

# Report of the Directors

The directors have pleasure to present their report and the audited financial statements of the Group for the year ended 31st March 2005.

**Principal Activity** The principal activity of the Group is the design, manufacture and distribution of consumer electronics products.

**Group Results and Dividends** The results of the Group for the year ended 31st March 2005 are set out in the consolidated income statement on page 33.

An interim dividend of US1.0 cent (2004: US3.0 cents) per ordinary share was paid to shareholders on 4th January 2005. The directors have recommended the payment of a final dividend of US12.0 cents (2004: US7.0 cents) per ordinary share payable on 30th August 2005 to shareholders in respect of the year ended 31st March 2005 whose names appear on the register of members of the Company as at the close of business on 12th August 2005 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

The final dividend will be paid 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 registered in the United Kingdom will receive the equivalent amount in Sterling 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 August 2005.

**Commentary on Performance** A commentary on the performance of the Group is included in the review of operations set out on pages 10 to 17.

**Group Financial Summary** A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 54.

**Tangible Assets** Details of the movements in tangible assets are shown in note 9 to the financial statements.

**Share Capital, Share Options and Warrants** Details of the movements in share capital, share options and warrants of the Company during the year are set out in note 19 to the financial statements.

**Reserves** Movements in the reserves of the Group and the Company during the year are set out in note 20 to the financial statements.

**Donations** During the year, the Group made charitable and other donations in aggregate of US\$203,000.

**Directors** The Board of the Company during the year and up to 22nd June 2005 comprised:

Mr. Allan WONG Chi Yun	(Chairman and Group Chief Executive Officer)
Mr. Albert LEE Wai Kuen	(Deputy Chairman)
Mr. Raymond CH'EN Kuo Fung	(Independent Non-executive Director)
Mr. William FUNG Kwok Lun	(Independent Non-executive Director)
Mr. Michael TIEN Puk Sun	(Independent Non-executive Director)
Mr. Patrick WANG Shui Chung	(Independent Non-executive Director)

Mr. Michael TIEN Puk Sun and Mr. Patrick WANG Shui Chung shall retire from the Board in accordance with Bye-law 112 of the Bye-laws of the Company, and being eligible, shall offer themselves for re-election as directors of the Company at the forthcoming annual general meeting.

The Company received confirmation of independence in respect of the year ended 31st March 2005 from each of the independent non-executive directors pursuant to Rule 3.13 of the Listing Rules.

Brief biographical details of directors and senior management are set out on pages 24 to 27.

**Directors' Service Contracts** None of the directors has a service contract with any company in the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The director's service contract entered into between the Company and Mr. Allan WONG Chi Yun in 1999 has no expiry date, but can be terminated by the giving of 2 months' prior notice, and is exempt from the shareholders' approval requirement under Rule 13.68 of the Listing Rules.

**Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures** As at 31st March 2005, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures 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 record of notification made to the UK Listing Authority pursuant to Paragraphs 16.13 to 16.17 of the UK Listing Rules were as follows:

## (1) Interests in the Company

Name of director	Number of shares			Equity derivatives (share options)	Total	Approximate percentage of shareholding
	Personal interest	Family interest	Other interest			
Allan WONG Chi Yun	10,674,393	3,968,683	74,101,153 (Note 1)	2,000,000	90,744,229	40.2%
Albert LEE Wai Kuen	799,332	—	—	3,250,000	4,049,332	1.8%
Raymond CH'EN Kuo Fung	—	—	—	—	—	—
William FUNG Kwok Lun	1,041,630	—	—	—	1,041,630	0.5%
Michael TIEN Puk Sun	—	—	1,123,000 (Note 2)	—	1,123,000	0.5%
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 Trustcorp Limited as the trustee of The Wong Chung Man 1984 Trust, a discretionary trust in which Mr. Allan WONG Chi Yun ("Mr. WONG"), a director of the Company, is the founder. Trustcorp 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 in which Mr. Michael TIEN Puk Sun is the founder.

Note 3: All the interests stated above represent long position.

