VTech Holdings Ltd 偉易達集團

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

Growth with Innovation

2004/2005

Interim Report・中期報告書

for the six months ended 30th September 2004

截 至 二 零 零 四 年 九 月 三 十 日 止 六 個 月

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'IEN 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
Kent WONG Wah Shun

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

William FUNG Kwok Lun
Michael TIEN Puk Sun

COMPANY SECRETARY

CHANG Yu Wai

REGISTERED OFFICE

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Church Street
Hamilton HM11
Bermuda

PRINCIPAL OFFICE

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

PRINCIPAL BANKERS

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

AUDITORS

KPMG
Certified Public Accountants
Hong Kong

PRINCIPAL REGISTRAR

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

UK BRANCH REGISTRAR

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

HONG KONG BRANCH REGISTRAR

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

ADR DEPOSITARY

The Bank of New York
101 Barclay Street
22nd Floor-West
New York
N.Y. 10286
U.S.A.

FINANCIAL REVIEW

Group Results

Group revenue for the six-month period ended 30th September 2004 increased by 13.1% to US$457.1 million. All of the Group's businesses recorded an increase in revenue. In particular, the electronic learning products business recorded a 66.8% increase, following the success of its revamped product line, especially the well-received TV Learning System, V.Smile. The contract manufacturing services business benefited from the recovery of the global economy. More orders were received, resulting in a 20.6% growth in revenue. Although the telecommunication products business faced keen competition in the North American market, it recorded a slight increase in revenue for the six months, buoyed by growth in the European market.

For the six-month period ended 30th September 2004, 66.5% of the Group's revenue came from the telecommunication products business; 20.8% from the electronic learning products business and 12.7% from the contract manufacturing services business. Geographically, North America accounted for 65.5% of the Group's revenue while the European and Asia Pacific markets accounted for 27.0% and 4.9% respectively.

The gross profit of the Group rose marginally to US$133.5 million from US$131.6 million in the corresponding period in last financial year. However, the gross profit margin for the first half of the financial year 2005 was 29.2% against 32.6% in the corresponding prior period.

The decline was mainly due to severe competition in the cordless phone market in North America. Although there was a marginal growth in sales volume at the telecommunication products business due to its good performance in the European market, severe competition in North America that resulted in faster-than-expected price erosion eroded the profitability. At the same time, the tight component supply early in the current financial year reduced the level of cost savings. The underperformance of a major customer that resulted in cancellation of orders also affected profitability. The success of V.Smile has helped the electronic learning products business gradually to regain shelf-space for VTech products in North America and buoyed Group profits in the first half of financial year 2005.

Profit attributable to shareholders for the six-month period ended 30th September 2004 declined by 51.1% to US$8.5 million, as compared with the US$17.4 million recorded in the same period of the financial year 2004. There was a non-recurring receipt of US$3.3 million arising from settlement of certain indemnification claims during the first half of the financial year 2005.

In the financial year 2004, the electronic learning products business focused on implementing cost rationalisation initiatives while in the financial year 2005, it targeted growth. Hence, selling and distribution costs rose as the sales of electronic learning products increased. Concurrent with the launch of V.Smile, the electronic learning products business launched comprehensive advertising and promotional campaigns that also contributed to the increase in selling and distribution costs.

During the period, the Group disposed of the Mexican factory and entities that were acquired in 2000, as part of Lucent's Wired Consumer Phones Business. The Group realised a gain of US$1.8 million from these transactions.

For the first half of the financial year 2005, the Group spent US$20.0 million on research and development, which represented 4.4% of Group revenue. The Group will continue to exercise strong control over selling and distribution costs, administrative and other operating expenses in order to retain a lean operating structure.

Dividend

In view of the Group's performance, the Board of Directors has declared an interim dividend of US1.0 cent per ordinary share.

