

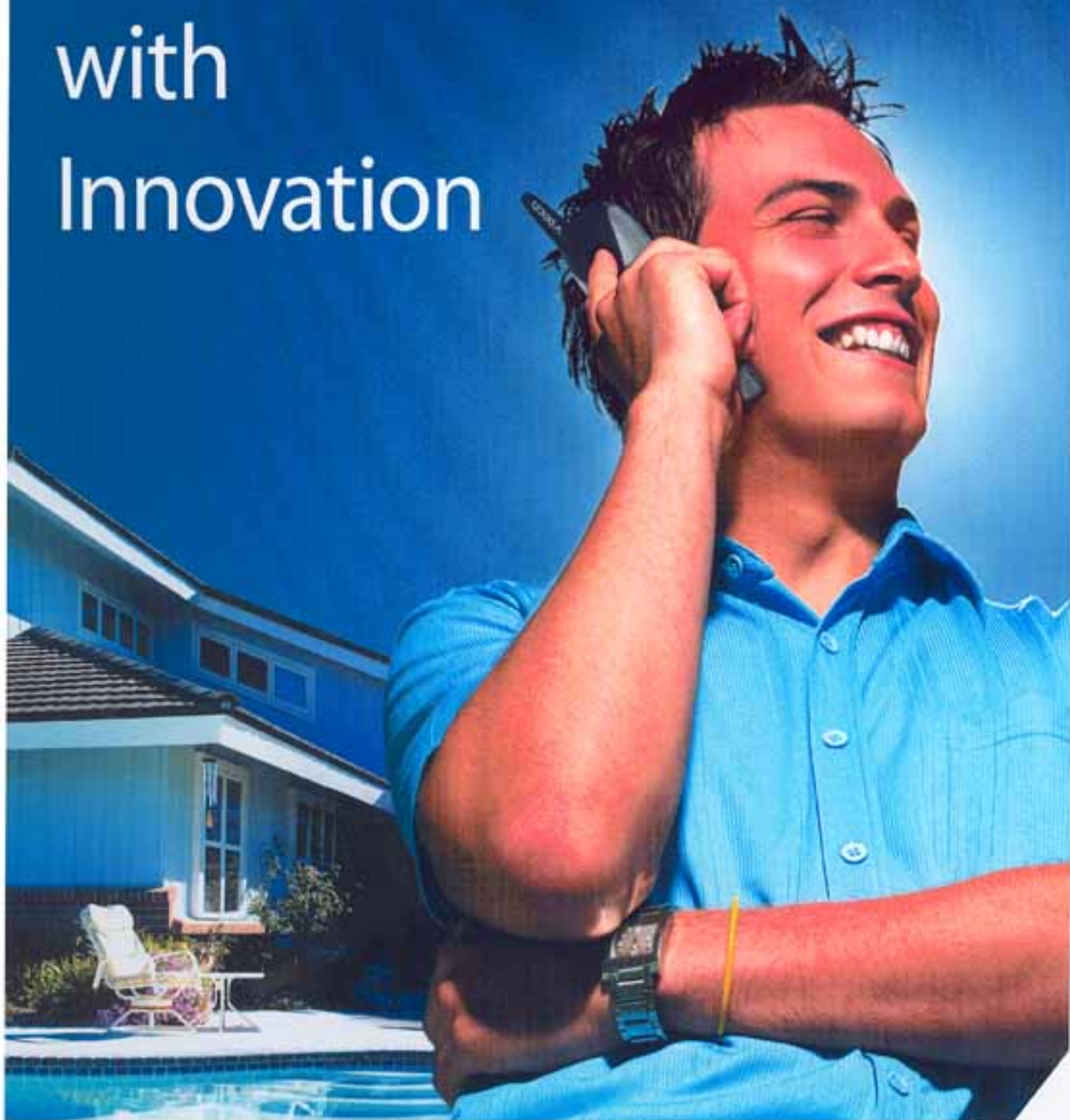
vtech

VTech Holdings Ltd

(Incorporated in Bermuda with limited liability)

Annual Report 2004

Growth with Innovation



Contents

vtech

VTech Group
偉易達集團



1

Corporate
Profile

2

Letter to
Shareholders

6

Message from
Deputy Chairman

7

Management Discussion
and Analysis

10

Review of
Operations

16

Year in
Review

18

Corporate
Affairs

21

Directors and Senior
Management

24

Report of the
Directors

28

Report of the
Independent Auditors

29

Consolidated
Financial Statements

30

Principal
Accounting Policies

34

Notes to the
Financial Statements

47

VTech in the
Last Five Years

48

Corporate
Information

Corporate Profile

1

VTech is the largest supplier of corded and cordless phones in North America and a leading supplier of electronic learning products in North America and Europe. It also provides highly sought-after contract manufacturing services. VTech is a pioneer in the establishment of China-based manufacturing facilities and sells its products via a strong brand platform supported by a distribution network of leading retailers in North America, Europe and Asia.



Founded in 1976, VTech has a corporate culture rooted in "Innovation & Technology". The Group invested US\$33.2 million in R&D in the financial year 2004 and launches numerous innovative and high quality products each year. With headquarters in the Hong Kong Special Administrative Region ("Hong Kong SAR") and state-of-the-art manufacturing facilities in mainland China, VTech currently has a presence in 10 countries and approximately 20,000 employees, including around 730 R&D professionals in R&D centres in Canada, Hong Kong SAR and mainland China. This network allows VTech to stay abreast of the latest technology and market trends throughout the world.

In addition to the well-known VTech brand, the Group has the rights to use the AT&T brand in connection with the manufacture and sale of its wireline telephones and accessories, as well as data networking products and accessories for the term of the license. In addition, VTech has also concluded licensing agreements with Disney, Warner Brothers, Marvel, American Greetings and Brainy Baby that allow it to use well-known children's cartoon characters on certain electronic learning products, including the cartridges for V.Smile TV Learning System.



Shares of VTech Holdings Limited are listed on both the Hong Kong and London stock exchanges (SEHK: 303; London SE: VTH). Ordinary shares are also available in the form of American Depositary Receipts (ADRs) through the Bank of New York (ADR: VTKHY).

Letter to Shareholders

"I am pleased to report a successful year for VTech as we posted a 5.6% increase in revenue to US\$915.2 million and a 13.5% increase in net profit to US\$46.3 million for the financial year ended 31st March 2004. Earnings per share rose 13.3% to US20.5 cents per share."

This was a particularly notable performance given the challenges faced during the year.

These included the disruption in the supply of certain key components for our telecommunication products, reduced shelf space for our electronic learning products in North America and a shortfall in orders for contract manufacturing services.

Although the increase in revenue was small, it marked an important milestone for VTech as the Group finally returned to a path of revenue growth

The performance testifies the Group's success in enhancing market understanding, operational efficiency and customer service over the past two years. This has made VTech a more focused, efficient and market-driven company, able to respond to market needs in a timely and cost effective manner with innovative products.

Combined with a strong balance sheet, well-recognised brands and a comprehensive distribution network in North America and Europe, these competitive advantages well position the Group for further revenue and profit growth.

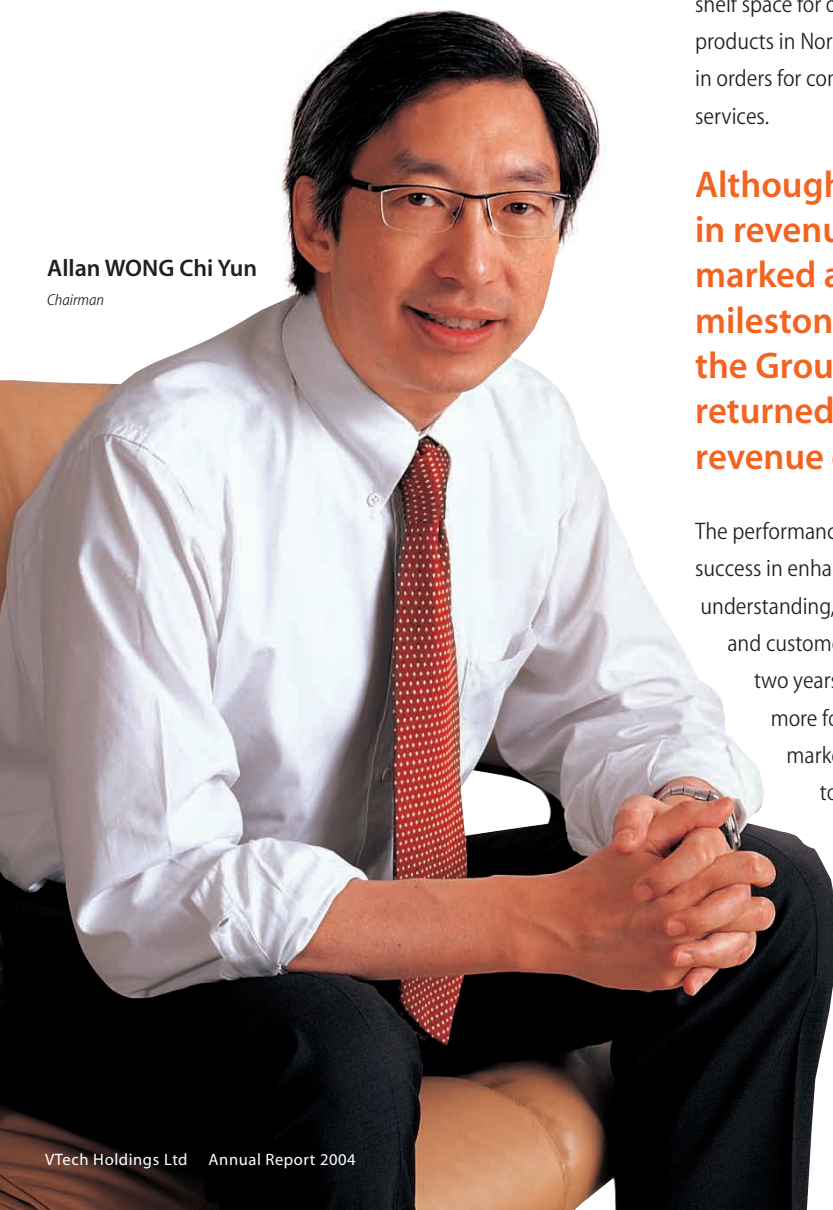
Outstanding Performance from Telecommunication Products

The major contributor to higher revenue and profit at the Group was an increase in sales at the telecommunication products business, reflecting the continued success of its customer-centric strategy, and ability to launch new and innovative products.

Sales growth was led by the VMIX 2.4GHz cordless phones sold under the VTech brand targeting the teenage segment and offering innovative features such as recordable ring tones. Sales of other products, especially 5.8GHz cordless phones under both AT&T and VTech brands, also recorded significant growth during the financial year.

As a result of the substantial increase in sales of both AT&T and VTech branded products, VTech continues to be the largest supplier of corded and cordless

Allan WONG Chi Yun
Chairman

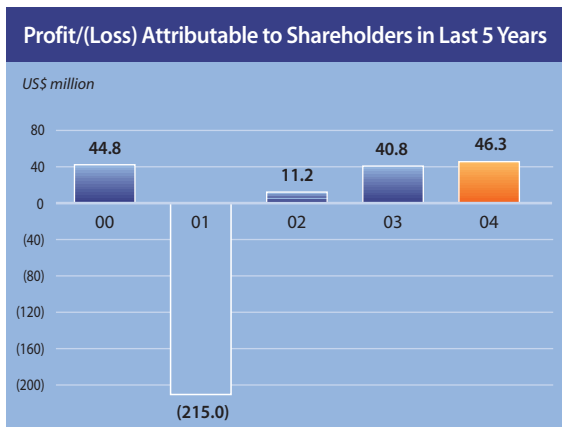


phones in North America. At the same time, the business recorded strong growth in Europe, where we continued to work closely with major UK and German telecommunication operators as well as the Swissvoice Group.

Strong Profit Rebound at Electronic Learning Products

The profit of the Group was supported by a considerable improvement in profitability at the electronic learning products business, despite a decline in revenue when compared to the previous financial year.

The revenue decline occurred in the US market where reduced shelf space from retailers caused a reduction in sales revenue. Sales in Europe, however, continued to be strong and enabled us to



sustain our leadership position in major European market segments.

The improved profitability was the result of a leaner and more efficient structure established by the present management of electronic learning products business. A series of cost rationalisation campaigns was executed in the last quarter of the financial year 2003. As a result, substantial savings were achieved in advertising and promotion expenses as well as selling and general administrative expenses during the financial year 2004.

The new electronic learning product lines for 2004 achieved a breakthrough when in October 2003 we launched the TV Learning System, V.Smile, a first of its kind TV game console that combines education and entertainment for children



in the 3-7 years old category. As importantly, the new

2004 line-up, including V.Smile cartridges, features some of the world's best-known cartoon characters, significantly enhancing its attraction.



Stable Contribution from Contract Manufacturing Services

The contract manufacturing services business again produced a stable contribution to the Group. Its ability to deliver high quality products, as well as flexible and price competitive services contributed to the organic growth of the business.

During the financial year 2004, contract manufacturing services retained its focus on medium-sized customers seeking precision products. The Group's manufacturing know-how and its outstanding customer service were key to maintaining stable margins for this business.



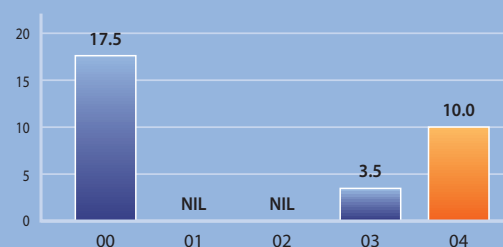
To expand the business further, contract manufacturing services succeeded in gaining additional quality certifications that will enable VTech to enter the production of automotive parts and medical equipment. Following the full operation of the new R&D centre in Shenzhen, the business has been able to offer full turnkey solutions to customers and the enhancement in customer service level resulted in a record number of customer awards in the financial year 2004.

Strong Financial Position

The continuing improvement in the Group's results and productivity leaves VTech strongly financed. Our net cash position improved from US\$67.7 million as at 31st March 2003 to US\$102.6 million as at 31st March 2004.

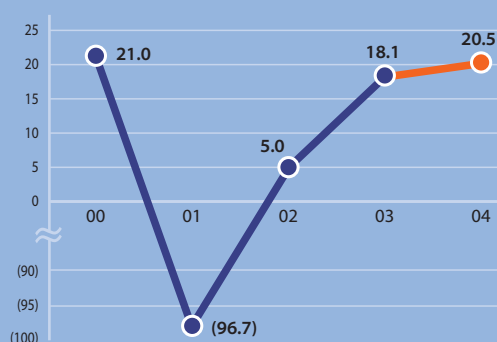
Dividends Per Share in Last 5 Years

US cents



Earnings/(Loss) Per Share in Last 5 Years

US cents



The outlook for the financial year 2005 appears broadly conducive to a further increase in revenue, profit and earnings per share

The strength of our balance sheet will ensure the Group has sufficient funds to sustain its steady growth trajectory, while also giving the Group the capital it needs to invest prudently in areas of opportunity that may arise.

Increased Dividend

The improved results and the sound financial position of the Group, have enabled us to recommend an increased final dividend of US7.0 cents per share. Together with the interim dividend of US3.0 cents per share which was declared and paid during the year, this gives total dividends for the year of US10.0 cents per share, against US3.5 cents per share for the financial year 2003.

Senior Management Changes

During the financial year 2004, Mr. Paddy Law Wai Leung resigned as Group CEO and Executive Director to pursue his personal interest. I have resumed the Group CEO role since 1st January 2004. In addition to this, we appointed Dr. King F. Pang to a new position of Chief Technology Officer in February 2004.

Dr. Pang will help ensure the Group has the strategic direction it needs in technology, speeding up the Group's product development cycle and increasing the introduction of innovative products.

Outlook — Cautiously Optimistic

We expect that the financial year 2005 will continue to be challenging. The key challenges faced by the Group include intensification of market competition, the possible slow down of US consumer spending, ongoing price erosion of our products, and the potential of disruption and unfavourable pricing of key electronic components.

Despite the above, the Group is well positioned for further revenue and profit growth by continuously enhancing our innovative capability as we put more investment in our R&D, aggressively expand our businesses in Europe and Asia, and upgrade our IT infrastructure to further enhance our supply chain and management processes.

VTech is now much more competitive in the fields in which it operates, with a number of competitive advantages:





technology platforms, we are well positioned for further revenue and profit growth, given our improved market position and performance over the past three years.

✔ **Market dominance**, as the largest supplier of corded and cordless phones in North America and a leading supplier of electronic learning products in North America and Europe;

✔ **Lean operating structure** that makes us highly cost competitive;

✔ **Well-integrated R&D** function that provides rapid product innovation and maintains technology leadership;

✔ **Strong distribution networks** among major retailers in North America and Europe;

✔ **Well recognised multiple brands**, including AT&T and VTech brands and certain popular licensed characters;

✔ **Efficient supply chain management** that optimises working capital and ensures on time product delivery; and

✔ **More in-depth market understanding** that results in the timely introduction of well-accepted products and effective marketing.

The Group will continue to leverage these advantages to drive both revenue and profit growth in our core businesses.

At the telecommunication products business, despite continuing strong competition and ongoing price erosion of existing

Performance will be underpinned by new product launches, such as the AT&T branded E-line of 2.4GHz and 5.8GHz cordless phones which was introduced in April 2004. New data networking products will further bring incremental revenue, and more importantly, support the development of new telephony products that benefit from the increasing convergence of voice and data through Voice over Internet Protocol (VoIP) technology.

