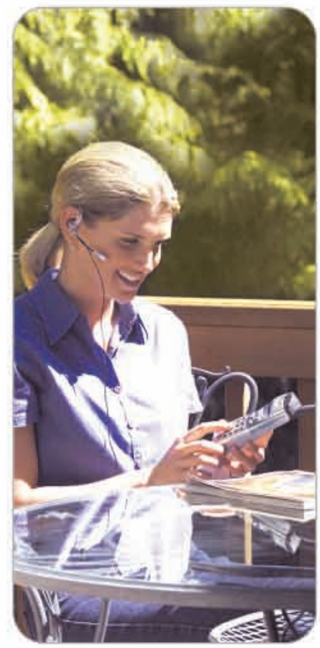
Returning to the Growth Path



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 2003/2004 中期報告書

for the six months ended 30th September 2003
截至二零零三年九月三十日止六個月

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

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 and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank

AUDITORS

KPMG
Certified Public Accountants
Hong Kong

PRINCIPAL REGISTRAR

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

UK BRANCH REGISTRAR

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

HONG KONG BRANCH REGISTRAR

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
U.S.A.

OVERVIEW

VTech continued to improve its financial performance in the first half of the financial year 2004 as demonstrated by the improved net profit margin and a stronger net cash position.

This sound performance reflects continuous good performance of our Telecommunication Products and Contract Manufacturing Services (CMS) businesses, as well as the benefits arising from the initial results of our three-year strategic plan to turn around the Electronic Learning Products (ELP) business, through which we achieved tremendous cost savings. Although revenue was lower than the same period of last year, largely due to lower sales in the US market of the ELP and Telecommunication Products businesses, VTech is now returning to its growth path in both revenue and profitability, as the Group's solid financial footing enables us to begin to expand. We are confident that the second half of the financial year 2004 will deliver a stronger growth in both revenue and profitability. In addition, the launch of innovative new electronic learning products will provide a significant growth potential to rebound our ELP business in the financial year 2005 and the years beyond.

Group Results

The Group revenue for the six-month period ended 30th September 2003 declined by 13.8% to US$404.1 million. This was mainly due to lower sales in the US market of the ELP business, as was fully anticipated by management at the beginning of the financial year 2004. Revenue was also affected by a decline in sales of the Telecommunication Products business, caused by the absence of revenue from the discontinued mobile phone business, a shift in the timing of our customers' seasonal purchasing and interruption of supply of a critical component. In addition, revenue of the CMS business declined as the worldwide Electronics Manufacturing Services (EMS) industry suffered from disappointing end-market demand during the first quarter of the financial year 2004.

Despite the decline in revenue, profit attributable to shareholders on a normal operating basis rose by 8.1% to US$17.4 million, as compared with the US$16.1 million recorded in the same period of the financial year 2003, excluding the US$34.0 million exceptional income arising from settlement of a lawsuit recorded for that period. The improvement was driven by the continuous good performance of Telecommunication Products and CMS businesses. It was further supported by cost savings achieved at the ELP business, which successfully reduced selling, general and administrative costs.

Dividend

The continued rise in profitability has further strengthened VTech's financial position. In line with expectations of the Group's full year results, the directors have declared an interim dividend of US3.0 cents per ordinary share.

Liquidity Position

The Group's financial resources continued to be strong. As at 30th September 2003, the Group had cash on hand of US$75.9 million. After deducting total interest bearing debt of US$2.6 million, the net cash position as at 30th September 2003 was US$73.3 million. The Group has adequate liquidity to meet its future working capital requirements.

REVIEW OF OPERATIONS

Telecommunication Products

During the period under review, revenue of the Telecommunication Products business declined by 9.1% to US$299.0 million. The reduction reflected the absence of revenue from the discontinued mobile phone business. A shift in the timing of our customers' seasonal purchasing was another reason for the decline in revenue. This related to a number of factors, including customers' postponing holiday orders in order to more tightly manage their inventory levels as well as a difference in the timing of our new product launches. Furthermore, sales during the comparable period in the financial year 2003 included customers building additional product inventories in expectation of the October 2002 West Coast ports labour disruption.

In North America, unit sales of our 2.4GHz analog phones increased markedly due to the strong demand for our innovative VMIX phone. This was delivered in May 2003 and would have achieved higher revenue if not affected by an interruption to the supply of a critical component for that product. Sales growth was also supported by the sustained shift from 900MHz to 2.4GHz cordless phones. The significant increase in unit sales of our 5.8GHz cordless phones was also encouraging and confirmed the market's acceptance of this new product line.