Liquidity and Financial Resources

The Group's financial resources continued to be strong. As at 30th September 2004, the Group had cash on hand of US$60.8 million. As at 30th September 2004, the Group was almost debt-free, with only an insignificant amount of outstanding borrowings. The borrowings are wholly repayable within five years with a majority falling due within one year, bear a fixed interest rate and are secured against certain equipment of the Group. The borrowings are denominated in Euros and United States dollars. The Group has adequate liquidity to meet its future working capital requirements.

Treasury Policies

The objective of the Group's treasury policies is to manage its exposures to fluctuations in foreign currency exchange arising from the Group's global operations and interest rates on its interest bearing loans. It is the Group's policy not to engage in speculative activities. Forward foreign exchange contracts were used to hedge against major exposures.

Working Capital

The level of stock and trade debtors as at 30th September 2004 increased substantially as compared to the position as at 31st March 2004. The position is considered healthy after taking into the account the seasonality of the Group's businesses. The turnover days for stock and trade debtors for the current period are 115 days and 62 days respectively, compared to 112 days and 61 days in the corresponding last period.

REVIEW OF OPERATIONS

Telecommunication Products

The telecommunication products business faced tremendous challenges during the first half of the financial year 2005. Although revenue rose slightly by 1.7% to US$304.0 million, profitability was adversely affected by a number of factors.

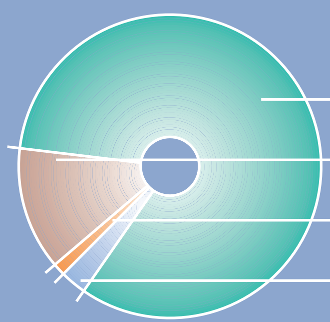
The cordless phone market in North America experienced keen competition during the first half of the financial year 2005, with softer-than-expected demand causing faster-than-expected price erosion. In addition, the underperformance of one of VTech's key customers resulted in a cancellation of orders due to its high inventory level. Our ability to compete was also affected by the unsatisfactory product mix. Consequently, although VTech was able to maintain a similar level of sales volumes in North America during the first half, the business was unable to achieve the same level of revenue in this region. The North American sales declined by 10.7% to US$251.4 million as compared with the same period last year, accounting for 82.7% of total telecommunication products revenue.

Compounding these problems was a rise in the cost of raw materials, notably plastics, which are sensitive to oil prices, and electronics components, where demand from the mobile telecommunications sector was strong during the first half of the calendar year 2004. This resulted in pressure on margins as the business was unable to achieve a similar level of savings as in the same period last year.

The Group moved to address these issues by streamlining operations, increasing manufacturing efficiency, reorganising management and developing new products to fill the gaps in the range. The sales operation was reorganised to ensure more profitable management of customer accounts, through improving the product mix and pricing strategies. General administrative overheads were also reduced. In November 2004, Mr. James C. Kralik, CEO of the telecommunication products business, left VTech to pursue personal interest. Being the Group CEO, Mr. Allan Wong continues to lead the business.

Outside the North American market, the business made good progress in Europe. Sales from this region rose strongly by approximately 1.7 times/168.0% to US$40.2 million, as we added new customers while working to increase sales to the existing customer base of major fixed-line telephone operators. European sales accounted for 13.2% of total telecommunication products revenue for the first six months, up from 5.0% in the first half of the financial year 2004.

TELECOMMUNICATION PRODUCTS REVENUE BY REGION



for the six months ended 30th September 2004	%	US$ million
North America	82.7	251.4
Europe	13.2	40.2
Asia Pacific	1.3	3.9
Others	2.8	8.5
Total	100.0	304.0

Electronic Learning Products

The electronic learning products business continued its strong recovery during the first six months of the financial year 2005. Revenue rebounded sharply by 66.8% to US$95.1 million and profit also showed a robust increase.