We expect our positive momentum in Europe to continue as the European market follows the US pattern of sourcing more products from Asia. As a result, we will substantially increase the R&D in telecommunication products, particularly with regard to developing more feature rich DECT phones for the European market. In addition, we will increase the spending on IT and people development, to ensure we have the infrastructure and skills base to succeed.

The electronic learning products business is expected to achieve a significant rebound in revenue and further profit growth. Trade customers' responses to the new product ranges

and V.Smile has been enthusiastic, allowing VTech to regain significant shelf space at key US retailers. Having achieved good sell-in with retailers, we intend to execute marketing

and promotional campaigns carefully to achieve good sell-through to the end consumers. To help build further critical mass for V.Smile, we plan to launch a major promotion campaign. We will also continue to build our platform in the China market, which we see as a growth potential in the medium term.

The contract manufacturing services business will continue to benefit from the organic growth offered by the global electronic manufacturing services market, which is expected to see a double-digit sales increase in calendar year 2004. Implementation of cell-based manufacturing should further raise productivity and enhance competitiveness. We will also expand the customer base through selected media advertising, participation in trade fairs, as well as increased investment in business development and product design support for customers.



Stakeholders' Support

Finally I would like to thank my fellow directors, the executive management and all employees of VTech for their continued hard work and dedication. My thanks go also to our customers, brand partners and suppliers for their continued commitment to our joint success, and to our shareholders for their valued support.

Growth with Innovation

VTech has turned the corner. We are firmly back on the growth path, with an operation that is delivering exciting product innovation and excellent execution. With its core competencies, I am confident that VTech can create greater value for its shareholders in the years ahead.

Allan WONG Chi Yun
Chairman

Hong Kong, 29th June 2004



Message from Deputy Chairman



Albert LEE Wai Kuen
Deputy Chairman

VTech's strategy to develop the China market continued to make progress during the financial year 2004. Supported by the country's rapid economic growth and the creation of a middle class that places great emphasis on children's education, we are currently focusing on the development of our electronic



To increase brand awareness and market penetration in China, we are partnering with Beijing San Chen Blue Cat Toy Co., Ltd to co-develop the Chinese electronic learning products market using new "Blue Cat • VTech" branded products

learning products business and we see China offering medium and long-term growth potential for the Group. Despite the rapid market growth and the huge potential, we recognise that China is a market that needs to be approached cautiously.

In July 2003, we developed and launched 16 products that were specifically designed for this market. To support the launch, a comprehensive promotional campaign, including TV commercials, PR activities, as well as newspaper and magazine advertisements were put in place. We also participated in a number of trade fairs, such as the 16th International Toy Fair in Guangzhou, to build up our base of sales agents.

The initial response from the market has been positive. Our products are now available in major department stores and supermarkets, including Carrefour, WalMart and Jusco in the Pearl River Delta, the Yangtze River Delta, Beijing and its surrounding areas, as well as Chengdu in Sichuan province.



To increase brand awareness and market penetration in China, we are partnering with Beijing San Chen Blue Cat Toy Co., Ltd to co-develop the Chinese electronic learning products market using the new 'Blue Cat • VTech' branded products. This agreement was announced in May 2004. 'Blue Cat' is a cartoon character that enjoys tremendous popularity in China through television and a wide range of products, including books, stationeries and apparels. Currently, 'Blue Cat' products are being sold in approximately 3,000 retail outlets across China, representing the largest distribution network for children's consumer products in the market.



By leveraging the popularity and the extensive distribution network of 'Blue Cat', the partnership will be an important step forward for VTech's development in electronic learning products in China. Supported by our strong R&D capability and TV commercials, we are confident that VTech will benefit from the huge potential of this emerging market and achieve further expansion in the financial year 2005.

Management Discussion and Analysis

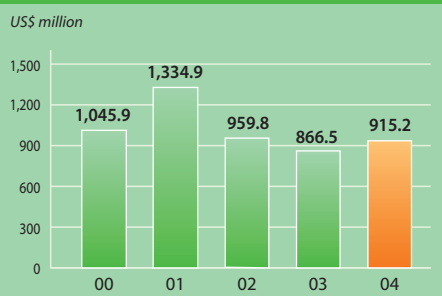
- Operating profit (excluding lawsuit settlement gain) increased by 94.1% to US\$49.5 million
- Profit attributable to shareholders* rose by more than 1.4 times
- Strong revenue rebound at telecommunication products
- Strong turnaround at electronic learning products business
- Earnings per share raised by 13.3% to US20.5 cents per share
- Total dividend of US10.0 cents per share for the year, representing 1.8 times increase
- Net cash of US\$102.6 million

* Excluding lawsuit settlement gain and non-recurring tax provisions

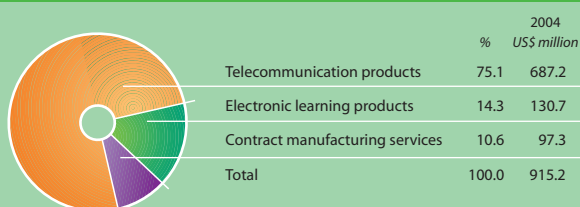
REVENUE

The Group has returned to a growth path as can be evidenced by the increase in the Group revenue. During the financial year ended 31st March 2004, the Group reported a revenue of US\$915.2 million, representing a growth of US\$48.7 million or 5.6% over the same in the previous financial year. This growth mainly came from strong demand for our telecommunication products, which recorded a 12.7 % year on year increase in revenue to US\$687.2 million. The revenue from the electronic learning products business declined by 19.3% to US\$130.7 million due to underperformance in the US market resulting in the preceding financial year. The revenue for contract manufacturing services remained stable.

Group Revenue in Last 5 Years



Group Revenue by Product Line

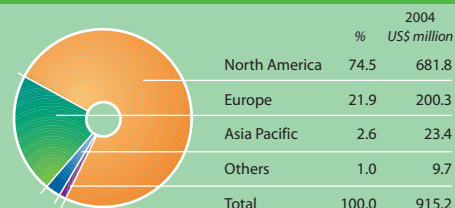


The Group revenue is mainly contributed by its three core businesses as follows: 75.1% of the Group revenue came from telecommunication products, 14.3% from electronic learning products and 10.6% from contract manufacturing services.

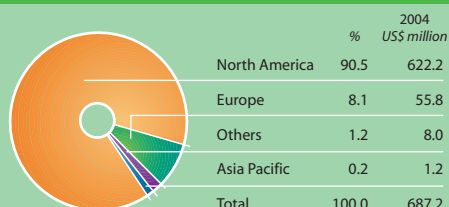
Group's largest market segment. Revenue from this market accounted for 74.5% of the Group revenue for the financial year 2004. Europe and Asia Pacific market segments contributed 21.9% and 2.6% respectively.

North America continues to be the

Group Revenue by Region



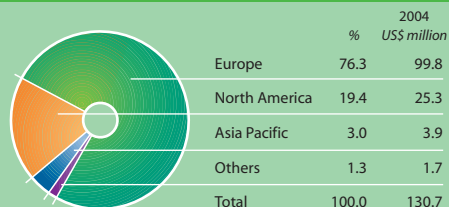
Telecommunication Products Revenue by Region



In the telecommunication products business, US\$622.2 million or 90.5% of revenue came from sales in North America. The business is, however, rapidly expanding in Europe. Revenue from the European market for the financial year 2004 was US\$55.8 million, an increase of 91.1% over the same in the previous financial year.

The electronic learning products business' revenue from the North American market declined from US\$64.1 million in financial year 2003 to US\$25.3 million in financial year 2004, a decrease of 60.5%. Such a decrease had been anticipated by management at the beginning of financial year 2004 and measures had been taken to ensure the bouncing back of revenue growth in the financial year 2005 and beyond. Revenue from the European market increased moderately from US\$88.0 million to US\$99.8 million.

Electronic Learning Products Revenue by Region



GROSS PROFIT/MARGIN

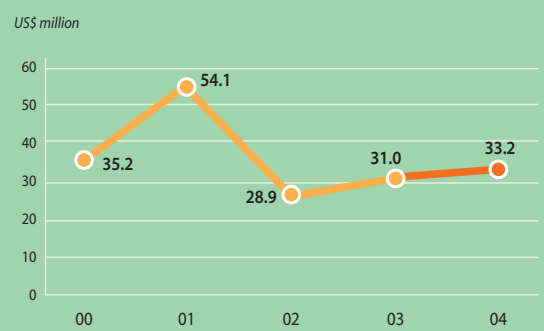
The gross profit for financial year 2004 was US\$281.3 million, a decrease of US\$7.7 million compared to the same in the previous financial year. Gross margin for the year fell from 33.4% to 30.7%. The reasons for the decrease in gross margin were mainly due to the change in sale mix and on-going price erosion of the Group's products.

OPERATING PROFIT

The operating profit for the year ended 31st March 2004 was US\$49.5 million, a decrease of US\$10.0 million over the previous financial year. If we excluded the gain on settlement of a lawsuit of US\$34.0 million which was included in the operating profit in the previous financial year, the operating profit in financial year 2004 increased by US\$24.0 million, or 94.1%. This improvement came from strong control of selling and distribution costs, administrative and other operating expenses. These expenses decreased from US\$232.5 million in financial year 2003 to US\$198.6 million in financial year 2004. During the financial year 2004, the appreciation of Euros and other currencies against US dollars gave rise to a net exchange gain of US\$5.0 million, compared to the net exchange gain of US\$2.2 million in the previous financial year.

Research and development activities are vital for the long-term development of the Group. During the financial year 2004, the Group spent US\$33.2 million on research and development activities, which represented 3.6% of total Group revenue.

R&D Expenditure on Core Businesses in Last 5 Years



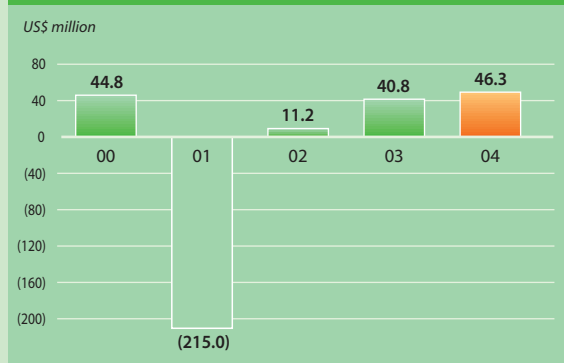
TAXATION

The Group settled its dispute with the Hong Kong Inland Revenue Department ("HKIRD") regarding offshore income claims. The final settlement resulted in a write back of overprovision for taxation relating to prior years of US\$3.3 million.

NET PROFIT AND DIVIDENDS

The profit attributable to shareholders for the year ended 31st March 2004 was US\$46.3 million, an increase of US\$5.5 million as compared to the previous financial year. If we excluded the gain on settlement of a lawsuit of US\$34.0 million in the previous financial year and the effects of taxation arising from the dispute with HKIRD in both financial years 2003 and 2004,

Profit/(Loss) Attributable to Shareholders in Last 5 Years



US\$7.0 cents per share, which will be aggregated to US\$15.8 million. Total dividend for the year amounted to US\$10.0 cents per share, representing an increase of US\$6.5 cents or 1.8 times from the previous year.

EBITDA/Revenue in Last 5 Years ● EBIT/Revenue in Last 5 Years ○



the profit attributable to shareholders in financial year 2004 rose by more than 1.4 times. For the financial year 2004, the ratio of EBIT and EBITDA to revenue was 5.4% and 7.4% respectively.

Earnings per share for the year ended 31st March 2004 were US\$20.5 cents as compared to US\$18.1 cents in the previous financial year. During the year, the Group declared and paid an interim dividend of US\$3.0 cents per share, which aggregated to US\$6.8 million. The directors have proposed a final dividend of

LIQUIDITY AND FINANCIAL RESOURCES

The shareholders' funds as at 31st March 2004 were US\$162.6 million, a 27.5% increase from the US\$127.5 million reported for financial year 2003. The net assets per share increased by 27.6% from US56.5 cents to US72.1 cents.

As at 31st March 2004, the Group had net cash of US\$102.6 million, as compared to US\$67.7 million as at 31st March 2003. Total interest bearing liabilities were US\$2.6 million, of which US\$0.6 million

was repayable within one year, US\$0.4 million was repayable between one and two years, US\$0.6 million was repayable between two and five years and US\$1.0 million was repayable after five years. A majority of the Group's borrowing is denominated in Euros and is on a fixed-rate basis. An amount of US\$2.4 million of the total gross interest bearing liabilities is secured against land and buildings. The gross debts to shareholders' funds as at 31st March 2004 was 1.6% against 2.1% in the previous financial year.

Liquidity and Financial Resources

As at 31st March 2004 and 2003
All figures are in US\$ million
unless stated otherwise

| | 2004 | 2003 |
|--|--------------|-------|
| Cash | 105.2 | 70.4 |
| Less: Total interest bearing liabilities | (2.6) | (2.7) |
| Net cash position | 102.6 | 67.7 |
| Gross debts to shareholders' funds | 1.6% | 2.1% |

TREASURY POLICIES

The objective of the Group's treasury policies is to manage its exposure to fluctuation in foreign currency exchange rates arising from the Group's global operations 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 are used to hedge certain exposures.

WORKING CAPITAL

The stock balance as at 31st March 2004 increased by 14.4% over the balance at 31st March 2003 to US\$96.1 million. The turnover days increased from 63 days to 69 days. The trade debtors balance as at 31st March 2004 was US\$137.6 million, an increase of 11.9% as compared to that reported for the previous financial year. The turnover days fell from 71 days in the previous financial year to 60 days in financial year 2004.

Working Capital

As at 31st March 2004 and 2003
All figures are in US\$ million
unless stated otherwise

| | 2004 | 2003 |
|--|----------------|---------|
| Stocks | 96.1 | 84.0 |
| Average stocks as a percentage of Group revenue | 9.8% | 10.3% |
| Turnover days | 69 days | 63 days |
| Trade debtors | 137.6 | 123.0 |
| Average trade debtors as a percentage of Group revenue | 14.2% | 14.5% |
| Turnover days | 60 days | 71 days |

CAPITAL EXPENDITURE

For the year ended 31st March 2004, the Group invested US\$19.5 million in plant, machinery, equipment, computer systems and other tangible assets. All of these capital expenditure were financed from internal resources.

CAPITAL COMMITMENTS AND CONTINGENCIES

During the year, the Group committed to the implementation of a new global enterprise resources planning system to enhance the supply chain management. The total investment for the project is estimated at approximately US\$12 million in which US\$3.0 million has been incurred in the financial year 2004. It will be financed from internal resources.

As of the financial year end date, the Group had no material contingencies.

EMPLOYEES

Number of Employees

| As at 31st March 2004 and 2003 | 2004 | 2003 |
|--------------------------------|---------------|--------|
| Manufacturing | 18,200 | 12,100 |
| Non-manufacturing | 1,500 | 1,400 |
| Total employees at year end | 19,700 | 13,500 |
| Average for the year | 18,700 | 15,600 |

As at 31st March 2004, the Group had approximately 19,700 employees, an increase of 6,200 from 13,500 in the previous financial year. Employee costs for the year ended 31st March 2004 were approximately US\$99 million, as compared to US\$90 million in the financial year 2003.

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.



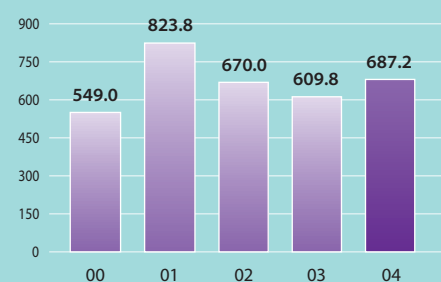
Review of Operations

Telecommunication Products

The telecommunication products business reported strong growth in revenue and profit during the financial year 2004

Telecommunication Products Revenue in Last 5 Years

US\$ million



The telecommunication products business reported strong growth in revenue and profit during the financial year 2004. Revenue increased by 12.7% to US\$687.2 million, while sales of corded and cordless phones, as well as accessories grew by 17.4% over the same period. The growth in revenue was primarily driven by strong sales of both AT&T and VTech branded cordless phones as well as the expansion of the European DECT cordless phone business. At the same time, the telecommunication products business was also able to record a second consecutive record year in terms of profitability. This was particularly notable given the challenges brought by SARS in the early part of the year as well as the disruption in the supply of some key components that began in mid 2003 and continued throughout the remainder of the financial year 2004.

A notable success during the financial year 2004 was the launch and sales of nearly one million VTech VMIX 2.4GHz cordless phones in North America. Designed specifically for the teenage and young adult market, these phones include innovative features such as polyphonic musical ring tones, recordable ring tones, and interchangeable multicolour handset and base faceplates. Also noteworthy were sales of both AT&T and VTech branded 5.8GHz cordless phones, which once again demonstrated significant growth as the 5.8GHz technology pioneered by VTech continued to be well accepted by consumers. As a result of these and other products launched during the financial year, we remained the largest provider of corded and cordless phones in North America.

Europe was also a key growth driver for the business, as the telecommunication products business aggressively expanded



Innovation Drives Growth

its presence in the European market by working closely with leading telecommunication operators in the UK and Germany as well as the Swissvoice Group. Sales of DECT cordless phones rose by 91.1% over the previous financial year. As a result of this increase, sales in Europe accounted for 8.1% of the total revenue of the telecommunication products business in the financial year 2004, compared with 4.8% during the financial year 2003.

