



VTech Holdings Ltd
偉易達集團

Rebuilding Value

annual report 2001

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Rebuilding Value

“The past year was the most difficult in our history. Recognizing our weaknesses and acknowledging our mistakes have been a painful process, but also useful. It has allowed us to refocus on our core competencies to make VTech more efficient, cost-effective and market-oriented. We are rebuilding value in the Group, from the bottom up and laying a new foundation for the future.”



Allan WONG

Corporate Profile

VTech is a leading consumer-focused technology company which designs, manufactures, markets and sells telecommunication and electronic learning products through its extensive international distribution network. With its excellence in technology manufacturing, the Group also engages in contract manufacturing services. The VTech brand has become a global brand and the Group has rights to use the AT&T brand on wired telephone products.

Founded in Hong Kong in 1976, VTech is today a global company with annual sales over US\$1 billion. The Group's high frequency cordless phones enjoy dominant market share in the US while the VTech brand electronic learning products represent a prominent label in all major markets. With its corporate culture rooted in "innovation & technology", the Group invested over US\$66 million in research and development in the financial year 2001. It launches more than 80 innovative and high quality products each year. VTech's strengths in product development and manufacturing enable it to focus on the higher margin segments of its particular markets. The Group intends to exploit this advantage through an increased emphasis on marketing.

With headquarters in Hong Kong, VTech has a presence in 13 countries and around 20,000 employees, including over 1,000 R&D professionals in research and development centres in the US, Canada, Hong Kong and China. This network allows it to stay abreast of the latest technology and market trends throughout the world.

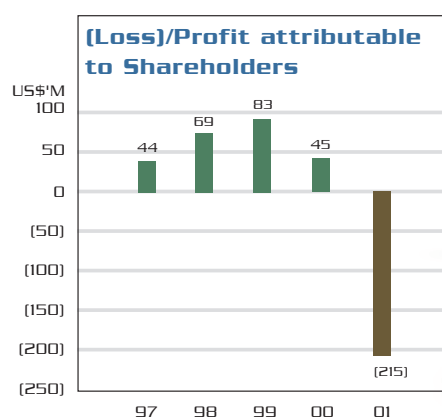
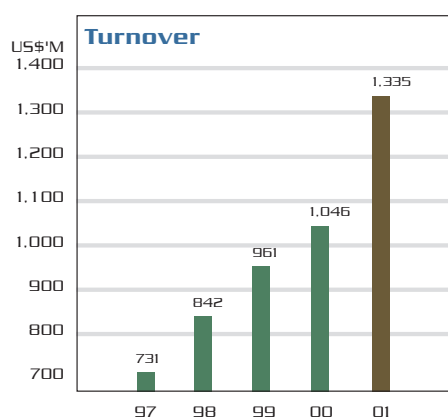
Shares of VTech Holdings are listed on both the Hong Kong and London stock exchanges (SEHK:303; London SE:VTH). Ordinary shares are also available in the form of American Depositary Receipts (ADRs) through the Bank of New York (ADR: VTKHY).

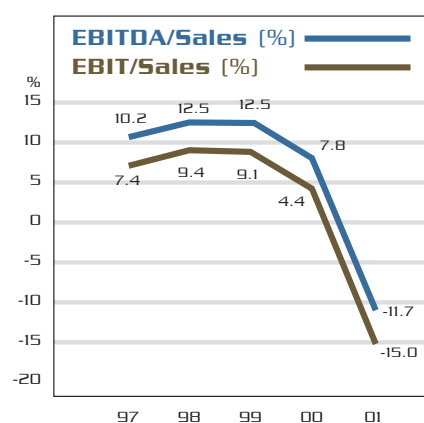
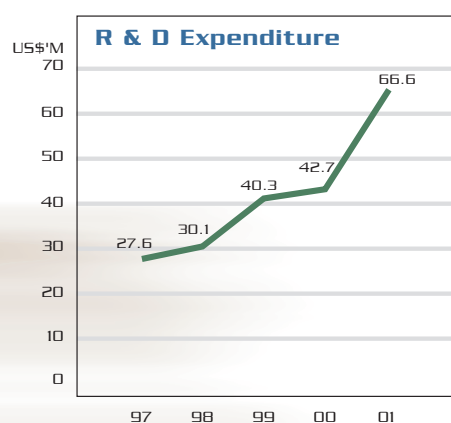
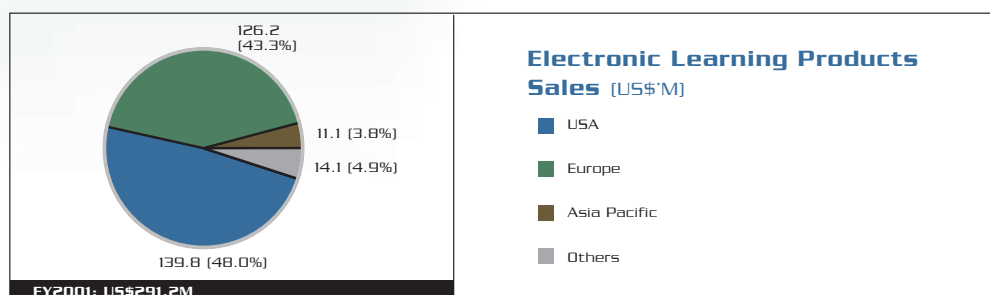
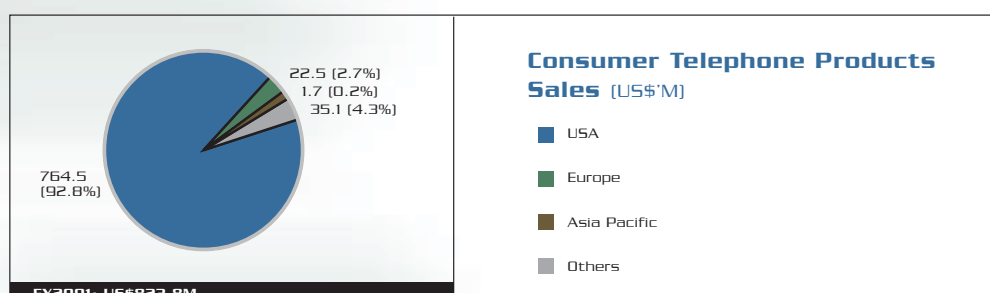
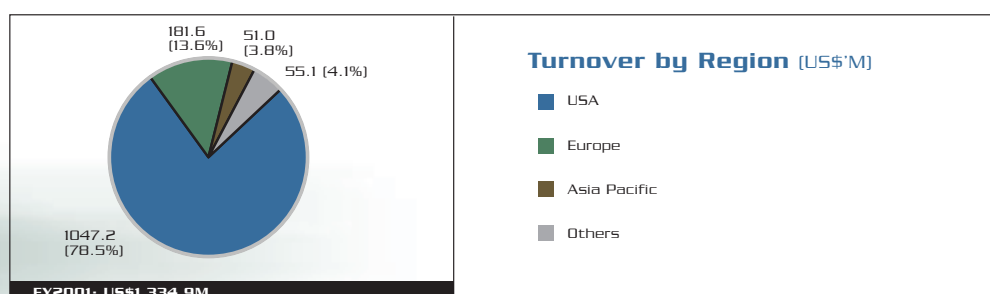
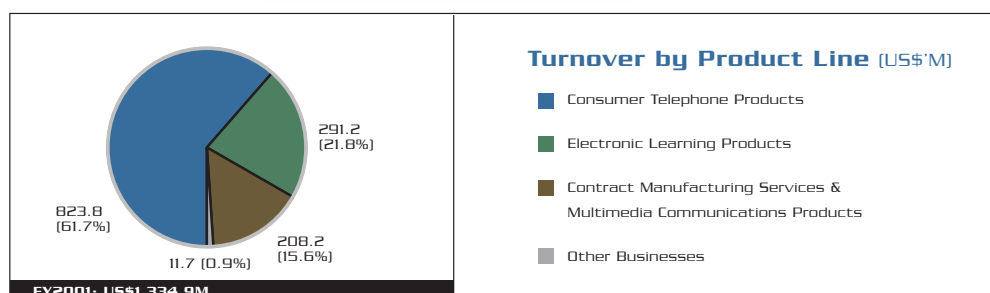
VTech has successfully built a business based on its vision of *enriching lives through putting technology into the hands of people.*

All figures are in US\$ million except those stated otherwise

	Year to 31st March	
	2001	2000
Turnover	1,334.9	1,045.9
Percentage change on the preceding year	27.6%	8.9%
(Loss)/profit before taxation	(213.1)	47.6
As a percentage of total turnover	-16.0%	4.6%
As a percentage of average net assets	-112.7%	16.4%
(Loss)/profit attributable to shareholders	(215.0)	45.0
As a percentage of average shareholders' funds	-114.2%	15.5%
Basic(loss)/earnings per share	(96.7)¢	21.0¢
(in United States cents)		
Dividends per share	Nil	17.5¢
(in United States cents)		
(Reduction from)/addition to retained profit	(241.1)	7.9
Total capital employed	80.7	297.6
Shareholders' funds	79.8	296.8
Net assets per share (in United States cents)	35.4¢	138.4¢
Stocks	187.5	256.8
Average stocks as a percentage of total turnover	16.6%	12.3% *
Debtors	195.3	188.0
Average debtors as a percentage of total turnover	14.4%	12.4% *
Long-term liabilities	138.2	171.1
As a percentage of capital employed	171.3%	57.5%
Employees (number of persons)		
Manufacturing	17,493	25,070
Non-manufacturing	2,134	2,876
Total employees at end of year	19,627	27,946
Average for the year	25,622	24,507 *

*Excluding the effect of the Wired Business acquisition on 31st March 2000





Allan WONG



C.W. TO



Jack HIRSCH



Paddy LAW



Barry ARMSTRONG



Albert LEE



William HO



Highlights

- Turnover increased 27.6% to US\$1,334.9 million.
- Net loss of US\$215.0 million
- Broad restructuring to cut costs, improve efficiency
- Major management changes

Rebuilding Value

The financial year 2001 was undoubtedly the most difficult VTech has faced since we began operations in 1976. A combination of factors, in particular, the problems associated with the newly acquired consumer telephone business of Lucent, led to some major operating losses and write-offs. This in turn triggered a broad restructuring of the entire group, leading to further charges against our earnings and resulting in the profit warning and restructuring announcement that was issued in March 2001. At the same time, a number of unfavourable external factors affected us during the year. These included the weak Euro and shortages of components leading to delivery delays which affected the Group's ability to meet orders, both of which led to lost sales. Market conditions for electronic learning products also deteriorated.

A contributing factor to our poor results has been our expansion. For many years, we have been aggressively growing our businesses and we successfully built VTech into a company with over US\$1 billion in annual sales in the financial year 2000 while this growth was achieved through investing in new businesses and focusing on growing market share. At times, this was done at the expense of margin. The restructuring we launched earlier this year is aimed at refocusing on our core competencies, driving for maximum operational efficiencies and slashing unnecessary overhead. In doing so, we are committed to rebuilding value, regaining the confidence of the investment community and ensuring a return to strong bottom-line growth in the years ahead.

Results

Group turnover for the year rose by US\$289.0 million, mainly attributable to sales from the acquired Lucent consumer telephone operation. However, the profitability and working capital of the Group were adversely affected and constrained by the poor performance and unfavourable business conditions of the Lucent operations. As a result the Group has reported a net loss of US\$215.0 million for the year, including the one-off costs of the restructuring and asset write-downs. The board has not recommended a final dividend.

Restructuring

We launched a restructuring plan in March 2001 that involved laying off 4,500 people or 16% of our total employee force worldwide, winding down and restructuring non-performing business units and consolidating operations to improve efficiency. The details of our seven point plan are given later in this report. To enable the plan to be executed swiftly and with minimum legacy issues, we have appointed a new Chief Operating Officer to take charge of the whole process.

Because the losses incurred through the restructuring process were large, we have worked closely with our bankers to ensure their continued support. I am pleased to report that all of our bankers are firmly supporting our plan.

Already, the majority of the restructuring has been completed, with the remainder to be finished in the coming months. These actions will enable the Group to save over US\$30.0 million a year and make VTech a much leaner and nimbler group, that will react more quickly to changes in market conditions.

Turning Around the Telephone Business

After acquired the Lucent business in April 2000, we discovered that the conditions of the business were much worse than we had been led to expect. Lucent did not disclose when we signed the Agreement for the Purchase and Sale of Stock and Assets that actual sales were considerably lower than those it had forecast while inventory levels were exceptionally high in comparison to demand. The lower sales and excessive stocks resulted in the Mexican factories being under utilized and an increase in operational losses. Our original integration plan was compromised and a new plan was immediately put in place to consolidate the operations in an effort to cut overheads and clear the excessive stocks. We attempted to negotiate with Lucent for compensation but when no agreement was reached, on 25th January 2001 we filed a complaint in the United States District Court for the Southern District of New York seeking damages in excess of US\$300.0 million against Lucent Technologies Inc. and Lucent Technologies Consumer Products, L.P. for fraud and breaches of the Agreement for the Purchase and Sale of Stock and Assets. The litigation is continuing.

To accelerate the consolidation of the consumer telephone business, I took direct control of the business as an interim CEO at the beginning of the year. I immediately put in place broader measures to streamline the operation and cut further excessive inventories. The Mexican manufacturing and repair operations were closed and production was relocated to our more cost-effective facilities in mainland China. The majority of the US consumer telephone business operations were consolidated into Beaverton, Oregon from New Jersey in an effort to reduce expense. The distribution and call centre operations were consolidated and out-sourced to third parties in San Antonio and St. Louis respectively to further cut overhead. A new President has been appointed to manage the combined sales and marketing operations in North America. At the same time, I have refocused our R&D effort onto higher margin and more commercially viable products. The number of projects and platforms has been streamlined to improve efficiencies. To enable tighter project

management, we have closed the New Jersey and UK R&D operations and its development activities have been assumed by our Canada, Hong Kong and mainland China-based R&D teams.

Our US and European sales strategies have also been revised with an emphasis on gross margin rather than sales volumes. A new process for order control between the sales offices and the factory has been put in place to ensure accuracy of sales forecasts and minimize inventory build-up. The goal is to increase significantly our inventory turns, so as to maximize our return on capital employed.

At this point, I am pleased to report that we are beginning to see some positive results from these changes. With the restructuring now well on its way to completion, a recruitment firm has been retained to search for a permanent CEO for the consumer telephone business unit.

Tackling Marketing Weaknesses in Electronic Learning Products

The financial year 2001 has also been a difficult one for electronic learning products (ELP), where sales fell by 16.4% to US\$291.2 million, mainly due to the weak Euro, tight supply of critical components and the success of a major US competitor, Leap Frog, in taking market share from us. VTech is still the largest ELP supplier in the world, with a strong position in the ELA category. That sector, however, is shrinking mainly because of the proliferation of low-cost PCs and TV games.

Over the years, VTech's success in the ELP category has been mainly attributable to our excellent technology, innovative product design and exceptional quality. As the market becomes more and more commoditized, however, superior marketing has become a major factor in continued success. To strengthen VTech's competence in this area, we appointed a CEO to direct the entire ELP operation, including worldwide sales and marketing. Given his strong background in consumer product marketing, I strongly believe he can help reposition and grow the business.

Strong Growth in Contract Manufacturing Services

A bright spot in our businesses has been our contract manufacturing services and multimedia communication products, both of which recorded strong sales growth. To streamline these operations, they were merged in January 2001.