The first half of the financial year 2005 marked an important milestone for the electronic learning products business. Its newly launched TV learning system, V.Smile hit the shelves at the end of June 2004, receiving an enthusiastic reception from both retailers and consumers. V.Smile uses a video-game format and specially designed console and joystick controller to combine a high degree of entertainment and education. It targets the 3-7 year old category of pre-school children.

The hardware is backed by well-designed software cartridges that utilise well-known cartoon characters such as Winnie-the-Pooh, Spiderman, Care Bears and Scooby-Doo, for which VTech has entered into licensing arrangements with Disney, Marvel, American Greetings and Warner Brothers. V.Smile is the only product of its kind in the market currently and has filled a gap that retailers and licensors are eager to address.

Sales of V.Smile consoles during the first three months since delivery have far exceeded the Group's forecasts. The initial ratio of game "Smartridges" to consoles is also higher than anticipated, suggesting strong potential for recurring profit for the business.

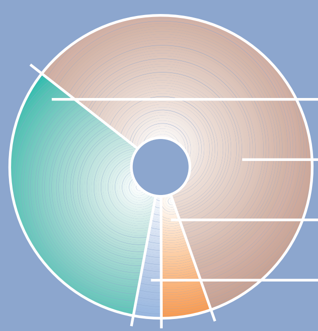
V.Smile has gained numerous awards in the toy and educational categories, from the United States, UK, Germany, France and the Netherlands. These endorsements have helped sales, which were further supported by well-planned and targeted TV and print media campaigns, as well as attractive and informative point-of-sale displays.

The success of V.Smile and the strength of the marketing effort have helped the electronic learning products business to regain lost shelf-space gradually among retailers in North America and win higher brand awareness among consumers. This has had a positive impact on the entire revamped product line, including traditional infant and pre-school products with and without licensed characters, all of which sold well during the first half of the financial year 2005 in North America and Europe.

Sales in North America rebounded sharply by close to 1.3 times/129.4% to US$31.2 million during the period, while sales in Europe grew strongly by 40.3% to US$56.1 million and we maintained our leadership position in the region.

Outside its major markets, VTech made further progress in developing those elsewhere, including mainland China, where the Group now has distribution for its electronic learning products in more than 20 cities across the country. During the first half of the financial year 2005, VTech received an award for "Outstanding Toy Enterprise in China" from the China Toy Association in recognition of its achievements and contributions to the toy industry.

ELECTRONIC LEARNING PRODUCTS REVENUE BY REGION



for the six months ended 30th September 2004

	%	US$ million
North America	32.8	31.2
Europe	59.0	56.1
Asia Pacific	5.3	5.0
Others	2.9	2.8
Total	100.0	95.1

Contract Manufacturing Services

The contract manufacturing services business recorded a 20.6% increase in revenue in the first half of the financial year 2005 to US$58.0 million. The profitability of the business was stable.

The marked growth in revenue was driven by two factors. The recovery of the global electronic manufacturing services (EMS) market, which for the first six months of the financial year 2005 grew by 12.0%, increased end market demand for products offered by our existing contract manufacturing customers. In addition, VTech was successful in winning business from these customers away from competing manufacturers, demonstrating the Group's success in providing high quality and flexible services.

These attributes also enabled the contract manufacturing services business to gain two important supplier awards during the period, including a first time award from Soundcraft, a UK maker of professional audio equipment.

Growth was especially strong from Europe and Japan, markets which accounted for 46.7% and 20.0% of total contract manufacturing services revenue for the first half of the financial year 2005, with North America's share declining slightly to 29.1%. By product category, switching mode power supplies and professional audio equipment accounted for 32.2% and 26.0% of total contract manufacturing services revenue respectively, followed by home appliances at 18.3% and wireless products at 12.1%.

VTech was also successful in maintaining stable profit at the contract manufacturing services business in the face of pressures on margins. The tight supply of electronic components and the rise in the price of oil led to an increase in the cost of raw materials during the first half of the financial year 2005, while customers have continued to seek cost reductions. Our ability to leverage the Group's purchasing power, together with the efficient cell-based manufacturing operation and strong supplier relationships enabled us to withstand these price pressures.

