Management Discussion and Analysis

- **Improvement of net profit to US$40.8 million**
- **Increased operating profit (excluding lawsuit settlement) by 10.9%**
- **Net cash of US$67.7 million**
- **Total dividend of US3.5 cents per share**

RESULTS OVERVIEW
For the year ended 31st March 2003
All figures are in US$ million except those stated otherwise

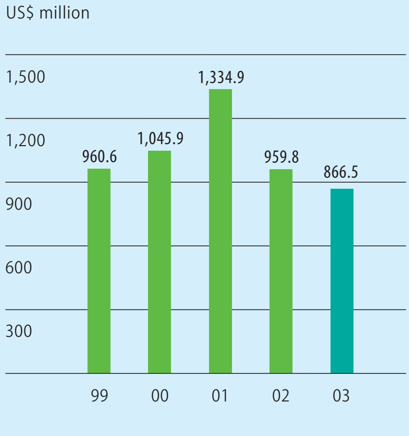
	2003	2002
Revenue	866.5	959.8
Operating profit	59.5	23.0
Profit attributable to shareholders	40.8	11.2
Non-recurring items affecting net results		
— Gain on settlement of a lawsuit	34.0	—
— Tax provision for prior years under dispute	(11.0)	—
Basic earnings per share (in US cents)	18.1	5.0
Dividend per share (in US cents)		
— Interim	1.5	Nil
— Final	2.0	Nil

REVENUE The Group revenue for the year ended 31st March 2003 was US$866.5 million, which represented a drop of 9.7% from that of last year. The decline was mainly attributable to the loss of ODM business of telecommunication products in this financial year, despite the substantial growth of sales of AT&T and VTech branded products in the same period. Lower sales at the ELP business in the US market was another major factor contributing to the reduction in the Group revenue.

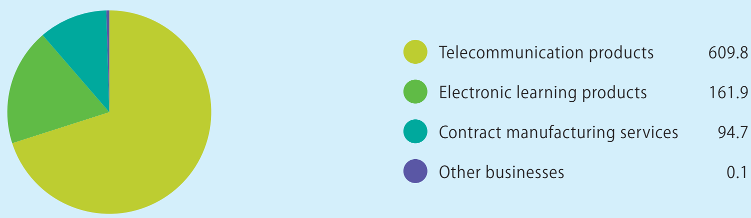
Telecommunication products accounted for 70.4% of total Group revenue to US$609.8 million for the year ended 31st March 2003. As compared with last year, revenue declined 9.0% mainly because of the decrease in sales from ODM business. One major customer exited the North America telephone market in 2002, with the result that this revenue did not recur in the financial year 2003. However, the sales performances of AT&T and VTech branded phones were strong, especially in higher margin 2.4GHz and 5.8GHz cordless phones as consumers responded well to our new range of products. The sales of the AT&T and VTech branded products grew considerably in the period under review and captured a dominant share in the US market. Currently, we are the largest player in the cordless phone market in the United States.

In the financial year 2003, the improved product mix, i.e. shifting from 900MHz to 2.4GHz cordless phones, enabled the business to enjoy better margin and higher average selling price (ASP) as compared to the financial year 2002. Sales derived from our ODM business in the financial year 2003 accounted for less than 5% of total telecommunication products revenue, which is significantly lower than the proportion of this revenue in the last financial year.

GROUP REVENUE IN LAST 5 YEARS



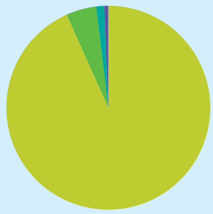
2003 GROUP REVENUE BY PRODUCT LINE (US$ million)



2003 GROUP REVENUE BY REGION (US$ million)

Geographically, North America remained as the major market for telecommunication products, accounting for 93.3% of total telecommunication products revenue in the financial year 2003, as compared to 95.0% in the financial year 2002.

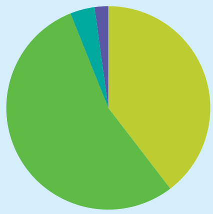
TELECOMMUNICATION PRODUCTS REVENUE BY REGION (US$ million)



North America	569.0
Europe	29.2
Asia Pacific	7.6
Others	4.0

Revenue of the ELP business decreased by 16.4% to US$161.9 million. The ELP business faced severe challenges in the US market due to rapid expansion of major competitors in the pre-school and infant categories. Competition from personal computers, TV and hand-held games also posted a challenge to the ELA category. Reduction in the shelf space offered by leading customers put additional pressure on the business. VTech, however, maintained its leadership in principal European markets, which accounted for 54.4% of the total revenue of the ELP business in the financial year 2003 as compared to 49.1% in the financial year 2002. Building on the innovative ability of our R&D teams in Hong Kong and mainland China, management decided to close the R&D centre in Connecticut, USA and shift the R&D function to Hong Kong and mainland China under the leadership of the new management team that was put in place in late 2002. This will both lower the operational costs and improve the Group's ability to develop products that are better accepted by consumers.