Other Businesses

Our newer businesses, including the mobile phone R&D centre in Aylesbury, UK that we acquired in September 2000, remained cost-centres, rather than revenue generators during the financial year. As part of the restructuring process, we will close this operation. This should save the Group over US\$10.0 million a year. In light of this decision, we have also fully written-off the cost of this acquisition in the financial year 2001. To promote synergies among the Group's other business units, the PDA (personal digital assistants) and IA (information appliances) businesses are being merged into the consumer telephone business unit, further reducing R&D, manufacturing and sales costs.

During the year, the Group invested in a number of e-business initiatives. Those that are not performing will either be closed down or restructured.

Appreciation

In this difficult year, my particular thanks on behalf of the board of directors are extended to all our employees. Their hard work and continued loyalty to the Group despite the rationalization has ensured that our operations have continued smoothly during the restructuring process.

Outlook

With predicted economic uncertainties hanging over the US, our major market, it would be inappropriate to be over-optimistic for the financial year 2002. We expect the US market to remain soft for the remainder of the year, especially for our ELPs, since a number

of major retailers are reducing their inventory exposure in view of the current economic uncertainty. Equally, while our restructuring is proceeding as planned, many of the benefits will not produce tangible financial gain for several months.

Nevertheless, we expect our business to improve. The costs of our various restructuring steps were largely all taken in the financial year 2001. The US\$110.4 million of restructuring and impairment charges that affected our bottom line will thus not recur in the financial year 2002. The closure of the Mexico factories and the elimination of the US operations acquired from Lucent will reduce Group operating costs substantially. The current state of the market also leads us to believe that the component shortages that have affected sales and margin at our business units will not be a factor in the financial year 2002.

In addition, the rapidly improving cost structure of all our operations should increase the Group's competitiveness. In the longer term, the creation of a more marketing oriented VTech, coupled with our proven core competencies in product innovation and technology, will allow us to recapture lost market share in the ELP business.

Without question VTech is going through a very challenging period. However, I am confident that we are learning from our past misfortunes and will emerge from these tough times stronger than before, more focus on building shareholder value.



Allan WONG Chi Yun

Chairman

Hong Kong, 27th June 2001

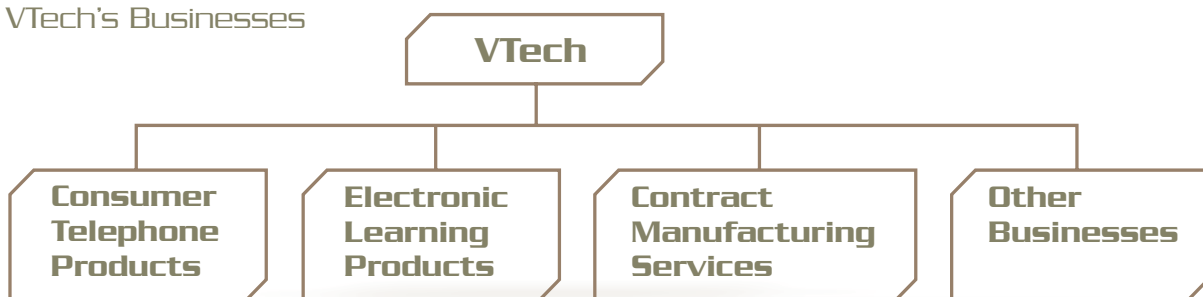
Review of Operations

Restructuring of Operations

In the final quarter of the financial year 2001, VTech launched a detailed seven-point restructuring plan to reduce costs, raise efficiency and increase both the focus of the Group's worldwide operations and synergies among them. Through the restructuring, VTech has streamlined its workforce by approximately 16.0% worldwide and will reduce operating costs by approximately US\$30.0 million annually. We will also increase our emphasis on higher margin products.

The wide-reaching changes will be completed by the end of the calendar year 2001.

VTech's Businesses



The key features of the plan are:

- ▣ Senior management is being strengthened through the appointment of a new Chief Operating Officer to oversee the restructuring, ensure adherence to schedules and targets, strengthen financial control and seek further ways to raise the efficiency of the Group.
- ▣ The consumer telephone operations in the United States are being rationalized and consolidated into locations at Beaverton, Oregon and San Antonio, Texas. The R&D structure has been reorganized to achieve greater cost efficiencies and the New Jersey and UK centres have been closed. Factories in Mexico, which were acquired from Lucent in 2000 in connection with the consumer telephone business, have been closed down and premises are being sold.
- ▣ The electronic learning products (ELP) operations in Europe are being centralized under one regional management to boost efficiency. The operations in Hong Kong and Dongguan in mainland China are being streamlined.
- ▣ The information appliances business has been integrated into the consumer telephone business unit, to leverage joint technology, marketing and sales channels.
- ▣ The multimedia communication products unit has been merged with the contract manufacturing services unit.
- ▣ e-Business related services, which are long-term investments and have not yet contributed to Group results, are being downsized and re-organized to achieve synergies with other Group companies.
- ▣ Executive Directors have agreed voluntarily to reduce their pay by 20%.

Group Performance

Group turnover increased by 27.6% over the financial year 2000 to US\$1,334.9 million. The increase is due to sales of AT&T branded products acquired from Lucent. Nevertheless, the Group recorded a loss of US\$215.0 million for the year ended 31st March 2001.

As advised in our profit warning announcement on 26th March 2001, the losses were primarily due to the poor performance and unfavourable business conditions of the Lucent consumer telephone business which we acquired last year. This led to working capital constraint which resulted in broad-based business restructuring and consolidation costs as well as adjustments to certain intangible assets. External factors, including the weak Euro and component shortages also affected the performance of the Group. The costs of our restructuring have largely been recognized in the financial year 2001 and, together with the associated asset impairment charges amount to US\$110.4 million. The principal items are: severance costs of US\$36.0 million; fixed asset impairment charges of US\$17.2 million as a result of the pending divestiture of the Mexico factory and repair facilities; intangible impairment charges of US\$25.2 million in respect of the research and development acquired for the development of mobile phones; inventory write-downs on discontinued products of US\$17.1 million and other closure costs of US\$14.9 million.

The focus of the consumer telephone business is now firmly on higher margin products such as advanced technology 2.4GHz cordless phones and more feature-rich 900MHz cordless phones, which are expected to boost earnings.



Consumer Telephone Products

The consumer telephone products business remains the core of VTech's operations, in the financial year 2001 accounting for 61.7% of total Group turnover. Turnover of the product line increased 50.1% to US\$823.8 million, which included US\$319.8 million for sales of AT&T branded phones. Profitability of this business area, however, was adversely affected by the unfavourable condition of the Lucent business and its excessive inventory levels in relation to demand. These factors also constrained our working capital and had negative impact on the Group's other operations. We have worked hard to remedy these matters during the year.

In addition, the industry faced a shortage of critical components VTech needed for its 2.4GHz phones. As a result, in the first half of the year, we were unable to increase production to meet what has proven to

The poor performance of the Lucent business and the high inventory level led to significant working capital constraint which resulted in broad-based business restructuring and consolidation, including asset impairment, employee terminations, streamlining the research and development function, divesting the facilities in Mexico and consolidating our US consumer telephone operations. This working capital constraint has also negatively impacted the Group's other operations.

We are cutting costs and increasing the efficiency of manufacturing, sales and distribution operations. The majority of the consumer telephone business operations in the US have been consolidated into Beaverton, Oregon. The distribution and call centre operations were consolidated and out-sourced to third parties in San Antonio, Texas and St. Louis



be robust demand for these products. There was also an increase in sell-through costs, including rebates and discounts.

We suffered substantial losses in connection with the business acquired from Lucent. The adverse changes in the condition of the business were not fully disclosed to us and sales of the AT&T branded phones acquired with the acquisition greatly underperformed our original forecast. On 25th January 2001, VTech filed a complaint in the United States District Court for the Southern District of New York seeking damages in excess of US\$300.0 million against Lucent Technologies Inc. and Lucent Consumer Products, L.P. for fraud and breach of the Agreement for the Purchase and Sale of Stock and Assets.

respectively. We have also reorganized the R&D structure and are divesting the factories in Mexico, moving production and repair to mainland China.

Simultaneously, VTech has integrated the information appliances business into the consumer telephone business unit to leverage joint technology, marketing and sales channels. This new business area is in a development stage and incurred loss in the financial year 2001.

The focus of the consumer telephone business is now firmly on higher margin products such as advanced technology 2.4GHz cordless phones and more feature-rich 900MHz cordless phones, which are expected to boost earnings.



We are now revitalizing the business through a series of far-reaching initiatives that are cutting costs, improving the product range and bringing greater focus to marketing.

Electronic

Learning

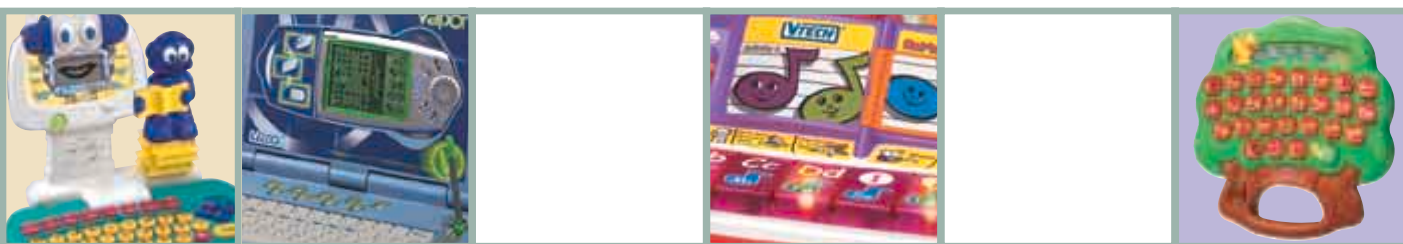
Products

Sales of our electronic learning products (ELP) decreased by 16.4% over the financial year 2000 to US\$291.2 million. The fall in turnover was especially severe in the first half of the year and was partly attributable to component shortages and delivery delays. This affected our ability to meet orders, which remained reasonably buoyant. The weak Euro also affected sales growth, as 43.0% of our ELP sales in Europe are denominated in the currency, which was not hedged. These factors and rise in the price of parts and materials should not repeat in the financial year 2002.

We are now revitalizing the business through a series of far-reaching initiatives that are cutting costs, improving the product range and bringing greater focus to marketing.

VTech has streamlined the ELP operations in Hong Kong and Dongguan, China. New “cell production” and “cell engineering” concepts have been introduced to improve efficiency, by breaking down production teams into small self-contained “project cells”. Under this system, the job scope of each cell member is widened, allowing the size of each project team to be reduced and eliminating middle tiers of coordinators. This reduces costs and optimizes the types of development projects undertaken.

In marketing, we are increasing our emphasis on segmenting our target markets and using well-known icons such as “Bob the Builder” in Europe. We are also focusing more on the infant and pre-school toys that have great market potential.



We have strengthened the senior management through the appointment of a worldwide CEO of ELP, whose role is to expand VTech's position as the leading provider of interactive learning products for children from birth to pre-teenhood. The new CEO will focus on building VTech's business in the ever-changing ELP industry and help to strengthen the global reach of our ELP. In addition, the ELP operations in Europe are being centralized under one regional management to boost efficiency. Country managers now oversee operations, enabling us to penetrate local markets more aggressively and reduce operating cost.





Our contract manufacturing services continue to show steady growth, on the back of VTech's reputation and know-how in manufacturing telecommunication products.

Contract Manufactu Services

Our contract manufacturing services continue to show steady growth, on the back of VTech's reputation and know-how in manufacturing telecommunication products. Turnover increased by 90.6% over the financial year 2000 to US\$127.1 million. As a result, total turnover at the contract manufacturing services and multimedia communication products units rose 50.0% to US\$208.2 million.

North America is still the major market for our contract manufacturing services, accounting for 45.9% of turnover. Our growing reputation for reliability in both the quality of our production and our ability to meet deadlines, even in the most difficult market environment, is being rewarded with an expanding base of major clients. The business focus of the unit is directed towards the manufacture of

Production costs of the multimedia communication products increased due to initial set up costs at our Mexico facility. We hired consultants to study the validity of the business model, incurring professional fees. We also made full provision for the components inventory of our DVD venture, which has been discontinued.



telecommunication products where VTech occupies a niche that allows us to command better margin.

As part of the Group-wide restructuring, VTech merged the multimedia communication business unit into contract manufacturing services. The majority of this unit's revenue derives from the manufacture of set-top boxes on an OEM basis and hence presents obvious synergies. The merger will save operational costs by restructuring various functions and eliminating overlap.

ring

Mobile Phones

Our mobile phone business is still in the development stage, following our acquisition of UK-based Sensei in September 2000. As we have decided to close the R&D centre in the UK as part of our overall restructuring, we have fully written off the intangible assets purchased as part of the Sensei acquisition, including writing down the older GSM components inventory.

e-Business Related Services

During the financial year 2001, losses on investment in new businesses, including losses from our Internet-service provider (ISP) in the US have adversely affected our performance for the year.

The change in market sentiment has affected our intention, announced in October 2000, to spin off VTech's eLearning business, which combines physical and virtual methods of delivering high quality learning. Although we have postponed the initial public offering, we continue to make progress in this business. In February 2001, we entered into a strategic alliance with Longman Hong Kong Education, to provide a new e-Education channel for schools and students via the Internet. Losses were incurred from this business during the year.

As part of the restructuring, we are now scaling down our e-Business investments and re-organizing them, to focus more on achieving synergies with other group companies. Our business-to-business website, Chinacommercer.com, which we launched in October 2000 and the co-operative agreement with South China University of Technology to form SCVTech, an application services provider and consulting firm, offer the prospect of exploiting

opportunities in the e-commerce software market in China, in particular providing "one-stop" e-commerce solution for business in mainland China. The cost of these investments expensed in the year was US\$0.7 million.

Corporate Affairs

Liquidity and Financial Resources

Net cash outflow from operating activities during the year increased by US\$49.6 million over last year's US\$10.3 million net cash inflow. This was mainly resulted from the decrease in operating profit and change in working capital.

The acquisition of the Lucent consumer telephone business increased the Group's long-term borrowings to US\$136.9 million, which represented 169.6% of the capital employed, as compared to 57.0% last year. Total interest bearing liabilities increased from US\$185.9 million to US\$249.6 million.

In line with our restructuring plan, we expect our debt position to improve in the financial year 2002 being achieved from rapidly improving cost structure of all our operations and sale of certain assets as described in note 14 to the financial statements. A majority of the Group's borrowings are on a floating rate basis except for term loans of US\$7.0 million which interest is charged on fixed rates.

The maturity profile of indebtedness is contained in note 17 to the financial statements. A small portion of the borrowings are secured against land and buildings. With cash on hand and available banking facilities at year end, the Group has adequate working capital to meet its future working capital requirements.

Other Businesses

Treasury Policies

The objective of the Group's treasury policies is to manage its exposure to fluctuation in foreign currency exchange rates on specific transactions. It is our policy not to engage in speculative activities.

Investors

In our investor relations programme, we were active in explaining developments of VTech to global investors. During the year, we participated in five investment conferences in Hong Kong, New York and Singapore and held roadshows in the US and Europe in July 2000 and again in Europe in December 2000.

We also maintain contact with the investment community on a regular basis through one-on-one investor meetings, plant visits and analyst presentations. Our annual and interim results presentations as well as the important restructuring announcement, which were held in Hong Kong, were complemented by international teleconferences, giving international investors the opportunity to speak directly with VTech's senior management.

Employees

Good employee relations are a hallmark of VTech as a company. Remuneration is reviewed regularly to ensure it remains competitive and appropriate for the particular markets in which we operate. The Group also provides benefits including provident fund, insurance and medical benefits. We have implemented a discretionary bonus program and a share option scheme for employees, in which benefits are determined according to the performance of the group and individual employees.

Despite the rationalization of the workforce during the restructuring, we have continued to enjoy the support of employees at all levels.