The average selling prices of our high-end cordless phones declined gradually reflecting the normal price trend of consumer electronics products. To counter this price trend, VTech is increasingly introducing new products targeting specific consumer segments. The VMIX phone is a leading example. With unique features including programmable ring tones and changeable plates, it has appealed strongly to teenagers in the United States and resulted in high levels of demand from retailers.

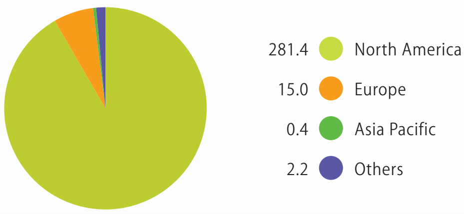
We also continued to improve our cost structure to maintain margins. To this end, we have initiated a number of six sigma projects to improve our manufacturing, procurement and distribution operations.

Geographically, we are on track in expanding our presence in the European market. Significant progress was made during the first half of the financial year 2004 and we will continue to work closely with the Swissvoice Group and deepen our relationships with some of the best names in European telecommunications, to which we are already a key supplier.

i5801 5.8GHz Cordless Phone Handset

VMIX 2.4GHz Cordless Phone

TELECOMMUNICATION PRODUCTS REVENUE BY REGION (US$ million)



HKEIA Award Presentation Ceremony

Electronic Learning Products

Although revenue for the first six months declined by 33.6% to US$57.0 million as compared with the corresponding period of last year, we were able to show a strong improvement in profitability due to strengthened cost control. The ELP business progressed well on its road to recovery.

Despite steady sales in Europe, where VTech remains a market leader in many categories, sales in the United States continued to face challenges and revenue in this market declined, as anticipated by management at the beginning of the financial year 2004.

The reduction was mainly due to a lag effect from the previous financial year when shelf space for VTech's electronic learning products was reduced. The continued erosion of the Electronic Learning Aid market due to the popularity of personal computers and hand held games for children between the age of 6 and 12 was also a factor.

Despite lower revenue, we saw a significant improvement in the profitability of the ELP business in the first half of the financial year 2004, mainly owing to the cost rationalization initiatives implemented in the previous financial year. The improvement in profitability clearly indicates the success of the first stage of the three-year strategic plan to revitalize the ELP business that we announced in June 2003. During the first half of the financial year 2004, the business benefited from the wide-ranging measures undertaken in the previous financial year to create a much leaner operating structure. The improvement enabled the business to deliver substantially better net margins.

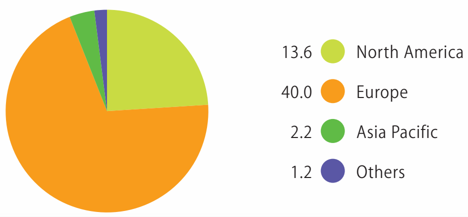
We have now begun to focus on the second phase of the revitalization strategy, which is to lay the foundation for a recovery in revenue through developing new product lines and revamping completely our existing product ranges. A unique new product category, TV Learning System — a platform that leverages the video game format to educate, has been developed. This new product line was previewed by major customers in the United States in October 2003 and received a very good response. We strongly believe that when we launch these new products in the calendar year 2004, we will be able to achieve a significant rebound in revenue in all our major markets, including the United States.

In addition to these initiatives in our core markets, we have begun to enter the booming China market during the first half of the financial year 2004, distributing a line of 16 specially designed products in the key cities of the affluent Pearl River Delta region adjacent to Hong Kong. The initial response has been encouraging.

Fly & Discover Globe™

Alphabet Classroom™

ELECTRONIC LEARNING PRODUCTS
REVENUE BY REGION (US$ million)



Stack & Discover Rings™

Contract Manufacturing Services

The CMS business made important advances during the first half of the financial year 2004 and maintained stable profitability, despite revenue declining by 10.6% to US$48.1 million.

The decline in revenue resulted mainly from a shortfall in orders in the first quarter of the financial year 2004 that was caused by low end-market demand. Orders began picking up starting from the second quarter of the financial year 2004, however, as confidence returned. A slow recovery has been discernible in the worldwide EMS industry during the calendar year 2003, following two years of decline that began in the calendar year 2000.

In July and September 2003, we were able to achieve the targets we set out at the beginning of the current financial year to attain ISO13488 and TS16949 certifications. These certifications open a new avenue of growth for the business as they give us entry into the production of medical equipment and automotive products, which are important niche markets in the EMS industry.