ELECTRONIC LEARNING PRODUCTS REVENUE BY REGION (US$ million)



North America	64.1
Europe	88.0
Asia Pacific	6.3
Others	3.5

The CMS business continued to provide a reliable source of cash flow to the Group, as the strategy of providing a complete range of EMS services to medium-sized companies continued to prove successful. Despite an overall decline in the EMS market worldwide, the business recorded modest revenue growth of 2.0% to US$94.7 million, while profits remained stable.

GROSS PROFIT Despite the decrease in revenue, the gross profit of the Group was comparable to the last financial year. The gross profit margin for the year improved from 29.9% to 33.4%. The increase was mainly attributable to the Group's strategy of focusing on higher margin products in the telecommunication products business. Enhancement in supply chain management and manufacturing processes, leveraging the Group's volume advantage in purchasing to reduce materials costs, as well as improvement in product design to lower costs also contributed to the improvement in gross profit margin.

OPERATING PROFIT The operating profit improved from US$23.0 million to US$59.5 million. Current year's operating profit included a non-recurring gain on settlement of a lawsuit amounted to US$34.0 million.

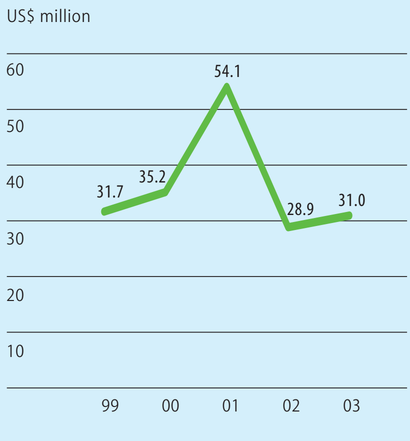
Excluding such gain, operating profit increased from US$23.0 million to US$25.5 million. Offsetting the effect of less than satisfactory performance of ELP business in the United States, the strong sales of branded telecommunication products in both AT&T and VTech brands and the solid performance of the CMS business contributed to the increase in the Group's operating profit.

In driving product acceptance and sales of ELP products in the second half of financial year 2003, the Group launched aggressive marketing and sales campaigns. This resulted in a disproportionate increase in spending on advertising and promotion dollars, which resulted in a substantial increase in the Group's selling expenses compared to the last financial year. This was only partly offset by savings from higher efficiency in logistics and improved supply chain management, which considerably lowered the Group's distribution expenses.

Staff costs for the year ended 31st March 2003 was approximately US$90 million. Total number of employees as at year-end decreased from 14,251 to 13,560.

Notwithstanding the decrease in revenue, the Group maintained the normal level of investment in R&D, which represented approximately 3% to 4% of the Group revenue.

R&D EXPENDITURE ON CORE BUSINESSES



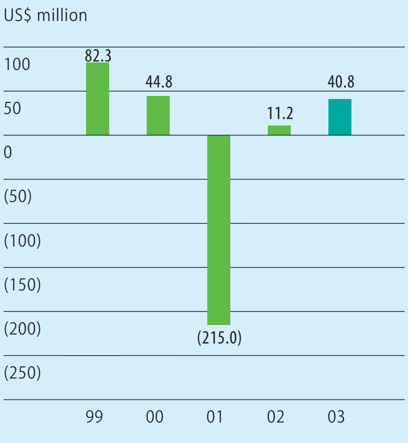
GAIN ON SETTLEMENT OF A LAWSUIT On 25th January 2001, the Group filed a complaint against Lucent Technologies Inc. (Lucent) and Lucent Technologies Consumer Products, L.P. in the United States District Court for the Southern District of the New York seeking damages and related relief arising out of the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

As disclosed in Note 3 to the financial statements, 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. The net receipt from the settlement amounted to US$34.0 million, after deducting incidental expenses, has been fully settled and was credited to the consolidated income statement.

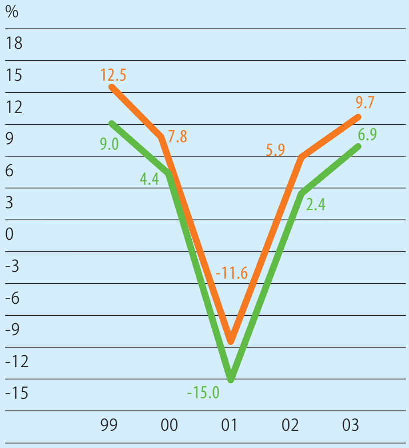
NET PROFIT AND DIVIDENDS The Group's profit attributable to shareholders for the year was US$40.8 million as compared to US$11.2 million last year. Interest expenses decreased from US$11.6 million to US$2.2 million as a result of substantial repayment of bank borrowings during the year.