We continue to invest in training and development to maintain the skill base we need to achieve our business objectives. We encourage employees' continuing education and provide all individuals, regardless of position, with equal opportunities for self-development.

In Hong Kong and China, our Training & Development section works closely with all business units to identify training programme that offer the most value in meeting VTech's business objectives. Numerous training programme are provided to our staff, in areas such as management leadership, software and language skills, technical seminars and workshops, as well as joint post-graduate and diploma courses offered in conjunction with reputable mainland Chinese universities.

Customers

One of VTech's strengths is our enduring customer relationships. As a consumer-focused technology company, introducing the right product for the right market at the right time is vital to success, and only by getting close to our customers can we determine market trends, improve our products and build brand loyalty.

In addition to a number of consumer awareness campaigns, marketing of new products and product development focus groups, we also offer a number of feedback channels for consumers including customer reply cards, the VTech websites and telephone hotlines.

Our business strategy is based on a customer-centered philosophy that is designed to create a complete range of products that reinforce brand loyalty throughout the consumer's lifetime and across generations.

Community

Social responsibility and progress in education have been core values of VTech for decades and give us a high level of involvement with local communities wherever we operate. During the year, the Group made charitable and other donations of US\$0.2 million.

We work with universities in Hong Kong and China on research and development projects. These programme provide the universities with "real life" projects to challenge the young talent of tomorrow. VTech also participates in academic bodies and offers sponsorships for university students in Hong Kong.



Year in Review

April 2000

- Dr. Toy's 100 Best Children's Products of 2000" compiled by Dr Stevanne Auerbach (also known as Dr. Toy) in the US, named our Power Zone™ Edge "Dr. Toy's Best Classic Toy".

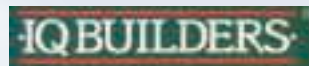


May 2000

- Our Little Smart DJ Jazz'n Jam™ was given the "Seal of Approval" by the National Parenting Centre in the US.

June 2000

- Launched our IQ Builders brand in Spain.



July 2000

- "Dr. Toy's 100 Best Children's Products of 2000", named our Non-Stop Girl™ "Dr. Toy's Best Vacation Toy".
- Our Impact™ was given the "Silver Award" in the UK's Good Toy Awards 2000.

August 2000

- Successfully launched our DECT cordless phone in the UK under the VTech brand, within six months becoming one of the top four brands of DECT phones in the UK.
- Our contract manufacturing services received the "Best Supplier Award" from Lexicon, the world leader in digital audio.



September 2000

- Our Phusion™ was given an honorable mention in the Children's Media Awards.

October 2000

- Launched our first B2B website, Chinacommercer.com and the amount of the first transaction was one of the highest recorded in B2B e-commerce in China.
- Signed an agreement with Provisional HK Science Park Co. Ltd. to be a corporate tenant and VTech will become the first tenant to occupy an entire corporate building.



- Our Brainstation President™ won the Belgium Toy Award 2000 and Toy of the Year Award in the category 8-12 years in Netherlands. It was also awarded the Consumer prize by consumers throughout Belgium.



Muttzart's Symphony Sounds™

- Our Non-Stop Girl™, Little Smart DJ Jazz'n Jam™ and Muttzart's Symphony Sounds™ were given the prestigious "Children's Choice Award" by the Canadian Toy Testing Council.

November 2000

- Announced a partnership with South China University of Technology to establish SCVTech, an application services provider and consulting firm.
- Launched the VTech School of IT which offers integrated classroom and online professional IT training for learners with different levels of technical knowledge from various sectors.
- At the 2000 HK Awards for Industry, our electronic learning product, DJ Jazz'n Jam™ won the Consumer Product Design Award and our Power Zone™ Edge was awarded a Certificate of Merit in Consumer Product Design.



December 2000

- Our B2B website, Chinacommercer.com launched its on-line travel channel, providing segmented demand-and-supply information on 24 different categories of travel products, industry news and highlights of selected quality products.

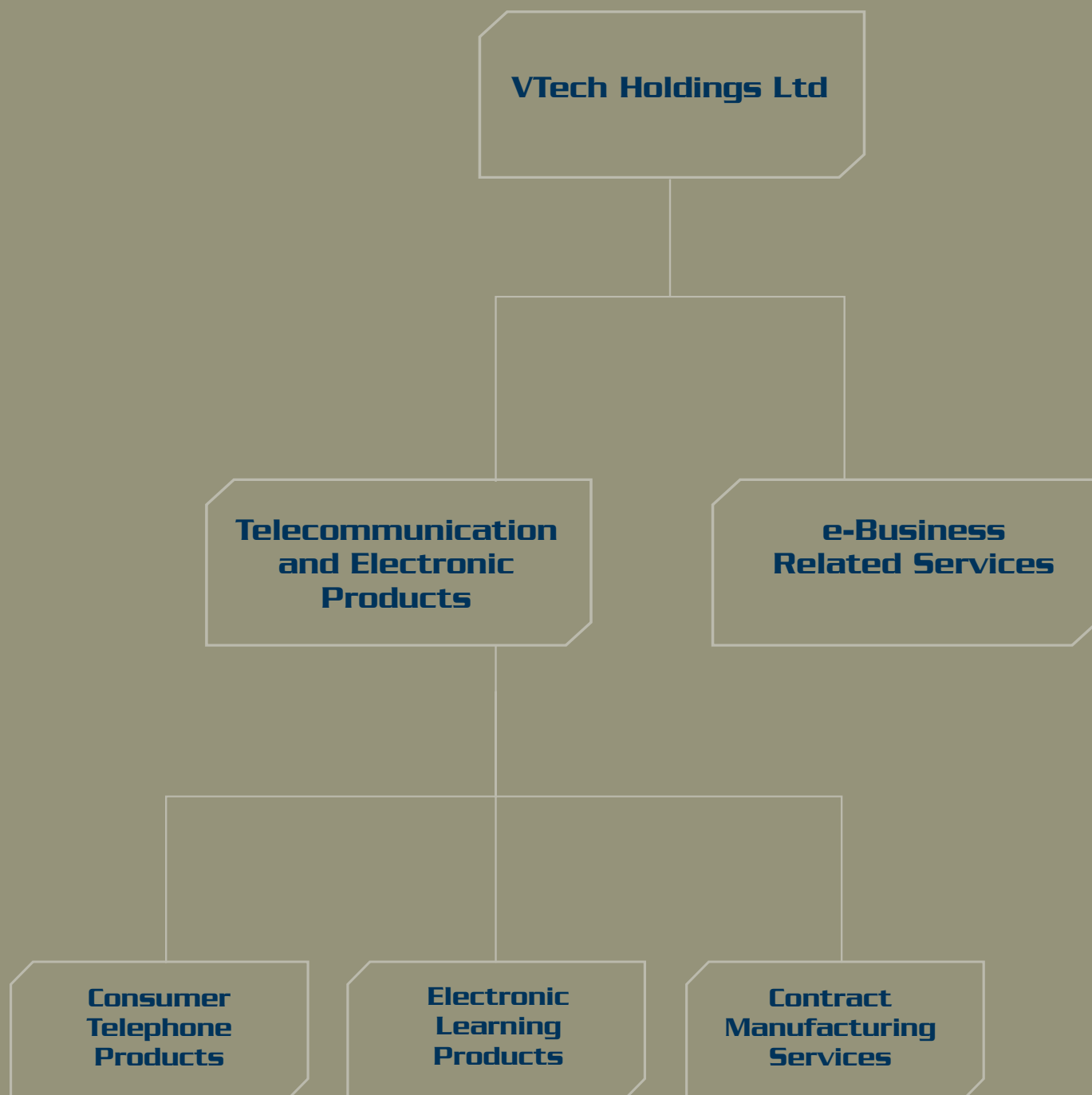
January 2001

- Our consumer telephone products in the US received the "Strategic Partner of the Year" award from Office Max, a leading distributor of telecommunication products in the US.

March 2001

- Announced a broad-based restructuring plan to streamline global operations, reduce operating costs and focus on higher margin products in order to drive bottom line growth.
- Our contract manufacturing services were named one of the top 50 contract manufacturers in "Manufacturing Market Insider", a popular monthly periodical catering to the contract manufacturing industry.
- Launched our Mirage C100 DECT phone in the UK.





PROFILE OF DIRECTORS

Allan WONG Chi Yun, MBE, JP, aged 50, *Chairman & Chief Executive Officer*, co-founded the Group in 1976. Mr. 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. Mr. WONG was appointed Chairman of the Hong Kong Applied Science and Technology Research Institute and a member of the Council of Advisors on Innovation and Technology, Hong Kong SAR in April 2000. He serves on the Hong Kong Trade Development Council. 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.

TO Cheuck Wah, aged 51, *Managing Director, Communication Products*, joined the Group in 1980 and became a director in 1981. Prior to VTech, he held a number of positions in Fairchild Semiconductor (Hong Kong) Limited and the Hong Kong Productivity Centre. Mr. TO has 20 years of experience in Hong Kong's electronics industry. He holds Bachelor of Science and Master of Science degrees in electrical engineering from the University of Hong Kong.

William HO Mook Lam, aged 54, *Managing Director and Company Secretary*, joined the Group as finance director in 1983 after 12 years in the accounting department of Philips Hong Kong Limited. Mr. HO holds a LLD (Hon) and a DBA (Hon). He is a Fellow of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants.

Albert LEE Wai Kuen, aged 50, *Managing Director, Electronic Learning Products*, 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 2 years and was a manager of a computer chess game manufacturing company for 3 years. Mr. LEE holds a Bachelor of Science degree in electrical engineering from the University of Calgary.

Paddy LAW Wai Leung, aged 40, *Executive Director and Group Chief Operating Officer*, joined the Group in 1991 as Group Accounting Manager with more than 10 years experience in accounting, finance and general management with Marubeni and Thomase De La Rue. In the past 10 years, Mr. LAW had held various senior positions in the Group in internal audit, finance and China services management. He holds a MBA degree from Durham University, U.K. and is a Fellow of the Chartered Institute of Management Accountants as well as the Hong Kong Society of Accountants. He is also a Member of Institute for the Management of Information Systems in U.K.

Jack Kenneth HIRSCH, aged 70, *Executive Director* since 1997, is currently Chairman of VTech Industries, LLC. and International Marketing Coordinator of the Group. He joined the Group's US electronic learning subsidiary as President in 1982. A veteran in the toy industry, Mr. HIRSCH had been an account executive of Mattel, Inc., marketing director of American Toy and Furniture Co., Inc. and president of Waddington House of Games. Prior to joining VTech, he managed his own toy and game distribution business.

Edward Barry ARMSTRONG, aged 64, *Executive Director* since 1997, is currently International Business Director for corporate administration and new development in areas outside East Asia and North America. His main current assignment is the administration and disposal of the Group's manufacturing units in Mexico, and commercial development in Latin America. He joined VTech in 1987 to build the European operations. Previously, he held senior marketing and general management positions and directorships at major multinational corporations. He is an MBA from INSEAD and a Fellow of the Institute of Linguists.

Nils Erik Vilhelm MARTENSSON, aged 63, *Independent Non-executive Director* since September 1991. He is the CEO of IPR Industries Limited and the former managing director of Technophone Limited which he founded in 1984. Technophone was an international manufacturer of portable and mobile cellular telephones which merged into the Nokia Mobile Phones group in March 1991. Mr. MARTENSSON has over 39 years of experience in the telecommunications industry. He holds a Bachelor of Arts degree in managerial economics from the University of Stockholm and a Master of Science degree in electronic engineering from the Royal Institute of Technology in Stockholm.

Philip Leigh TOSE, aged 55, *Independent Non-executive Director* since 1994. He was the co-founder and chairman of Peregrine Investments Holdings Limited.



PROFILE OF SENIOR MANAGEMENT

Consumer Telephone Products

David DE THIER, age 38, *Chief Executive Officer of Advanced American Telephone*, is responsible for sales, marketing, and distribution for the Group's North American telephone business. Before joining VTech in 2000, Mr. DE THIER worked for other Hong Kong and British multi-national companies who were also market leaders in their fields. He holds a Bachelor of Engineering degree with honors, and a post-graduate diploma in marketing.

Bruce GARFIELD, aged 54, *President/Chief Executive Officer of VTech Communications, Inc.*, is responsible for the sales management of the Group's cordless telephone business in the US. Prior to joining VTech in 1995, he had over 26 years of experience in the industries of consumer electronics, toys and telecommunications. Mr. GARFIELD had worked for Polaroid Corporation, Fairchild Electronics and Team Concepts. He holds a Bachelor of Science degree from Weber University.

Kent WONG Wah Shun, aged 38, *Vice President & General Manager, VTech Telecommunications Limited*, is in charge of operations, product management and development. Mr. WONG holds a Master degree in engineering and a Master degree in management.

Gary TAM Wai Keung, aged 37, *Vice President & General Manager of Business Development, VTech Telecommunications Limited*, is responsible for the development of ODM (Original Design Manufacturing) business worldwide and the sales & marketing of VTech brand in Europe. Mr. TAM joined VTech in 1986. He holds a Bachelor degree in electronics engineering from the Chinese University of Hong Kong.

Gary ROGALSKI, aged 38, *Vice President of Engineering, VTech Engineering Canada Limited*, is responsible for R&D of 900MHz and 2.4GHz digital telephony products for North America. Mr. ROGALSKI joined VTech in 1988 and had 18 years of R&D experience in the telecommunications industry. He holds a diploma in telecommunications from British Columbia Institute of Technology.

Electronic Learning Products

Dennis W. PERRY, aged 50, *Chief Executive Officer of Electronic Learning Products*, is responsible for the development of our ELP business worldwide which includes the subsidiaries in North America and Europe as well as the distributor network in Latin America and Asia. With more than 25 years of multi-national marketing and management experience in the branded consumer goods industry, Mr. PERRY had held a number of key positions, including President of United Distillers and Vintners West, Chief Executive Officer of Hagemeyer-Cosa Libermann Group (HCL Ltd.) and President of Connor Toy Corporation. He holds a Bachelor degree from Boston University and a Master degree in Business Administration from Fairleigh Dickinson University.

Sid HEYDE, aged 52, *Chief Executive Officer of European markets*, oversees the Group's electronic learning products business in European markets. He joined the Group in 1988 as sales and marketing director. Mr. HEYDE has over 22 years of experience in sales, marketing and general management of consumer durables. He is a member of the British Institute of Management and the Institute of Marketing.

Christopher FISHER, aged 45, *Chief Financial Officer of European markets*, is responsible for overseeing financial matters in the European markets. He first joined the Group as the Chief Financial Officer of VTech Electronics (UK) Plc. in 1993 and rejoined the Group in 2000. With more than 20 years of experience in finance, Mr. FISHER had been Deputy Managing Director and Group Financial Director of the Meristem Furniture Group. He is a fellow of the Institute of Chartered Accountants in England and Wales.

Emil N. HEIDKAMP, aged 52, *President of VTech Industries, LLC* since January 1997. Mr. HEIDKAMP is responsible for driving the electronic learning products sales/marketing and product development activities in the US. With 25 years of experience in the related areas of consumer products, Mr. HEIDKAMP had worked at Bell & Howell, Mattel, Parker Brothers, Mindscape and Konami. He holds a Bachelor of Science degree in business from the University of Illinois, Chicago.

PROFILE OF SENIOR MANAGEMENT (Continued)

Electronic Learning Products (Continued)

John SIVYER, aged 53, *Director of VTech Electronics Europe Plc*, is currently the Country Manager of the Group's electronic learning products business in the UK. Mr. SIVYER joined the Group in August 2000 and is responsible for running the electronic learning products business in the UK. Prior to joining the Group, he had been the Managing Director of Systema (UK) Limited, a toy and games company in the UK.