## (2) Share options of the Company

Name of director	Date of grant	Exercise price	Exercisable period (Note 1)	Number of share options held as at	
				1st April 2004	31st March 2005
Allan WONG Chi Yun	26th February 2002	HK\$10.20	11th March 2005 to 10th March 2007	2,000,000	2,000,000 (Note 2)
Albert LEE Wai Kuen	26th February 2002	HK\$10.20	5th March 2005 to 4th March 2007	1,750,000	1,750,000 (Note 3)
Albert LEE Wai Kuen	19th November 2004	HK\$11.03	22nd November 2007 to 21st November 2009	—	1,500,000 (Note 4)

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 accepted and shall not be exercisable after 60 months from the date on which such options were accepted.

Note 2: 1,000,000 share options were exercised on 21st April 2005, the closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$10.95 per share.

Note 3: 750,000 share options were exercised on 4th April 2005, the closing price of the shares of the Company immediately before the date on which the options were exercised was HK\$11.10 per share.

Note 4: The closing price of the shares immediately before the date on which the options were granted was HK\$10.70 per share.

# Report of the Directors

Save as disclosed above, as at 31st March 2005, none of the directors and chief executive of the Company has any interest or short position in shares, underlying shares and debentures 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 Codes for Securities Transactions by Directors of Listed Issuers containing in 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.

**Directors' Interests in Contracts** Save for the lease described under the paragraph headed "Connected Transaction", no contracts of significance in relation to the Group's business

to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

**Substantial Shareholdings** As at 31st March 2005, according to the register maintained by the Company under Section 336 of the SFO and the record 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	Approximate percentage of shareholding
Trustcorp Limited (Note 4)	Interest of controlled corporation (Notes 1 & 3)	74,101,153	32.8%
Honorex Limited	Beneficial owner (Notes 1 & 3)	1,416,325	29.7%
	Interest of controlled corporation (Notes 1 & 3)	65,496,225	
Conquer Rex Limited	Beneficial owner (Notes 1 & 3)	65,496,225	29.0%
Value Partners Limited	Investment manager (Notes 2 & 3)	31,148,000	13.8%
CHEAH Cheng Hye	Interest of controlled corporation (Notes 2 & 3)	31,148,000	13.8%
Twin Success Pacific Limited	Beneficial owner (Notes 1 & 3)	7,188,603	3.2%

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 Trustcorp 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. Trustcorp 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, underlying shares and debentures" above.

Note 2: Mr. CHEAH Cheng Hye is deemed to be interested in such shares through its 31.82% interest in Value Partners Limited.

Note 3: All the interest stated above represent long position.

Note 4: Trustcorp Limited has been appointed as the trustee of The Wong Chung Man 1984 Trust in place of Newcourt Trustees Limited effecting on 7th June 2004.

Save as disclosed above, the Company has not been notified by any person (other than the directors or chief executive of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company as at 31st March 2005 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.

Based on the information publicly available, the Company has maintained at least 25% of the total issued share capital of the Company to be held by the public at all times during the year ended 31st March 2005 and up to the date of this report.

**Management Contracts** No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

**Securities Purchase Arrangements** At the annual general meeting held on 13th August 2004, shareholders renewed the approval of a general mandate authorising the directors to effect repurchases of the Company's own shares up to a limit of 10% of the shares in issue as at that date.

### **Purchase, Sale or Redemption of Listed Shares**

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

**Major Customers and Suppliers** For the year ended 31st March 2005, the aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total value of purchases. The Group's largest customer accounted for approximately 9.2% of the Group revenue and the Group's five largest customers in aggregate accounted for approximately 32.5% of the Group revenue during the year.

None of the directors, their associates or any shareholder (who, to the knowledge of the directors, owns more than 5% of the Company's share capital) had an interest in the customers and the suppliers noted above.

**Pre-Emptive Rights** There is no provision for pre-emptive rights under the Bye-laws of the Company and there are no statutory restrictions against such rights under the laws of Bermuda in which the Company is incorporated.

**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 these share option schemes include executive directors and employees of the Company and its subsidiaries.

On 10th August 2001, the Company adopted a share option scheme (the "2001 Scheme") under which the directors may, at their discretion, at any time during the 10 years from the date of adoption of the 2001 Scheme, invite employees of the Company and any subsidiaries of the Group, including executive directors (but excluding non-executive directors) to take up shares of the Company in accordance with the terms of the 2001 Scheme.