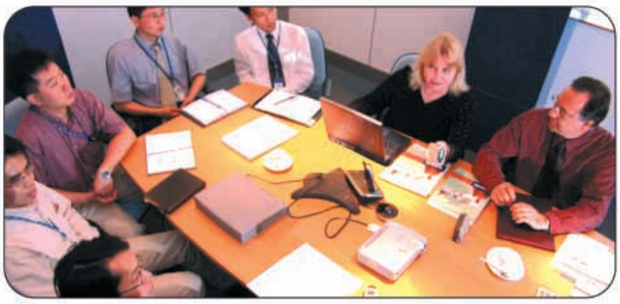
Our client base remained stable during the period as we continued to reap the benefits of our Design for Manufacturing Programme, which helps customers to achieve cost savings in their products through our involvement in the process from the early design stage. In recognition of our outstanding customer service, the CMS business was given “Excellent Commitment and Partnership” Award by Nissei Electronics Industry Co., Ltd. in October 2003.

Outlook

The second half of the financial year 2004 has started well and we expect the financial year 2004 to show a strong improvement in our financial results. The economic environment in the US market appears to be more positive than it was at the beginning of the financial year 2004. This should combine with positive developments at the Group to allow us to look forward to growth in both revenue and profitability in the financial year 2004.

At the Telecommunication Products business, the problem of component supply for our VMIX phone has been resolved and the pent up demand should result in strong sales for this product line during the second half of the financial year 2004. The business will also benefit as the timing issues that held back revenue during the first half of the financial year 2004 contribute positively in the final six months.

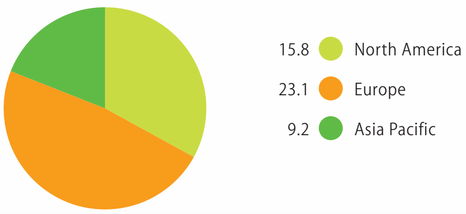
In September 2003, we delivered the world’s most advanced cordless phone



ISO13488 Certificate

"Excellent Commitment and Partnership" Award

CONTRACT MANUFACTURING SERVICES
REVENUE BY REGION (US$ million)



Trade Fair in Shanghai

handset, the i5801, which features a large, colour, high resolution LCD screen, customizable picture caller ID and a recordable musical ringer. This revolutionary design helped the handset to win the "Grand Award" at the 2003 Hong Kong Electronic Industry Association Awards for Outstanding and Innovative Products.

Building on this, VTech will introduce more products, including those that target specific consumer segments in the second half of the financial year 2004. The VMIX II cordless phone, the second generation of VMIX phone, will maintain momentum in the teenage segment. This will be supported by the launch of our 2.4GHz and 5.8GHz bundles in February 2004. We will also launch our first data networking products, a market that offers considerable growth potential in the second half of the financial year 2004.

The ELP business will continue to reap the benefits of its more efficient operating structure, which we will seek to enhance further. This will ensure that the strong profit improvement seen in the first half of the financial year 2004 will continue to the end of the financial year 2004. Our existing products are selling well in Europe and the launch of our unique new product, TV Learning System, which targets children aged between three and seven years old will offer significant potential for VTech to regain shelf-space in the United States and grow revenue in all major markets in the financial year 2005.

CMS is forecast to benefit from the recent rebound in outsourced manufacturing and to demonstrate improved revenue growth as the recovery from a disappointing end-market demand takes effect. We will also continue to benefit from the increasing tendency for companies outsourcing to seek integrated solutions to their needs, a service VTech now offers. We expect to achieve modest revenue growth from our existing business lines, while entering the medical equipment and automotive products markets. In addition, we will begin to implement the cell-based manufacturing process already used successfully by VTech's other businesses to drive further gains in productivity.

In the second half of the financial year 2004, the Group will also expand its presence in mainland China through our electronic learning products, as we move beyond the Pearl River Delta to the cities of the Yangtze River Delta and Beijing.

In addition to geographic expansion across China with electronic learning products and in Europe with telecommunication products, we intend to leverage our core competencies in technology, global distribution networks and brands to enter new product categories where we believe we have competitive advantages. In doing so, we intend to combine in-house and outsourced resources in the design and manufacturing process to minimise both capital expenditure and risk.

Last but not the least, I would like to thank my fellow directors and senior management, as well as all VTech employees for their ongoing commitment to ensure continued improvement for the Group. Likewise, my thanks go out to our customers and business partners for their invaluable supports.