Gilles SAUTIER, aged 45, *Chief Executive Officer of VTech Electronics Europe S.A.*, is currently the Country Manager of the Group's electronic learning products business in France. Mr. SAUTIER joined the Group in November 2000. With over 20 years of experience in product development, marketing, sales and management in the toy industry, he held various positions in Kenner-Parker, Spears, Ideal and Majorette. He holds a Bachelor degree in law from Paris University and also a MBA from I'ESSEC, a french business school.

Josef LUKAS, aged 45, *Managing Director of VTech Electronics Europe GmbH*, is currently the Country Manager of the Group's electronic learning products business in Germany. Mr. LUKAS joined the Group in March 2001 and is responsible for driving the electronic learning products sales/marketing in Germany and Austria. With 20 years of experience in retailing and branded consumer goods industry, he had been the Managing Director of Binney and Smith for Germany, Austria and Switzerland. He holds a Bachelor degree in Business and Economics from the University of Munich.

Norberto BISIO, aged 41, *Managing Director of VTech Electronics Spain S.L.*, is currently the Country Manager of the Group's electronic learning products business in Spain. Mr. BISIO joined the Group in 1992 and he is responsible for the Spanish, Portuguese and Central and South American markets. Prior to joining the Group, he had been Chief of Accountant Department in IVC. He holds a Technician degree from OTTO KRAUSE (Buenos Aires, Argentina), and he is a Certified Accountant.

Gordon CHOW Tak Yiu, aged 45, *President of VTech Electronics Canada Ltd.* since 1988, manages both the electronic learning products and telecommunication businesses in Canada. Mr. CHOW has been working for VTech since 1985. He is a Canadian chartered accountant and had his own practice in Canada before joining the Group. He holds a Bachelor of Commerce degree from the University of British Columbia, Canada.

Thomas LI Shu Chi, aged 52, *General Manager of Marketing of VTech Electronics Limited*. Mr. LI is responsible for all activities relating to Sales and Marketing, Shipping and Customer Service. He has more than 20 years of experience in toys and electronic products. Prior to joining VTech in 1990, he worked at corporations including Mattel, Kenner Products, Tyco and Concept 2000. Mr. LI holds a Bachelor of Science degree in electrical engineering from the University of Hong Kong.

Edwin YING Lin Kwan, aged 48, *General Manager of Operations of VTech Electronics Limited*, is responsible for the operation activities of electronic learning products. Mr. YING joined VTech in 1986 as chief mechanical engineer. Before joining the Group, he had 10 years technical experience in electronic products. Mr. YING holds a Bachelor of Science degree in mechanical engineering from the University of Hong Kong.

Colbert TANG Chiu Kit, aged 44, *Senior Manager of VTech Electronics Limited* since 1994, is responsible for the design and development of electronic learning products. He first joined VTech in 1979 as an electronic engineer. Before rejoining the Group in 1992, Mr. TANG worked at Elec & Eltek and Tiger Electronics. He holds a Master of Science degree in computer engineering from Boston University.

Vincent YUEN Chi Ming, aged 41, *Senior Manager of VTech Electronics Limited*, is responsible for the development of information technology and electronic reference products. Mr. YUEN joined VTech in 1984. He holds a Bachelor degree in electrical engineering from the Chinese University of Hong Kong.

**PROFILE OF SENIOR MANAGEMENT (Continued)****Contract Manufacturing Services**

Andy LEUNG Hon Kwong, aged 42, *General Manager of VTech Communications Limited* since 1993, is responsible for the operations of the contract manufacturing services. Before joining VTech in 1988, Mr. LEUNG had 6 years of experience in electronic products manufacturing. He holds a Bachelor of Science degree in electrical engineering from the University of Newcastle Upon Tyne in the UK and he holds a MBA degree from Oklahoma City University in the US.

Francis CHAN, aged 41, *Senior Manufacturing Manager of VTech Communications Limited*, is responsible for engineering and production of the contract manufacturing services. Before joining the Group in 1998, Mr. CHAN had more than 10 years of experience in electronic manufacturing. He holds a Bachelor of Science degree in Electrical & Electronic Engineering from the University of Newcastle Upon Tyne in the UK.

Kent CHEUNG King Fai, aged 39, *Senior Material Manager of VTech Communications Limited*, is responsible for materials management. He joined VTech in 1989 as a purchasing officer, with 7 years of experience in electronic products merchandising.

Mobile Phones

Michael B. ASHDOWN, aged 63, *Managing Director of VTech Mobile Limited*, is responsible for the overall implementation of the company's mobile phone strategy. He joined the Group in 1992, with 42 years of experience in research and development in the communications industry including 7 years with Technophone and 6 years with Plessey Military Communications. Mr. ASHDOWN holds three diplomas in electrical/radio/mechanical engineering.

LAM Ping Por, aged 51, *General Manager of VTech Communications Limited*. Before joining the Group in 1988, Mr. LAM had 14 years of experience in product development and engineering management in the consumer electronics and telecommunication industries. He holds a Bachelor of Science degree in electrical engineering and a Master degree in telecommunication systems.

Chris ROSE, aged 36, *Engineering Manager of VTech Engineering Canada Limited*, is responsible for GSM handset development in the Calgary development office. He joined the Group in 1990 and has over 10 years of experience in consumer telephony (cordless and cellular). Mr. ROSE holds a Bachelor and a Master of Applied Science degrees in Telecommunications from Simon Fraser University and the University of British Columbia respectively.

eLearning Services

David MAK Wing Kwong, aged 39, *Executive Director of VTech eLearning Holdings Limited*, is responsible for the development of elearning system, educational content and IT training business in Greater China and Asia Pacific Region. He held senior marketing and general management positions in computer hardware and software companies prior to joining VTech in 1990. Mr. MAK holds a Master degree in international marketing from Strathclyde University and a diploma in management studies from Hong Kong Polytechnic University. He is also a full member of the Chartered Institute of Marketing (MCIM) and Institute of Directors (HKIOD).

PROFILE OF SENIOR MANAGEMENT (Continued)**Corporate Services**

Paul KAN Yui Po, aged 43, *Group IT Manager*, is responsible for information management and technology services. He joined VTech in 1990 with over 19 years of IT experience. Mr. KAN holds two Master degrees in business administration and manufacturing engineering. He is a Certified Quality Analyst (CQA), Certified Information System Auditor (CISA), Certified Information Systems Security Professional (CISSP) and Project Management Professional (PMP).

CHANG Yu Wai, aged 41, *Chief Financial Officer of Telecommunication Division*, joined the Group in June 2000. Prior to joining the Group, he was a senior manager of PricewaterhouseCoopers for 7 years. Mr. CHANG is a member of the Institute of Chartered Accountants in England and Wales. He holds a Bachelor degree in Mathematics and Management Sciences from the University of Manchester Institute of Science and Technology.

Shereen TONG Ka Hung, aged 32, *Group Finance Manager*, is responsible for the Group treasury and financial functions. She joined the Group in 1994 and had over 12 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 HK Society of Accountants.

Ivy CHAN Pui Chu, aged 41, *Human Resources Manager*, is responsible for human resources and administration function in Hong Kong office. She joined the Group in 1987 and had over 16 years human resources experience. She holds a Bachelor of Arts (Hons) degree in Sociology from the Hong Kong Baptist University and has a MBA degree from Strathclyde University. She is a member of Hong Kong Institute of Human Resources Management and executive committee member of Hong Kong Industrial Relations Association.



The directors submit their report together with the audited financial statements for the year ended 31st March 2001.

PRINCIPAL ACTIVITIES

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

GROUP RESULTS

The results of the Group for the year ended 31st March 2001 are set out in the consolidated income statement on page 32 of the financial statements.

DIVIDENDS

The directors do not recommend the payment of a final dividend for the year ended 31st March 2001.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the financial statements.

COMMENTARY ON PERFORMANCE

A commentary on the performance of the Group is included in the review of operations on pages 8 to 17.

TANGIBLE FIXED ASSETS

Details of the movements in tangible fixed assets are shown in note 9 to the financial statements.

SHARE CAPITAL

On 26th September 2000, an aggregate of 5,578,292 shares of the Company were allotted and issued to the sellers in accordance with the terms of an agreement for the acquisition of shares in Sensei Limited.

Details of the movements in share capital of the Company are shown in note 20 to the financial statements.

DONATIONS

During the year, the Group made charitable and other donations in aggregate of US\$200,000.

DIRECTORS

The board of directors of the Company as at 31st March 2001 and up to 27th June 2001 comprised:

Mr. Allan WONG Chi Yun	(Chairman and Chief Executive Officer)
Mr. TO Cheuck Wah	(Managing Director)
Mr. William HO Mook Lam	(Managing Director)
Mr. Albert LEE Wai Kuen	(Managing Director)
Mr. Paddy LAW Wai Leung	(Executive Director, appointed on 28th March 2001)
Mr. Jack Kenneth HIRSCH	(Executive Director)
Mr. Edward Barry ARMSTRONG	(Executive Director)
Mr. Nils Erik Vilhelm MARTENSSON	(Independent Non-Executive Director)
Mr. Philip Leigh TOSE	(Independent Non-Executive Director)

Mr. Paul Anthony MURPHY resigned as a Managing Director of the Company on 28th February 2001.

Mr. Paddy LAW Wai Leung shall retire by rotation in accordance with bye-law 94 and bye-law 112 of the bye-laws of the Company, but being eligible, shall offer himself for re-election as a director of the Company at the forthcoming annual general meeting.

Brief biographical details of directors and senior management are set out on pages 21 to 25.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES

Pursuant to the share option scheme adopted on 24th September 1991 (the "Scheme"), the board of directors is authorised to grant options to certain directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company at prices to be determined by the board in accordance with the terms of the Scheme.

According to the register of directors' interests maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance of Hong Kong and the records of notification made to the U.K. Listing Authority pursuant to Paragraphs 16.13 to 16.17 of the Listing Rules of the Financial Services Authority in the United Kingdom, as at 31st March 2001, the directors and their associates had the following interests in the shares of the Company. All of these interests were beneficial:

	Number of Shares			Total	Number of Share Options
	Personal Interests	Family Interests	Other Interests		
Allan WONG Chi Yun	11,515,830	3,968,683	74,101,153(i)	89,585,666	—
TO Cheuck Wah	1,184,674	1,065,522	—	2,250,196	—
William HO Mook Lam	2,081,000	337,700	—	2,418,700	—
Albert LEE Wai Kuen	809,332	—	—	809,332	—
Paddy LAW Wai Leung	—	—	—	—	200,000(ii)
Jack Kenneth HIRSCH	230,578	—	—	230,578	100,000(ii)
Edward Barry ARMSTRONG	101,607	—	—	101,607	200,000(ii)
Nils Erik Vilhelm MARTENSSON	1,521,395	—	—	1,521,395	—
Philip Leigh TOSE	—	—	—	—	—

Notes:

- (i) The shares were held beneficially as to 65,496,225 by Conquer Rex Limited, as to 1,416,325 by Honorex Limited and as to 7,188,603 by Twin Success Pacific Limited, which were owned by trusts, the discretionary objects of which were Mr. Allan WONG Chi Yun and members of his family.
- (ii) The share options are exercisable during the period from 1st May 1998 to 30th April 2008 at a subscription price of US\$2.9 per share.
- (iii) No share options were exercised by the directors of the Company during the year.

As at 31st March 2001, Mr. William HO Mook Lam was the registered and beneficial owner of 499 Class "A" shares in VTech Electronics Canada Limited, a subsidiary of the Company.

During the period from 1st April 2001 to 27th June 2001, the following changes occurred to the above interests:

- From 2nd to 10th April 2001, Mr. Allan WONG Chi Yun acquired a total of 476,000 shares as personal interests in the Company.
- On 2nd April 2001, Mr. Paddy LAW Wai Leung acquired 138,000 shares as personal interests in the Company.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company'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

According to the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance of Hong Kong and the records of notification made to the U.K. Listing Authority pursuant to Paragraphs 9.11 to 9.14 of the Listing Rules of the Financial Services Authority in the United Kingdom and in so far as is known to the Company, the parties, other than those directors as abovementioned, holding a 3% or more interest in the issued share capital of the Company, together with the amount of each of such parties' interests as at 31st March 2001 and 27th June 2001, were as follows:

Name of Shareholder	31st March 2001		27th June 2001	
	Number of Shares	Percentage of Shareholding	Number of Shares	Percentage of Shareholding
HKSCC Nominees Limited	107,203,456	47.61%	104,995,044	46.63%
The Capital Group Companies, Inc.	26,320,934	11.69%	20,013,199	8.89%
HSBC Nominees (Hong Kong) Limited	13,659,465	6.07%	13,659,465	6.07%

There were no contracts of significance with corporate substantial shareholders during the year under review.

SECURITIES PURCHASE ARRANGEMENTS

At the annual general meeting held on 11th August 2000, 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 five largest suppliers in aggregate accounted for less than 30.0% of the total value of the Group's purchases. The Group's largest customer accounted for 9.9% of the Group's turnover and the Group's five largest customers in aggregate accounted for 33.0% of the Group's turnover during the year.

None of the directors, their associates or any shareholder (which 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 although there are no statutory restrictions against such rights under the laws of Bermuda in which the Company is incorporated.

CONNECTED TRANSACTIONS

Significant transactions entered into by the Company during the year ended 31st March 2001 which also constitute connected transactions for the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Chapter 11 of the Listing Rules of the Financial Services Authority in the United Kingdom (as the case may be) are set out below:

- On 28th September 2000, the Company issued a press notice and disclosed that the Company had advanced various shareholders' loans ("Advances") to VTech Computers Systems Limited ("VTCS"), a non wholly-owned subsidiary of the Company at that time, since July 1997. In addition, certain sales and purchases of computer hardware between VTCS and other wholly-owned subsidiaries and one non wholly-owned subsidiary of the Group had been made ("Sales") since July 1997. The provision of Advances by the Company to VTCS and the Sales made by VTCS with members of the Group constituted connected transactions for the Company.

2. On 23rd October 2000, a sale and purchase agreement was entered into between VTech Information Systems Holdings Limited ("VTI"), a wholly-owned subsidiary of the Company, and Mr. David MAK Wing Kwong, a director and substantial shareholder of VTCS, pursuant to which VTI acquired 1,000,000 VTCS shares, representing approximately 30% of the issued share capital of VTCS, from Mr. David MAK Wing Kwong. The acquisition of the VTCS shares from Mr. David MAK Wing Kwong by VTI constituted a connected transaction for the Company and was approved by the shareholders of the Company at a special general meeting held on 27th November 2000. Following the completion of the acquisition, VTCS became a wholly-owned subsidiary of VTI.
3. On 28th November 2000, an agreement was entered into between VTech Electronics Holdings Limited ("VTE"), a wholly-owned subsidiary of the Company, and Mr. Jean VINCENT, a person who was within the preceding 12 months a director of certain subsidiaries of the Company, for the incorporation of Fagoe Limited and VJV Management SAS. Pursuant to the agreement, VTE subscribed for 32,000,000 shares in Fagoe Limited (representing approximately 64% of its issued share capital) and 11,000,000 shares in VJV Management SAS (representing approximately 73% of its issued share capital). The entering into of the agreement constituted a connected transaction for the Company.

PROPOSED SEPARATE LISTING OF THE COMPANY'S SUBSIDIARY

On 23rd October 2000, the Company made a formal application to The Stock Exchange of Hong Kong Limited for a proposed separate listing of shares of VTech eLearning Holdings Limited, a subsidiary of the Company, on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Since there was a change in market sentiment and together with market volatility, the initial public offering has been rescheduled.

