain directors to subscribe for shares of the Company at prices to be determined by the Board of Directors in accordance with the terms of the 2001 Scheme.

According to the register of directors' interests maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance of Hong Kong and the records of notification made to the UK Listing Authority pursuant to Paragraphs 16.13 to 16.17 of the Listing Rules of the Financial Services Authority in the United Kingdom, as at 30th September 2002, the directors and their associates had the following interests in share options of the Company. All of these interests were beneficial:

Name of director	Date of grant	Exercise price	Exercisable period	At 1st April 2002 Number of share options	At 30th September 2002 Number of share options
Allan WONG Chi Yun	11th March 2002	HK$10.20	11th March 2002 to 10th March 2012 (Note 1)	2,000,000	**2,000,000**
Albert LEE Wai Kuen	5th March 2002	HK$10.20	5th March 2002 to 4th March 2012 (Note 1)	1,750,000	**1,750,000**
Paddy LAW Wai Leung	5th March 2002	HK$10.20	5th March 2002 to 4th March 2012 (Note 1)	1,750,000	**1,750,000**
	26th July 2002	HK$8.71	26th July 2002 to 25th July 2012 (Note 1)	—	**150,000**

No options were exercised by any director or lapsed during the period.

Note 1: As one of the conditions of grant, the grantee concerned agreed with the Company that the options granted shall not be exercisable within the period of 36 months from the date on which such options were granted or deemed to be granted and accepted and shall not be exercisable after 60 months from the date on which such options were granted or deemed to be granted and accepted.

Other than as disclosed above, at no time during the period under review was the Company or any subsidiaries a party to any arrangements to enable the directors and their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDINGS

According to the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance of Hong Kong and the records of notification made to the UK Listing Authority pursuant to Paragraphs 9.11 to 9.14 of the Listing Rules of the Financial Services Authority in the United Kingdom and in so far as is known to the Company, the parties, other than those directors as abovementioned, holding a 3% or more interest in the issued share capital of the Company, together with the amount of each of such parties' interests as at 30th September 2002, were as follows:

	30th September 2002	
Name of shareholder	Number of shares	Percentage of shareholding
HKSCC Nominees Limited	**103,695,443**	**45.98%**
HSBC Nominees (Hong Kong) Limited	**13,622,965**	**6.04%**

There were no contracts of significance with corporate substantial shareholders during the period under review.

SHARE OPTION SCHEMES

The Company operates share option schemes for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of these share option schemes include employees of the Company and/or any of its subsidiaries, including executive directors of any of such companies.

Details of the share option schemes are set out in note 14 to the condensed consolidated financial statements.

MATERIAL LEGAL PROCEEDINGS

On 7th June 2002, the Group and Lucent Technologies Inc. ("Lucent") settled the lawsuit filed by the Group against Lucent in January 2001 in a mutually satisfactory manner. There was no admission of wrongdoing by either party. Under the terms of the settlement, Lucent agreed to adjust the purchase price of the acquisition downward by US$50 million and such amount was fully settled in cash.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company has not redeemed any of its shares during the period under review. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period under review.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the unaudited interim consolidated financial statements for the six months ended 30th September 2002.

The members of the Audit Committee comprised Mr. Raymond CH'IEN Kuo Fung, Mr. William FUNG Kwok Lun and Mr. Michael TIEN Puk Sun, the independent non-executive directors of the Company.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the period under review except that certain independent non-executive directors of the Company are not appointed for a specific term.

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