Allan WONG Chi Yun
Chairman
Hong Kong, 19th November 2003

Trade Fair in China

1.8GHz Cordless Phones for European Markets

Design for Manufacturing Programme introduced by CMS

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) Six months ended 30th September 2003 US$ million	2002 US$ million	(Audited) Year ended 31st March 2003 US$ million
Revenue	2	**404.1**	468.7	866.5
Cost of sales		**(272.5)**	(317.0)	(577.5)
Gross profit		**131.6**	151.7	289.0
Selling and distribution costs		**(73.4)**	(81.9)	(166.8)
Administrative and other operating expenses		**(21.5)**	(33.6)	(65.7)
Research and development expenses		**(15.7)**	(16.6)	(31.0)
Gain on settlement of a lawsuit		**—**	34.0	34.0
Operating profit	2 & 3	**21.0**	53.6	59.5
Net finance income/(costs)	4	**0.2**	(1.3)	(1.0)
Share of results of associates		**—**	(0.4)	(0.2)
Profit from ordinary activities before taxation		**21.2**	51.9	58.3
Taxation	5	**(3.8)**	(1.5)	(17.4)
Profit from ordinary activities after taxation		**17.4**	50.4	40.9
Minority interest		**—**	(0.3)	(0.1)
Profit attributable to shareholders		**17.4**	50.1	40.8
Dividend	6			
— Interim		**6.8**	3.4	3.4
— Final				4.5
Earnings per share (in US cents)	7			
— Basic		**7.7**	22.2	18.1
— Diluted		**7.7**	22.2	18.1

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	(Unaudited) Six months ended 30th September 2003 US$ million	2002 US$ million	(Audited) Year ended 31st March 2003 US$ million
Shareholders' equity at beginning of period		**127.5**	89.4	89.4
Exchange translation differences		**(0.8)**	(0.4)	(0.2)
Realization of hedging reserve		**—**	0.8	0.4
Fair value losses on hedging during the period		**(0.9)**	(2.3)	—
Surplus arising on revaluation of other properties		**—**	—	0.5
Net (losses)/gains not recognized in the income statement		**(1.7)**	(1.9)	0.7
Profit attributable to shareholders		**17.4**	50.1	40.8
Dividend approved and paid during the period	6	**(4.5)**	—	(3.4)
Shareholders' equity at end of period		**138.7**	137.6	127.5

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	(Unaudited) 30th September 2003 US$ million	2002 US$ million	(Audited) 31st March 2003 US$ million
Non-current assets				
Tangible assets	8	**46.9**	53.1	48.0
Leasehold land payments		**1.9**	3.0	2.7
Deferred tax assets		**4.6**	4.3	3.9
Investments		**0.2**	0.2	0.2
		53.6	60.6	54.8
Current assets				
Stocks		**142.4**	143.4	84.0
Assets held for sale		**8.0**	8.0	8.0
Debtors and prepayments	9	**185.1**	229.8	139.9
Taxation recoverable		**—**	3.2	1.5
Cash and cash equivalents		**75.9**	37.3	70.4
		411.4	421.7	303.8
Current liabilities				
Creditors and accruals	10	**(266.6)**	(280.1)	(171.4)
Provisions		**(42.4)**	(44.7)	(40.4)
Borrowings	11	**(0.5)**	(9.5)	(0.5)
Taxation payable		**(13.2)**	(3.5)	(15.0)
		(322.7)	(337.8)	(227.3)
Net current assets		**88.7**	83.9	76.5
Total assets less current liabilities		**142.3**	144.5	131.3
Non-current liabilities				
Borrowings	11	**(2.1)**	(4.6)	(2.2)
Deferred tax liabilities		**(1.5)**	(1.2)	(0.8)
		(3.6)	(5.8)	(3.0)
Minority interest		**—**	(1.1)	(0.8)
Net assets		**138.7**	137.6	127.5
Capital and reserves				
Share capital	12	**11.3**	11.3	11.3
Reserves	13	**127.4**	126.3	116.2
Shareholders' funds		**138.7**	137.6	127.5

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) Six months ended 30th September 2003 US$ million	2002 US$ million	(Audited) Year ended 31st March 2003 US$ million
Net cash generated from operating activities	**20.3**	58.1	110.6
Net cash used in investing activities	**(7.9)**	(0.6)	(4.5)
Net cash used in financing activities	**(5.4)**	(81.5)	(96.4)
Effect of exchange rate changes	**(1.5)**	(1.8)	(2.4)
Increase/(decrease) in cash and cash equivalents	**5.5**	(25.8)	7.3
Cash and cash equivalents at beginning of period	**70.4**	63.1	63.1
Cash and cash equivalents at end of period	**75.9**	37.3	70.4

The notes on pages 7 to 10 form an integral part of these condensed consolidated financial statements.