MATERIAL LEGAL PROCEEDINGS

On 31st March 2000, the Group acquired from Lucent Technologies Consumer Products, L.P. ("LTCP") and Lucent Technologies Inc. ("Lucent") its consumer wired business for the sum of US\$126.1 million. The Agreement for the Purchase and Sale of Stock and Assets ("APSA") included certain representations, warranties and covenants by LTCP and Lucent with respect to the consumer wired business.

On 25th January 2001, the Company and VTech Electronics Netherlands BV (collectively "VTech") filed a complaint in the United States District Court for the Southern District of New York seeking damages in excess of US\$300.0 million against Lucent Technologies Inc. and Lucent Technologies Consumer Products, L.P. for fraud and breaches of the APSA.

Although an actual evaluation of the potential success of the outcome of this matter cannot be determined at this time since the litigation is still in the early stages, the directors believe the Group has a strong case.

ANNUAL GENERAL MEETING SPECIAL BUSINESS

The following special business will be proposed at the annual general meeting to be held on 10th August 2001:

1. the grant to the directors of the Company of a general mandate to repurchase shares of the Company;
2. the grant to the directors of the Company of a general mandate to allot, issue and deal with additional shares of the Company;
3. the extension of the general mandate which will be granted to the directors of the Company to allot, issue and deal with additional shares of the Company by adding to the number of shares repurchased under the repurchase mandate; and
4. the adoption of the 2001 Share Option Scheme.



AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited financial statements.

The members of the Audit Committee comprised Mr. Nils Erik Vilhelm MARTENSSON (Chairman) and Mr. Philip Leigh TOSE, the two 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period except that the independent non-executive directors of the Company are not appointed for a specific term.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

Allan WONG Chi Yun

Chairman

Hong Kong, 27th June 2001



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

AUDITORS' REPORT TO THE SHAREHOLDERS OF VTECH HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 32 to 65. These financial statements are the responsibility of the Company'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 financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. 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 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.

In our opinion the financial statements give a true and fair view of the financial position of the Company and the Group at 31st March 2001 and of its loss and cash flows for the year then ended in accordance with International Accounting Standards and have been properly prepared in accordance with the Bermuda Companies Act and the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27th June 2001

Consolidated Income Statement

For the year ended 31st March 2001

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	Note	2001 US\$ million	2000 US\$ million
Turnover	1	1,334.9	1,045.9
Cost of sales		(1,013.6)	(723.2)
Gross profit		321.3	322.7
Selling and distribution costs		(275.2)	(179.7)
Administrative and other operating expenses		(69.2)	(53.9)
Research and development expenses		(66.6)	(42.7)
Restructuring and impairment charges	3	(110.4)	—
Operating (loss)/profit		(200.1)	46.4
Net finance (costs)/income	5	(12.5)	1.3
Share of results of associates		(0.5)	(0.1)
(Loss)/profit before taxation		(213.1)	47.6
Taxation	6	(1.8)	(2.5)
(Loss)/profit after taxation		(214.9)	45.1
Minority interests		(0.1)	(0.1)
(Loss)/profit attributable to shareholders	21	(215.0)	45.0
(Loss)/earnings per share (in US cents)	8		
— Basic		(96.7)	21.0
— Diluted		(96.7)	20.9

The principal accounting policies on pages 36 to 40 and the notes on pages 41 to 65 form an integral part of these consolidated financial statements.

	Note	2001 US\$ million	2000 US\$ million
Non-current assets			
Tangible assets	9	102.8	172.8
Intangible assets	10	—	(32.2)
Deferred tax assets	11	4.0	4.3
Investments	12	0.5	1.8
		107.3	146.7
Current assets			
Stocks	13	187.5	256.8
Assets held for sale	14	30.4	—
Debtors and prepayments	15	255.6	244.5
Taxation recoverable		3.6	3.1
Cash at bank and deposits		56.2	79.6
		533.3	584.0
Current liabilities			
Creditors and provisions	16	(308.0)	(242.4)
Borrowings	17	(112.7)	(16.2)
Current tax liabilities		(1.0)	(3.4)
		(421.7)	(262.0)
Total assets less current liabilities		218.9	468.7
Long-term liabilities			
Borrowings	17	(136.9)	(169.7)
Deferred tax liabilities	11	(1.3)	(1.4)
		(138.2)	(171.1)
Net operating assets		80.7	297.6
Share capital	20	11.3	10.7
Reserves	21	68.5	286.1
Shareholders' funds		79.8	296.8
Minority interests		0.9	0.8
Capital employed		80.7	297.6

The principal accounting policies on pages 36 to 40 and the notes on pages 41 to 65 form an integral part of these consolidated financial statements.

Allan WONG Chi Yun
Director

William HO Mook Lam
Director

Consolidated Cash Flow Statement

For the year ended 31st March 2001

34

	Note	2001 US\$ million	2000 US\$ million
Operating activities			
Operating (loss)/profit		(200.1)	46.4
Depreciation charges		44.6	35.0
Amortization of goodwill	2	0.3	0.3
Impairment of intangible assets	3	25.2	—
Impairment of fixed assets	3	17.2	—
Recognition of negative goodwill	10	(31.9)	—
Loss on disposal of tangible assets		1.2	0.7
Write down of discontinued stocks	3	17.1	—
Decrease/(increase) in stocks		52.2	(72.5)
Increase in debtors and prepayments		(8.1)	(39.6)
Increase in creditors and provisions		60.0	41.5
Cash (absorbed by)/generated from operations		(22.3)	11.8
Interest received		3.2	3.3
Interest paid		(15.7)	(2.0)
Taxes paid		(4.5)	(2.8)
Net cash flow (used in)/generated from operating activities		(39.3)	10.3
Investing activities			
Purchase of tangible assets		(30.7)	(29.9)
Proceeds on disposal of tangible assets		7.1	0.3
Purchase of other investments		—	(1.3)
Purchase of associates		(0.8)	(0.7)
Purchase of subsidiaries and businesses	22	(9.6)	(123.6)
Net cash used in investing activities		(34.0)	(155.2)
Financing activities			
Issue of share capital		—	0.1
Proceeds from borrowings		77.3	160.0
Repayments of borrowings		(4.3)	(7.3)
Payment of finance lease liabilities		—	(0.1)
Dividends paid		(10.8)	(30.4)
Net cash generated from financing activities		62.2	122.3
Effect of exchange rate changes		(3.0)	(0.4)
Decrease in cash and cash equivalents		(14.1)	(23.0)
Cash and cash equivalents at beginning of the year		67.5	90.5
Cash and cash equivalents at end of the year		53.4	67.5
Analysis of the balance of cash and cash equivalents			
Cash at bank and deposits		56.2	79.6
Bank overdrafts		(2.8)	(12.1)
		53.4	67.5

The principal accounting policies on pages 36 to 40 and the notes on pages 41 to 65 form an integral part of these consolidated financial statements.

For the year ended 31st March 2001

	Note	2001 US\$ million	2000 US\$ million
Surplus arising on revaluation of land and buildings	21	—	1.6
Deficit arising on revaluation of investment properties	21	—	(0.3)
Deferred taxation arising on revaluation of land and buildings	21	—	(0.2)
Exchange differences on translation of the financial statements of foreign entities	21	(3.9)	(2.0)
Net losses not recognized in the income statement		(3.9)	(0.9)
(Loss)/profit attributable to shareholders		(215.0)	45.0
Total recognized (losses)/gains		(218.9)	44.1

The principal accounting policies on pages 36 to 40 and the notes on pages 41 to 65 form an integral part of these consolidated financial statements.

**A. BASIS OF PREPARATION**

The consolidated financial statements are prepared in accordance with International Accounting Standards (IAS) and under the historical cost convention, with certain tangible fixed assets included at revalued amounts. The Company is incorporated in Bermuda and the Group presents its financial statements in United States dollars.

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

B. BASIS OF CONSOLIDATION**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. The results of subsidiaries and associates are included from the effective dates of acquisition up to the effective dates of disposal.

Subsidiaries

Subsidiaries are those companies in which the Group, directly or indirectly, has an interest held for the long term, of more than 50% of the voting rights and is able to exercise control over the operations. Separate disclosure is made of minority interests.

Associates

Associates are those companies, not being subsidiaries, in which the Group has an attributable interest of 20% or more of the ordinary share capital held for the long term and over which the Group exercises significant influence, but which it does not control. The Group's investments in associates are included in the consolidated balance sheet at the Group's share of attributable net assets. Income from associated companies is included in the consolidated income statement at the Group's share of profits less losses of associates.

C. GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions is reported in the balance sheet as an intangible asset and amortized using the straight line method over its estimated useful life not exceeding five years. Goodwill on acquisitions which occurred prior to 1st April 1996 was charged direct to reserves in the year of acquisition.

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 unamortized but does not include any attributable goodwill previously eliminated against reserves.

The carrying amount of goodwill is reviewed annually and written down for permanent impairment where it is considered necessary.

D. NEGATIVE GOODWILL

Negative goodwill represents the excess, as at the date of acquisition, of the Group's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the plan for an 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 recognized as income in the income statement when the future losses and expenses are recognized.

D. NEGATIVE GOODWILL (Continued)

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 recognized as income in the income statement on a systematic basis over the remaining useful life of the identifiable acquired depreciable/amortizable assets. The amount of any negative goodwill in excess of the fair values of acquired identifiable non-monetary assets will be recognized as income immediately.

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

E. FOREIGN CURRENCIES

Transactions denominated in foreign currencies are translated at 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 year end 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 consolidated income statement.

F. REVENUE RECOGNITION

Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods are transferred to customers.

Interest and dividend income is recognized on an accruals basis. Rental income is recognized on a straight line basis over the lease term.

G. RESEARCH AND DEVELOPMENT

Research and development costs other than purchased research and development costs on acquisitions, are written off as incurred.

H. INTANGIBLE ASSETS

Intangibles represent purchased research and development on acquisition of businesses and is initially recognized at cost, being the fair value at date of acquisition. After initial recognition, purchased research and development is carried at cost less any accumulated amortization and any accumulated impairment losses. Amortization commences when the developed product is ready for its intended use.

I. TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets other than investment properties (refer to J below) are stated at cost or valuation less amounts provided for depreciation except in the case of freehold land which is not depreciated. Where the carrying amount of these assets is greater than their estimated recoverable amount it is written down immediately to their recoverable amount. Gains and losses on disposal of these assets are determined by reference to their carrying amounts.

Freehold and long-term leasehold land and buildings are stated at valuation performed by professional valuers every three years. In the intervening years the directors review the carrying value of land and buildings 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 asset and thereafter are debited to the income statement. Upon the disposal of a property, the relevant portion of the realized revaluation reserve in respect of previous revaluations is transferred from revaluation reserve to revenue reserves.

I. TANGIBLE FIXED ASSETS AND DEPRECIATION (Continued)

Depreciation is calculated on a monthly basis 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 land	Lease term
Freehold and long-term leasehold buildings, short-term leaseholds 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. INVESTMENT PROPERTIES

Investment properties are interests in land and buildings which are held for their investment potential.

Investment properties held under long leases are stated at valuation performed by professional valuers annually. The valuations are on an open market value basis related to individual properties and are incorporated in the annual financial statements. Increases in valuation are credited to the investment properties revaluation reserve; decreases are first set off against previous increases on earlier valuations and thereafter are debited to the income statement. Upon the disposal of an investment property, the relevant portion of the investment properties revaluation reserve realized in respect of previous valuations is transferred from the revaluation reserve to revenue reserves.

K. LEASES

Leases of property, plant and equipment that substantially transfer to the Group all the benefits and risks of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals. Finance charges are debited to the income statement in proportion to 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 leases are charged to the income statement on a straight line basis over the period of 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 recognized as an expense in the period in which the termination takes place.

L. IMPAIRMENT OF ASSETS

Property, plant and equipment and other non-current assets, including goodwill and other intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets whose carrying values exceed their recoverable amount are written down to amounts expected to be generated by the assets.

M. OTHER INVESTMENTS

Other investments are held for the long term and stated at cost less provision, if any, for permanent diminution in value. Where there is a permanent diminution in value of an investment, it is recognized as an expense in the period in which the diminution is identified. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

N. STOCKS

Stocks are stated at the lower of cost and net realizable value. Cost, calculated on the weighted average or the first in first out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realizable value is determined on the basis of anticipated sales proceeds in the ordinary course of business less estimates of costs to completion and selling expenses.

O. TRADE DEBTORS

Trade debtors are carried at anticipated realizable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off 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 at bank and deposits, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

Q. PROVISIONS

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The Group recognizes the estimated liability on all products of the Group still under warranty at the balance sheet date. 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 reorganizations of the Company's operations which are subject to detailed formal plans that are under implementation or have been communicated to those affected by the plans. Provision is made when it is probable that an outflow of economic benefits will arise and the amounts can be reliably estimated.

R. DEFERRED TAXATION

Deferred taxation is provided under the liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

A deferred tax asset is only recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized.

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.

S. RETIREMENT BENEFIT COSTS

The Group operates a number of defined contribution retirement schemes throughout the world 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.

For short-term employee benefits, the Group recognizes 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. RETIREMENT BENEFIT COSTS (Continued)**

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 asset or liability resulting from the valuation of the plan is recognized in the Group's balance sheet.

Contributions relating to the defined contribution schemes are charged to the income statement in the year to which they relate.

T. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses forward foreign exchange contracts in its management of currency risks. Unrealized gains and losses on forward contracts to hedge specific future currency transactions are deferred against the matching losses and gains on the specific transactions.

U. DIVIDENDS

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

V. COMPARATIVES

Depreciation on moulds for new products that ultimately go into production has now been included within cost of sales instead of within research and development expenses and accordingly, US\$7.8 million has been reclassified from research and development expenses to cost of sales for the year ended 31st March 2000.

1. SEGMENT INFORMATION

The Group's operations comprise two main business segments: telecommunication and electronic products and e-Business related services. Telecommunication and electronic products include the design, manufacture and distribution of telephones, electronic learning, information appliances, interactive set top boxes and other electronic products. e-Business related services include the design, manufacture and distribution of web services, learning web, a global positioning system and other e-Business related activities.

The design, manufacture and distribution of interactive set top boxes has been reclassified and included under the "Telecommunication and electronic products" segment instead of the "e-Business related services" segment as shown in the annual financial statements for the year ended 31st March 2000 as the directors believe this is a fairer classification of the nature of those activities.

Primary reporting format — business segments

		2001 US\$ million	2000 US\$ million
i	Turnover		
	Telecommunication and electronic products	1,333.9	1,043.8
	e-Business related services	1.0	2.1
		1,334.9	1,045.9
Segment operating (loss)/profit and share of results of associates			
	Telecommunication and electronic products	(183.7)	63.2
	e-Business related services		
	Company and subsidiaries	(15.0)	(15.4)
	Share of results of associates	(0.5)	(0.1)
		(15.5)	(15.5)
	Unallocated corporate expenses	(199.2)	47.7
		(1.4)	(1.4)
	Operating (loss)/profit after share of results of associates	(200.6)	46.3
	Net finance (costs)/income	(12.5)	1.3
	(Loss)/profit before taxation	(213.1)	47.6
	Taxation	(1.8)	(2.5)
	(Loss)/profit after taxation	(214.9)	45.1
	Minority interests	(0.1)	(0.1)
	(Loss)/profit attributable to shareholders	(215.0)	45.0

1. SEGMENT INFORMATION (Continued)

ii Segment assets

	Segment assets		Income/Deferred tax assets		Other assets		Total	
	2001	2000	2001	2000	2001	2000	2001	2000
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Telecommunication and electronic products	606.7	696.6	—	—	—	—	606.7	696.6
e-Business related services	5.0	5.9	—	—	—	—	5.0	5.9
Unallocated	—	—	7.6	7.4	21.3	20.8	28.9	28.2
	611.7	702.5	7.6	7.4	21.3	20.8	640.6	730.7

Segment liabilities

	Segment liabilities		Income/Deferred tax liabilities		Other liabilities		Total	
	2001	2000	2001	2000	2001	2000	2001	2000
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Telecommunication and electronic products	550.0	417.6	—	—	—	—	550.0	417.6
e-Business related services	1.8	3.4	—	—	—	—	1.8	3.4
Unallocated	—	—	2.3	4.8	5.8	7.3	8.1	12.1
	551.8	421.0	2.3	4.8	5.8	7.3	559.9	433.1

iii Capital expenditure, depreciation and other net non-cash expenses

	Capital expenditure		Depreciation		Other net non-cash expenses	
	2001	2000	2001	2000	2001	2000
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Telecommunication and electronic products	28.4	28.9	43.2	33.1	44.9	14.5
e-Business related services	1.7	0.1	0.2	0.1	—	—
Others	0.6	0.9	1.2	1.8	—	—
	30.7	29.9	44.6	35.0	44.9	14.5

1. SEGMENT INFORMATION (Continued)

Secondary reporting format — geographical segments

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

USA and Mexico — the operations are principally the manufacturing of telecommunication products and the distribution of telecommunication and electronic consumer products.