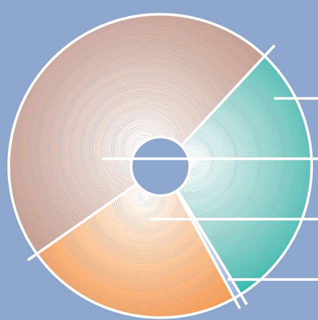
OUTLOOK

The second half of the financial year 2005 will remain challenging for VTech. Although the Group expects an improvement in the bottom line at the telecommunication products business in the second half of the current financial year, we anticipate that profit attributable to shareholders for the full year will still be lower than the financial year 2004.

VTech will continue to face strong competition in the cordless phone market in North America. Although revenue at the telecommunication products business is unlikely to increase in the second half of the financial year 2005, the cost savings being achieved will improve profitability. We nonetheless expect continued sales growth in Europe, where the Group has gained a major new ODM customer.

For the electronic learning products business, the momentum of V.Smile is

CONTRACT MANUFACTURING SERVICES REVENUE BY REGION



for the six months ended 30th September 2004

	%	US$ million
North America	29.1	16.9
Europe	46.7	27.1
Asia Pacific	23.5	13.6
Others	0.7	0.4
Total	100.0	58.0

expected to continue and we expect to see a higher sales contribution from this product in the second half of the financial year 2005.

The Group will continue to promote its electronic learning products and brand through well-executed media campaigns and in-store promotions. We also expect to continue to regain shelf space, although the main improvement will occur in the next financial year. At the same time as expanding the business, we will retain a lean operating structure in order to mitigate the impact of any price increases for raw materials or components.

To build sales and profitability for the business in longer term, the Group will secure further licensing arrangements, develop a new generation of V.Smile games, as well as develop more innovative products targeting especially the fast growing pre-school sector.

We expect continued growth of revenue and stable profitability at the contract manufacturing services business. The worldwide EMS market is expected to continue on an upward trend during the second half of the financial year 2005, though possibly at a slower pace when compared with the first half.

To defend margins, we will continue to make every effort to reduce cost through finding more local sources of supply, and improving working capital. The Group will also focus more strongly on those areas of the industry that offer the best margins, and explore opportunities in the production of automotive parts and medical equipment fields.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) Six months ended 30th September 2004 US$ million	2003 US$ million	(Audited) Year ended 31st March 2004 US$ million
Revenue	2	**457.1**	404.1	915.2
Cost of sales		**(323.6)**	(272.5)	(633.9)
Gross profit		**133.5**	131.6	281.3
Selling and distribution costs		**(85.0)**	(73.4)	(150.7)
Administrative and other operating expenses		**(18.6)**	(21.5)	(47.9)
Research and development expenses		**(20.0)**	(15.7)	(33.2)
Net receipt from indemnification claims	3	**3.3**	—	—
Operating profit	2 & 4	**13.2**	21.0	49.5
Net finance income	5	**0.4**	0.2	0.4
Share of results of associates		**—**	—	—
Profit from ordinary activities before taxation		**13.6**	21.2	49.9
Taxation	6	**(5.1)**	(3.8)	(3.6)
Profit attributable to shareholders		**8.5**	17.4	46.3
Dividends	7			
— Interim		**2.3**	6.8	6.8
— Final				15.8
Earnings per share (US cents)	8			
— Basic		**3.8**	7.7	20.5
— Diluted		**3.7**	7.7	20.5