1 BASIS OF PREPARATION The unaudited interim condensed consolidated financial statements have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") including compliance with International Accounting Standard 34 — Interim Financial Reporting adopted by the International Accounting Standards Board.

The financial information relating to the financial year ended 31st March 2003 included in the interim condensed consolidated financial statements does not constitute the Company's annual financial statements prepared under International Financial Reporting Standards for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31st March 2003 are available at the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 25th June 2003.

The same accounting policies adopted in the 2003 annual financial statements have been applied to the interim condensed consolidated financial statements.

2 SEGMENT INFORMATION The principal activity of the Group is the design, manufacture and distribution of consumer electronic products. The telecommunication and electronic products business is the principal business segment of the Group.

Revenue represents turnover of the Group derived from the amounts received and receivable for sale of goods and rendering of services to third parties.

Primary reporting format — business segments

	(Unaudited) Six months ended 30th September			
	Revenue 2003 US$ million	Revenue 2002 US$ million	**Operating profit/(loss) 2003 US$ million**	Operating profit/(loss) 2002 US$ million
Telecommunication and electronic products	**402.9**	467.5	**23.5**	55.6
Other activities	**1.2**	1.2	**(2.5)**	(2.0)
	404.1	468.7	**21.0**	53.6

Secondary reporting format — geographical segments

	(Unaudited) Six months ended 30th September			
	Revenue 2003 US$ million	Revenue 2002 US$ million	**Operating profit/(loss) 2003 US$ million**	Operating profit/(loss) 2002 US$ million
North America	**310.8**	386.1	**16.3**	51.8
Europe	**78.1**	61.3	**5.0**	1.5
Asia Pacific	**11.8**	17.7	**(0.5)**	0.2
Others	**3.4**	3.6	**0.2**	0.1
	404.1	468.7	**21.0**	53.6

3 OPERATING PROFIT The operating profit is arrived at after charging the following:

		(Unaudited) Six months ended 30th September	
	Note	**2003 US$ million**	2002 US$ million
Depreciation	8	**9.4**	13.6
Loss on disposal of tangible assets and leasehold land		**0.6**	1.0

4 NET FINANCE INCOME/(COSTS)

	(Unaudited) Six months ended 30th September	
	2003 US$ million	2002 US$ million
Interest expense	**(0.1)**	(2.3)
Interest income	**0.3**	1.0
	0.2	(1.3)

5 TAXATION

	(Unaudited) Six months ended 30th September	
	2003 US$ million	2002 US$ million
Company and subsidiaries		
Hong Kong	**3.4**	1.2
United Kingdom	**—**	(0.1)
U.S.A.	**0.2**	0.3
Other countries	**0.2**	0.1
	3.8	1.5

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

The Group is currently negotiating with the Hong Kong Inland Revenue Department regarding a dispute over the offshore income claims made by certain subsidiaries of the Group in prior years. The aim of the negotiations is to resolve the dispute amicably. The outcome of these negotiations remained unsettled as at 30th September 2003.

The Group made a provision of US$11.0 million in the previous year, representing the directors' best estimates of any liabilities which may arise on settlement of this dispute. No further provision in this respect was considered necessary for the six months ended 30th September 2003.

6 DIVIDENDS

(a) Dividends attributable to the period :

	(Unaudited) Six months ended 30th September 2003 US$ million	2002 US$ million
Interim dividend declared of US3.0 cents per share (2002: US1.5 cents)	6.8	3.4

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

(b) Final dividend of US2.0 cents per share (2002: Nil) proposed after 31st March 2003, which totaled US$4.5 million was approved and paid during the period.

7 EARNINGS PER SHARE The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of US$17.4 million (2002: US$50.1 million) and the weighted average of 225.5 million (2002: 225.5 million) ordinary shares in issue during the period. There were no potential dilutive ordinary shares in existence for both periods presented.

8 TANGIBLE ASSETS

	(Unaudited) US$ million
Balance as at 1st April 2003	48.0
Additions	9.2
Disposals	(1.7)
Depreciation	(9.4)
Effect of changes in exchange rates	0.8
Balance as at 30th September 2003	**46.9**

9 DEBTORS AND PREPAYMENTS Total debtors and prepayments of US$185.1 million (31st March 2003: US$139.9 million) includes trade debtors of US$165.6 million (31st March 2003: US$123.0 million).