HomeRelay Communications, Inc. ("HomeRelay"), a subsidiary of the Company, located and established under the laws of the United States of America, adopted a stock option plan in August 2000 (the "HomeRelay Plan"). Under the HomeRelay Plan, HomeRelay may grant up to 10% of HomeRelay's common stock and a committee designated by the board of directors of HomeRelay may fix the terms and vesting of the options which in no event shall exceed 10 years. All outstanding stock options of HomeRelay Plan lapsed on 10th September 2003 as a result of the termination of employment of the relevant grantees under the HomeRelay Plan.

Details of the 2001 Scheme and the HomeRelay Plan are set out in note 19 to the financial statements.

**Connected Transaction** As announced on 6th April 2005, the Company has entered into a transaction which constituted a continuing connected transaction of the Company under Rule 14A.34 of the Listing Rules and Chapter 11 of the UK Listing Rules as set out below:

On 6th April 2005, the Company as tenant entered into a lease (the "Lease") with Aldenham Company Limited ("Aldenham") as landlord for the lease of the premises situated at Bowen Road, Hong Kong for 2 years commencing 1st April 2005 and expiring on 31st March 2007 at a monthly rental of HK\$250,000 for the purpose of providing housing to Mr. Allan WONG Chi Yun ("Mr. WONG"), a director, chief executive and a substantial shareholder of the Company. Aldenham is a wholly indirect subsidiary of a trust in which the family members of Mr. WONG are beneficiaries. Aldenham is therefore a connected person of the Company as ascribed by the Listing Rules and the Lease constituted a continuing connected transaction under the Listing Rules.

**Annual General Meeting** The following special business will be proposed at the annual general meeting to be held on 12th August 2005:

1. the grant to the directors of the Company of a general mandate to repurchase shares representing up to 10% of the issued share capital of the Company as at the date of the annual general meeting;
2. the grant to the directors of the Company of a general mandate to allot, issue and otherwise deal with shares representing up to 10% of the issued share capital of the Company as at the date of the annual general meeting;

3. the grant to the directors of a general authority to allot, issue and otherwise deal with shares of the aggregate amount of the shares repurchased under the repurchase mandate and;
4. amendments to the Bye-laws of the Company.

The Directors believe that an authority given to the Directors to allot and issue shares and to repurchase shares would give the Company additional flexibility that would be beneficial. As for the repurchase mandate, the Directors would only make a repurchase in circumstances where they consider it to be in the best interests of the Company and in circumstances where they consider that the shares can be repurchased on favourable terms.

The Hong Kong Stock Exchange has recently amended the Listing Rules for the purpose of implementing the Code on Corporate Governance Practices (the "Code"). In the Listing Rules, the Code replaces the Code of Best Practice in Appendix 14 of the Listing Rules. Pursuant to Paragraph A.4.2 of the Code, every director should be subject to retirement by rotation at least once every three years. The existing Bye-laws of the Company does not comply with the said Paragraph A.4.2 of the Code and the Directors therefore propose the Special Resolution as set out in the notice of the annual general meeting to amend the existing Bye-laws of the Company.

**Auditors** In February 2003, PricewaterhouseCoopers resigned as auditors of the Company and KPMG were appointed as the auditors of the Company to fill the casual vacancy caused by the resignation of PricewaterhouseCoopers.

The financial statements have been audited by KPMG, who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of KPMG as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

By Order of the Board

**Allan WONG Chi Yun**  
Chairman

Hong Kong, 22nd June 2005



## **To the Shareholders of VTech Holdings Limited** (Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of VTech Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 33 to 53 which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

**Respective Responsibilities of Directors and Auditors** These consolidated financial statements are the responsibility of the Group's directors who are required to prepare financial statements which give a true and fair view.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to the shareholders, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Basis of Opinion** We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

**Opinion** In our opinion the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31st March 2005 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and the Bermuda Companies Act 1981.

**KPMG**  
*Certified Public Accountants*

Hong Kong, 22nd June 2005