In January 2004, the telecommunication products business launched its first data networking products sold under the AT&T brand in North America. These products included wireless routers, notebook and PCI adapters, and other data networking accessories. The launch of these products provides an opportunity for future revenue growth, and will support the development of new telephony products that benefit from the increasingly rapid convergence of voice and data transmission, through technologies such as Voice over Internet Protocol (VoIP).

Once again, the telecommunication products business' customer-centric approach was an important factor in its success. During the financial year 2004, customer relationships were further strengthened as the business rolled out its collaborative planning, forecasting and replenishment programme to more key

customers. This programme enables both customers and VTech to achieve better inventory management. It further enables VTech to match customers' requests and requirements more closely and with a higher degree of flexibility through its lean manufacturing operations. As a result of these and other enhancements throughout the entire supply chain, the business was able to deliver significant revenue growth without a corresponding increase in working capital.

The telecommunication products business' revenue growth was further supported by a substantial increase in R&D spending during the financial year 2004. This resulted in an increased number of new products launched in time for the Spring 2004 modular resets of key North American retail customers and further supported our expansion in Europe. Overall, R&D expenditure for the telecommunication products business rose by 31.0% to US\$22.0 million during

the financial year 2004. Through the introduction of innovative and feature rich products, such as colour LCD 5.8GHz cordless phones with downloadable pictures and recordable ring tones in North America and more feature rich DECT phones in Europe, the business actively countered continuing price erosion of maturing cordless features and technology platforms.

In addition to increasing its commitment to R&D, the telecommunication products business also embarked upon a comprehensive upgrade of its internal IT infrastructure. This project includes the implementation of new Oracle database and reporting modules for financial control and reporting, order management, enterprise resource planning, and customer relationship management. The benefits from this upgrade will be seen beginning in the financial year 2005.

Looking forward, management expects that the 2005 financial year ahead will be challenging. The telecommunication products business operates in an exceptionally competitive environment with strong competitors, ongoing price erosion of existing technology platforms, and the potential of disruption and unfavourable pricing of key electronic components. Nonetheless, the business is well positioned for further revenue and profit growth, particularly given its improved market position and performance over the past three years and its substantial and ongoing investments in R&D, IT infrastructure, and most importantly, its people.



"I am very pleased to report that the telecommunication products business continued to perform well during the financial year 2004. Although we faced tremendous challenges throughout the year, the extraordinary commitment of our team and the continued support of our customers and suppliers enabled us to record a significant growth in revenue for the first time in three years and further achieve a second consecutive record year in terms of profitability."

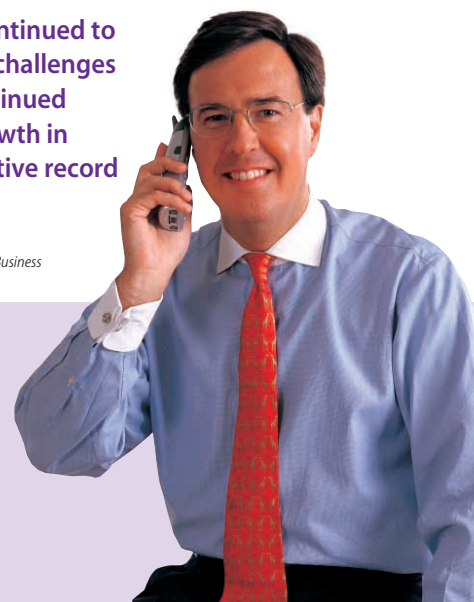
James C. KRALIK
Chief Executive Officer
Telecommunication Products Business

Awards

- ✓ Telecommunication products business was awarded the prestigious "2003 Hong Kong Awards for Industry: Productivity Award" for its achievement in the "Lean Manufacturing Project".



- ✓ The gz2456 2.4GHz cordless phone and i5801 5.8GHz cordless phone handset were awarded the Silver Award and Grand Prize respectively in the HKEIA Award for Outstanding and Innovative Product Competition.



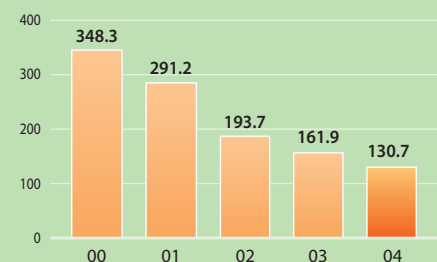


Review of Operations

Electronic Learning Products

Electronic Learning Products Revenue in Last 5 Years

US\$ million



The electronic learning products business achieved marked progress during the financial year 2004 in revitalising its business. Profitability improved dramatically despite there was a 19.3% decline in revenue to US\$130.7 million.

The reduction in revenue had been expected by management at the beginning of financial year 2004 and was mainly due to our underperformance in the US market in the previous year. Shelf space allocated by our retail customers to VTech products decreased in 2003, which directly caused reduction in sales revenue, despite the fact that our 2003 product range achieved solid demand from consumers and satisfactory sell-through situation in the US market. Sales in Europe continued to be strong with especially good results in the United Kingdom,

France, Germany and Spain, enabling VTech to continue its leadership position in major electronic learning products segments in Europe. These segments are: Electronic Infant Toys, Electronic Pre-school Toys and Electronic Learning Aids.



The improvement in profitability was mainly supported by a much leaner operating structure that was implemented by the present management in late 2002. The savings in operating expenses were dramatic, as we rationalised advertising and promotional expenses as well as selling and administrative overhead to make them proportionate to the scale of our present operations.

Our new approach to R&D is more efficient and responsive to the demands in the market. This new approach brings a much tighter integration between our

overseas marketing experts and our R&D professionals, design engineering and product development teams, located in Hong Kong SAR and mainland China. In this new approach, substantial market information and data are fed to the R&D professionals to facilitate innovation and development of our new products that meet the demands in our target market

The new and revamped product lines have successfully enabled VTech to regain shelf space in the US market



“The three-year strategic plan which was initiated in late 2002 to revitalise our electronic learning products business has proven to be successful. We have achieved good results in the financial year 2004 and are moving confidently to accomplishing the plan, i.e. to achieve significant growth in both revenue and profitability with exciting new product lines, part of which feature the world’s most famous children’s cartoon characters.”

Edwin YING Lin Kwan
Chief Executive Officer
Electronic Learning Products Business

Awards



✓ V.Smile was given “Seal of Approval” by the National Parenting Center in the US.

✓ Fly & Discover Globe was awarded Dr.Toy’s “100 Best Toys of 2003” in the US.

Innovation Drives Synergy



places. In addition, the resources allocated to the design engineering teams have been proportionately expanded to increase the number of new innovative products created and shorten the development cycle considerably.

The benefits of our new approach to R&D are readily evidenced in the completely revamped 2004 products line-up. In October 2003, we launched the industry's first TV Learning System, V.Smile, specifically designed for children between the age of 3–7 years old. V.Smile offers to “turn game time into brain time” by combining educational value and game contents in a form currently available only to older children. VTech produces both the console and the

interchangeable game cartridges. Our customers' responses to V.Smile have been enthusiastic. In addition, our new product line-up also included fresh new features such as pen writing recognition technology that have increased customers' acceptance.

As an important strategy for our electronic learning products business, V.Smile and certain other electronic learning products now feature the world's most famous children's cartoon characters. Various licensing agreements were concluded in the financial year 2004. The incorporation of popular children's cartoon characters such as Winnie the Pooh, Lion King, Little Mermaid, Mickey & Friends, Scooby-Doo,

Care Bears, Brainy Baby and Spiderman greatly enhances the attraction of our products to children and recognition among parents. More licensed characters will be added in future to add value to our products.

During the financial year 2004, VTech also began laying the groundwork to expand into new markets in Latin America, Scandinavia, Central and Eastern Europe, and Asia Pacific.

The new and revamped product lines have successfully enabled VTech to regain shelf space in the US market and further expand our dominance in Europe. These would result in a significant bounce back in revenue and further improvement in profitability in the financial year 2005.

Innovation Drives Competitiveness

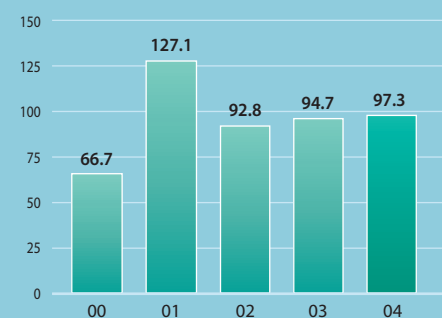


Review of Operations

Contract Manufacturing Services

Contract Manufacturing Services Revenue in Last 5 Years

US\$ million



The contract manufacturing services business continued to deliver steady organic growth. Revenue increased slightly by 2.7% over the financial year 2003 to US\$97.3 million. Efforts in cost control contributed to stable profit for the business.

Revenue growth was constrained by a sharp drop in orders from two customers whose products performed



badly in the market following changes in the US regulations. Although the drop was offset by a strong increase in orders from other customers, the result was that revenue grew modestly as compared with other China based electronic manufacturing services providers.

During financial year 2004, VTech was able to secure additional businesses from existing customers, some of whom even doubled their orders. This performance testifies our ability to deliver quality products, as well as flexible and price competitive services to customers.

The well-diversified nature of the contract manufacturing services business supported its stable development. Geographically, 46.0% of sales was generated from customers in Europe,

During the financial year 2004, VTech was able to secure additional businesses from existing customers, some of whom even doubled their orders



and promotion saw good progress and we confidently expect additional business and new customers from these two areas.

Customer service levels were enhanced as the new R&D centre in Shenzhen came into full operation. VTech is now able to offer a comprehensive "one-stop shop" service. This not only helps customers improve product design from a cost and quality perspective, but takes initial concepts from first design through to full production. The service will drive considerable revenue growth in the financial year 2005.

During the final quarter of the financial year 2004, the business also began to implement the cell-based manufacturing process that has raised productivity and increased flexibility at the other businesses. This will further enable VTech to improve its responsiveness to customers and to offer incremental improvements in costs, which are the key to achieving top and bottom line growth.

30.9% from those in the US and 13.4% from the Japanese market. By product category, professional audio equipment accounted for 30.5% of total contract manufacturing services revenue, followed by power supplies at 26.1% and wireless products at 13.4%.

medical equipment. Orders in these segments from existing customers accounted for only a small portion of contract manufacturing services revenue in the financial year 2004, but marketing

The prices of raw materials and components began to rise from the second quarter of the financial year 2004, as the global economy gradually improved. The business was able to find local alternative sources and leverage the Group's purchasing power, which mitigated the impact of the price increases.

“Our ability to deliver quality products, as well as flexible and price competitive services resulted in a record number of customer awards during the financial year. The diversified nature of the business, meanwhile, ensured the business to achieve steady development.”

Andy LEUNG Hon Kwong
Chief Executive Officer
Contract Manufacturing Services Business

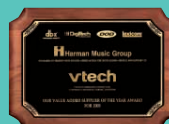


Awards



- Contract manufacturing services business was given the "2003 Valued Supplier Award" by ITC.

- Contract manufacturing services business was given the "Value Added Supplier of the Year Award for 2003" by Harman Music Group.



In the second quarter of the financial year 2004, the business was successful in securing ISO13488 and TS16949

certifications, enabling VTech to enter into the production of automotive parts and

Year in Review

Apr 2003



VTech participated in the 16th Guangzhou International Toys, Children's Commodities & Gifts Fair in Guangzhou, China as part of its continuing efforts to explore the China market and evaluate potential trading partners.

Contract manufacturing services business participated in the Shanghai NEPCON 2003 Exhibition, an event that received strong local and overseas industry supports.



May 2003



Telecommunication products business was awarded the Sam's Club's "Supplier of the Year Award", Target's "Electronics Instock Award" and BJ's "Partnership Award" in recognition of its outstanding customer services.

VTech Holdings Ltd was ranked 6th in corporate governance among Hong Kong companies in the 2003 CLSA Corporate Governance Report, produced by CLSA and the Asian Corporate Governance Association (ACGA).

Jun 2003



VTech announced its financial year 2003 annual results, showing a continued improvement in profitability and financial position, providing the Group a solid foundation for future growth.

Jul 2003



Contract manufacturing services business attained ISO13488 quality certification for the manufacture of medical equipment, opening a new avenue of growth.

VTech successfully launched 16 electronic learning products in the Pearl River Delta area to test the China market, an important first step to open up the long-term potential for the Group.

Aug 2003

VTech launched its GiGA 2.4X series of 2.4GHz cordless phone in Hong Kong, giving local consumers access to these highly acclaimed products.



Sept 2003

Contract manufacturing services business attained the TS16949 certification for manufacturing automotive parts, opening another new avenue of growth.

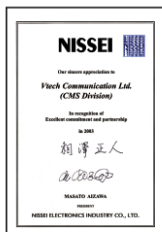
Contract manufacturing services business was ranked one of the Top 100 Contract Manufacturers for the year 2002 by *Electronic Business* magazine. The ranking was published in the September 2003 "Top Contract Manufacturers" issue.

Oct 2003

The newly developed TV Learning System, V.Smile, received an encouraging response from major trade customers in the US at its first preview.

VTech delivered the world's most advanced 5.8GHz cordless phone handset, i5801, with full colour LCD display.





- Contract manufacturing services business was presented the "Excellent Commitment and Partnership" Award by Nissei

Electronics Industry Co., Ltd in recognition of its outstanding customer service.

Nov 2003



- The Smart Book was given a "Gold Award" by the UK's *Right Start* magazine.

Dec 2003

- VTech announced the signing of synergistic licensing agreements with Disney Consumer Products. The agreements enable VTech to feature popular Disney characters on many of its electronic learning products and in V.Smile cartridges.



- Telecommunication products business received the 2003 IRIS Award for the VMIX Launch PR Campaign in the US.



Jan 2004

- James D. PALMER was appointed the President of VTech Communications, Inc. to strengthen marketing, brand and product management of the telecommunication products business.
- A new range of AT&T and VTech products, including AT&T branded E-line of the 2.4GHz and 5.8GHz cordless phones, wireless data networking



products and accessories were introduced at the annual Consumer Electronics Show in Las Vegas, US.



- VTech Holdings Ltd was named the "Best Small Cap Company for Hong Kong Region" in "Asiamoney's 12th best-managed companies' poll". This award is a strong endorsement of the Group's continuous efforts to achieving the highest standards of management and performance.

Feb 2004

- King F. PANG was appointed Group Chief Technology Officer to enhance VTech's capability in product development and introduction, enabling the Group to strengthen its pioneering position in telecommunication and electronic learning products businesses.
- VTech formally unveiled its highly anticipated V.Smile TV Learning System and the 2004 products line-up at trade fairs in Germany, the UK and the US.

- VTech announced licensing agreements with Warner Brothers, The Brainy Baby Co., Marvel Enterprises, Inc and Joester Loria Group — American Greetings, allowing the Group to use Scooby-Doo, Baby Looney Tunes, Brainy Baby's left brain and right brain theory, Spiderman and Care Bears on some electronic learning products and V.Smile cartridges.



Mar 2004

- VTech participated in CeBIT at Hannover, Germany, to introduce its advanced DECT cordless phones to customers. The show is widely seen as the world's leading showcase for information technology and telecommunications.

- VTech launched its 5.8GHz cordless phones in Hong Kong, bringing the consumers in Hong Kong an ever-increasing standard of phone technology.



- Contract manufacturing services business was given the "Top Supplier for FY2004" Award by Crown International, in recognition of its excellent customer service during the year.

V.Smile TV Learning System

TURN GAME TIME INTO BRAIN TIME



With licensed characters from Disney, Warner Brothers, Marvel and American Greetings for its cartridges, this product combines educational content, lovable characters and a video game platform in a system that connects directly to the TV for children aged 3 to 7. It is currently unique to the market and very well-received by the trade customers. It will be available to consumers in the US and Europe starting from the late June 2004.



EDUCATIONAL GAME SYSTEM

Corporate Affairs

The Group is committed to continuously improving its standard of corporate governance and ensuring full, timely and equitable disclosure of relevant information. VTech has devoted increasing effort over the years to building relationships with its global investor base

INVESTOR RELATIONS

The Group is committed to continuously improving its standard of corporate governance and ensuring full, timely and equitable disclosure of relevant information. VTech has devoted increasing effort over the years to building relationships with its global investor base.

Investor Briefings

During the financial year 2004, VTech held over 50 one-on-one meetings with investors to keep them abreast of the latest company developments. In addition, we organised site visits to our advanced manufacturing facilities in Dongguan, Southern China. Senior management also participated in investor conferences in Hong Kong.

Results Announcement Webcast

Beginning with the financial year 2003 interim results announcement, VTech began webcasting its analyst briefing, allowing investors not present in Hong Kong or in the meeting to watch the event, accompanied by the detailed slide presentations.

Quarterly Newsletter

The Group's quarterly newsletter, first issued in 2002, continues to keep investors informed of the latest developments at VTech.



Investor Relations Website

For both institutional and retail investors, the corporate website www.vtech.com provides up-to-date investor information, including press releases, event calendar, stock exchange announcements and "pdf" versions of the annual and interim reports.



EMPLOYEE RELATIONS

The people who work at VTech, from our factory floor through senior management, have consistently demonstrated loyalty and enthusiasm to the Group. We take care to attract, retain and motivate employees.

Open Communications

Open communications are critical to sound employee relations and VTech has sought to use the latest technology to expand the scope of its dialogue with employees at all levels.

VTech's intranet is a powerful tool that enables efficient communication between all our offices worldwide, offering information on Group's developments, guidelines and standards, and cross-functional resource tools. Through the intranet, the global on-line quarterly newsletter keeps staff informed of key developments within the Group.