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

	(Unaudited) 30th September 2003 US$ million	(Audited) 31st March 2003 US$ million
0-30 days	135.4	54.5
31-60 days	19.8	41.6
61-90 days	5.2	10.2
>90 days	5.2	16.7
Total	165.6	123.0

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.

10 CREDITORS AND ACCRUALS Total creditors and accruals of US$266.6 million (31st March 2003: US$171.4 million) includes trade creditors of US$139.1 million (31st March 2003: US$59.5 million).

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

	(Unaudited) 30th September 2003 US$ million	(Audited) 31st March 2003 US$ million
0-30 days	61.6	28.7
31-60 days	45.3	11.5
61-90 days	22.1	11.9
>90 days	10.1	7.4
Total	139.1	59.5

11 BORROWINGS

	(Unaudited) 30th September 2003 US$ million	(Audited) 31st March 2003 US$ million
Bank loans and finance lease obligations		
Repayable by instalments, any one of which is due for repayment after five years:		
Secured bank loans	1.0	1.0
Repayable by instalments, all of which are due for repayment within five years:		
Secured bank loans	1.4	1.4
Obligations under finance leases	0.2	0.3
	1.6	1.7
Less: amounts due within one year included under current liabilities:		
Secured bank loans	(0.4)	(0.4)
Obligations under finance leases	(0.1)	(0.1)
	(0.5)	(0.5)
	2.1	2.2
Non-current bank loans and finance lease obligations are repayable as follows:		
Between one and two years	0.5	0.5
Between two and five years	0.6	0.7
In more than five years	1.0	1.0
	2.1	2.2

The secured bank loans are denominated in Euro, secured against land and buildings and bear interest at rates vary from 5.1% to 6.7% (31st March 2003: 5.1% to 6.7%).

12 SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Share capital

	(Unaudited) 30th September 2003 US$ million	(Audited) 31st March 2003 US$ million
Authorized		
Ordinary shares: 400,000,000 (31st March 2003: 400,000,000) of US$0.05 each	**20.0**	20.0

	(Unaudited) 30th September 2003 No. of shares	(Unaudited) 30th September 2003 US$ million	(Audited) 31st March 2003 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

(i) 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 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.

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 30th September 2003, the number of shares issuable under the options granted pursuant to the 2001 Scheme was 17,075,000, which represented approximately 7.6% of the then 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 2003	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 2003
26th February 2002 to 26th March 2002	HK$10.2	26th February 2005 to 25th March 2007	15,430,000	—	—	(75,000)	**15,355,000**
10th July 2002 to 8th August 2002	HK$8.71	10th July 2005 to 7th August 2007	1,720,000	—	—	—	**1,720,000**
			17,150,000	—	—	(75,000)	**17,075,000**

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 Interim 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.

(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 10.0% 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 share capital of HomeRelay. All outstanding options lapsed on 30th September 2003 as a result of the termination of employment of the relevant grantees under the HomeRelay Plan. The movements in the 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 2003	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 2003
1st September 2000 to 22nd February 2001	US$1.0	1st September 2000 to 21st February 2011	705,475	—	—	(705,475)	—

Note 1: The stock options were granted to the employees concerned during the said period from 1st September 2000 to 22nd February 2001 and the information can only be shown within a reasonable range in this Interim 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) and the expiration date of these warrants was amended to 12th December 2011.

No warrants have been exercised since the date of grant.

13 RESERVES

	(Unaudited) 30th September 2003 US$ million	(Audited) 31st March 2003 US$ million
Share premium	**74.3**	74.3
Other properties revaluation reserve	**6.1**	6.8
Revenue reserve	**55.5**	41.9
Exchange reserve	**(7.6)**	(6.8)
Hedging reserve	**(0.9)**	—
	127.4	116.2

14 CAPITAL COMMITMENTS

	(Unaudited) 30th September 2003 US$ million	(Audited) 31st March 2003 US$ million
Authorized but not contracted for	**3.4**	17.0
Contracted but not provided for	**8.1**	3.2
	11.5	20.2

REGULATORY INFORMATION AND NOTES FOR SHAREHOLDERS

INTERIM DIVIDENDS The directors have declared an interim dividend for the six months ended 30th September 2003 of US3.0 cents per ordinary share to shareholders whose names appear on the register of members of the Company as at the close of business on 29th December 2003. It is expected that the interim dividends will be paid on 8th January 2004.