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	(Unaudited) Six months ended 30th September 2004 US$ million	2003 US$ million	(Audited) Year ended 31st March 2004 US$ million
Shareholders' equity at beginning of period		**162.6**	127.5	127.5
Exercise of share options		**0.1**	—	—
Realisation of hedging reserve		**—**	—	3.6
Fair value losses on hedging during the period		**(0.2)**	(0.9)	(3.6)
Exchange translation differences		**0.5**	(0.8)	0.1
Net gains and losses not recognised in the income statement		**0.4**	(1.7)	0.1
Profit attributable to shareholders		**8.5**	17.4	46.3
Dividends approved and paid during the period	7	**(15.8)**	(4.5)	(11.3)
Shareholders' equity at end of period		**155.7**	138.7	162.6

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	(Unaudited) 30th September 2004 US$ million	2003 US$ million	(Audited) 31st March 2004 US$ million
Non-current assets				
Tangible assets	9	**53.8**	46.9	48.7
Leasehold land payments		**1.8**	1.9	1.8
Deferred tax assets		**3.9**	4.6	3.7
Investments		**0.2**	0.2	0.2
		59.7	53.6	54.4
Current assets				
Stocks		**185.8**	142.4	96.1
Assets held for sale		**—**	8.0	8.0
Debtors and prepayments	10	**206.3**	185.1	153.9
Taxation recoverable		**1.6**	—	4.6
Cash and cash equivalents		**60.8**	75.9	105.2
		454.5	411.4	367.8
Current liabilities				
Creditors and accruals	11	**(308.0)**	(266.6)	(200.3)
Provisions		**(40.8)**	(42.4)	(40.7)
Borrowings		**(0.2)**	(0.5)	(0.6)
Taxation payable		**(7.6)**	(13.2)	(14.4)
		(356.6)	(322.7)	(256.0)
Net current assets		**97.9**	88.7	111.8
Total assets less current liabilities		**157.6**	142.3	166.2
Non-current liabilities				
Borrowings		**(0.1)**	(2.1)	(2.0)
Deferred tax liabilities		**(1.8)**	(1.5)	(1.6)
		(1.9)	(3.6)	(3.6)
Net assets		**155.7**	138.7	162.6
Capital and reserves				
Share capital	12	**11.3**	11.3	11.3
Reserves	13	**144.4**	127.4	151.3
Shareholders' funds		**155.7**	138.7	162.6

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) Six months ended 30th September 2004 US$ million	2003 US$ million	(Audited) Year ended 31st March 2004 US$ million
Net cash (used in)/generated from operating activities	**(21.9)**	20.3	65.2
Net cash used in investing activities	**(4.5)**	(7.9)	(17.1)
Net cash used in financing activities	**(18.0)**	(5.4)	(12.2)
Effect of exchange rate changes	**—**	(1.5)	(1.1)
(Decrease)/increase in cash and cash equivalents	**(44.4)**	5.5	34.8
Cash and cash equivalents at beginning of period	**105.2**	70.4	70.4
Cash and cash equivalents at end of period	**60.8**	75.9	105.2

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

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

The financial information relating to the financial year ended 31st March 2004 included in the interim condensed consolidated financial statements does not constitute the Company's annual financial statements prepared under International Financial Reporting Standards for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31st March 2004 are available at the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29th June 2004.

The same accounting policies adopted in the 2004 annual financial statements have been applied to the interim condensed consolidated financial statements.

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

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

Primary reporting format — business segments

	(Unaudited) Six months ended 30th September			
	Revenue 2004 US$ million	Revenue 2003 US$ million	**Operating profit/(loss) 2004 US$ million**	Operating profit/(loss) 2003 US$ million
Telecommunication and electronic products	**456.2**	402.9	**13.4**	23.5
Other activities	**0.9**	1.2	**(0.2)**	(2.5)
	457.1	404.1	**13.2**	21.0

Secondary reporting format — geographical segments

	(Unaudited) Six months ended 30th September			
	Revenue 2004 US$ million	Revenue 2003 US$ million	**Operating profit/(loss) 2004 US$ million**	Operating profit/(loss) 2003 US$ million
North America	**299.5**	310.8	**1.2**	16.3
Europe	**123.4**	78.1	**6.4**	5.0
Asia Pacific	**22.5**	11.8	**1.4**	(0.5)
Others	**11.7**	3.4	**4.2**	0.2
	457.1	404.1	**13.2**	21.0