The quarterly "Chairman's Letter" continues to open lines of communications directly between staff and the Chairman. In the letter, the Chairman discusses broad issues facing the Group and solicits the views of those affected. The responses from employees have been encouraging.

The Suggestion Box, a simple post box that provides another channel for feedback and information, has also seen wide usage.

E-Culture Building Programme

To help foster a strong and consistent culture within the Group as well as to enhance employee relationship with better communications, in August 2003 VTech again launched its group-wide e-Corporate Culture Building programme to its offices around the world, with the theme of "Searching for Excellence." More than 400 employees participated by logging on to the special web page. There was a particularly strong response to the segment on "future directions" showing the keen interest of employees on the Group's future strategies.

Language Training

As a multinational organisation with a world-wide market reach, multiple language skills are increasingly important in the workplace. During the financial year 2004, approximately 200 employees participated in English, Cantonese and Putonghua training to address the needs in both Hong Kong and China offices, which were greatly welcomed by employees seeking to upgrade their skills.

Fun at Work

The team spirit of employees was further enhanced through a variety of activities organised by the Group. During the financial year, several leisure trips were organised for employees in Hong Kong, such as a four-day trip to Beijing and Shanghai to let them relax and enjoy outside work.



Employment Policy

The policy at VTech is to employ, retain, promote, terminate and treat all employees on the basis of merit, qualifications and competence. The Group creates a favourable work environment in which all employees can enjoy equal opportunities at work and avoid discrimination on the grounds of age, sex, status, disability or any other non-job related factor.

VTech AND THE COMMUNITY

VTech aims to enhance people's lives by making them more enjoyable, fulfilling, convenient and enlightening.

The Group creates prosperity through the employment it provides to 19,700 people from all walks of life in the United States, Europe and Asia. VTech also seeks effective ways of supporting community initiatives in the markets where it operates that help further ideals such as improved access to education and support for individuals in genuine need.

Internships in Hong Kong and Canada

VTech has provided internships for students at universities and colleges in Hong Kong and Canada, giving them the opportunity to gain real-life experience of the world of work. During the financial year, over 30 students took advantage of the programme.

Donations in Mainland China

VTech's pioneering work in electronic learning products was expanded to China in July 2003, with the launch of a new range of products adapted specifically for the learning needs of the market. To help more children experience the fun of learning, VTech donated electronic learning products to over 15 kindergartens and schools in Beijing, Guangdong, Chengdu and Kunming.





CORPORATE GOVERNANCE

VTech is committed to maintaining a strong system of corporate governance so that all business activities and decision-making are properly regulated. This commitment has enabled the Group to gain recognition from the investment community. Two awards were received during the year.

- ✔ "Best Small Cap Company for Hong Kong Region" in *Asiamoney's* "12th best-managed companies' poll"; and
- ✔ 10th in Hong Kong region in *BusinessWeek's* second annual "Special Report on Corporate Governance" in Europe and Asia.

Our company structure also helps ensure that the Group operates in a lawful, ethical, structured, transparent and effective manner.

The Board of Directors

The Board now comprises two executive directors and four independent non-executive directors. The Board has established three governing boards with defined terms of reference. They are the Board of Management, Audit Committee and Risk Management Committee. To meet the new requirements of the Code on Corporate

Governance, a Remuneration Committee with a majority of independent non-executive directors has also been set up on 29th June 2004. Further committees may be established in the future as and when needed.

Board of Management

The Management Board has been delegated the authority by the Board of Directors to be responsible for the management of all business activities of the Group. Its members are appointed by the Board from time to time and comprise executive directors and senior management executives.

**VTech is
committed to
maintaining a
strong system
of corporate
governance**

Audit Committee

The Audit Committee, comprising three independent non-executive directors, has been established to assist the Board in fulfilling its oversight responsibilities for financial reporting, risk management and evaluation of internal controls and auditing processes. It also ensures that the Group complies with all applicable laws and regulations.

The Audit Committee meets at least twice a year to receive reports from external auditors, reviews the interim and annual financial statements, and receives regular reports from the internal audit function.

Risk Management Committee

The Risk Management Committee assists the Audit Committee and management in reviewing and assessing the adequacy of the Group's risk management and internal control systems. It meets as required and to report to the Board in conjunction with the Audit Committee.

The Group maintains controls to safeguard the Group's assets and ensure that transactions are executed in accordance with management's authorisation. The information systems in place are designed to ensure that the financial report is reliable. The Chief Compliance Officer will assist the Risk Management Committee to review these controls independently and evaluate their adequacy, effectiveness and compliance.

Profile of Directors

Allan WONG Chi Yun, JP, aged 53, Chairman and Group Chief Executive Officer, co-founded the Group in 1976. Dr. WONG holds a Bachelor of Science degree in electrical engineering from the University of Hong Kong, a Master of Science degree in electrical and computer engineering from the University of Wisconsin and an honorary degree of Doctor of Technology from the Hong Kong Polytechnic University. Dr. WONG is the Chairman of the Hong Kong Applied Science and Technology Research Institute and a member of the Council of Advisors on Innovation and Technology. He is also a council member of the University of Hong Kong, an independent non-executive director of the Bank of East Asia Ltd, China-Hongkong Photo Products Holdings Ltd and Li & Fung Ltd.

Albert LEE Wai Kuen, aged 53, Deputy Chairman, joined the Group in 1984 and became a director in the same year. Before joining the Group, he ran his own electronics manufacturing service company for two years and was a manager of a computer chess game manufacturing company for three years. Mr. LEE holds a Bachelor of Science degree in electrical engineering from the University of Calgary.

Raymond CH'EN Kuo Fung, GBS, CBE, JP, aged 52, is Independent Non-executive Director since November 2001. Dr. CH'EN is Executive Chairman of chinadotcom corporation as well as Chairman of its subsidiary, hongkong.com corporation. He is also non-executive Chairman of HSBC Private Equity (Asia) Ltd and MTR Corporation Limited. Dr. CH'EN serves on the boards of HSBC Holdings plc; the Hongkong and Shanghai Banking Corporation Ltd; Inchcape plc; Convenience Retail Asia Ltd and The Wharf (Holdings) Ltd. In public service, Dr. CH'EN is Chairman of the Hong Kong/Japan Business Cooperation Committee; and Chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption. Dr. CH'EN is an honorary President and Past Chairman of the Federation of Hong Kong Industries. He is also President of Hong Chi Association, Hong Kong's leading non-governmental organisation helping mentally handicapped persons. He was previously Chairman of the Industry and Technology Development Council and the Hong Kong Industrial Technology Centre Corporation Ltd. From 1992 to 1997, Dr. CH'EN was a member of the Executive Council of Hong Kong, then under British Administration. He was appointed a member of the Executive Council of the Hong Kong SAR on 1st July 1997 and served until June 2002. He received a doctoral degree in Economics from the University of Pennsylvania, USA in 1978. He was appointed a Justice of the Peace in 1993 and a Commander in the Most Excellent Order of the British Empire in 1994 and awarded the Gold Bauhinia Star Medal in 1999.

William FUNG Kwok Lun, OBE, JP, aged 55, is Independent Non-executive Director since November 2001. Dr. FUNG is the Group Managing Director of Li & Fung Limited and has held key positions in major trade associations. He is past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Hong Kong Committee for the Pacific Economic Cooperation Council. He currently serves as a member of the Economic and Employment Council of the Hong Kong SAR. Dr. FUNG holds a Bachelor of Science in Engineering from Princeton University, and an MBA degree from the Harvard Graduate School of Business. He has been awarded an Honorary Doctorate degree of Business Administration by the Hong Kong University of Science and Technology. Dr. FUNG is also Non Executive director of Convenience Retail Asia Limited, HSBC Holdings plc., chinadotcom corporation and CLP Group Holdings Limited.

Michael TIEN Puk Sun, BBS, JP, aged 53, is Independent Non-executive Director since November 2001. Mr. TIEN is Chairman and founder of the G2000 Group which starts its business back in 1979. Before starting up G2000, he worked with Macy's Department Store in New York, USA. Mr. TIEN is an active member in Hong Kong community affairs, holding posts like Chairman of the Standing Committee on Language Education and Research; Vice Chairman of the Employee Retraining Board and member of the Education Commission. Mr. TIEN was appointed as the Chairman of Kowloon-Canton Railway Corporation in December 2001.

Patrick WANG Shui Chung, JP, aged 53, is Independent Non-executive Director since November 2001. Dr. WANG is the Chairman and Chief Executive Officer of Johnson Electric Holdings Limited. He is a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, a member of Hong Kong/United States Business Council, and a General Committee member of The Hong Kong General Chamber of Commerce. Dr. WANG is also a non-executive director of The Hongkong and Shanghai Banking Corporation Limited and Tristate Holdings Limited. In May 2004, Dr. WANG received an Honorary Doctorate of Engineering from Purdue University in Indiana, USA. He earned both his BSc and MSc degrees in Electrical Engineering from Purdue University in 1972.

Profile of Senior Management

Telecommunication Products

James C. KRALIK, aged 39, Chief Executive Officer of Telecommunication Products Business, is responsible for overseeing the global consumer telephone business. Mr. KRALIK began his career as a management consultant at McKinsey & Company where he counseled leading clients in various industries in both Asia and North America. Prior to joining VTech in 2001, he founded and managed one of Asia's leading media and entertainment companies. Mr. KRALIK holds a Bachelor degree in Economics from Harvard College and an MBA degree from the Harvard Business School. He is an independent non-executive director of Tristate Holdings Ltd.

Kent WONG Wah Shun, aged 41, Chief Operating Officer of Telecommunication Products Business, is responsible for overall business operations including manufacturing, component supply and sourcing, and new product development. Mr. WONG joined VTech in 1989 and over the years has held management positions in a number of areas including business development, engineering, operations, and quality assurance. Mr. WONG received a High Diploma in Applied Physics from Polytechnic University of Hong Kong and holds a Master degree in Engineering from Warwick University UK, a Master degree in Engineering Management from City University, Hong Kong and an MBA degree from Strathclyde Business School, UK.

James D. PALMER, aged 38, President of VTech Communications, Inc., is responsible for the Telecommunication Products Business marketing/brand management, product management and sales activities in North America. Prior to joining VTech in January 2004, Mr. PALMER served as Vice President Product Development and Marketing at Uniden, Inc., and was responsible for Uniden's portfolio of consumer products being sold in North America. He also spent more than ten years at Motorola, Inc. where he held a number of management positions in both North America and Europe. Mr. PALMER holds a Bachelor of Science degree in Electrical Engineering from the Georgia Institute of Technology, with additional training in biomedical engineering, human factors and wireline technologies.

Philip J. SHERMAN, aged 53, Senior Vice President and Chief Operating Officer, North America, is responsible for overseeing the Telecommunication Products Business administration, finance, sales support and operations in North America. Mr. SHERMAN joined VTech in 1999 and has 30 years of experience in finance, operations and general management with a number of leading global corporations including Textron Inc. and The Stanley Works, Inc. Mr. SHERMAN holds a Bachelor degree in Accounting from Roger Williams University and an MBA degree from Bryant College. He is a member of Financial Executives International and Society for Human Resource Management.

Gary TAM Wai Keung, aged 40, Vice President and General Manager of International Sales and Market Development, is responsible for the development of the Telecommunication Products Business sales and marketing activities in Europe, South America and other international markets outside of North America. He is also responsible for ODM (Original Design Manufacturing) business activities worldwide. Mr. TAM joined VTech in 1986 and has held management positions in a number of areas including operations, and sales and marketing. He holds a Bachelor degree in Electronics from Chinese University of Hong Kong and a MBA degree from Strathclyde Business School, UK.

Gary K. ROGALSKI, aged 41, Vice President of Engineering, is responsible for the Telecommunication Products Business worldwide engineering research and development activities. He leads teams based in Vancouver, Canada, Hong Kong and China that develop 900MHz, 2.4GHz and 5.8GHz digital telephony products as well as other voice and data transmission technologies. Mr. ROGALSKI joined VTech in 1988 and has 19 years of engineering research and development experience in the telecommunications industry. He holds a Diploma in Telecommunications from British Columbia Institute of Technology.

Stanley M. HARTSTEIN, aged 47, Vice President of Business Development, is responsible for the development of new business activities including the launch of Data Networking, VoIP products and VTech's Be Connected subsidiary. He further coordinates the Telecommunication Products Business day to day relationship with AT&T Corp. Mr. HARTSTEIN has over 22 years experience in the consumer electronics industry. Prior to joining VTech in 2000, he held a number of management positions at Sony Corp., AT&T Corp. and Lucent Technologies Inc. Mr. HARTSTEIN holds a Bachelor degree in Accounting from the State University of New York.

Nicholas P. DELANY, aged 52, Vice President of Supply Chain and Logistics, is responsible for the overall management of the Telecommunication Products Business logistics and supply chain activities. Prior joining VTech in 2000, Mr. DELANY had over 20 years sales and management experience in the industrial, retail, construction and mining industries in the Asia, Europe and South Africa. He also has seven years experience developing supply chain systems with leading corporations in North America including The Stanley Works, Inc. Mr. DELANY holds a Bachelor degree in Marketing and Financial Management from the University of South Africa & Damleyn College.

Paulina AU King Lun, aged 34, Divisional Financial Controller, is responsible for financial reporting and control of the Telecommunication Products Business global operations. Ms. AU has over 10 years of experience in professional accounting and finance and prior to joining VTech in 2000, she worked with PricewaterhouseCoopers as an audit manager. Ms. AU holds a Bachelor degree in Accountancy from City University of Hong Kong and a Master degree in Finance from Macquarie University, Australia. She is a Fellow Member of Association of Chartered Certified Accountants and an Associate Member of Hong Kong Society of Accountants.

Electronic Learning Products

Edwin YING Lin Kwan, aged 51, Chief Executive Officer of Electronic Learning Products business, is responsible for overseeing the global Electronic Learning Products business. Mr. YING joined VTech in 1986 as Chief Mechanical Engineer. Before joining the Group, he had 10 years of technical experience in electronic products. Mr. YING holds a Bachelor of Science degree in mechanical engineering from the University of Hong Kong.

Alan TSO Yan Wing, aged 45, Chief Financial Officer and Chief Operating Officer of Electronic Learning Products business, joined the Group in November 2001 and appointed to the present positions in December 2002. In the same month, he was also appointed as Director of Corporate Communications to look after the Group's investor relationships and communication functions. He has over 20 years of experience in professional accounting and finance. He holds a Master degree in Business Administration from the University of Ottawa and is an Associate Member of the Hong Kong Society of Accountants, a Fellow Member of Association of Chartered Certified Accountants in the United Kingdom, and a Member of the Certified General Accountants in Canada.

William TO, aged 48, President of VTech Electronics North America, L.L.C., joined the Group in 1983. Mr. TO is responsible for the Group's Electronic Learning Products business in the United States of America and Canada. He holds a Master degree in Business Administration from the University of Chicago.

Andrew DICKSON, aged 43, Chief Executive Officer of Northern Europe operation of Electronic Learning Products business, joined the Group in November 2001. Mr. DICKSON is responsible for the Group's electronic learning products business in the United Kingdom and Scandinavia. With over 16 years of experience in sales and marketing of consumer durable products and operational management experience in marketing, finance and logistical functions, he had been the United Kingdom Managing Director of IDTUK (Oregon Scientific UK Ltd). Mr. DICKSON graduated from Royal College of Music and attended Insead International School of Management.

Gilles SAUTIER, aged 48, Chief Executive Officer of Southern Europe operation of Electronic Learning Products business, joined the Group in November 2000 and is responsible for the Group's electronic learning products business in France, Belgium, Spain, Portugal, Greece and Turkey. With over 24 years of experience in marketing, sales and management in the toy industry, he held various positions in Kenner-Parker, Spear's Games, Ideal Toys and Majorette. He holds a Bachelor degree in Law from Paris University and a Master degree in Business Administration from L'ESSEC, a French business school. Mr. SAUTIER is a member of the Board of the French Toy Federation.

Josef LUKAS, aged 48, Managing Director of Central Europe operation of Electronic Learning Products business, joined the group in March 2001 and is responsible for the Group's electronic learning products business in Germany, Austria, Switzerland, Netherlands, Poland, Hungary and Russia. With over 21 years of experience in retailing and branded consumer goods industry, he had been the Managing Director of Binney and Smith for Germany and Austria. He holds a Bachelor degree in Business from the University of Munich.

Contract Manufacturing Services

Andy LEUNG Hon Kwong, aged 45, Chief Executive Officer of Contract Manufacturing Services business since April 2002 after serving as General Manager for 9 years. He joined VTech in 1988. Mr. LEUNG has 19 years of experience in the EMS industry. He holds a Bachelor of Science degree in electrical engineering from the University of Newcastle Upon Tyne in the UK and he holds an MBA degree from Oklahoma City University in the United States.

Alex CHOI Lap Hung, aged 41, Vice President of Business Development of VTech Communications Ltd, is responsible for the development of contract manufacturing services business worldwide and the project management team. Before joining the Group in November 2002, Mr. CHOI worked in another couples of EMS companies for 16 years in various perspective, including marketing, project management and quality assurance. He holds a Master of Engineering degree of Manufacturing Systems Engineering from Warwick University, United Kingdom.

Kent CHEUNG King Fai, aged 42, Senior Material Manager of VTech Communications Ltd. Mr. CHEUNG joined VTech in 1989. He holds a Diploma in Management Studies. Mr. CHEUNG has more than 21 years of experience in the electronics industry. Prior to joining VTech, he held a senior position in various electronic companies.