The interim dividends will be payable in United States cents 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 18th December 2003.

LIQUIDITY AND FINANCIAL RESOURCES As at 30th September 2003, the Group had net cash of US$73.3 million after deducting the total interest bearing debt of US$2.6 million. The maturity profile of indebtedness is contained in note 11 to the condensed consolidated financial statements. A majority of the Group's borrowings was denominated in Euro, on a fixed interest rate basis and secured against land and buildings. The gross debt to shareholders' funds ratio stood at 1.9% as at 30th September 2003.

The objective of the Group's treasury policies is to mitigate risks and exposures to the Group due to fluctuations in foreign currency exchange rates and interest rates. It is the Group's policy not to engage in speculative activities. Forward foreign exchange contracts are used to hedge against major exposures.

CLOSURE OF REGISTER OF MEMBERS The register of members of the Company will be closed from 19th December 2003 to 29th December 2003, 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 not later than 4:00 p.m., the local time of the share registrars, on Thursday, 18th December 2003.

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 12 to the condensed consolidated financial statements.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES As at 30th September 2003, the interests and short positions of the directors and chief executive of the Company in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") and according to 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 (the "UK Listing Rules") were as follows:

(1) Long position in the ordinary shares of the Company

Name of director	Capacity	Number of shares held	Total number of shares held
Allan WONG Chi Yun	Beneficial owner	10,307,393	88,377,229
	Interest of spouse	3,968,683	
	Founder interest	74,101,153 (Note 1)	
Albert LEE Wai Kuen	Beneficial owner	499,332	499,332
Paddy LAW Wai Leung	—	—	—
Raymond CH'IEN Kuo Fung	—	—	—
William FUNG Kwok Lun	Beneficial owner	632,200	1,041,630
	Interest of spouse	409,430	
Michael TIEN Puk Sun	Founder interest	1,123,000 (Note 2)	1,123,000
Patrick WANG Shui Chung	—	—	—

Note 1: The shares were held as to 1,416,325 directly by Honorex Limited ("Honorex"), as to 65,496,225 directly by Conquer Rex Limited ("Conquer Rex") and as to 7,188,603 directly by Twin Success Pacific Limited ("Twin Success"). Conquer Rex is a wholly-owned subsidiary of Honorex. Each of Conquer Rex, Honorex and Twin Success is a wholly-owned subsidiary of Newcourt Trustees Limited as the trustee of The Wong Chung Man 1984 Trust, a discretionary trust of which Mr. Allan WONG Chi Yun is the founder. Newcourt Trustees Limited was therefore deemed to have an aggregate indirect interest in 74,101,153 shares. Honorex was also deemed to have an indirect interest in the 65,496,225 shares.

Note 2: The shares were registered in the name of Romsley International Limited which is a wholly owned subsidiary of J.P. Morgan Trust Company (Bahamas) Limited as trustee of The Joy Plus Trust. The Joy Plus Trust is a discretionary trust of which Mr. Michael TIEN Puk Sun is the founder.

(2) Share options of the Company

Name of director	Date of grant	Exercise price	Exercisable period (Note 1)	Number of share options as at 1st April 2003	Number of share options as at 30th September 2003
Allan WONG Chi Yun	11th March 2002	HK$10.2	11th March 2005 to 10th March 2007	2,000,000	2,000,000
Albert LEE Wai Kuen	5th March 2002	HK$10.2	5th March 2005 to 4th March 2007	1,750,000	1,750,000
Paddy LAW Wai Leung	5th March 2002	HK$10.2	5th March 2005 to 4th March 2007	1,750,000	1,750,000
Paddy LAW Wai Leung	26th July 2002	HK$8.71	26th July 2005 to 25th July 2007	150,000	150,000

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.

Save as disclosed above, as at 30th September 2003, none of the directors and chief executive of the Company has any interest or short position in the shares or the underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies containing in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") or which were required to be notified to the UK Listing Authority pursuant to Paragraphs 16.13 to 16.17 of the UK Listing Rules.