3 NET RECEIPT FROM INDEMNIFICATION CLAIMS In September 2004, the Group and Lucent Technologies Inc. ("Lucent") agreed to settle certain claims made by the Group relating to certain indemnifications previously provided by Lucent and Lucent Technologies Consumer Products, L.P. in connection with the acquisition by the Group of certain assets and liabilities of Lucent's Wired Consumer Products Business in 2000.

A net receipt of US$3.3 million, after deducting incidental expenses, was received by the Group in September 2004 pursuant to this settlement and was credited to the consolidated income statement. The settlement also provides for a further payment which, after deducting incidental expenses, is estimated to be approximately US$3.3 million. The amount will be credited to the Group's consolidated income statement on receipt.

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

	Note	(Unaudited) Six months ended 30th September **2004 US$ million**	2003 US$ million
Depreciation	9	**9.3**	9.4
Loss on disposal of tangible assets		**0.2**	0.6
Gain on disposal of assets held for sale		**(0.8)**	—
Gain on disposal of subsidiaries		**(1.0)**	—

5 NET FINANCE INCOME

	(Unaudited) Six months ended 30th September **2004 US$ million**	2003 US$ million
Interest expense	**(0.1)**	(0.1)
Interest income	**0.5**	0.3
	0.4	0.2

6 TAXATION

	(Unaudited) Six months ended 30th September 2004 US$ million	2003 US$ million
Company and subsidiaries		
Hong Kong	**2.9**	3.4
U.S.A.	**1.9**	0.2
Other countries	**0.3**	0.2
	5.1	3.8
Current tax	**3.9**	3.8
Underprovision in prior years	**1.2**	—
	5.1	3.8

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

7 DIVIDENDS

(a) Dividends attributable to the period :

	(Unaudited) Six months ended 30th September 2004 US$ million	2003 US$ million
Interim dividend declared of US1.0 cent (2003: US3.0 cents) per share	**2.3**	6.8

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

(b) Final dividend of US7.0 cents (2003: US2.0 cents) per share in respect of the year ended 31st March 2004, which totaled US$15.8 million (2003: US$4.5 million) was approved and paid during the period.

8 EARNINGS PER SHARE The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of US$8.5 million (2003: US$17.4 million).

The basic earnings per share is based on the weighted average of 225.6 million (2003: 225.5 million) ordinary shares in issue during the period. The diluted earnings per share is based on 230.6 million (2003: 225.5 million) ordinary shares which is the weighted average number of ordinary shares in issue during the period after adjusting for the number of dilutive potential ordinary shares arising from the outstanding warrants and under the employee share option scheme.

9 TANGIBLE ASSETS

	(Unaudited) US$ million
Balance as at 1st April 2004	**48.7**
Additions	**14.3**
Disposals	**(0.2)**
Depreciation	**(9.3)**
Effect of changes in exchange rates	**0.3**
Balance as at 30th September 2004	**53.8**

10 DEBTORS AND PREPAYMENTS Total debtors and prepayments of US$206.3 million (31st March 2004: US$153.9 million) includes trade debtors of US$190.7 million (31st March 2004: US$137.6 million).

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

	(Unaudited) 30th September 2004 US$ million	(Audited) 31st March 2004 US$ million
0-30 days	**103.3**	80.8
31-60 days	**60.5**	34.0
61-90 days	**21.8**	14.5
>90 days	**5.1**	8.3
Total	**190.7**	137.6

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

11 CREDITORS AND ACCRUALS Total creditors and accruals of US$308.0 million (31st March 2004: US$200.3 million) includes trade creditors of US$163.5 million (31st March 2004: US$93.0 million).