Albert YUNG Kam Kit, aged 47, System & QA Manager of VTech Communications Ltd, is responsible for quality management of the contract manufacturing services. Before joining VTech in 2000, Mr. YUNG had 18 years of experience in electronic manufacturing. He holds a Bachelor of Science degree in Electrical Engineering from the University of Hong Kong.

Report of the Directors

Corporate Services

PANG King Fai, aged 48, Group Chief Technology Officer, joined the Group in February 2004. Dr. PANG is responsible for establishing and maintaining a group-wide infrastructure in order to enhance VTech's capability for product development and introduction. Prior to joining VTech, he held various senior management positions at LSI Logic Corp. in the United States. He has also held senior engineering positions at Trident Microsystems, Inc and Hewlett Packard Company. Dr. PANG holds a BSc (Eng) from the University of Hong Kong, a MPhil from London University, and a PhD (EE) from Stanford University.

CHANG Yu Wai, aged 44, Company Secretary and Chief Compliance Officer. Joined the Group in June 2000 after spending 8 years with one of the leading international accounting firms in Hong Kong. He has over 15 years of experience in professional accounting and auditing. Mr. CHANG is a member of the Institute of Chartered Accountants in England and Wales.

Shereen TONG Ka Hung, aged 35, Group Chief Financial Officer, is responsible for the Group accounting, treasury and financial functions. She joined the Group in 1994 and had over 14 years of finance and accounting experience. She holds two Master degrees in Business Administration and Information Systems from Manchester Business School and Hong Kong Polytechnic University. She is an associate of Chartered Institute of Bankers, Chartered Institute of Management Accountants and Hong Kong Society of Accountants.

Helen WONG Shuk Ying, aged 50, Group Chief Information Officer, joined the Group in May 2003. With over 20 years of IT, consulting and accounting experience, she has held many senior positions in Hong Kong and Canada. Prior to joining the Group, she was with PricewaterhouseCoopers Consulting (Hong Kong) for over 13 years, and the last position held was partner in the consulting practice. Before that, she was a senior manager at the Hong Kong Hospital Authority. Prior to that, she worked in Canada as a senior systems manager in a commercial bank and a telecommunication company. Ms. WONG holds a Bachelor of Commerce degree from Queen's University, and is a member of the Certified Management Accountant (CMA) in Canada and the Hong Kong Computer Society.

The directors have pleasure to present their report and the audited financial statements of the Group for the year ended 31st March 2004.

PRINCIPAL ACTIVITY The principal activity of the Group is the design, manufacture and distribution of consumer electronic products.

GROUP RESULTS The results of the Group for the year ended 31st March 2004 are set out in the consolidated income statement on page 29.

DIVIDENDS An interim dividend of US3.0 cents (2003: US1.5 cents) per ordinary share was paid to shareholders on 8th January 2004. The directors have recommended the payment of a final dividend of US7.0 cents (2003: US2.0 cents) per ordinary share to shareholders in respect of the year ended 31st March 2004 whose names appear on the register of members of the Company as at the close of business on 13th August 2004 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

The final dividend will be payable on 31st August 2004 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 23rd August 2004.

COMMENTARY ON PERFORMANCE A commentary on the performance of the Group is included in the review of operations set out on pages 10 to 15.

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 47.

TANGIBLE ASSETS Details of the movements in tangible assets are shown in note 8 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 18 to the financial statements.

RESERVES Movements in the reserves of the Group and the Company during the year are set out in note 19 to the financial statements.

DONATIONS During the year, the Group made charitable and other donations in aggregate of US\$20,000.

DIRECTORS The Board of Directors (the "Board") of the Company during the year and up to 29th June 2004 comprised:

| | |
|-----------------------------|--|
| Mr. Allan WONG Chi Yun | (Chairman and appointed as Group Chief Executive Officer since 1st January 2004) |
| Mr. Albert LEE Wai Kuen | (Deputy Chairman) |
| Mr. Paddy LAW Wai Leung | (Group Chief Executive Officer up to and including 31st December 2003 and a director of the Company up to and including 31st March 2004) |
| 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. Raymond CH'EN Kuo Fung and Mr. William FUNG Kwok Lun shall retire from the Board in accordance with Bye-law 112 of the Bye-laws of the Company, but 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 2004 from each of the independent non-executive directors pursuant to Rule 3.13 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Brief biographical details of directors and senior management are set out on pages 21 to 24.

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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES As at 31st March 2004, the interests and short positions of the directors and the 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 positions in the ordinary shares of the Company

| Name of director | Capacity | Number of shares held | Total number of shares held as at 31st March 2004 | Percentage of shareholding held as at 31st March 2004 |
|-------------------------|--------------------|------------------------|---|---|
| Allan WONG Chi Yun | Beneficial owner | 10,307,393 | 88,377,229 | 39.2% |
| | Interest of spouse | 3,968,683 | | |
| | Founder Interest | 74,101,153 (Note 1) | | |
| Albert LEE Wai Kuen | Beneficial owner | 499,332 | 499,332 | 0.2% |
| Paddy LAW Wai Leung | — | — | — | — |
| Raymond CH'EN Kuo Fung | — | — | — | — |
| William FUNG Kwok Lun | Beneficial owner | 1,041,630 | 1,041,630 | 0.5% |
| Michael TIEN Puk Sun | Founder interest | 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 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. Effecting on 7th June 2004, Trustcorp Limited has been appointed as the trustee of The Wong Chung Man 1984 Trust in place of Newcourt Trustees Limited.

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 the 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 held | |
|---------------------|-----------------|----------------|------------------------------------|------------------------------|-----------------------------|
| | | | | as at 1st April 2003 | as at 31st March 2004 |
| 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 | — |
| | | | | | (Note 2) |
| Paddy LAW Wai Leung | 26th July 2002 | HK\$8.71 | 26th July 2005 to 25th July 2007 | 150,000 | — |
| | | | | | (Note 2) |

Note 1: For 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: All share options which were granted to Mr. Paddy LAW Wai Leung lapsed on the date on which he served his notice of resignation as a director of the Company.

Save as disclosed above, as at 31st March 2004, none of the directors and the 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 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 as the transaction 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 2004, 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 the 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 |
|---|---|-----------------------|--|
| HKSCC Nominees Limited | Nominee | 107,049,074 | 47.5% |
| Newcourt Trustees Limited | Interest of controlled corporation (Notes 1 & 3) | 74,101,153 | 32.9% |
| 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) | 29,482,000 | 13.1% |
| CHEAH Cheng Hye | Interest of controlled corporation (Notes 2 & 3) | 29,482,000 | 13.1% |
| HSBC Nominees (Hong Kong) Nominee Limited | Nominee | 17,137,195 | 7.6% |
| 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 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. Effecting on 7th June 2004, Trustcorp Limited has been appointed as the trustee of The Wong Chung Man 1984 Trust in place of Newcourt Trustees Limited.

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: 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 31st March 2004 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.

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 6th August 2003, 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 During the year, the Group's largest supplier accounted for approximately 13.3% of the total value of the Group's purchases and the five largest suppliers in aggregate accounted for 32.7% of the total value of the Group's purchases. The Group's largest customer accounted for approximately 13.9% of the Group revenue and the Group's five largest customers in aggregate accounted for approximately 41.0% 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 since 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 18 to the financial statements.

CONNECTED TRANSACTION As announced on 11th April 2003 and 14th May 2004, the Company has entered into a transaction which constituted a connected transaction of the Company under the Listing Rules and Chapter 11 of the UK Listing Rules (as the case may be) as set out below:

On 11th April 2003, 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 on 1st April 2003 and expiring on 31st March 2005 at a monthly rental of HK\$250,000 for the purpose of providing housing to Mr. Allan WONG Chi Yun ("Mr. WONG"), a director and a substantial shareholder holding 41.22% of the entire issued share capital of the Company at that time. As at 11th April 2003 when the Lease was entered into, Aldenham was 50% owned by the spouse of Mr. WONG and 50% indirectly owned by a trust, the discretionary objects of which were Mr. WONG and his family members. Aldenham subsequently became an indirect wholly-owned subsidiary of the said trust, the beneficiaries of which are family members of Mr. WONG, a director, the chief executive and a substantial shareholder.

ANNUAL GENERAL MEETING The following business will be proposed at the annual general meeting to be held on 13th August 2004:

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 20% 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.

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 audited financial statements for the year ended 31st March 2004. The Audit Committee also received reports from external auditors to review the nature, scope and results of the external audit.

The members of the Audit Committee comprised Mr. Raymond CH'EN 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 accounting period except that certain independent non-executive directors of the Company are not appointed for a specific term.

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, 29th June 2004

Report of the Independent Auditors



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 29 to 46 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 2004 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, 29th June 2004

Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March 2004

| | Note | 2004 US\$ million | 2003 US\$ million |
|--|-------|----------------------|----------------------|
| Revenue | 1 | 915.2 | 866.5 |
| Cost of sales | | (633.9) | (577.5) |
| Gross profit | | 281.3 | 289.0 |
| Selling and distribution costs | | (150.7) | (166.8) |
| Administrative and other operating expenses | | (47.9) | (65.7) |
| Research and development expenses | | (33.2) | (31.0) |
| Gain on settlement of a lawsuit | | — | 34.0 |
| Operating profit | 1 & 2 | 49.5 | 59.5 |
| Net finance income/(costs) | 4 | 0.4 | (1.0) |
| Share of results of associates | | — | (0.2) |
| Profit from ordinary activities before taxation | | 49.9 | 58.3 |
| Taxation | 5 | (3.6) | (17.4) |
| Profit from ordinary activities after taxation | | 46.3 | 40.9 |
| Minority interest | | — | (0.1) |
| Profit attributable to shareholders | 19 | 46.3 | 40.8 |
| Interim dividend | 6 | 6.8 | 3.4 |
| Final dividend | 6 | 15.8 | 4.5 |
| Earnings per share (US cents) | 7 | | |
| — Basic | | 20.5 | 18.1 |
| — Diluted | | 20.5 | 18.1 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2004

| | Note | 2004 US\$ million | 2003 US\$ million |
|---|------|----------------------|----------------------|
| Shareholders' equity at 1st April | | 127.5 | 89.4 |
| Surplus arising on revaluation of other properties | 19 | — | 0.5 |
| Realisation of hedging reserve | 19 | 3.6 | 0.4 |
| Fair value losses on hedging during the year | 19 | (3.6) | — |
| Exchange translation differences | 19 | 0.1 | (0.2) |
| Net gains and losses not recognised in the income statement | | 0.1 | 0.7 |
| Profit attributable to shareholders | 19 | 46.3 | 40.8 |
| Dividends approved and paid during the year | 19 | (11.3) | (3.4) |
| Shareholders' equity at 31st March | | 162.6 | 127.5 |

CONSOLIDATED BALANCE SHEET

As at 31st March 2004

| | Note | 2004 US\$ million | 2003 US\$ million |
|---|------|--|----------------------|
| Non-current assets | | | |
| Tangible assets | 8 | 48.7 | 48.0 |
| Leasehold land payments | 9 | 1.8 | 2.7 |
| Deferred tax assets | 10 | 3.7 | 3.9 |
| Investments | 11 | 0.2 | 0.2 |
| | | 54.4 | 54.8 |
| Current assets | | | |
| Stocks | 12 | 96.1 | 84.0 |
| Assets held for sale | | 8.0 | 8.0 |
| Debtors and prepayments | 13 | 153.9 | 139.9 |
| Taxation recoverable | | 4.6 | 1.5 |
| Cash and cash equivalents | | 105.2 | 70.4 |
| | | 367.8 | 303.8 |
| Current liabilities | | | |
| Creditors and accruals | 14 | (200.3) | (171.4) |
| Provisions | 15 | (40.7) | (40.4) |
| Borrowings | 17 | (0.6) | (0.5) |
| Taxation payable | | (14.4) | (15.0) |
| | | (256.0) | (227.3) |
| Net current assets | | 111.8 | 76.5 |
| Total assets less current liabilities | | 166.2 | 131.3 |
| Non-current liabilities | | | |
| Borrowings | 17 | (2.0) | (2.2) |
| Deferred tax liabilities | 10 | (1.6) | (0.8) |
| | | (3.6) | (3.0) |
| Minority interest | | — | (0.8) |
| Net assets | | 162.6 | 127.5 |
| Capital and reserves | | | |
| Share capital | 18 | 11.3 | 11.3 |
| Reserves | 19 | 151.3 | 116.2 |
| Shareholders' funds | | 162.6 | 127.5 |
| Approved and authorised for issue by the Board of Directors on 29th June 2004 | | | |
| Allan WONG Chi Yun Director | | Albert LEE Wai Kuen Director | |

The notes on pages 30 to 46 form part of these financial statements.

Principal Accounting Policies

| CONSOLIDATED CASH FLOW STATEMENT | | | |
|--|------|----------------------|----------------------|
| For the year ended 31st March 2004 | | | |
| | Note | 2004 US\$ million | 2003 US\$ million |
| Operating activities | | | |
| Operating profit | | 49.5 | 59.5 |
| Depreciation charges | 2 | 17.9 | 24.1 |
| Amortisation of leasehold land payments | 2 | 0.1 | 0.1 |
| Impairment of leasehold land payments | 2 | — | 0.2 |
| Loss on disposal of tangible assets and leasehold land | 2 | 1.9 | 1.4 |
| Gain on disposal of subsidiaries | 2 | (1.1) | — |
| Gain on settlement of a lawsuit | | — | (34.0) |
| (Increase)/decrease in stocks | | (12.1) | 10.4 |
| (Increase)/decrease in debtors and prepayments | | (14.0) | 25.4 |
| Increase/(decrease) in creditors and accruals | | 28.9 | (7.7) |
| Increase in provisions | | — | 1.2 |
| Cash generated from operations | | 71.1 | 80.6 |
| Net proceeds on settlement of a lawsuit | | — | 34.0 |
| Interest received | | 0.7 | 1.2 |
| Interest paid | | (0.3) | (2.2) |
| Taxes paid | | (6.3) | (3.0) |
| Net cash generated from operating activities | | 65.2 | 110.6 |
| Investing activities | | | |
| Proceeds from disposal of tangible assets and leasehold land | | 1.3 | 1.9 |
| Proceeds from disposal of assets held for sale | | — | 7.7 |
| Proceeds from disposal of subsidiaries | | 1.1 | — |
| Purchase of tangible assets | 8 | (19.5) | (14.1) |
| Net cash used in investing activities | | (17.1) | (4.5) |
| Financing activities | | | |
| Net repayment of borrowings | | (0.1) | (92.9) |
| Dividends paid | 6 | (11.3) | (3.4) |
| Dividend paid to minority shareholder | | (0.8) | (0.1) |
| Net cash used in financing activities | | (12.2) | (96.4) |
| Effect of exchange rate changes | | (1.1) | (2.4) |
| Increase in cash and cash equivalents | | 34.8 | 7.3 |
| Cash and cash equivalents at beginning of the year | | 70.4 | 63.1 |
| Cash and cash equivalents at end of the year | | 105.2 | 70.4 |
| Analysis of the balance of cash and cash equivalents | | | |
| Cash at bank and deposits | | 105.2 | 70.4 |
| The notes on pages 30 to 46 form part of these financial statements. | | | |

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

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

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

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

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

The Group's separable segments are set out in note 1 to the financial statements.

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

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

Associates are those entities, not being subsidiaries, in which the Group exercises significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates under the equity method, from the date

that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of that associate. Investments in associates are stated at cost less impairment losses (see note K) in the Company's balance sheet.

C GOODWILL Goodwill arising on acquisition represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate. Goodwill is stated at cost less accumulated amortisation and any impairment losses (see note K). Amortisation of goodwill charged to the income statement is calculated using the straight-line method over its estimated useful life not exceeding five years.

The profit or loss on disposal of a subsidiary or an associate is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill which remains unamortised.

D NEGATIVE GOODWILL Negative goodwill arising on the acquisition represents the excess of the fair values of the net identifiable assets and liabilities acquired over the cost of the acquisition.

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill will be recognised as income in the consolidated income statement when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses at the date of acquisition, negative goodwill will be recognised as income in the consolidated income statement on a systematic basis over the remaining useful life of the identifiable acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised immediately in the consolidated income statement.

The gain or loss on disposal of a subsidiary or an associate includes the unamortised balance of negative goodwill relating to the subsidiary or associate disposed of.

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

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

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

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

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

G RESEARCH AND DEVELOPMENT Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities.

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

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

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

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

I TANGIBLE ASSETS AND DEPRECIATION Land and buildings are stated at cost or valuation performed by professional valuers every three years less amounts provided for depreciation except in the case of freehold land which is not depreciated. In the intervening years the directors review the carrying value and adjustment is made where there has been a material change. The valuations are on an open market value basis and are incorporated in the annual financial statements. Increases in valuation are

credited to the revaluation reserve; decreases are first set off against increases on earlier valuations in respect of the same assets and thereafter are charged to the consolidated income statement. Upon the disposal of a revalued property, the relevant portion of the realised revaluation reserve in respect of previous revaluations is transferred from revaluation reserve to revenue reserve.

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

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

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

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

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

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

Leasehold land payments are up-front payments to acquire long-term leasehold interests in land. These payments are stated at cost and are amortised over the period of the lease.