Europe — the operations are principally the distribution of electronic consumer products.

Asia Pacific — the Group's headquarters are in Hong Kong and the Group's principal manufacturing operations are in the People's Republic of China.

The USA and Mexico segments have been combined into one segment "USA and Mexico" instead of two separate segments as shown in the annual financial statements for the year ended 31st March 2000 as the directors believe this is a fairer classification of the nature of those operations.

Turnover represents the amounts received and receivable for sale of goods to third parties.

	Turnover		Operating profit/(loss)		Capital expenditure		Total assets	
	2001 US\$ million	2000 US\$ million	2001 US\$ million	2000 US\$ million	2001 US\$ million	2000 US\$ million	2001 US\$ million	2000 US\$ million
USA and Mexico	1,047.2	759.1	(156.9)	22.6	8.1	1.7	332.6	402.2
Europe	181.6	196.0	(10.0)	18.6	2.3	2.3	62.9	46.7
Asia Pacific	51.0	36.1	(36.1)	1.4	20.3	25.1	227.1	268.9
Others	55.1	54.7	2.9	3.8	—	0.8	18.0	12.9
Total	1,334.9	1,045.9	(200.1)	46.4	30.7	29.9	640.6	730.7

2. OPERATING (LOSS)/PROFIT

The following items have been charged/(credited) in arriving at operating (loss)/profit:

	Note	2001 US\$ million	2000 US\$ million
Depreciation charges	9	44.6	35.0
Provision for stock obsolescence		30.5	13.7
Operating leases on land and buildings		12.6	10.1
Royalties		15.5	6.0
Repair and maintenance expenditure		3.0	3.0
Loss on disposal of tangible assets		1.2	0.7
Recognition of negative goodwill (Note)	10	(31.9)	—
Amortization of goodwill	12	0.3	0.3
Provision for doubtful debts		3.6	0.5
Auditors' remuneration		0.8	0.8
Exchange loss/(gain)		0.7	(1.0)
Staff related costs:			
— salaries and wages		139.3	106.3
— severance payments		1.1	0.1
— defined contribution pension costs	18	1.5	0.6
— defined benefit pension costs	18	1.4	2.0
Restructuring and impairment charges	3	110.4	—

Note: The negative goodwill arising on the acquisition of the Lucent consumer telephone operations (note 3 below) amounting to US\$31.9 million has been recognized as income in the consolidated income statement to offset selling and distribution costs in the amount of US\$16.1 million, administrative and other operating expenses in the amount of US\$12.6 million and research and development expenses in the amount of US\$3.2 million arising from the business acquired.

3. RESTRUCTURING AND IMPAIRMENT CHARGES

The Group announced a comprehensive restructuring plan in March 2001. The restructuring measures undertaken during the year and to be undertaken as part of the plan include the re-organization and rationalization of the consumer telephone operations in the United States to achieve greater cost efficiencies. Factories in Mexico, which were acquired from Lucent Technologies Consumer Products, L.P. and Lucent Technologies Inc ("Lucent") on 31st March 2000, will be divested. The electronic learning products operations in Europe will be centralized under regional management. In addition, e-Business related services and other development stage businesses such as mobile phones will be downsized and re-organized. The information appliances and multimedia communication business units will be merged into the consumer telephone and contract manufacturing services units respectively. Discontinued stocks have been written down to estimated realizable value. The restructuring costs and associated impairment charges for tangible and intangible assets are as follows:

	Note	2001 US\$ million	2000 US\$ million
Severance payments		36.0	—
Impairment of intangible assets	10	25.2	—
Impairment of fixed assets	9	17.2	—
Write-down of discontinued stocks		17.1	—
Other closure and termination costs		14.9	—
	2	110.4	—

As set out in the consolidated financial statements for the year ended 31st March 2000, the Group acquired certain assets and assumed certain liabilities from Lucent related to their consumer telephone manufacturing operations on 31st March 2000. The results of the Group were significantly impacted by the Lucent consumer telephone operations and the operating loss of those operations for the year ended 31st March 2001 were included in the consolidated income statement as follows:

	Note	2001 US\$ million	2000 US\$ million
Turnover		319.8	—
Cost of sales		(268.6)	—
Gross profit		51.2	—
Selling and distribution costs		(87.1)	—
Administrative and other operating expenses		(22.1)	—
Research and development expenses		(13.5)	—
Restructuring and impairment charges*		(58.1)	—
Recognition of negative goodwill	2	31.9	—
Operating loss		(97.7)	—

* Restructuring and impairment charges of US\$58.1 million are included in the total restructuring charges of US\$110.4 million above.

4. DIRECTORS' AND SENIOR EXECUTIVE'S EMOLUMENTS

Directors' emoluments

The emoluments of the directors of the Company are as follows:

	2001 US\$ million	2000 US\$ million
Salaries, allowances and benefits in kind	3.3	3.1
Bonuses	0.3	2.3
Fees	0.1	0.1
Contributions to retirement benefit schemes	0.2	0.2
Compensation for loss of office	0.9	—
	4.8	5.7

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

US\$	2001 Number of directors	2000 Number of directors
Nil – 128,000	3	2
192,001 – 256,000	—	1
320,001 – 384,000	—	1
384,001 – 448,000	1	—
448,001 – 512,000	2	—
512,001 – 576,000	—	1
576,001 – 640,000	—	1
768,001 – 832,000	2	1
896,001 – 960,000	2	—
1,152,001 – 1,216,000	—	1
1,792,001 – 1,856,000	—	1

Emoluments of independent non-executive directors included above amounted to US\$37,000 (2000: US\$30,000) in respect of directors' fees.

Senior executive's emoluments

The directors' emoluments set out above exclude a senior executive (2000: Nil) whose emoluments were among the five highest earning employees of the Group. Details of the emoluments in aggregate for this executive are set out below.

	2001 US\$ million	2000 US\$ million
Salaries, allowances and benefits in kind	0.4	—
Bonuses	0.2	—
	0.6	—

5. NET FINANCE COSTS/(INCOME)

	2001 US\$ million	2000 US\$ million
Interest expense		
Wholly repayable within five years:		
Bank loans and overdrafts	14.8	1.5
Not wholly repayable within five years:		
Bank loans	0.9	0.5
Interest income	(3.2)	(3.3)
	12.5	(1.3)

6. TAXATION

	Note	2001 US\$ million	2000 US\$ million
Current tax		1.6	1.9
Deferred tax	11	0.2	0.6
		1.8	2.5

Tax on profits has been calculated at the rates of taxation prevailing in the countries in which the Group operates and includes Hong Kong profits tax charge of US\$ 0.9 million (2000: US\$3.3 million), United Kingdom corporation tax credit of US\$ 0.1 million (2000: tax charge of US\$0.4 million) and a tax charge in the USA of US\$ 1.0 million (2000: tax credit of US\$1.1 million).

The consolidated effective income tax rate for the year ended 31st March 2001 was -0.8% (2000: 5.3%). This effective income tax rate is reconciled to the statutory domestic income tax rate as follows:

	2001 %	2000 %
Statutory domestic income tax rate	(16.0)	16.0
Difference in overseas income tax rates	—	1.3
Non-temporary differences	(2.2)	(14.6)
Tax loss not recognized	15.0	2.7
Others	2.4	(0.1)
Effective income tax rate	(0.8)	5.3

7. DIVIDENDS

	2001 US\$ million	2000 US\$ million
Final dividend in respect of 2000 of US12.5 cents (1999: US12.5 cents) per share	26.9	26.5
Interim dividend in respect of 2000 of US5.0 cents per share	—	10.6
	26.9	37.1

The final dividend in respect of 2000 was satisfied by the payment of cash of US\$10.8 million and the balance of US\$16.1 million by the allotment of 5,114,154 new ordinary shares in the Company by way of scrip dividend. The board has not recommended any dividend (2000: US17.5 cents per share) for the year.

8. (LOSS)/EARNINGS PER SHARE

The calculations of basic and diluted loss/earnings per share are based on the Group's loss attributable to shareholders of US\$215.0 million (2000: profit of US\$45.0 million).

The basic loss/earnings per share is based on the weighted average of 222.4 million (2000: 214.3 million) ordinary shares in issue during the year. Since diluted loss per share is decreased when taking share options into account, the options are anti-dilutive and are ignored in the calculation of diluted loss per share. Therefore, diluted loss per share is US96.7 cents. The diluted earnings per share in 2000 was based on 214.9 million ordinary shares which is the weighted average number of ordinary shares in issue during 2000 after adjusting for the weighted average of 0.6 million ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised at 31st March 2000.

9. TANGIBLE ASSETS

	Land and buildings		Construction in progress		Moulds, machinery and equipment		Other assets		Total	
	2001 US\$ million	2000 US\$ million	2001 US\$ million	2000 US\$ million	2001 US\$ million	2000 US\$ million	2001 US\$ million	2000 US\$ million	2001 US\$ million	2000 US\$ million
Cost or valuation										
At 1st April	92.1	59.6	0.5	1.8	220.1	133.4	67.3	53.8	380.0	248.6
Additions	2.8	0.4	—	0.5	18.8	16.0	9.1	13.0	30.7	29.9
Acquisition of subsidiaries	—	32.5	—	—	1.0	74.6	—	2.6	1.0	109.7
Transfer between categories	—	0.6	—	(1.7)	(0.3)	(0.8)	0.3	1.9	—	—
Revaluation	—	(0.7)	—	—	—	—	—	—	—	(0.7)
Disposals	(4.8)	—	—	—	(10.5)	(1.7)	(4.1)	(3.2)	(19.4)	(4.9)
Impairment charge	(3.4)	—	—	—	(12.4)	—	(1.4)	—	(17.2)	—
Transfers to assets held for sale (Note 14)	(21.2)	—	—	—	(37.3)	—	—	—	(58.5)	—
Effect of changes in exchange rate	(0.7)	(0.3)	—	(0.1)	(0.4)	(1.4)	(0.7)	(0.8)	(1.8)	(2.6)
At 31st March	64.8	92.1	0.5	0.5	179.0	220.1	70.5	67.3	314.8	380.0
Accumulated depreciation										
At 1st April	12.3	11.3	—	—	149.2	92.6	45.7	35.6	207.2	139.5
Charge for the year	3.9	3.2	—	—	30.1	19.8	10.6	12.0	44.6	35.0
Acquisition of subsidiaries	—	—	—	—	—	38.6	—	1.0	—	39.6
Transfer between categories	—	—	—	—	(0.1)	0.4	0.1	(0.4)	—	—
Revaluation	—	(2.0)	—	—	—	—	—	—	—	(2.0)
Disposals	(0.5)	—	—	—	(8.0)	(1.5)	(2.6)	(2.4)	(11.1)	(3.9)
Transfers to assets held for sale (Note 14)	(1.1)	—	—	—	(27.0)	—	—	—	(28.1)	—
Effect of changes in exchange rate	—	(0.2)	—	—	(0.2)	(0.7)	(0.4)	(0.1)	(0.6)	(1.0)
At 31st March	14.6	12.3	—	—	144.0	149.2	53.4	45.7	212.0	207.2
Net book value at 31st March	50.2	79.8	0.5	0.5	35.0	70.9	17.1	21.6	102.8	172.8
Cost or valuation of tangible assets is analysed as follows:										
At cost	26.8	26.8	0.5	0.5	179.0	220.1	70.5	67.3	276.8	314.7
At professional valuation — 2000	35.0	65.3	—	—	—	—	—	—	35.0	65.3
At professional valuation — 2001	3.0	—	—	—	—	—	—	—	3.0	—
	64.8	92.1	0.5	0.5	179.0	220.1	70.5	67.3	314.8	380.0

The net book value of fixed assets held under finance lease as at 31st March 2001 is US\$0.6 million (2000: Nil).

The net book value of tangible assets pledged as security for liabilities at 31st March 2001 amounted to US\$7.0 million (2000: US\$12.3 million).

9. TANGIBLE ASSETS (Continued)

Land and buildings comprise:

	Freehold and long-term leasehold land and buildings		Short-term leasehold land and buildings		Investment properties		Total	
	2001 US\$ million	2000 US\$ million	2001 US\$ million	2000 US\$ million	2001 US\$ million	2000 US\$ million	2001 US\$ million	2000 US\$ million
Cost or valuation								
At 1st April	62.3	29.9	26.8	26.3	3.0	3.4	92.1	59.6
Additions	2.8	0.4	—	—	—	—	2.8	0.4
Acquisition of subsidiaries	—	32.5	—	—	—	—	—	32.5
Transfer between categories	—	—	—	0.6	—	—	—	0.6
Revaluation	—	(0.4)	—	—	—	(0.3)	—	(0.7)
Disposal	(4.8)	—	—	—	—	—	(4.8)	—
Impairment charge	(3.4)	—	—	—	—	—	(3.4)	—
Transfers to assets held for sale (Note 14)	(21.2)	—	—	—	—	—	(21.2)	—
Effect of changes in exchange rate	(0.7)	(0.1)	—	(0.1)	—	(0.1)	(0.7)	(0.3)
At 31st March	35.0	62.3	26.8	26.8	3.0	3.0	64.8	92.1
Accumulated depreciation								
At 1st April	—	0.9	12.3	10.4	—	—	12.3	11.3
Charge for the year	2.5	1.1	1.4	2.1	—	—	3.9	3.2
Acquisition of subsidiaries	—	—	—	—	—	—	—	—
Transfer between categories	—	—	—	—	—	—	—	—
Revaluation	—	(2.0)	—	—	—	—	—	(2.0)
Disposal	(0.5)	—	—	—	—	—	(0.5)	—
Transfers to assets held for sale (Note 14)	(1.1)	—	—	—	—	—	(1.1)	—
Effect of changes in exchange rate	—	—	—	(0.2)	—	—	—	(0.2)
At 31st March	0.9	—	13.7	12.3	—	—	14.6	12.3
Net book value at 31st March	34.1	62.3	13.1	14.5	3.0	3.0	50.2	79.8
Cost or valuation of tangible assets is analysed as follows:								
At cost	—	—	26.8	26.8	—	—	26.8	26.8
At professional valuation — 2000	35.0	62.3	—	—	—	3.0	35.0	65.3
At professional valuation — 2001	—	—	—	—	3.0	—	3.0	—
	35.0	62.3	26.8	26.8	3.0	3.0	64.8	92.1
Net book value of land and buildings comprises:								
Hong Kong								
Long-term leasehold (not less than 50 years)	10.5	11.0	—	—	3.0	3.0	13.5	14.0
Overseas								
Freehold	23.6	51.3	—	—	—	—	23.6	51.3
Short-term leasehold	—	—	13.1	14.5	—	—	13.1	14.5
	23.6	51.3	13.1	14.5	—	—	36.7	65.8
Net book value of revalued tangible assets had the assets been carried at cost less depreciation:	24.8	47.4			2.2	2.2	27.0	49.6

Investment properties were revalued at 31st March 2001 by Chung, Chan & Associates (Hong Kong), independent professional valuers, on an open market value basis. The directors have reviewed the carrying value of freehold and long-term leasehold land and buildings, as at 31st March 2001.