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

PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS IN LAST 5 YEARS



EBITDA/REVENUE
EBIT/REVENUE



Earnings per share for the year were US18.1 cents as compared to US5.0 cents for last year.

An interim dividend of US$3.4 million (US1.5 cents per share) for the financial year 2003 had been approved and paid. The directors proposed a final dividend of US$4.5 million (US2.0 cents per share) be paid after the balance sheet date.

Return on equity improved from 12.5% to 32.0%.

WORKING CAPITAL The stock balance as at 31st March 2003 decreased 11.0% to US$84.0 million. The reduction resulted from management's effort to improve stock management and supply chain management. Group stock turnover days, however, increased from 60 days last year to 63 days for the financial year 2003. Despite management's efforts to improve working capital, the less than satisfactory ELP products acceptance among the US consumers caused stock turnover days to increase.

The debtor balance as at 31st March 2003 decreased 4.6% to US$123.0 million. Debtor turnover days improved from 76 days to 71 days owing to continuous efforts to tighten debt collection and credit control.

WORKING CAPITAL
As at 31st March 2003
All figures are in US$ million except those stated otherwise

	2003	2002
Stocks	84.0	94.4
Average stocks as a percentage of Group revenue	10.3%	14.7%
Turnover days	63 days	60 days
Debtors	123.0	128.9
Average debtors as a percentage of Group revenue	14.5%	16.9%
Turnover days	71 days	76 days
Net assets	127.5	89.4
Net assets per share (in US cents)	56.5¢	39.6¢

LIQUIDITY AND FINANCIAL RESOURCES The Group's financial position continued to improve. As at 31st March 2003, the Group had net cash of US$67.7 million compared with net debt of US$32.5 million as at 31st March 2002. Net cash inflow from operating activities during the year amounted to US$110.6 million, representing a decrease of US$36.2 million over last year's US$146.8 million. The net receipt from settlement of the lawsuit filed against Lucent contributed US$34.0 million of cash to the Group.

Total interest bearing liabilities decreased from US$95.8 million at 31st March 2002 to US$2.7 million at the end of the financial year 2003. The gross debt to shareholders' funds ratio improved from 107.2% to 2.1%. Long-term borrowings decreased from US$65.2 million to US$2.2 million, which represents 1.7% of shareholders' funds as compared to 72.9% at 31st March 2002. A majority of the Group's borrowings are denominated in Euro and are on a fixed rate basis.

Of the amount of indebtness as at 31st March 2003, US$0.5 million was repayable within one year; US$0.5 million was repayable between one and two years; US$0.7 million was repayable between two and five years and US$1.0 million was repayable after five years. A small portion of the borrowings is secured against land and buildings, which amounts to approximately US$2.5 million.

With cash on hand and available banking facilities at the year ended 31st March 2003, the Group has adequate financial resources to meet its future working capital requirements. Approximately 80% of cash and deposits are denominated in United States dollars and 10% are denominated in United Kingdom Sterling and Euro.

LIQUIDITY AND FINANCIAL RESOURCES
As at 31st March 2003
All figures are in US$ million except those stated otherwise

	2003	2002
Cash	70.4	63.3
Less: Total interest bearing liabilities	(2.7)	(95.8)
Net cash/ (debt) position	67.7	(32.5)
Gross debt to shareholders' funds	2.1%	107.2%
Net debt to shareholders' funds	N/A	36.4%

CAPITAL EXPENDITURE During the year, the Group invested US$14.1 million in plant, machinery, equipment and other tangible assets. This was financed primarily from internal resources.

TREASURY POLICIES The objective of the Group's treasury policies is to manage its exposure to fluctuation in foreign currency exchange rates and interest rates on its interest bearing loans. It is our policy not to engage in speculative activities. Forward foreign exchange contracts and interest rate swaps were used to hedge certain exposures.

MATERIAL LEGAL PROCEEDINGS 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, such amount has been fully settled in cash.

After settling its claims against Lucent, the Group commenced litigation against PricewaterhouseCoopers LLP ("PwC") on 28th February 2003 in relation to PwC's alleged malpractice and breach of duty and fraud in representing the Group concerning the acquisition of part of the Lucent Consumer Telephone Business in March 2000.

Certain subsidiaries of the Group are involved in litigation arising from their normal business. None of the above proceedings are regarded as material litigation.

EMPLOYEES As at 31st March 2003, the Group had approximately 13,500 employees. The Group has established an incentive bonus scheme and a share option scheme for its employees, in which the benefits are determined based on the performance of the Group and individual employees.

NUMBER OF EMPLOYEES
As at 31st March 2003

	2003	2002
Manufacturing	12,113	12,739
Non-manufacturing	1,447	1,512
Total employees at the end of the year	13,560	14,251
Average for the year	15,600	16,104