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

K IMPAIRMENT OF ASSETS The carrying amounts of the Group's assets including property, plant and equipment and other non-current assets, including goodwill and other intangible assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is

recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

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

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

L CONSTRUCTION IN PROGRESS Construction in progress represents machinery and equipment under construction and pending installation and are stated at cost less impairment losses (see note K). Cost comprises the purchase costs of equipment and the related installation costs.

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

No depreciation is provided in respect of construction in progress.

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

N STOCKS AND ASSETS HELD FOR SALE (i) Stocks are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average or the first-in-first-out basis, and comprises materials, direct labour and an appropriate share of production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less estimates of costs of completion and selling expenses.

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

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

P CASH AND CASH EQUIVALENTS For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits with banks and other financial institutions, short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value and which have a maturity of three months or

less at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

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

Q TRADE CREDITORS Trade and other creditors are stated at their cost.

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

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

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

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

S INCOME TAX Income tax comprises current and deferred tax. Current tax is calculated on taxable income by applying the applicable tax rates. Deferred tax is provided using the balance sheet liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purpose. Deferred tax is calculated on the basis of the enacted tax rates that are expected to apply in the period when the asset is being realised or the liability is settled. The effect of any changes in tax rate is charged or credited to the income statement. Deferred tax assets and liabilities are not discounted.

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

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

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

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

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

(iii) Equity and equity related compensation benefits The Company has a number of share option schemes which may grant options to certain employees of the Company and subsidiaries of the Group. No compensation cost of the obligation is recognised at the date of the grant. The option exercise prices are set out in note 18 on the financial statements. When the options are exercised, shareholders' equity is increased by the amount of the proceeds received.

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

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

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

Changes in the fair value of derivatives that are designated and qualifies as fair value hedges and that are highly effective, are recorded in the consolidated income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognised in the hedging reserve. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in hedging reserve are transferred from hedging reserve and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in hedging reserve are transferred to the consolidated income statement and classified as revenue or expense in the same periods during which the hedged firm commitment or forecasted transaction affects the consolidated income statement.

If certain derivative transactions, while providing effective economic hedges under the Group's policies, do not qualify for hedge accounting under the specific rules in IAS 39, "Financial Instruments: Recognition and Measurement", changes in the fair value of these derivative instruments are recognised immediately in the consolidated income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in the hedging reserve at that time remains in the hedging reserve and is recognised, when the committed or forecasted transaction ultimately is recognised in the consolidated income statement. However, if a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedging reserve is immediately transferred to the consolidated income statement.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as risk management objective and strategy for undertaking various hedge transactions.

V BORROWINGS Borrowings are recognised as the proceeds are received, net of transaction costs incurred.

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

X SEGMENT REPORTING A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Notes to the Financial Statements

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

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

Primary reporting format — business segments

Year ended 31st March 2004

| | Telecommunication and electronic products US\$ million | Other activities US\$ million | Total US\$ million |
|--|---|-------------------------------------|-----------------------|
| i Segment revenue | 913.0 | 2.2 | 915.2 |
| Segment result | 55.6 | 0.2 | 55.8 |
| Unallocated corporate expenses | | | (6.3) |
| Operating profit | | | 49.5 |
| Net finance income | | | 0.4 |
| Profit from ordinary activities before taxation | | | 49.9 |
| Taxation | | | (3.6) |
| Profit from ordinary activities after taxation | | | 46.3 |
| Minority interest | | | — |
| Profit attributable to shareholders | | | 46.3 |
| ii Segment assets | 335.6 | 1.3 | 336.9 |
| Associates | — | 0.1 | 0.1 |
| Unallocated assets | | | 85.2 |
| Total assets | | | 422.2 |
| Segment liabilities | 234.8 | 1.5 | 236.3 |
| Unallocated liabilities | | | 23.3 |
| Total liabilities | | | 259.6 |
| iii Capital expenditure, depreciation and other non-cash expenses | | | |
| Capital expenditure | 19.1 | 0.4 | 19.5 |
| Depreciation | 17.2 | 0.7 | 17.9 |
| Amortisation of leasehold land payments | — | 0.1 | 0.1 |
| Other non-cash expenses | 5.1 | — | 5.1 |

The Group evaluates the performance and allocates resources to its operating segments. There are no sales or transactions between the business segments. Corporate administrative costs and assets are not allocated to the operating segments.

Segment assets consist primarily of tangible assets, stocks, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation. Capital expenditure comprises additions to moulds, machinery and equipment, and other assets.

1 SEGMENT INFORMATION (continued)**Primary reporting format — business segments** (continued)

Year ended 31st March 2003

| | Telecommunication and electronic products US\$ million | Other activities US\$ million | Total US\$ million |
|--|---|-------------------------------------|-----------------------|
| i Segment revenue | 864.0 | 2.5 | 866.5 |
| Segment result | 63.9 | (3.0) | 60.9 |
| Unallocated corporate expenses | | | (1.4) |
| Operating profit | | | 59.5 |
| Net finance costs | | | (1.0) |
| Share of results of associates | — | (0.2) | (0.2) |
| Profit from ordinary activities before taxation | | | 58.3 |
| Taxation | | | (17.4) |
| Profit from ordinary activities after taxation | | | 40.9 |
| Minority interest | | | (0.1) |
| Profit attributable to shareholders | | | 40.8 |
| ii Segment assets | 296.4 | 1.9 | 298.3 |
| Associates | — | 0.1 | 0.1 |
| Unallocated assets | | | 60.2 |
| Total assets | | | 358.6 |
| Segment liabilities | 217.2 | 3.4 | 220.6 |
| Unallocated liabilities | | | 9.7 |
| Total liabilities | | | 230.3 |
| iii Capital expenditure, depreciation and other non-cash expenses | | | |
| Capital expenditure | 13.6 | 0.5 | 14.1 |
| Depreciation | 22.5 | 1.6 | 24.1 |
| Amortisation of leasehold land payments | — | 0.1 | 0.1 |
| Impairment charges | — | 0.2 | 0.2 |
| Other non-cash expenses | 5.7 | — | 5.7 |

Secondary reporting format — geographical segments

Although the Group's business segments are managed on a worldwide basis, they principally operate in the following geographical areas:

North America — the operations are principally the distribution of telecommunication and electronic products.

Europe — the operations are principally the distribution of telecommunication and electronic products.

Asia Pacific — the Group is headquartered in the Hong Kong SAR and the Group's principal manufacturing operations are located in mainland China.

| | Revenue 2004 US\$ million | Revenue 2003 US\$ million | Operating profit/(loss) 2004 US\$ million | Operating profit/(loss) 2003 US\$ million |
|---------------|--|--|--|--|
| North America | 681.8 | 680.3 | 43.7 | 67.9 |
| Europe | 200.3 | 149.5 | 8.4 | (6.2) |
| Asia Pacific | 23.4 | 29.2 | (5.8) | (2.0) |
| Others | 9.7 | 7.5 | 3.2 | (0.2) |
| | 915.2 | 866.5 | 49.5 | 59.5 |
| | Capital expenditure 2004 US\$ million | Capital expenditure 2003 US\$ million | Total assets 2004 US\$ million | Total assets 2003 US\$ million |
| North America | 2.5 | 2.4 | 142.1 | 154.9 |
| Europe | 0.3 | 0.5 | 54.1 | 47.7 |
| Asia Pacific | 16.7 | 11.2 | 216.8 | 153.4 |
| Others | — | — | 9.2 | 2.6 |
| | 19.5 | 14.1 | 422.2 | 358.6 |

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

| | Note | 2004 US\$ million | 2003 US\$ million |
|---|------|------------------------------|----------------------|
| Staff related costs | | | |
| — salaries and wages | | 95.5 | 88.1 |
| — pension costs: defined contribution schemes | 16 | 1.7 | 1.5 |
| — pension costs: defined benefit scheme | 16 | 1.5 | 1.0 |
| — severance payments | | 2.3 | 4.4 |
| Depreciation charges | 8 | | |
| — owned assets | | 17.8 | 23.9 |
| — leased assets | | 0.1 | 0.2 |
| Amortisation of leasehold land payments | 9 | 0.1 | 0.1 |
| Impairment of leasehold land payments | 9 | — | 0.2 |
| Loss on disposal of tangible assets and leasehold land | | 1.9 | 1.4 |
| Gain on disposal of subsidiaries | | (1.1) | — |
| Auditors' remuneration | | 0.5 | 0.6 |
| Operating leases | | | |
| — land and buildings | | 11.2 | 8.7 |
| — others | | 1.7 | 2.2 |
| Provision for stock obsolescence | | 6.9 | 2.0 |
| Provision for doubtful debts | | (1.8) | 3.7 |
| Repairs and maintenance expenditure | | 2.7 | 2.6 |
| Royalties | | 12.3 | 16.5 |
| Exchange gain | | (8.6) | (2.6) |
| Forward contracts: fair value losses on cash flow hedges transferred from hedging reserve | 19 | 3.6 | 0.4 |

3 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' emoluments

| | 2004 US\$ million | 2003 US\$ million |
|--|----------------------|----------------------|
| The emoluments of the directors of the Company are as follows: | | |
| Fees | 0.1 | 0.1 |
| Salaries, allowances and benefits in kind | 1.8 | 1.8 |
| Bonuses | 2.7 | 0.8 |
| Contribution to retirement benefit schemes | 0.1 | 0.1 |
| Deemed profit on share option exercise | — | — |
| Inducement for joining the Group | — | — |
| Compensation for loss of office | — | — |
| | 4.7 | 2.8 |

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

| | 2004 Number of directors | 2003 Number of directors |
|-----------------------|--------------------------------|--------------------------------|
| US\$ | | |
| 0 — 64,000 | 4 | 4 |
| 640,001 — 704,000 | — | 1 |
| 896,001 — 960,000 | 1 | 1 |
| 1,088,001 — 1,152,000 | — | 1 |
| 1,536,001 — 1,600,000 | 1 | — |
| 2,112,001 — 2,176,000 | 1 | — |
| | 7 | 7 |

Emoluments of independent non-executive directors included above amounted to US\$60,000 (2003: US\$60,000), being wholly in the form of directors' fees.

Senior executives' emoluments The directors' emoluments set out above exclude 2 senior executives (2003: 2) whose emoluments were among the five highest earning employees of the Group. Details of the emoluments in aggregate for these executives are set out below:

| | 2004 US\$ million | 2003 US\$ million |
|--|----------------------|----------------------|
| Salaries, allowances and benefits in kind | 0.8 | 0.9 |
| Bonuses | 1.1 | 1.2 |
| Contribution to retirement benefit schemes | — | — |
| Deemed profit on share option exercise | — | — |
| Inducement for joining the Group | — | — |
| Compensation for loss of office | — | — |
| | 1.9 | 2.1 |

The emoluments fell within the following bands:

| | 2004 Individuals | 2003 Individuals |
|-----------------------|---------------------|---------------------|
| US\$ | | |
| 448,001 — 512,000 | — | 1 |
| 576,001 — 640,000 | 1 | — |
| 1,216,001 — 1,280,000 | 1 | — |
| 1,650,001 — 1,714,000 | — | 1 |
| | 2 | 2 |

4 NET FINANCE INCOME/(COSTS)

| | 2004 US\$ million | 2003 US\$ million |
|---|----------------------|----------------------|
| Interest expense | | |
| Wholly repayable within five years: | | |
| Bank loans and overdrafts | (0.2) | (2.1) |
| Not wholly repayable within five years: | | |
| Bank loans | (0.1) | (0.1) |
| Interest income | 0.7 | 1.2 |
| | 0.4 | (1.0) |

5 TAXATION

| | 2004 US\$ million | 2003 US\$ million |
|---|----------------------|----------------------|
| Current tax | | |
| — Hong Kong | 4.7 | 6.4 |
| — Overseas | 1.4 | 0.5 |
| (Over)/underprovision in prior years | | |
| — Hong Kong | (3.5) | 10.8 |
| — Overseas | — | (0.3) |
| Deferred tax | | |
| — Origination and reversal of temporary differences | 1.0 | — |
| | 3.6 | 17.4 |

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

In previous year, the Group made a provision of US\$11.0 million representing the directors' best estimate of liability regarding a dispute with the Hong Kong Inland Revenue Department ("HKIRD") over the offshore income claims made by certain subsidiaries of the Group. The Group reached a compromised settlement agreement with the HKIRD in April 2004. The overprovision for taxation resulting from the compromised settlement was credited to the income statement for the year ended 31st March 2004.

5 TAXATION (continued)

The consolidated effective income tax rate for the year ended 31st March 2004 was 7.2% (2003: 29.8%). This effective income tax rate is reconciled to the statutory domestic income tax rate as follow:

| | 2004 % | 2003 % |
|---|-----------|-----------|
| Statutory domestic income tax rate | 17.5 | 16.0 |
| Difference in overseas income tax rates | 0.2 | 0.2 |
| Non-temporary differences | (4.3) | (9.8) |
| Tax loss not recognised | 1.0 | 5.7 |
| (Over)/underprovision in prior years | (6.9) | 18.0 |
| Others | (0.3) | (0.3) |
| Effective income tax rate | 7.2 | 29.8 |

6 DIVIDENDS

| Note | 2004 US\$ million | 2003 US\$ million |
|--|----------------------|----------------------|
| Interim dividend of US3.0 cents (2003: US1.5 cents) per share declared and paid | 19 6.8 | 3.4 |
| Final dividend of US7.0 cents (2003: US2.0 cents) per share proposed after the balance sheet date | 19 15.8 | 4.5 |

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

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\$46.3 million (2003: US\$40.8 million).

The basic earnings per share is based on the weighted average of 225.5 million (2003: 225.5 million) ordinary shares in issue during the year. The diluted earnings per share is based on 226.0 million (2003: 225.5 million) ordinary shares which is the weighted average number of ordinary shares in issue during the year after adjusting for the number of dilutive potential ordinary shares arising from the outstanding warrants and under the employee share option scheme.

8 TANGIBLE ASSETS

| | Land and buildings US\$ million | Moulds, machinery and equipment US\$ million | Motor vehicles, furniture and fixtures and leasehold improvements US\$ million | Construction in progress US\$ million | Total US\$ million |
|--|---------------------------------------|--|---|---|-----------------------|
| Cost or valuation | | | | | |
| At 1st April 2003 | 37.0 | 177.8 | 58.8 | — | 273.6 |
| Additions | — | 10.5 | 6.0 | 3.0 | 19.5 |
| Disposals | (0.4) | (4.6) | (7.0) | — | (12.0) |
| Effect of changes in exchange rate | 1.2 | 1.1 | 0.8 | — | 3.1 |
| At 31st March 2004 | 37.8 | 184.8 | 58.6 | 3.0 | 284.2 |
| Accumulated depreciation | | | | | |
| At 1st April 2003 | 16.4 | 158.5 | 50.7 | — | 225.6 |
| Charge for the year | 1.6 | 11.1 | 5.2 | — | 17.9 |
| Disposals | — | (3.4) | (6.2) | — | (9.6) |
| Effect of changes in exchange rate | — | 0.9 | 0.7 | — | 1.6 |
| At 31st March 2004 | 18.0 | 167.1 | 50.4 | — | 235.5 |
| Net book value at 31st March 2004 | 19.8 | 17.7 | 8.2 | 3.0 | 48.7 |
| Net book value at 31st March 2003 | 20.6 | 19.3 | 8.1 | — | 48.0 |
| Cost or valuation of tangible assets is analysed as follows: | | | | | |
| At cost | 25.0 | 184.8 | 58.6 | 3.0 | 271.4 |
| At professional valuation — 2003 (note (c)) | 12.8 | — | — | — | 12.8 |
| | 37.8 | 184.8 | 58.6 | 3.0 | 284.2 |

- (a) **Leased machinery and equipment** The Group leases machinery and equipment under a number of finance lease arrangements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31st March 2004, the net book value of tangible assets held under finance leases amounted to US\$0.2 million (2003: US\$0.3 million).
- (b) **Security** The net book value of tangible assets pledged as security for borrowings at 31st March 2004 amounted to US\$2.6 million (2003: US\$ 2.5 million).
- (c) The amount included valuation of overseas freehold land and buildings denominated in Euro dollar which were last revalued by independent valuers as at 31st March 2003. The carrying value of these properties in US dollars as at 31st March 2004 is changed due to the effect of changes in exchange rates.

8 TANGIBLE ASSETS (continued)

Land and buildings comprise :

| | Freehold land and buildings and long-term leasehold buildings US\$ million | Short-term leasehold buildings US\$ million | Total US\$ million |
|---|--|--|-----------------------|
| Cost or valuation | | | |
| At 1st April 2003 | 12.0 | 25.0 | 37.0 |
| Disposals | (0.4) | — | (0.4) |
| Effect of changes in exchange rate | 1.2 | — | 1.2 |
| At 31st March 2004 | 12.8 | 25.0 | 37.8 |
| Accumulated depreciation | | | |
| At 1st April 2003 | 0.9 | 15.5 | 16.4 |
| Charge for the year | 0.3 | 1.3 | 1.6 |
| At 31st March 2004 | 1.2 | 16.8 | 18.0 |
| Net book value at 31st March 2004 | 11.6 | 8.2 | 19.8 |
| Net book value at 31st March 2003 | 11.1 | 9.5 | 20.6 |
| Cost or valuation of tangible assets is analysed as follows: | | | |
| At cost | — | 25.0 | 25.0 |
| At professional valuation — 2003 (note (c)) | 12.8 | — | 12.8 |
| | 12.8 | 25.0 | 37.8 |
| Net book value of land and buildings comprises: | | | |
| Hong Kong | | | |
| Long-term leasehold buildings (not less than 50 years) | 1.0 | — | 1.0 |
| Overseas | | | |
| Freehold land and buildings | 10.6 | — | 10.6 |
| Short-term leasehold buildings | — | 8.2 | 8.2 |
| | 10.6 | 8.2 | 18.8 |
| Net book value of revalued land and buildings had the assets been carried at cost less accumulated depreciation | 6.1 | — | 6.1 |

The Group's freehold and long-term leasehold land and buildings were last revalued by independent valuers as at 31st March 2003, on an open market value basis.