10. INTANGIBLE ASSETS

		Negative goodwill	Purchased research & development	Total
	Note	US\$ million	US\$ million	US\$ million
At 1st April 2000		(32.2)	—	(32.2)
Transferred from other investments	12	—	1.3	1.3
Additions during the year	22	—	23.9	23.9
Fair value adjustment	22	0.3	—	0.3
Recognized as income	2	31.9	—	31.9
Impairment charges	3	—	(25.2)	(25.2)
At 31st March 2001		—	—	—

11. DEFERRED TAXATION

The deferred tax assets and liabilities and the deferred tax account movements for the year ended 31st March 2001 are attributable to the following items:

	1st April 2000	Credited/ (charged) to income statement	31st March 2001
	US\$ million	US\$ million	US\$ million
Deferred tax assets			
Provisions	1.6	(1.0)	0.6
Tax loss carry forwards	1.0	0.7	1.7
Other deductible temporary differences	2.7	(0.2)	2.5
	5.3	(0.5)	4.8
Deferred tax liabilities			
Accelerated tax depreciation	(2.0)	0.3	(1.7)
Asset revaluation	(0.4)	—	(0.4)
	(2.4)	0.3	(2.1)
Net deferred tax assets	2.9	(0.2)	2.7

11. DEFERRED TAXATION (Continued)

The deferred tax assets and liabilities and the deferred tax account movements for the year ended 31st March 2000 are attributable to the following items:

	1st April 1999 US\$ million	Credited/ (charged) to income statement US\$ million	Charged to other properties revaluation reserve US\$ million	31st March 2000 US\$ million
Deferred tax assets				
Provisions	1.3	0.3	—	1.6
Tax loss carry forwards	1.3	(0.3)	—	1.0
Other deductible temporary differences	2.8	(0.1)	—	2.7
	5.4	(0.1)	—	5.3
Deferred tax liabilities				
Accelerated tax depreciation	(1.5)	(0.5)	—	(2.0)
Asset revaluation	(0.2)	—	(0.2)	(0.4)
	(1.7)	(0.5)	(0.2)	(2.4)
Net deferred tax assets/(liabilities)	3.7	(0.6)	(0.2)	2.9

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:

	2001 US\$ million	2000 US\$ million
Deferred tax assets	4.0	4.3
Deferred tax liabilities	(1.3)	(1.4)
	2.7	2.9

Deferred tax assets are recognized for tax losses carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. Deferred taxation of US\$61.1 million (2000: US\$28.6 million) arising from unused tax losses of US\$218.3 million (2000: US\$121.6 million) has not been recognized at the end of the year.

12. INVESTMENTS

	Note	2001 US\$ million	2000 US\$ million
i) Associates			
Unlisted shares, at cost		2.1	1.3
Share of post acquisition retained reserves less losses		(1.1)	(0.6)
Amortization of goodwill	2	(0.6)	(0.3)
Share of net tangible assets		0.4	0.4
ii) Other investments			
Unlisted investments, at cost	10	0.1	1.4
		0.5	1.8

13. STOCKS

	2001 US\$ million	2000 US\$ million
Raw materials	40.7	77.0
Work in progress	6.4	16.0
Finished goods	140.4	163.8
	187.5	256.8
Analysis by product category:		
Telecommunication and electronic products	187.5	255.4
e-Business related services	—	1.4
	187.5	256.8

At 31st March 2001, there were US\$0.7 million stocks pledged as security for liabilities (2000: Nil).

Stocks carried at net realizable value at 31st March 2001 amounted to US\$51.9 million (2000: US\$4.1 million).

14. ASSETS HELD FOR SALE

	2001 US\$ million	2000 US\$ million
Land and buildings	20.1	—
Machinery and equipment	10.3	—
	30.4	—

As a consequence of the restructuring plan described in note 3 above, certain lands, buildings and equipment are no longer required for the purposes for which they were originally intended. These assets have been written down to their estimated recoverable amounts.

15. DEBTORS AND PREPAYMENTS

	Note	2001 US\$ million	2000 US\$ million
Trade debtors		195.3	188.0
Trade debtors due from associates		—	0.9
Other debtors and prepayments		58.2	54.2
Pension assets	18	2.1	1.4
		255.6	244.5

At 31st March 2001, there were no trade debtors pledged as security for liabilities (2000: Nil).

Included in other debtors in 2000 above was an amount due from a former director of the Company, Mr. Paul Anthony MURPHY. The amount had been fully repaid during the year (2000: US\$0.2 million) and the maximum amount outstanding during the year was US\$0.2 million (2000: US\$0.7 million). Interest was charged at the Hong Kong prime rate.

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

	0-30 days US\$ million	31-60 days US\$ million	61-90 days US\$ million	>90 days US\$ million	Total US\$ million
Balance at 31st March 2001	81.3	75.4	25.2	13.4	195.3
Balance at 31st March 2000	99.3	61.4	10.2	17.1	188.0

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.

16. CREDITORS AND PROVISIONS

	Note	2001 US\$ million	2000 US\$ million
Trade creditors		106.2	108.1
Provisions for liabilities and charges	19	66.3	37.9
Other creditors and accruals		135.4	96.4
Obligations under finance leases	17	0.1	—
		308.0	242.4

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

	0-30 days US\$ million	31-60 days US\$ million	61-90 days US\$ million	>90 days US\$ million	Total US\$ million
Balance at 31st March 2001	30.1	38.8	9.6	27.7	106.2
Balance at 31st March 2000	68.5	22.6	7.2	9.8	108.1

17. BORROWINGS

	Note	2001 US\$ million	2000 US\$ million
Bank loans, overdrafts and finance lease obligations			
Repayable by instalments, any one of which is due for repayment after five years:			
Secured bank loans		4.6	4.5
Repayable by instalments, all of which are due for repayment within five years:			
Unsecured bank loans and overdrafts		241.4	178.8
Secured bank loans		3.1	2.6
Obligations under finance leases		0.5	—
		245.0	181.4
Less: amounts due within one year included under current liabilities:			
Unsecured bank loans and overdrafts		(111.3)	(16.2)
Secured bank loans		(1.3)	—
Obligations under finance leases	16	(0.1)	—
		(112.7)	(16.2)
		136.9	169.7
Bank loans, overdrafts and finance lease commitments are repayable as follows:			
Between one and two years		50.5	163.9
Between two and five years		81.9	1.3
In more than five years		4.5	4.5
		136.9	169.7

The secured bank loans are secured against land and buildings. Bank loans and overdrafts are mainly denominated in United States dollars, Hong Kong dollars and French Francs. Interest rates vary from 5.09% to 8.68%. (2000: 3.43% to 8.68%)

18. PENSION SCHEMES

Total retirement benefit costs recognized in the income statement for the year ended 31st March 2001 amounted to US\$2.9 million (2000: US\$2.6 million). For the defined contribution schemes operated for overseas employees, the retirement benefit cost expensed in the income statement amounted to US\$1.5 million (2000: US\$0.6 million). For the defined benefit scheme ("the Scheme") operated for Hong Kong employees, contributions made by the Group during the year were set 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 2001 using the projected unit credit method.

18. PENSION SCHEMES (Continued)

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

	Note	2001 US\$ million	2000 US\$ million
Fair value of Scheme assets		12.3	15.6
Present value of the defined benefit obligation		(12.4)	(13.0)
Unrecognized actuarial gains/(losses)		2.2	(1.2)
Assets recognized in the balance sheet	15	2.1	1.4
The amounts recognized in the income statement are as follows:			
Current service cost		1.9	2.0
Interest cost		1.0	1.0
Expected return on plan assets		(1.5)	(1.1)
Net actuarial losses recognized in the year		—	0.1
Expenses recognized in the income statement*	2	1.4	2.0
The actual return on plan assets was as follows:			
Expected return on plan assets		1.5	1.1
Actuarial (losses)/gains on plan assets		(4.4)	2.0
Actual return on plan assets		(2.9)	3.1
Movement in the assets recognized in the balance sheet:			
At beginning of year		1.4	1.4
Total expenses as above*		(1.4)	(2.0)
Contributions paid		2.1	2.0
At end of year		2.1	1.4
The principal actuarial assumptions used for accounting purposes were:			
Discount rate		7.0%	8.0%
Expected return on plan assets		8.0%	9.0%
Future salary increases		6.0%	8.0%

19. PROVISIONS FOR LIABILITIES AND CHARGES

	Warranties US\$ million	Returns US\$ million	Restructuring costs US\$ million	Employee compensated leave entitlements US\$ million	Total US\$ million
At 1st April 2000	23.1	14.0	—	0.8	37.9
Additional provision	36.6	7.4	50.9	(0.8)	94.1
Unused amount reversed	—	(1.3)	—	0.8	(0.5)
Charged to income statement	36.6	6.1	50.9	—	93.6
Utilized during the year	(39.2)	(5.4)	(20.6)	—	(65.2)
At 31st March 2001	20.5	14.7	30.3	0.8	66.3

19. PROVISIONS FOR LIABILITIES AND CHARGES (Continued)**Warranties**

The Group gives one year warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision is recognized for expected warranty claims based on past experience of the level of repairs and returns. It is expected that the majority of the provision will be utilized in the next financial year.

Returns

The Group provides for loss of margin and cost of materials scrapped on estimated product returns.

Restructuring charges

Restructuring charges include the costs of terminating employees and other closure costs to be incurred on the cessation or streamlining of business activities. As set out in note 3 above, a comprehensive restructuring plan was announced in March 2001.

20. SHARE CAPITAL

			2001	2000
			US\$ million	US\$ million
<i>Authorized</i>				
Ordinary shares:				
400,000,000 (2000: 400,000,000) of US\$0.05 each			20.0	20.0
			2001	2000
	Note	No. of shares	US\$ million	US\$ million
<i>Issued and fully paid</i>				
Ordinary shares of US\$0.05 each:				
Balance as at 1st April 2000			10.7	10.6
Exercise of share options			—	—
Issued on the acquisition of a subsidiary	22	5,578,292	0.3	—
Issued in lieu of scrip dividend	7	5,114,154	0.3	0.1
Balance as at 31st March 2001			11.3	10.7

20. SHARE CAPITAL (Continued)**Share option schemes**

Pursuant to the share option scheme adopted on 24th September 1991 (the "Scheme"), the board of directors is authorized to grant options to certain directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company at prices to be determined by the board in accordance with the terms of the Scheme. The movements in the number of share options under the Scheme during the year were as follows:

	Number of options granted under the Scheme	
	2001	2000
Balance as at 1st April 2000	5,265,300	5,473,300
Granted during the year	40,000	370,000
Cancelled during the year	(580,000)	(405,000)
Exercised during the year	(4,000)	(173,000)
Balance as at 31st March 2001	4,721,300	5,265,300

On 16th November 2000, the Company granted to an employee options to subscribe for an aggregate of 40,000 shares in the Company at a price of US\$1.76 per share. During the year, 4,000 options were exercised in the following months: August 2000, 2,000 options; September 2000, 2,000 options.

The 4,721,300 options outstanding at 31st March 2001 include 316,300 options that may be exercised at a price of US\$0.733 per share, 4,025,000 options that may be exercised at a price of US\$2.9 per share, 200,000 options that may be exercised at a price of US\$2.72 per share, 140,000 options that may be exercised at a price of US\$2.3 per share and 40,000 options that may be exercised at a price of US\$1.76 per share.

Warrants

Pursuant to a warrant instrument dated 19th January 2000 issued by the Company to AT&T Corp. ("AT&T") as part of a brand 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 wireless telephones and accessories in the United States and Canada, the Company granted AT&T warrants carrying rights to subscribe for 3,000,000 shares in the Company at a subscription price of HK\$20.00 per share on or before 18th January 2012. No warrants have been exercised since the date of grant.

21. RESERVES

	Note	Group		Company	
		2001 US\$ million	2000 US\$ million	2001 US\$ million	2000 US\$ million
Revenue reserves		(11.0)	230.1	35.3	209.8
Exchange reserve		(6.4)	(2.5)	(1.2)	(1.2)
Investment properties revaluation reserve		1.0	1.0	—	—
Other properties revaluation reserve		10.7	11.5	—	—
Share premium		74.2	46.0	74.2	46.0
		68.5	286.1	108.3	254.6
An analysis of movements on reserves is set out below:					
Revenue reserves					
Brought forward					
— as previously reported		230.1	195.1	209.8	96.9
— effect of adopting IAS 10 (revised 1999)	7	—	26.5	—	26.5
— effect of adopting IAS 19 (revised 1998)		—	0.6	—	—
— as restated		230.1	222.2	209.8	123.4
(Loss)/profit attributable to shareholders		(215.0)	45.0	(147.6)	123.5
Interim dividends paid	7	—	(10.6)	—	(10.6)
Final dividends paid	7	(26.9)	(26.5)	(26.9)	(26.5)
Disposal of properties previously revalued		0.8	—	—	—
Carried forward		(11.0)	230.1	35.3	209.8
Exchange reserve					
Brought forward		(2.5)	(0.5)	(1.2)	0.5
Exchange translation differences		(3.9)	(2.0)	—	(1.7)
Carried forward		(6.4)	(2.5)	(1.2)	(1.2)
Investment properties revaluation reserve					
Brought forward		1.0	1.3	—	—
Deficit arising on revaluation	9	—	(0.3)	—	—
Carried forward		1.0	1.0	—	—
Other properties revaluation reserve					
Brought forward		11.5	10.1	—	—
Surplus arising on current year revaluation		—	1.6	—	—
Deferred tax on provision against a freehold property		—	(0.2)	—	—
Disposal of properties previously revalued		(0.8)	—	—	—
Carried forward		10.7	11.5	—	—
Share premium					
Brought forward		46.0	39.3	46.0	39.3
Premium on exercise of share options		—	0.1	—	0.1
Shares issued on the acquisition of a subsidiary		12.4	—	12.4	—
Shares issued in lieu of scrip dividend	7	15.8	6.6	15.8	6.6
Carried forward		74.2	46.0	74.2	46.0

Reserves of the Company available for distribution to shareholders amounted to US\$35.3 million (2000: US\$209.8 million).

22. NOTE TO CONSOLIDATED CASH FLOW STATEMENT**Purchase of subsidiaries and businesses**

	Note	2001 US\$ million	2000 US\$ million
Tangible assets		1.0	70.1
Stocks		—	92.4
Debtors and prepayments		3.0	56.9
Cash at bank and deposits		1.4	2.5
Trade creditors		(4.8)	(33.5)
Other creditors and accruals		(0.8)	(29.7)
Current tax liabilities		—	(0.4)
Fair value at acquisition		(0.2)	158.3
Negative goodwill	10	—	(32.2)
Purchased research and development	10	23.9	—
Total consideration		23.7	126.1
Satisfied by			
Cash		11.0	126.1
Shares		12.7	—
		23.7	126.1
Net cash outflow arising on acquisition		11.0	126.1
Bank balances and cash acquired		(1.4)	(2.5)
Cashflow on acquisition net of cash acquired		9.6	123.6

On 5th July 2000, the Group entered into an agreement to acquire the entire issued share capital of VTech Mobile Limited (formerly Sensei Limited), other than those shares already owned by the Group. VTech Mobile Limited is engaged in the development of premium tier mobile phones for manufacture and distribution and has expertise in the commercial and technical aspects of the mobile telecommunications sector. The assets and liabilities acquired are set out above and further details of the acquisition are set out in the announcements dated 6th July and 26th September 2000. The consideration for the acquisition was US\$23.7 million comprising US\$11.0 million in cash and the issue of ordinary shares in the Company. On 26th September 2000, completion of the transaction took place and control of VTech Mobile Limited was effectively transferred to the Company. On the same date, the Company allotted and issued 5,578,292 of its shares in accordance with the sales and purchase agreement. The fair value of the shares issued, based on the closing price of the Company's shares on the Hong Kong Stock Exchange of HK\$17.70 (US\$2.28) on 26th September 2000 was US\$12.7 million.