SUBSTANTIAL SHAREHOLDINGS As at 30th September 2003, according to the register maintained by the Company under Section 336 of the SFO and the records of notification made to the UK Listing Authority pursuant to Paragraphs 9.11 to 9.14 of the UK Listing Rules and in so far as is known to the Company, the parties, (other than the directors and chief executive of the Company), who held 3% or more equity interest in the issued share capital of the Company, together with the amount of each of such parties' interests were as follows:

Name of shareholder	Capacity	Number of shares held	Percentage of shareholding
HKSCC Nominees Limited	Nominee	106,546,696	47.24%
Newcourt Trustees Limited	Interest of controlled corporation (Notes 1 & 3)	74,101,153	32.86%
Honorex Limited	Beneficial owner	1,416,325	29.67%
	Interest of controlled corporation (Notes 1 & 3)	65,496,225	
Conquer Rex Limited	Beneficial owner (Notes 1 & 3)	65,496,225	29.04%
Value Partners Limited	Investment manager (Notes 2 & 3)	26,807,000	11.89%
CHEAH Cheng Hye	Interest of controlled corporation (Notes 2 & 3)	26,807,000	11.89%
HSBC Nominees (Hong Kong) Limited	Nominee	16,012,483	7.10%
Twin Success Pacific Limited	Beneficial owner (Notes 1 & 3)	7,188,603	3.19%

Note 1: The shares were held as to 1,416,325 directly by Honorex Limited ("Honorex"), as to 65,496,225 directly by Conquer Rex Limited ("Conquer Rex") and as to 7,188,603 directly by Twin Success Pacific Limited (" Twin Success"). Conquer Rex is a wholly-owned subsidiary of Honorex. Each of Conquer Rex, Honorex and Twin Success is a wholly-owned subsidiary of Newcourt Trustees Limited as the trustee of The Wong Chung Man 1984 Trust, a discretionary trust of which Mr. Allan WONG Chi Yun ("Mr. Wong"), a director of the Company, is the founder. Newcourt Trustees Limited was therefore deemed to have an aggregate indirect interest in 74,101,153 shares. Honorex was also deemed to have an indirect interest in the 65,496,225 shares. Mr. Wong's founder interests in the 74,101,153 shares of the Company has also been disclosed under the section headed "directors' interests and short positions in shares and underlying shares" above.

Note 2: Mr. CHEAH Cheng Hye is deemed to be interested in such shares through its 32.53% interest in Value Partners Limited.

Note 3: The interest stated above represents long position.

Save as disclosed above, the Company has not been notified by any person (other than the directors of the Company) who had interests or short positions in the shares or underlying shares of the Company as at 30th September 2003 which were required to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register required to be kept by Company under Section 336 of the SFO or which were required to be notified to the UK Listing Authority pursuant to Paragraphs 9.11 to 9.14 of the UK Listing Rules.

SHARE OPTION SCHEME The Company operates share option scheme for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2001 Scheme include employees of the Company and/or any of its subsidiaries, including executive directors (but excluding non-executive directors) of any of such companies. Details of the 2001 Scheme are set out in note 12 to the condensed consolidated financial statements.

CONNECTED TRANSACTION On 11th April 2003, the Company as tenant entered into an agreement with Aldenham Company Limited ("Aldenham") as landlord for the lease of the premises situated at Bowen Road, Hong Kong for 2 years commencing on 1st April 2003 at a monthly rental of HK$250,000 for the purpose of providing housing to Mr. Allan WONG Chi Yun, a director of the Company, in accordance with the terms of his employment contract. At time of entering into the lease, Aldenham was a company 50% owned by Mr. Allan WONG Chi Yun's wife and 50% owned by a trust the beneficiaries of which are Mr. Allan WONG Chi Yun and his family members. Aldenham was therefore a connected person of the Company as defined in the Listing Rules. The entering into the lease by the Company constituted a connected transaction for the Company under Chapter 14 of the Listing Rules and a transaction with a related party under Chapter 11 of the UK Listing Rules as announced on 11th April 2003.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES The Company has not redeemed any of its shares during the six months ended 30th September 2003. 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 2003.

The members of the Audit Committee comprised Mr. Raymond CH'IEN Kuo Fung, Mr. William FUNG Kwok Lun, and Mr. Michael TIEN Puk Sun, all are 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 Listing Rules throughout the period under review except that certain independent non-executive directors of the Company are not appointed for a specific term.

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)

23rd Floor, Tai Ping Industrial Centre, Block 1, 57 Ting Kok Road, Tai Po, New Territories, Hong Kong
Tel: (852) 2680 1000 Fax: (852) 2680 1300 website: www.vtech.com email: investor_relations@vtech.com
香港新界大埔汀角路57號太平工業中心第1期23樓
電話：(852) 2680 1000 傳真：(852) 2680 1300 網址：www.vtech.com 電郵：investor_relations@vtech.com