9 LEASEHOLD LAND PAYMENTS

| | Note | 2004 US\$ million | 2003 US\$ million |
|--|------|----------------------|----------------------|
| Net book value at 1st April | | 2.7 | 3.1 |
| Disposals | | (0.8) | (0.1) |
| Amortisation | 2 | (0.1) | (0.1) |
| Impairment charges | 2 | — | (0.2) |
| Net book value at 31st March | | 1.8 | 2.7 |
| Leasehold land payments in respect of: | | | |
| Owner-occupied properties | | 1.8 | 2.7 |

10 DEFERRED TAXATION The deferred tax assets and liabilities and the deferred tax account movements for the years ended 31st March 2003 and 31st March 2004 are attributable to the following items:

| | 1st April 2002 US\$ million | Credited/ (charged) to income statement US\$ million | 31st March 2003 US\$ million | Credited/ (charged) to income statement US\$ million | 31st March 2004 US\$ million |
|--|-----------------------------------|--|------------------------------------|--|------------------------------------|
| Deferred tax assets | | | | | |
| Provisions | 0.5 | (0.4) | 0.1 | (0.1) | — |
| Tax losses carried forward | 1.6 | (0.6) | 1.0 | 1.3 | 2.3 |
| Other deductible temporary differences | 2.6 | 0.2 | 2.8 | (1.4) | 1.4 |
| | 4.7 | (0.8) | 3.9 | (0.2) | 3.7 |
| Deferred tax liabilities | | | | | |
| Accelerated tax depreciation | (1.6) | 0.8 | (0.8) | (0.8) | (1.6) |
| Net deferred tax assets | 3.1 | — | 3.1 | (1.0) | 2.1 |

Deferred tax assets and liabilities are offset when the taxes relate to the same fiscal authority. The following amounts are shown in the consolidated balance sheet:

| | 2004 US\$ million | 2003 US\$ million |
|--------------------------|----------------------|----------------------|
| Deferred tax assets | 3.7 | 3.9 |
| Deferred tax liabilities | (1.6) | (0.8) |
| | 2.1 | 3.1 |

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. Deferred tax assets of US\$47.6 million (2003: US\$63.2 million) arising from unused tax losses of US\$145.0 million (2003: US\$213.5 million) have not been recognised at the end of the year.

11 INVESTMENTS

| | 2004 US\$ million | 2003 US\$ million |
|-------------------------------|----------------------|----------------------|
| i) Associates | | |
| Share of net tangible assets | 0.1 | 0.1 |
| ii) Other investments | | |
| Unlisted investments, at cost | 0.1 | 0.1 |
| | 0.2 | 0.2 |

12 STOCKS

| | 2004 US\$ million | 2003 US\$ million |
|---|----------------------|----------------------|
| Telecommunication and electronic products | | |
| Raw materials | 27.1 | 13.9 |
| Work in progress | 8.9 | 4.6 |
| Finished goods | 60.1 | 65.5 |
| | 96.1 | 84.0 |

Stocks carried at net realisable value at 31st March 2004 amounted to US\$25.4 million (2003: US\$16.2 million).

13 DEBTORS AND PREPAYMENTS

| Note | 2004 US\$ million | 2003 US\$ million |
|--|----------------------|----------------------|
| Trade debtors (Net of provision for doubtful debts of US\$3.9 million (2003: US\$5.8 million)) | 137.6 | 123.0 |
| Other debtors and prepayments | 14.7 | 15.1 |
| Pension assets | 1.6 | 1.8 |
| | 153.9 | 139.9 |

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

| | 2004 US\$ million | 2003 US\$ million |
|------------|----------------------|----------------------|
| 0–30 days | 80.8 | 54.5 |
| 31–60 days | 34.0 | 41.6 |
| 61–90 days | 14.5 | 10.2 |
| >90 days | 8.3 | 16.7 |
| Total | 137.6 | 123.0 |

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

14 CREDITORS AND ACCRUALS

| | 2004 US\$ million | 2003 US\$ million |
|------------------------------|----------------------|----------------------|
| Trade creditors | 93.0 | 59.5 |
| Other creditors and accruals | 107.3 | 111.9 |
| | 200.3 | 171.4 |

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

| | 2004 US\$ million | 2003 US\$ million |
|------------|----------------------|----------------------|
| 0–30 days | 45.6 | 28.7 |
| 31–60 days | 23.6 | 11.5 |
| 61–90 days | 14.3 | 11.9 |
| >90 days | 9.5 | 7.4 |
| Total | 93.0 | 59.5 |

15 PROVISIONS

| | Defective goods returns US\$ million | Restructuring costs US\$ million | Other employee benefits US\$ million | Total US\$ million |
|------------------------------------|---|-------------------------------------|---|-----------------------|
| At 1st April 2003 | 36.6 | 1.8 | 2.0 | 40.4 |
| Effect of changes in exchange rate | 0.3 | — | — | 0.3 |
| Additional provisions | 32.7 | — | 2.9 | 35.6 |
| Unused amounts reversed | (2.3) | — | — | (2.3) |
| Charged to income statement | 30.4 | — | 2.9 | 33.3 |
| Utilised during the year | (31.3) | (1.1) | (0.9) | (33.3) |
| At 31st March 2004 | 36.0 | 0.7 | 4.0 | 40.7 |

Defective goods returns The Group undertakes to repair or replace items that fail to perform satisfactorily in accordance with the terms of the sale. A provision is recognised for expected return claims, which included cost of repairing or replacing defective goods, loss of margin and cost of materials scrapped, based on past experience of the level of repairs and returns.

Restructuring costs Restructuring costs include the costs of terminating employees and other closure costs relating to the cessation or streamlining of business activities arising from the restructuring plan launched in previous years.

Other employee benefits Other employee benefits include employee compensated leave entitlements which are the expected costs of accumulated compensated absences and the gratuity payment to certain employees upon completion of the service contract.

16 PENSION SCHEMES The Group operated a defined benefit scheme and a defined contribution scheme in Hong Kong. The defined contribution scheme operated in Hong Kong complied with the requirements under the Mandatory Provident Fund ("MPF") Ordinance. For the defined contribution schemes operated for overseas employees and Hong Kong employees under the MPF Ordinance, the retirement benefit costs expensed in the income statement amounted to US\$1.5 million (2003: US\$1.4 million) and US\$0.2 million (2003: US\$0.1 million) respectively. For the defined benefit scheme ("the Scheme") operated for Hong Kong employees, contributions made by the Group during the year were calculated based on advice from Watson Wyatt Hong Kong Limited ("Watson Wyatt"), independent actuaries and consultants. The Scheme is valued annually. The latest actuarial valuation was completed by Watson Wyatt as at 31st March 2004 using the projected unit credit method.

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

| | Note | 2004 US\$ million | 2003 US\$ million |
|--|------|----------------------|----------------------|
| Fair value of the Scheme assets | | 11.3 | 8.7 |
| Present value of funded defined benefit obligations | | (12.3) | (11.4) |
| Unrecognised actuarial gains | | 2.6 | 4.5 |
| Assets recognised in the balance sheet | 13 | 1.6 | 1.8 |
| The amounts recognised in the income statement are as follows: | | | |
| Current service cost | | 1.3 | 1.1 |
| Interest cost | | 0.6 | 0.7 |
| Expected return on plan assets | | (0.6) | (0.8) |
| Net actuarial losses recognised in the year | | 0.2 | — |
| Expenses recognised in the income statement* | 2 | 1.5 | 1.0 |
| The actual return on plan assets was as follows: | | | |
| Expected return on plan assets | | 0.6 | 0.8 |
| Actuarial gains/(losses) on plan assets | | 2.6 | (2.0) |
| Actual return on plan assets | | 3.2 | (1.2) |
| Movement in the assets recognised in the balance sheet: | | | |
| At 1st April | | 1.8 | 1.8 |
| Expenses recognised in the income statement * | | (1.5) | (1.0) |
| Contributions paid | | 1.3 | 1.0 |
| At 31st March | | 1.6 | 1.8 |

| | 2004 | 2003 |
|--|------|------|
| The principal actuarial assumptions used for accounting purposes were: | | |
| Discount rate | 5.0% | 5.5% |
| Expected return on plan assets | 7.0% | 7.0% |
| Future salary increases | 5.0% | 5.0% |

17 BORROWINGS

| | 2004 US\$ million | 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 (Note) | 0.2 | 0.3 |
| | 1.6 | 1.7 |
| Less : amounts due within one year included under current liabilities: | | |
| Secured bank loans | (0.5) | (0.4) |
| Obligations under finance leases (Note) | (0.1) | (0.1) |
| | (0.6) | (0.5) |
| | 2.0 | 2.2 |
| Bank loans and finance lease obligations are repayable as follows: | | |
| Between one and two years | 0.4 | 0.5 |
| Between two and five years | 0.6 | 0.7 |
| In more than five years | 1.0 | 1.0 |
| | 2.0 | 2.2 |

Note: The amounts are net of future finance charges of US\$0.1 million (2003: US\$ 0.1 million).

Details of the bank loans and overdrafts are as follows:

| | 2004 US\$ million | 2003 US\$ million |
|---|----------------------|----------------------|
| Euros | | |
| Secured bank loans at an average fixed interest rate of 5.4% (2003: 6.0%) | 2.4 | 2.4 |

18 SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Share capital

| | 2004 US\$ million | 2003 US\$ million |
|--|----------------------|----------------------|
| <i>Authorised</i> | | |
| Ordinary shares: 400,000,000 (2003 : 400,000,000) of US\$0.05 each | 20.0 | 20.0 |

| | Number of shares | 2004 US\$ million | 2003 US\$ million |
|---|------------------|----------------------|----------------------|
| <i>Issued and fully paid</i> | | | |
| Ordinary shares of US\$0.05 each: Beginning of year and end of year (Note 1) | 225,527,133 | 11.3 | 11.3 |

Note 1: In April 2004, the issued and paid up share capital of the Company was increased by 100,000 ordinary shares to 225,627,133 ordinary shares upon the exercise of 100,000 share options by a grantee in March 2004.

Share options

(i) The 2001 Scheme Pursuant to the share option scheme adopted on 10th August 2001 (the "2001 Scheme"), the directors are authorised, at any time during the 10 years from the date of approval of the 2001 Scheme, to grant options to certain employees of the Company or subsidiaries of the Group, including executive directors (but excluding non-executive directors) to subscribe for shares in the Company at prices to be determined by the directors in accordance with the terms of the 2001 Scheme.

Pursuant to the Chapter 17 of the Listing Rules, the Company can issue options so that the number of shares that may be issued upon exercise of all options to be granted under the schemes does not in aggregate exceed 10% of the relevant class of shares in issue from time to time. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular. The Company may also seek separate shareholders' approval for granting options beyond the 10% limit to eligible employees specifically identified by the Company, subject to shareholders'

approval and the issue of a circular. The Company can issue options so that shares to be issued upon exercise of all outstanding options does not exceed 30% of the relevant class of shares in issue from time to time. The maximum entitlement for any one eligible employee is that the total number of shares issued and to be issued upon exercise of options granted and to be granted in any 12-month period up to the date of the last grant does not exceed 1% of the relevant class of shares in issue. The Company can grant further options in excess of this limit, subject to shareholders' approval (with that eligible employee and his associates abstaining from voting) and the issue of a circular. The offer of a grant of options must be accepted within 30 days from the date of offer, upon payment of a non-refundable sum of HK\$1.0 by the grantee. The 2001 Scheme has a life of 10 years and will expire on 9th August 2011.

Pursuant to the Listing Rules, the subscription price payable for each share under the 2001 Scheme shall be at least the highest of (i) the closing price of the shares as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited on the date on which an offer is made, which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date on which an offer is made; and (iii) the par value of the shares. The closing price of the Company's shares traded on The Stock Exchange of Hong Kong Limited respectively on 25th February 2002 (being the date immediately before the date on which options were granted) was HK\$9.70 and on 9th July 2002 (being the date immediately before the date on which options were granted) was HK\$8.55.

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

As at 31st March 2004, the number of shares issuable under the options granted pursuant to the 2001 Scheme was 15,700,000, which represented approximately 7% of the issued share capital of the Company. The movements in the number of share options under the 2001 Scheme during the year were as follows:

18 SHARE CAPITAL, SHARE OPTIONS AND WARRANTS (continued)**Share options** (continued)

| 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 year | Number of share options exercised during the year (Note 3) | Number of share options lapsed during the year (Note 4) | Balance in issue at 31st March 2004 |
|--|-------------------|--|--|--|--|---|--|
| 26th February 2002 to 26th March 2002 | HK\$10.2 | 26th February 2005 to 25th March 2007 | 15,430,000 | — | (100,000) | (970,000) | 14,360,000 |
| 10th July 2002 to 8th August 2002 | HK\$8.71 | 10th July 2005 to 7th August 2007 | 1,720,000 | — | — | (380,000) | 1,340,000 |
| | | | 17,150,000 | — | (100,000) | (1,350,000) | 15,700,000 |

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 Annual 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 accepted and shall not be exercisable after 60 months from the date on which such options were accepted. However, options shall be automatically vested to the grantees when the grantees reach 60 years of age.

Note 3: Following the exercise of 100,000 options in March 2004, 100,000 new ordinary shares were issued and allotted in April 2004. The closing price of the Company's shares traded on The Stock Exchange of Hong Kong Limited on 11th March 2004 (being the date immediately before the date on which options were exercised) was HK\$13.3.

Note 4: No options were cancelled during the year.

Note 5: In April 2004, the Company granted 2,670,000 options to certain employees of the Company and its subsidiaries pursuant to the 2001 Scheme to subscribe for an aggregate of 2,670,000 ordinary shares of the Company at a price of HK\$15.0 per ordinary share.

(ii) **HomeRelay Plan** Pursuant to the stock option plan adopted by a subsidiary, HomeRelay Communications, Inc. ("HomeRelay") in August 2000 (the "HomeRelay Plan"), the directors of HomeRelay may grant options to the employees of HomeRelay up to 10% of HomeRelay's common stock in issue from time to time for incentive purposes. Options for common stock may be incentive stock options or non-statutory stock options. A committee designated by the directors of HomeRelay may fix the terms and vesting of all stock options; however, in no event will the contractual term exceed 10 years. Unless specified otherwise, stock options vest 25% one year from the grant date and the remaining 75% vest in successive equal semi-annual instalments over the succeeding three year period until the stock options are fully vested. The HomeRelay Plan has a life of 10 years and will expire on 29th August 2010.

No stock option may be granted to any employee if it would result in the total amount of stock option to be issued or already issued to him under the HomeRelay Plan exceeding 25% of the maximum aggregate amount of stock subject to the HomeRelay Plan. The exercise price under the HomeRelay Plan will be as follows: (i) incentive stock options — an amount equal to not less than 100% of the Fair Market Value (as defined in the HomeRelay Plan) of the stock at the date of grant; (ii) non-statutory stock options - an amount equal to not less than 85% of the Fair Market Value of the stock at the date of grant; and (iii) incentive stock options to 10% Employees (as defined in the HomeRelay Plan) — an amount equal to not less than 110% of the Fair Market Value of the stock at the date of grant.

18 SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

(continued)

Share options (continued)

Prior to 10th September 2003, the number of common stock issuable under outstanding stock options granted pursuant to the HomeRelay Plan was 705,475, which represented approximately

9.5% of the then issued stock capital of HomeRelay. All outstanding options lapsed since 10th September 2003 as a result of the termination of employment of the relevant grantees under the HomeRelay Plan. Certain information concerning changes during the year in the number of outstanding stock options under the HomeRelay Plan is set forth below:

| Date of grant (Note 1) | Weighted average exercise price | Exercisable period | Balance in issue at 1st April 2003 | Number of share options granted during the year | Number of share options exercised during the year | Number of share options lapsed during the year (Note 2) | Balance in issue at 31st March 2004 |
|---|--|---|--|--|--|---|--|
| 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 Annual Report.

Note 2: No options were cancelled during the year.

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 ordinary shares in the Company at a exercise 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 exercise price of these warrants was revised to HK\$8.43 (being the lower of the initial exercise 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.