As a consequence of the restructuring plan described in note 3 above, the Group has decided to close the research and development operations of VTech Mobile Limited and the intangible asset arising from the acquisition has been fully written-off as an impairment charge for the year ended 31st March 2001.

As set out in note 2 above, the Group acquired certain assets and assumed certain liabilities from Lucent related to their consumer telephone manufacturing operations on 31st March 2000. The consideration paid for the acquisition was US\$126.1 million, which was subsequently adjusted to US\$125.8 million. The US\$32.2 million negative goodwill arising on the acquisition was subsequently adjusted to US\$31.9 million and has been fully recognized as income in the year ended 31st March 2001 to offset losses arising from the business acquired.

23. FINANCIAL INSTRUMENTS

Off-balance sheet derivative financial instruments

The Group enters into foreign exchange forward contracts in order to manage its exposure to fluctuations in foreign currency exchange rates on specific transactions. The contracts are matched with anticipated future cash flows in foreign currencies, primarily from sales. The Group does not use derivative financial instruments for speculative purposes.

The following table summarizes by major currency the net amounts to be received/(paid) under forward contracts.

	2001			2000		
	Contract Amount	Fair value		Contract Amount	Fair value	
		Asset	Liability		Asset	Liability
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
United Kingdom						
Sterling Pounds	19.6	0.3	—	8.2	0.2	—
Euros	(21.2)	0.5	(0.5)	—	—	—

The fair value of the foreign exchange forward contracts represents the unrealized gains or losses on open contracts not recognized in the financial statements. These open contracts mature at various dates over the next 12 months.

Credit risk

Financial assets which potentially subject the Group to credit risk consist principally of cash, short-term deposits and trade receivables. The Group's cash equivalents and short-term deposits are placed with major financial institutions. Trade receivables are presented net of the allowance for doubtful receivables. Credit risk with respect to trade receivables 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.

With respect to the foreign exchange forward contracts, the Group's exposure is on the full amount of the foreign currency receivable on settlement. The Group manages these risks by monitoring credit ratings and limiting the aggregate risk to any individual counterparty.

Interest rate risk

The Group's short-term deposits are at fixed interest rates and mature within three months. All of the Group's borrowings bear interest based on floating interest rates except for term loans amounting to US\$7.0 million (2000: US\$3.6 million) which have fixed rates of interest.

23. FINANCIAL INSTRUMENTS (Continued)**Fair values**

The fair values of the Group's financial assets and liabilities, before taking account of hedging transactions, are summarized as follows:

	2001		2000	
	Carrying amount US\$ million	Fair value US\$ million	Carrying amount US\$ million	Fair value US\$ million
<i>Financial assets:</i>				
Investments	0.5	0.5	1.8	1.8
Debtors	195.3	195.3	188.9	188.9
Cash at bank and deposits	56.2	56.2	79.6	79.6
	252.0	252.0	270.3	270.3
<i>Financial liabilities:</i>				
Creditors and accruals	252.6	252.6	189.3	189.3
Bank overdrafts	2.8	2.8	12.1	12.1
Term loans	246.3	246.3	173.8	173.8
Obligations under finance leases	0.5	0.5	—	—
	502.2	502.2	375.2	375.2

The fair value of debtors, bank balances, creditors and accruals and bank overdrafts approximate their carrying amount 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.

Currency profile

The currency profile of the Group's financial assets and liabilities, before taking account of hedging transactions, is summarized as follows:

	2001		2000	
	Financial assets US\$ million	Financial liabilities US\$ million	Financial assets US\$ million	Financial liabilities US\$ million
<i>Currency:</i>				
United States Dollar	215.0	404.5	232.4	275.0
Euro	2.2	8.6	13.5	0.4
United Kingdom Sterling	6.8	5.3	7.4	2.7
Hong Kong Dollar	3.0	47.6	2.8	57.2
Dutch Guilder	2.1	—	1.7	3.4
Chinese Renminbi	1.4	19.7	1.8	16.8
Swiss Franc	0.7	0.2	0.6	0.4
Spanish Peseta	2.6	2.1	0.8	2.0
French Franc	9.3	8.3	4.8	12.3
Deutsch Mark	4.3	1.1	1.5	1.1
Others	4.6	4.8	3.0	3.9
	252.0	502.2	270.3	375.2

24. COMMITMENTS

	2001 US\$ million	2000 US\$ million
(i) Capital commitments for property, plant and equipment		
Authorized not contracted for	14.1	18.5
Contracted not provided for	3.2	3.7
	17.3	22.2
(ii) Operating lease commitments		
At 31st March the Group had total commitments under operating leases payable as follows:		
Land and buildings		
In one year or less	11.7	8.9
Between one and two years	11.6	8.5
Between two and five years	21.4	19.6
In more than five years	74.6	74.0
	119.3	111.0

The Group has entered into agreements with an independent third party in the People's Republic of China ("PRC") to lease factory premises in Houjie, Dongguan comprising several factory buildings. There are totally four separate leases which expire in 2003, 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 entire lease terms.

In December 1995, the Group entered into an agreement with an independent third party in the People's Republic of China ("PRC") whereby the PRC party will construct in phases and lease to the Group a new production facility in Liaobu, Dongguan. Under a fifty year lease agreement, the Group will rent the first and second phases of the facility for non-cancellable periods of six and eight years after completion respectively. The total estimated rental commitment to the end of the non-cancellable periods, after offsetting the interest bearing amount advanced for construction is US\$6.4 million (2000: US\$1.1 million). This amount is included in operating lease commitments above. The Group also has 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 second phase is expected to be operational in October 2001.

Under a Brand License Agreement, VTech USA Holdings LLC ("VTech USA"), a wholly-owned subsidiary, 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 as at 31st March 2001 amount to US\$171.0 million and the annual payment increases on a sliding scale from US\$15.7 million for the year ending 31st March 2002 to US\$21.2 million for the year ending 31st March 2010, when the agreement expires. VTech USA can renew the agreement for an additional five year term.

25. CONTINGENT LIABILITIES AND MATERIAL LEGAL PROCEEDINGS

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 counsel, 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 and believe adequate provisions have been made in these financial statements.

At 31st March 2001, there also existed a contingent liability in respect of bills discounted amounting to US\$0.6 million (2000: US\$1.4 million).

On 25th January 2001, the Company and a wholly-owned subsidiary VTech Electronics Netherlands BV, filed a complaint in the United States District Court for the Southern District of New York seeking damages in excess of US\$300 million against Lucent Technologies Inc. and Lucent Technologies Consumer Products L.P. for fraud and breaches of the Agreement for Purchase and Sale of Stock and Assets in connection with the acquisition from Lucent of their consumer telephone operations (see note 3 above).

26. COMPANY BALANCE SHEET

	Note	2001 US\$ million	2000 US\$ million
Non-current assets			
Subsidiaries		102.7	227.2
Associates		0.6	0.6
		103.3	227.8
Current assets			
Amounts due from subsidiaries	(i)	225.5	137.9
Amount due from an associate		—	1.0
Debtors and prepayments		1.0	0.5
Tax recoverable		0.4	—
Cash at bank and deposits		0.2	0.2
		227.1	139.6
Current liabilities			
Amounts due to subsidiaries	(i)	(208.9)	(101.4)
Creditors and provisions		(1.9)	(0.7)
		(210.8)	(102.1)
Net operating assets		119.6	265.3
Share capital	20	11.3	10.7
Reserves	21	108.3	254.6
Shareholders' funds		119.6	265.3

Note:

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

27. 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 2001 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>			
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
VTech Computers Systems Limited	Ordinary HK\$3,300,000	*100	Provision of IT training courses and online education services and the sale of consumer electronic products
VTech Electronics Limited	HK\$5,000,000	*100	Design, manufacture and distribution of electronic products
VTech Communications Limited	Ordinary HK\$1,000 Deferred HK\$5,000,000	*100	Design, manufacture and distribution of telecommunication equipment
VTech Telecommunications Limited	Ordinary HK\$1,000 Deferred HK\$5,000,000	*100	Design, manufacture and distribution of telecommunication equipment
<i>Incorporated and operating in France:</i>			
VTech Electronics France S.A.	FRF20,000,000	*100	Sale of electronic products

**27. PRINCIPAL SUBSIDIARIES (Continued)**

Name of subsidiary	Fully paid issued share capital	Percentage of interest held by the Group	Principal activity
<i>Incorporated and operating in Germany:</i>			
VTech Electronics Germany GmbH	DM5,085,158	*100	Sale of electronic products
<i>Incorporated and operating in Spain:</i>			
VTech Electronics Spain S.L.	ESP386,381,569	*100	Sale of electronic products
<i>Incorporated and operating in Mexico:</i>			
VTech Innovations, S.A. de CV	Class A PESO5,000 Class B PESO80,840,930	*100	Manufacture of telecommunication products
VTech Communications Mexico S.A. de C.V.	PESO25,490,000	*100	Manufacture and repair of telecommunication products
<i>Incorporated and operating in the U.S.:</i>			
VTech Industries, LLC.	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\$110,000,100	*100	Sale of telecommunication products
<i>Incorporated and operating in Canada:</i>			
VTech Electronics Canada Limited	Class A C\$5,000 Class B C\$195,000	*40 *100	Sale of electronic and telecommunication products

27. PRINCIPAL SUBSIDIARIES (Continued)

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 Netherlands B.V.	DFL33,550,000	*100	Sale of electronic products
<i>Incorporated and operating in the United Kingdom:</i>			
VTech Electronics (UK) Plc.	GBP500,000	*100	Sale of electronic products
<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 and telecommunication products

* indirectly held by subsidiary companies

28. RELATED PARTY TRANSACTIONS

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

29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board on 27th June 2001.



**Consolidated income statement
for the years ended 31st March**

	Note	1997 US\$ million	1998 US\$ million	1999 US\$ million	2000 US\$ million	2001 US\$ million
Turnover	(i)	731.0	841.7	960.6	1,045.9	1,334.9
Cost of sales	(iv)	(486.2)	(524.5)	(611.6)	(723.2)	(1,013.6)
Gross profit		244.8	317.2	349.0	322.7	321.3
Selling and distribution costs		(114.5)	(145.1)	(163.5)	(179.7)	(275.2)
Administrative and other operating expenses	(iii)	(48.1)	(56.0)	(58.0)	(53.9)	(69.2)
Research and development expenses	(iv)	(27.6)	(30.1)	(40.3)	(42.7)	(66.6)
Loss on disposal of subsidiaries		—	(6.6)	—	—	—
Restructuring and impairment charges		—	—	—	—	(110.4)
Operating profit/(loss)		54.6	79.4	87.2	46.4	(200.1)
Net finance (costs)/income		(3.3)	1.0	1.1	1.3	(12.5)
Share of results of associates		(0.2)	—	—	(0.1)	(0.5)
Profit/(loss) before taxation		51.1	80.4	88.3	47.6	(213.1)
Taxation	(ii)	(6.6)	(11.0)	(5.5)	(2.5)	(1.8)
Profit/(loss) after taxation		44.5	69.4	82.8	45.1	(214.9)
Minority interests		—	—	(0.1)	(0.1)	(0.1)
Profit/(loss) attributable to shareholders		44.5	69.4	82.7	45.0	(215.0)
(Loss)/earnings per share (US¢)	(v) & (vi)	21.5	32.3	38.6	21.0	(96.7)
(i) Turnover includes the following amounts attributable to discontinued operations:		145.8	14.9	—	—	—
(ii) Taxation has been adjusted for the effect of IAS 12 (revised 1996) by the following amounts:		0.4	(0.1)	—	—	—
(iii) Administrative and other operating expenses have been adjusted for the effect of IAS 19 (revised 1998) by the following amounts:		0.5	0.4	0.6	—	—
(iv) Depreciation on moulds for new products that ultimately go into production for the years ended 31st March 1997 to 31st March 2000 has now been reclassified and included within cost of sales instead of within research and development expenses by the following amounts:		4.0	5.3	7.5	7.8	—
(v) The earnings per share for the years ended 31st March 1997 to 31st March 1999 have been adjusted for the scrip dividend issued on 8th February 2000.						
(vi) The earnings per share for the years ended 31st March 1997 to 31st March 1999 have been adjusted for the effect of IAS 12 (revised 1996) on the taxation charges and IAS 19 (revised 1998) on administrative and other operating expenses set out in (ii) & (iii) above.						

**Consolidated statement of net operating assets
as at 31st March**

	Note	1997 US\$ million	1998 US\$ million	1999 US\$ million	2000 US\$ million	2001 US\$ million
Non-current assets						
Tangible assets		86.4	112.6	109.1	172.8	102.8
Negative goodwill		—	—	—	(32.2)	—
Deferred tax assets	(i)	7.5	7.5	5.4	4.3	4.0
Investments		0.2	0.2	0.2	1.8	0.5
		94.1	120.3	114.7	146.7	107.3
Current assets						
Stocks		73.2	119.5	91.9	256.8	187.5
Assets held for sale		—	—	—	—	30.4
Debtors and prepayments	(ii)	105.4	119.5	148.0	244.5	255.6
Taxation recoverable		1.0	0.3	2.2	3.1	3.6
Cash at bank and deposits		25.9	55.0	97.3	79.6	56.2
		205.5	294.3	339.4	584.0	533.3
Current liabilities	(ii) & (iii)	(104.2)	(170.8)	(154.6)	(262.0)	(421.7)
Total assets less current liabilities		195.4	243.8	299.5	468.7	218.9
Long-term liabilities						
Borrowings		(8.6)	(6.1)	(14.1)	(169.7)	(136.9)
Deferred tax liabilities	(i)	(1.0)	(1.1)	(1.7)	(1.4)	(1.3)
		(9.6)	(7.2)	(15.8)	(171.1)	(138.2)
Net operating assets		185.8	236.6	283.7	297.6	80.7
 (i) Deferred tax assets and liabilities have been adjusted for the effect of IAS12 (revised 1996) by the following amounts:						
Deferred tax assets		7.5	7.5	—	—	—
Deferred tax liabilities		(1.0)	(1.1)	—	—	—
 (ii) Debtors and prepayments and current liabilities have been adjusted to include pension assets in accordance with IAS 19 (revised 1998) by the following amounts:						
Debtors and prepayments		0.3	0.7	1.4	—	—
Current liabilities		(0.7)	(0.7)	(0.8)	—	—
 (iii) Current liabilities have been adjusted to exclude the final dividend proposed in accordance with IAS 10 (revised 1999) by the following amounts:						
		10.5	21.2	26.5	—	—

**Board of directors****Allan WONG Chi Yun**

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TO Cheuck Wah

Managing Director

William HO Mook Lam

Managing Director

Albert LEE Wai Kuen

Managing Director

Paddy LAW Wai Leung

Executive Director

Jack Kenneth HIRSCH

Executive Director

Edward Barry ARMSTRONG

Executive Director

Nils Erik Vilhelm MARTENSSON

Independent Non-Executive Director

Philip Leigh TOSE

Independent Non-Executive Director

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