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

	(Unaudited) 30th September 2004 US$ million	(Audited) 31st March 2004 US$ million
0-30 days	**56.3**	45.6
31-60 days	**58.4**	23.6
61-90 days	**29.3**	14.3
>90 days	**19.5**	9.5
Total	**163.5**	93.0

12 SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Share Capital

	(Unaudited) 30th September 2004 US$ million	(Audited) 31st March 2004 US$ million
Authorised		
Ordinary shares: 400,000,000 (31st March 2004 : 400,000,000) of US$0.05 each	**20.0**	20.0
Issued and fully paid		
Ordinary shares: 225,627,133 (31st March 2004: 225,527,133) of US$0.05 each	**11.3**	11.3

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 undertaken in March 2004 at the exercise price of HK$10.20. The average closing price of the Company's shares traded on The Stock Exchange of Hong Kong Limited for the five business days immediately before the date on which options were exercised, was HK$13.58.

Share Options

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

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

As at 30th September 2004, the number of shares issuable under the options granted pursuant to the 2001 Scheme was 15,645,000, which represented approximately 6.9% of the issued share capital of the Company. The movements in the number of share options under the 2001 Scheme during the period were as follows:

Date of grant (Note 1)	Exercise price	Exercisable period (Note 2)	Balance in issue at 1st April 2004	Number of share options granted during the period (Note 3)	Number of share options exercised during the period	Number of share options lapsed/cancelled during the period	Balance in issue at 30th September 2004
26th February 2002 to 26th March 2002	HK$10.20	26th February 2005 to 25th March 2007	14,360,000	—	—	(2,245,000)	**12,115,000**
10th July 2002 to 8th August 2002	HK$8.71	10th July 2005 to 7th August 2007	1,340,000	—	—	(400,000)	**940,000**
20th April 2004 to 20th May 2004	HK$15.00	20th April 2007 to 19th May 2009	—	2,670,000	—	(80,000)	**2,590,000**
			15,700,000	2,670,000	—	(2,725,000)	**15,645,000**

Notes :

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

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

3. On 20th 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$15.00 per ordinary share. The closing price of the Company's shares traded on The Stock Exchange of Hong Kong Limited on 19th April 2004, being the date immediately before the date on which options were granted during the period, was HK$14.95.

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

Prior to 10th September 2003, the number of common stock issuable under the stock options granted pursuant to the HomeRelay Plan was 705,475, which represented approximately 9.5% of the then issued share capital of HomeRelay. All outstanding options lapsed since 10th September 2003 as a result of the termination of employment of the relevant grantees under the HomeRelay Plan. HomeRelay is now dormant.

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 license 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 wireline telephones and accessories in the United States and Canada, the Company granted AT&T warrants carrying rights to subscribe for 3,000,000 shares in the Company at a subscription price of HK$20.00 per share on or before 18th January 2012.

Pursuant to a Revised AT&T Brand License Agreement dated 24th January 2002, the subscription price of these warrants was revised to HK$8.43 (being the lower of the initial subscription price of HK$20.00 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 dealing days immediately preceding 15th July 2002) and the expiration date of these warrants was amended to 12th December 2011.

No warrants have been exercised since the date of grant.

13 RESERVES

	(Unaudited) 30th September 2004 US$ million	(Audited) 31st March 2004 US$ million
Share premium	**74.4**	74.3
Other properties revaluation reserve	**6.1**	6.1
Revenue reserve	**70.3**	77.6
Exchange reserve	**(6.2)**	(6.7)
Hedging reserve	**(0.2)**	—
	144.4	151.3

14 CAPITAL COMMITMENTS

	(Unaudited) 30th September 2004 US$ million	(Audited) 31st March 2004 US$ million
Capital commitments for property, plant and equipment:		
Authorised but not contracted for	**10.2**	25.0
Contracted but not provided for	**5.0**	7.6
	15.2	32.6

15 APPROVAL OF INTERIM REPORT The interim report was approved by the Board of Directors on 11th November 2004.

INTERIM DIVIDEND The directors have declared an interim dividend in respect of the six months ended 30th September 2004 of US1.0 cent per ordinary share to shareholders whose names appear on the register of members of the Company as at the close of business on 17th December 2004.