19 RESERVES

| | Group | | Company | |
|--|-------|----------------------|----------------------|----------------------|
| | Note | 2004 US\$ million | 2003 US\$ million | 2004 US\$ million |
| Share premium | | 74.3 | 74.3 | 74.3 |
| Other properties revaluation reserve | | 6.1 | 6.8 | — |
| Revenue reserve | | 77.6 | 41.9 | 41.3 |
| Exchange reserve | | (6.7) | (6.8) | (1.2) |
| Hedging reserve | | — | — | — |
| | | 151.3 | 116.2 | 114.4 |
| An analysis of movements in reserves is set out below: | | | | |
| Share premium | | | | |
| Brought forward and carried forward | | 74.3 | 74.3 | 74.3 |
| Other properties revaluation reserve | | | | |
| Brought forward | | 6.8 | 6.6 | — |
| Disposal of properties previously revalued | | (0.7) | (0.3) | — |
| Surplus arising on revaluation of other properties | | — | 0.5 | — |
| Carried forward | | 6.1 | 6.8 | — |

| | Group | | Company | |
|--|-------|----------------------|----------------------|----------------------|
| | Note | 2004 US\$ million | 2003 US\$ million | 2004 US\$ million |
| Revenue reserve | | | | |
| Brought forward | | 41.9 | 4.2 | 46.3 |
| Profit attributable to shareholders | | 46.3 | 40.8 | 6.3 |
| Final dividend in respect of the previous year | 6 | (4.5) | — | (4.5) |
| Interim dividend in respect of the current year | 6 | (6.8) | (3.4) | (6.8) |
| Disposal of properties previously revalued | | 0.7 | 0.3 | — |
| Carried forward | | 77.6 | 41.9 | 41.3 |
| Exchange reserve | | | | |
| Brought forward | | (6.8) | (6.6) | (1.2) |
| Exchange translation differences | | 0.1 | (0.2) | — |
| Carried forward | | (6.7) | (6.8) | (1.2) |
| Hedging reserve | | | | |
| Brought forward | | — | (0.4) | — |
| Transfer to income statement | 2 | 3.6 | 0.4 | — |
| Fair value losses on hedging during the year | | (3.6) | — | — |
| Carried forward | | — | — | — |

19 RESERVES (continued)

The consolidated profit attributable to shareholders includes a profit of US\$6.3 million (2003: US\$13.1 million) which has been dealt with in the financial statements of the Company.

Reserves of the Company available for distribution to shareholders amounted to US\$41.3 million (2003: US\$46.3 million).

20 FINANCIAL INSTRUMENTS The Group enters into foreign exchange contracts and interest rate swaps to hedge certain exposures on fluctuations of foreign currency exchange rates and interest rates respectively. The Group does not use derivative financial instruments for speculative purposes.

Credit risk Financial assets which potentially subject the Group to credit risk consist principally of cash, short-term deposits and trade debtors. The Group's cash equivalents and short-term deposits are placed with major financial institutions. Trade debtors are presented net of the allowance for doubtful debts. Credit risk with respect to trade debtors is limited due to the large number of customers comprising the Group's customer base and their dispersion across different industries and geographical areas. Accordingly, the Group has no significant concentration of credit risk. In addition, credit risks are mitigated by the use of insurance plans.

The Group manages these risks by monitoring credit ratings and limiting the aggregate risk to any individual counterparty.

Foreign exchange risk The Group enters into foreign exchange contracts in order to manage its exposure to fluctuations in foreign currency exchange rates on specific transactions. Foreign exchange contracts are matched with anticipated future cash flows in foreign currencies, primarily from sales.

Interest rate risk The Group's income and operating cash flows are affected by the change in market interest rates in relation to its interest-bearing loans. The Group uses interest rate swaps as cash flow hedges of future interest payments to convert certain borrowings from floating rates to fixed rates.

Fair values The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

Derivative financial instruments Forward foreign exchange contracts and interest rate swaps contracts were designated as cash flow hedges and remeasured to fair values.

Forward foreign exchange contracts The net fair value gains/(losses) at 31st March on open forward foreign exchange contracts which hedge anticipated future foreign currency sales and

purchases will be transferred from the hedging reserve to the consolidated income statement when the forecasted sales and purchases occur, at various dates between 1 month to 6 months from the balance sheet date.

Details of the movements of fair value gains/(losses) arising from forward foreign exchange contracts entered by the Group are set out in note 19 on the financial statements.

At 31st March 2004, there were no outstanding forward foreign exchange contracts (2003: nil).

The Group does not anticipate any material adverse effect on its financial position resulting from its involvement in these financial instruments, nor does it anticipate non-performance by any of its counterparties.

Interest rate swaps At 31st March 2004, there were no outstanding interest rate swaps (2003: nil).

Fair values The fair value of trade debtors, bank balances, trade creditors and accruals and bank overdrafts approximate their carrying amounts due to the short-term maturities of these assets and liabilities. The fair value of term loans and obligations under finance leases is estimated using the expected future payments discounted at market interest rates.

The weighted average effective interest rate on short term bank deposits was 1.1% (2003: 1.2%) and these deposits have an average maturity of 1 day.

21 COMMITMENTS

| | 2004 US\$ million | 2003 US\$ million |
|--|----------------------|----------------------|
| (i) Capital commitments for property, plant and equipment | | |
| Authorised but not contracted for | 25.0 | 17.0 |
| Contracted but not provided for | 7.6 | 3.2 |
| | 32.6 | 20.2 |
| (ii) Operating lease commitments | | |
| The future aggregate minimum lease payments under non-cancellable operating leases are as follows: | | |
| Land and buildings | | |
| In one year or less | 6.5 | 6.9 |
| Between one and two years | 6.4 | 6.1 |
| Between two and five years | 8.2 | 11.9 |
| In more than five years | 3.7 | 3.5 |
| | 24.8 | 28.4 |

21 COMMITMENTS (continued)

The Group has entered into agreements with an independent third party in the PRC to lease factory premises in Houjie, Dongguan comprising several factory buildings. There are totally three separate leases which expire in 2004, 2022 and 2029 respectively. The lease expiring in 2029 has a non-cancellable period of eight years which expires in 2007. At the end of this non-cancellable period, the lease can only be cancelled on six months' notice with a penalty equivalent to three months' rentals. All other buildings have lease terms which can be cancelled upon three to six months' notice with penalties equivalent to three to twelve months' rentals. The operating lease commitments above include total commitments over the non-cancellable period of the lease terms.

In January 1996, the Group entered into an agreement with an independent third party in the PRC whereby the PRC party constructed in phases and leases to the Group a production facility in Liaobu, Dongguan. Under a fifty year lease agreement, the Group rented the first and second phases of the facility for non-cancellable periods of six and eight years after completion respectively. The Group also had an option to purchase each phase of the production facility at any time within four and a half years after the completion of each phase. The first phase became fully operational in April 1998 and the completed production facility of the second phase became operational in October 2001. The operating lease commitments above include total commitments over the non-cancellable period of the lease terms.

The operating lease commitments in respect of the agreements with the above independent third party in the PRC reflect total commitments over the non-cancellable period of the lease terms.

Under a Brand License Agreement expiring 31st March 2010, a wholly-owned subsidiary of the Group is required to make royalty payments to AT&T Corp., calculated as a percentage of net sales of the relevant categories of products, subject to certain minimum aggregate royalty payments. The percentage of net sales payable varies over time and between products. There is no maximum royalty payment. The aggregate minimum royalty payments after 31st March 2004 amounted to US\$80.4 million (2003: US\$90.9 million), whereas the annual minimum royalty payment varies throughout the agreement period between US\$11.5 million and US\$15.6 million. The subsidiary can renew the agreement for two additional five year terms provided certain performance requirements are achieved.

During the financial year ended 31 March 2004, certain wholly-owned subsidiaries of the Group (the "licensees") entered into certain licensing agreements with various third party licensors for the granting of certain rights to use the relevant cartoon characters into the Group's electronic learning products. Under these licensing agreements, the licensees are required to make royalty

payments to the licensors, calculated as a percentage of net sales of the relevant character licensed products, subject to certain minimum aggregate royalty payments. The percentage of royalty payable varies over time and between licensed characters. There is no maximum royalty payment. The aggregate minimum royalty payments as at 31st March 2004 amount to US\$3.5 million (2003: US\$ nil), of which US\$1.1 million, US\$1.4 million and US\$1.0 million are payable in the financial years ended 31 March 2005, 2006 and 2007 respectively.

22 CONTINGENT LIABILITIES The directors have been advised that certain accusations of infringements of patents, trademarks and tradenames have been lodged against the Company and its subsidiaries. In the opinion of legal counsels, it is too early to evaluate the likelihood of an unfavourable result. The directors are of the opinion that even if the accusations are found to be valid, there will be no material adverse effect on the financial position of the Group.

Certain subsidiaries of the Group are involved in litigation arising in the ordinary course of their respective businesses. Having reviewed outstanding claims and taking into account legal advice received, the directors are of the opinion that even if the claims are found to be valid, there will be no material adverse effect on the financial position of the Group.

23 BALANCE SHEET OF THE COMPANY AS AT 31ST MARCH

| | Note | 2004 US\$ million | 2003 US\$ million |
|-------------------------------|------|----------------------|----------------------|
| Non-current assets | | | |
| Subsidiaries | | 102.6 | 103.3 |
| Current assets | | | |
| Amounts due from subsidiaries | (i) | 326.6 | 259.6 |
| Taxation recoverable | | 0.2 | 0.1 |
| Cash and cash equivalents | | 0.1 | 0.1 |
| | | 326.9 | 259.8 |
| Current liabilities | | | |
| Amounts due to subsidiaries | (i) | (302.0) | (230.7) |
| Creditors and accruals | | (1.8) | (1.7) |
| | | (303.8) | (232.4) |
| Net assets | | 125.7 | 130.7 |
| Capital and reserves | | | |
| Share capital | 18 | 11.3 | 11.3 |
| Reserves | 19 | 114.4 | 119.4 |
| Shareholders' funds | | 125.7 | 130.7 |

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

24 PRINCIPAL SUBSIDIARIES Details of the Company's interests in those subsidiaries which materially affect the results or assets of the Group as at 31st March 2004 are set out below:

| Name of subsidiary | Fully paid issued share capital | Percentage of interest held by the Group | Principal activity |
|--|--|--|--|
| <i>Incorporated and operating in Hong Kong:</i> | | | |
| VTech Communications Limited | Ordinary HK\$1,000 Deferred HK\$5,000,000 | *100 | Design, manufacture and sale of electronic equipment |
| VTech Electronics Limited | Ordinary HK\$5,000,000 | *100 | Design, manufacture and distribution of electronic products |
| VTech Telecommunications Limited | Ordinary HK\$1,000 Deferred HK\$5,000,000 | *100 | Design, manufacture and distribution of telecommunication products |
| Perseus Investments Limited | Ordinary HK\$1,000 Deferred HK\$1,000 | 100 | Property holding |
| Valentia Investment Limited | Ordinary HK\$1,000 Deferred HK\$1,000 | 100 | Property holding |
| <i>Incorporated in the British Virgin Islands and operating in the People's Republic of China:</i> | | | |
| Asian Luck Limited | US\$1 | *100 | Manufacture of electronic & telecommunication products |
| <i>Incorporated and operating in Canada:</i> | | | |
| VTech Electronics Canada Ltd. | C\$1 | *100 | Sale of electronic products |
| VTech Telecommunications Canada Ltd. | Class A C\$5,000 Class B C\$195,000 | *100 *100 | Sale of telecommunication products |
| <i>Incorporated and operating in France:</i> | | | |
| VTech Electronics Europe S.A. | EURO 3,048,980 | *100 | Sale of electronic products |
| <i>Incorporated and operating in Germany:</i> | | | |
| VTech Electronics Europe GmbH | EURO 2,600,000 | *100 | Sale of electronic products |

| Name of subsidiary | Fully paid issued share capital | Percentage of interest held by the Group | Principal activity |
|--|---------------------------------|--|------------------------------------|
| <i>Incorporated and operating in the Netherlands:</i> | | | |
| VTech Electronics Europe B.V. | EURO 18,100 | *100 | Sale of electronic products |
| <i>Incorporated and operating in Spain:</i> | | | |
| VTech Electronics Europe, S.L. | EURO 2,322,200 | *100 | Sale of electronic products |
| <i>Incorporated and operating in the United Kingdom:</i> | | | |
| VTech Electronics Europe plc | GBP 500,000 | *100 | Sale of electronic products |
| <i>Incorporated and operating in the United States:</i> | | | |
| VTech Electronics North America, L.L.C. | US\$22,212,997 | *100 | Sale of electronic products |
| VTech Communications, Inc. | US\$300,000 | *100 | Sale of telecommunication products |
| VTech Innovation L.P. | US\$110,000,056 | *100 | Sale of telecommunication products |

* Indirectly held by subsidiary companies

25 RELATED PARTY TRANSACTIONS With effect from 1st April 2003, the Group leases premises from Aldenham Company Limited ("Aldenham") for HK\$250,000 per month, to provide housing for a director in accordance with the terms of his service contract for a term of 2 years. When the lease was entered into, Aldenham was 50% owned by the director's spouse and 50% owned by a trust, the beneficiaries of which were the director and his family members. As at the balance sheet date, Aldenham became wholly owned by the said trust, the beneficiaries of which are family members of the director.

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

26 POST BALANCE SHEET EVENT In April 2004, the Group entered into a sale and purchase agreement with an independent third party for the disposal of the land and buildings held for sale. The consideration for the transaction was US\$9.0 million.

VTech in the Last Five Years

| Consolidated statement of net assets as at 31st March | | | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------|
| Note | 2000 US\$ million | 2001 US\$ million | 2002 US\$ million | 2003 US\$ million | 2004 US\$ million | |
| Non-current assets | | | | | | |
| Tangible assets (i) | 165.9 | 95.9 | 58.0 | 48.0 | | 48.7 |
| Leasehold land payments (ii) | 7.1 | 7.0 | 3.1 | 2.7 | | 1.8 |
| Negative goodwill | (32.2) | — | — | — | | — |
| Other non-current assets | 6.1 | 4.5 | 4.7 | 4.1 | | 3.9 |
| | 146.9 | 107.4 | 65.8 | 54.8 | | 54.4 |
| Current assets | | | | | | |
| Stocks | 256.8 | 187.5 | 94.4 | 84.0 | | 96.1 |
| Debtors and prepayments | 244.5 | 255.6 | 165.3 | 139.9 | | 153.9 |
| Cash and cash equivalents | 79.6 | 56.2 | 63.3 | 70.4 | | 105.2 |
| Other current assets | 3.1 | 34.0 | 27.5 | 9.5 | | 12.6 |
| | 584.0 | 533.3 | 350.5 | 303.8 | | 367.8 |
| Current liabilities (iii) | (262.0) | (421.4) | (259.7) | (227.3) | | (256.0) |
| Net current assets | 322.0 | 111.9 | 90.8 | 76.5 | | 111.8 |
| Total assets less current liabilities | 468.9 | 219.3 | 156.6 | 131.3 | | 166.2 |
| Non-current liabilities | | | | | | |
| Borrowings | (169.7) | (136.9) | (65.2) | (2.2) | | (2.0) |
| Deferred tax liabilities | (1.4) | (1.3) | (1.2) | (0.8) | | (1.6) |
| | (171.1) | (138.2) | (66.4) | (3.0) | | (3.6) |
| Minority interest | (0.8) | (0.9) | (0.8) | (0.8) | | — |
| Net assets/shareholders' funds | 297.0 | 80.2 | 89.4 | 127.5 | | 162.6 |
| (i) Tangible assets have been adjusted in accordance with IAS 40 by the following amounts: | (6.9) | (6.9) | — | — | | — |
| (ii) Leasehold land payments have been adjusted in accordance with IAS 40 by the following amounts: | 7.1 | 7.0 | — | — | | — |
| (iii) Current liabilities have been adjusted to reflect the fair value of the derivative financial instruments in accordance with IAS 39: | — | 0.3 | — | — | | — |

| Consolidated income statement for the years ended 31st March | | | | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|--------------|
| Note | 2000 US\$ million | 2001 US\$ million | 2002 US\$ million | 2003 US\$ million | 2004 US\$ million | |
| Revenue | 1,045.9 | 1,334.9 | 959.8 | 866.5 | | 915.2 |
| Profit/(loss) from ordinary activities before taxation | 47.4 | (213.1) | 13.9 | 58.3 | | 49.9 |
| Taxation (iv),(v)&(vi) | (2.5) | (1.8) | (2.6) | (17.4) | | (3.6) |
| Profit/(loss) from ordinary activities after taxation | 44.9 | (214.9) | 11.3 | 40.9 | | 46.3 |
| Minority interest | (0.1) | (0.1) | (0.1) | (0.1) | | — |
| Profit/(loss) attributable to shareholders | 44.8 | (215.0) | 11.2 | 40.8 | | 46.3 |
| Earnings/(loss) per share (US cents) | 21.0 | (96.7) | 5.0 | 18.1 | | 20.5 |
| (iv) Depreciation on moulds for new products that ultimately go into production for the years ended 31st March 1998 to 31st March 1999 has now been reclassified and included within cost of sales instead of within research and development expenses by the following amount: | 7.8 | — | — | — | | — |
| (v) Administrative and other operating expenses have been adjusted for the effect of IAS 40 by the following amount: | (0.2) | — | — | — | | — |
| (vi) Loss from ordinary activities before taxation for the year ended 31st March 2001 included US\$110.4 million of restructuring and impairment charges in respect of the Group's restructuring plan launched in March 2001. Details of the plan has been provided in the Annual Report 2001. | | | | | | |

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Allan WONG Chi Yun
Chairman and Group Chief Executive Officer

Albert LEE Wai Kuen
Deputy Chairman

Independent Non-executive Directors

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

BOARD OF MANAGEMENT

Allan WONG Chi Yun
Albert LEE Wai Kuen
Edwin YING Lin Kwan
Andy LEUNG Hon Kwong
James C. KRALIK
Kent WONG Wah Shun

AUDIT COMMITTEE

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

COMPANY SECRETARY

CHANG Yu Wai

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

AUDITORS

KPMG
Certified Public Accountants
Hong Kong

PRINCIPAL REGISTRAR

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A Chinese translation of the annual report may be obtained on request from Computershare Hong Kong Investor Services Limited, Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

本年報備有中文譯本，請向位於香港皇后大道東183號合和中心17樓1712-16室之香港中央證券登記有限公司索取。

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