The interim dividend will be payable on 4th January 2005 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 20th December 2004.

CLOSURE OF REGISTER OF MEMBERS The register of members of the Company will be closed from 13th December 2004 to 17th December 2004, both dates inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates, must be lodged with the share registrars of the Company not later than 4:00 p.m., the local time of the share registrars, on Friday, 10th December 2004.

The principal registrar is Butterfield Fund Services (Bermuda) Limited, Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda, the branch registrar in the United Kingdom is Capita IRG Plc, Bourne House, 34 Beckenham Road, Kent BR3 4TU, DX91750, Beckenham West, United Kingdom, and the branch registrar in Hong Kong is Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS Details of the movements in share capital, share options and warrants of the Company are shown in note 12 to the condensed consolidated financial statements.

DIRECTORS' INTERESTS As at 30th September 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 registers maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance of Hong Kong (the "SFO") and Paragraphs 16.13 to 16.17 of the Listing Rules of the Financial Services Authority in the United Kingdom ("UK Listing Rules") were as follows:

(1) Interests in issued shares

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

Notes:

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

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.

3. All the interests stated above represent long positions.

(2) Share options

Name of director	Date of grant	Exercise price	Exercisable period (Note 1)	Number of share options held as at 1st April 2004	Number of share options held as at 30th September 2004
Allan WONG Chi Yun	11th March 2002	HK$10.20	11th March 2005 to 10th March 2007	2,000,000	2,000,000
Albert LEE Wai Kuen	5th March 2002	HK$10.20	5th March 2005 to 4th March 2007	1,750,000	1,750,000

Notes:

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

2. No options were exercised by any director or lapsed during the six months period ended 30th September 2004.

Save as disclosed above, as at 30th September 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 Issuers containing in the Listing Rules or pursuant to Paragraphs 16.13 to 16.17 of the UK Listing Rules.

SUBSTANTIAL SHAREHOLDINGS As at 30th September 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 as at 30th September 2004 were as follows:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding
HKSCC Nominees Limited	Nominee	107,428,629	47.6%
Trustcorp Limited	Interest of Controlled Corporation (Notes 1 & 3)	74,101,153	32.8%
Honorex Limited	Beneficial owner (Notes 1 & 3)	1,416,325	29.7%
	Interest of Controlled Corporation (Notes 1 & 3)	65,496,225	
Conquer Rex Limited	Beneficial owner (Notes 1 & 3)	65,496,225	29.0%
Value Partners Limited	Investment Manager (Notes 2 & 3)	30,536,000	13.5%
CHEAH Cheng Hye	Interest of Controlled Corporation (Notes 2 & 3)	30,536,000	13.5%
HSBC Nominees (Hong Kong) Limited	Nominee	17,162,980	7.6%
Twin Success Pacific Limited	Beneficial owner (Notes 1 & 3)	7,188,603	3.2%

Notes:

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

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

3. All the interests stated above represent long positions.

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES The Company has not redeemed any of its shares during the six months ended 30th September 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period under review.

AUDIT COMMITTEE The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the unaudited interim consolidated financial statements for the six months ended 30th September 2004.

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

CODE OF BEST PRACTICE In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the period under review except that certain independent non-executive directors of the Company were not appointed for a specific term.

MODEL CODES The Company has adopted the Model Codes as set out in Appendix 10 of the Listing Rules and Appendix to Chapter 16 of the UK Listing Rules regarding securities transactions by directors in relation to the accounting period covered by the interim report. After specific enquiry, all directors of the Company confirmed that they have complied with the required standard of dealings as set out therein.

VTech Holdings Ltd
偉易達集團

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

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