The financial performance for the first six months of the 2001 financial year reflects a difficult operating environment and increased investment in new business activities that aim at expanding our growth horizons. These factors have resulted in a less than satisfactory profit performance when compared to the same period of last year.

In this sense, VTech shares in problems that are both temporary and industry-wide. Continuing difficulties in the supply of components have affected the profitability of both our telecommunication and electronic learning products, while sales of the latter have also suffered as a result of the continued weakness of the euro.

Nevertheless our new businesses and products, including mobile phones, 2.4GHz cordless phones, PDA, email and wireless messaging appliances, as well as eBusiness related services, have developed according to our plans. As these product lines are still at the investment stage, their contribution remains small in this financial year, inevitably affecting our bottom line. But these investments are poised to realize their potential and with the temporary problems now starting to ease, we expect an improvement in our performance next year.

In short, VTech's long term fundamentals remain solid and we are confident that our strategy is producing the attractive growth horizons that we and our shareholders need in the coming decade.

Review of operations

Group results

Group turnover increased by 36% to US$708.6 million over the same period of last year. The growth was mainly attributable to the sales contribution of the consumer telephone product business acquired from Lucent Technologies in March this year, which amounted to US$171.3 million.

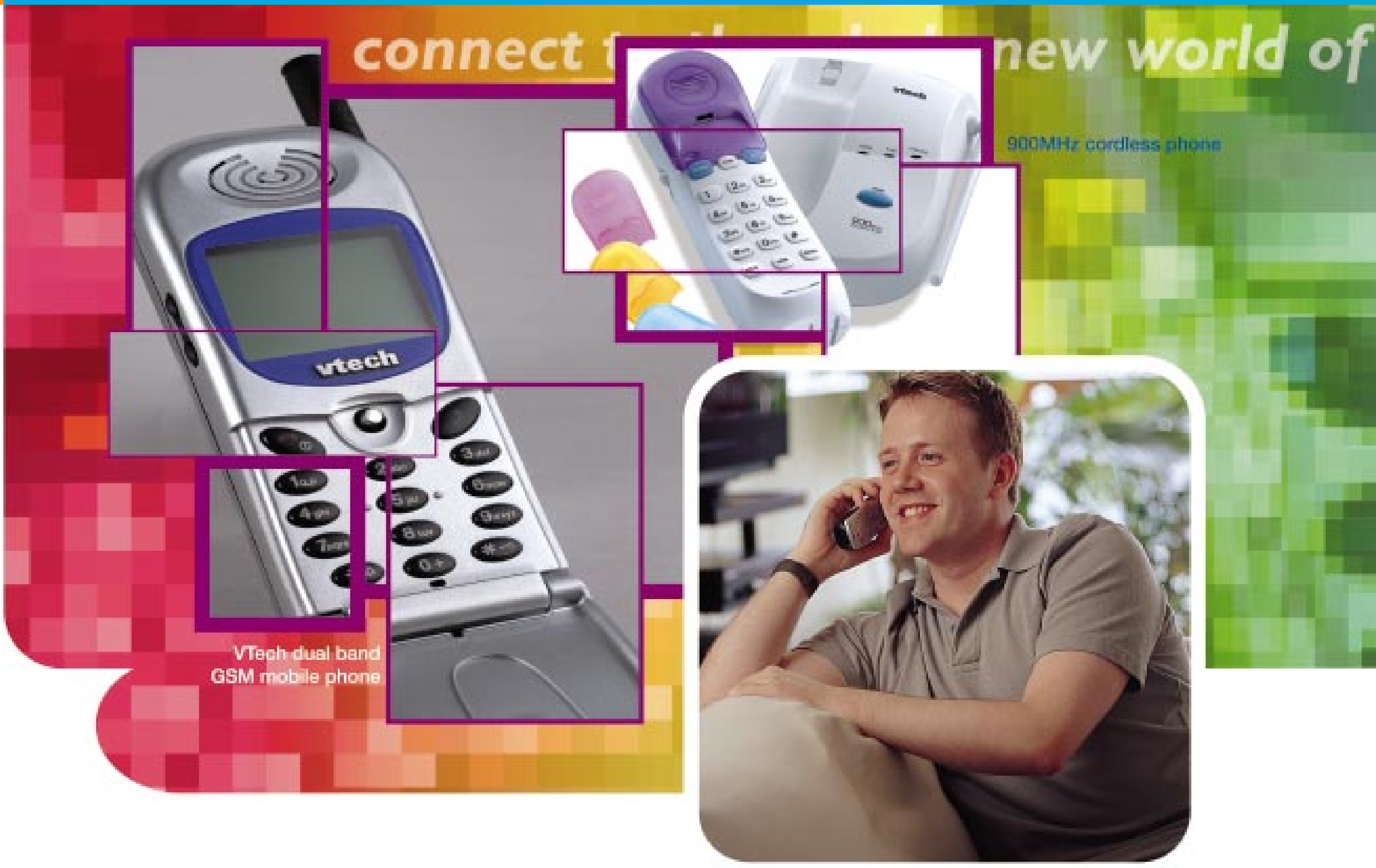
Sales of consumer telephone products grew by 64% to US$441.1 million, which accounted for 62% of group turnover. Electronic learning products accounted for sales of US$160.4 million, or 22.6% of total turnover. Sales of contract manufacturing services and multimedia communications products amounted to US$104.3 million, which accounted for 14.7% of group turnover.

Group sales to the US increased 47% to US$575.7 million, representing 81% of group turnover. Sales in Europe amounted to US$78.5 million, of which US$27.5 million were denominated in euros.

Profit attributable to shareholders for the period under review was US$0.8 million, a decrease of 97% over last year's US$26.4 million.

Liquidity and financial resources

Net cash outflow from operating activities during the period increased by US$20.9 million over last year's US$23.8 million, mainly as a result of a decrease in operating profit and changes in working capital. The acquisition at end of last year of the consumer telephone business from Lucent Technologies increased the group's long-term borrowings to US$148.3 million as at the end of the half-year. This represents 49.8% of capital employed, compared to 4.2% last year same period. Total debt increased from US$36.2 million to US$217.8 million. The maturity profile of the debt is contained in Note 12 of the financial statements.



Consumer Telephone Products

Sales of our consumer telephone product business grew by 64% over the first half of the previous fiscal year to US$441.1 million. The growth was mainly attributable to the sales contribution of the consumer telephone product business acquired from Lucent. This addition plus the licensed AT&T brand name strengthened our position as the world's leading supplier of high frequently cordless phones.

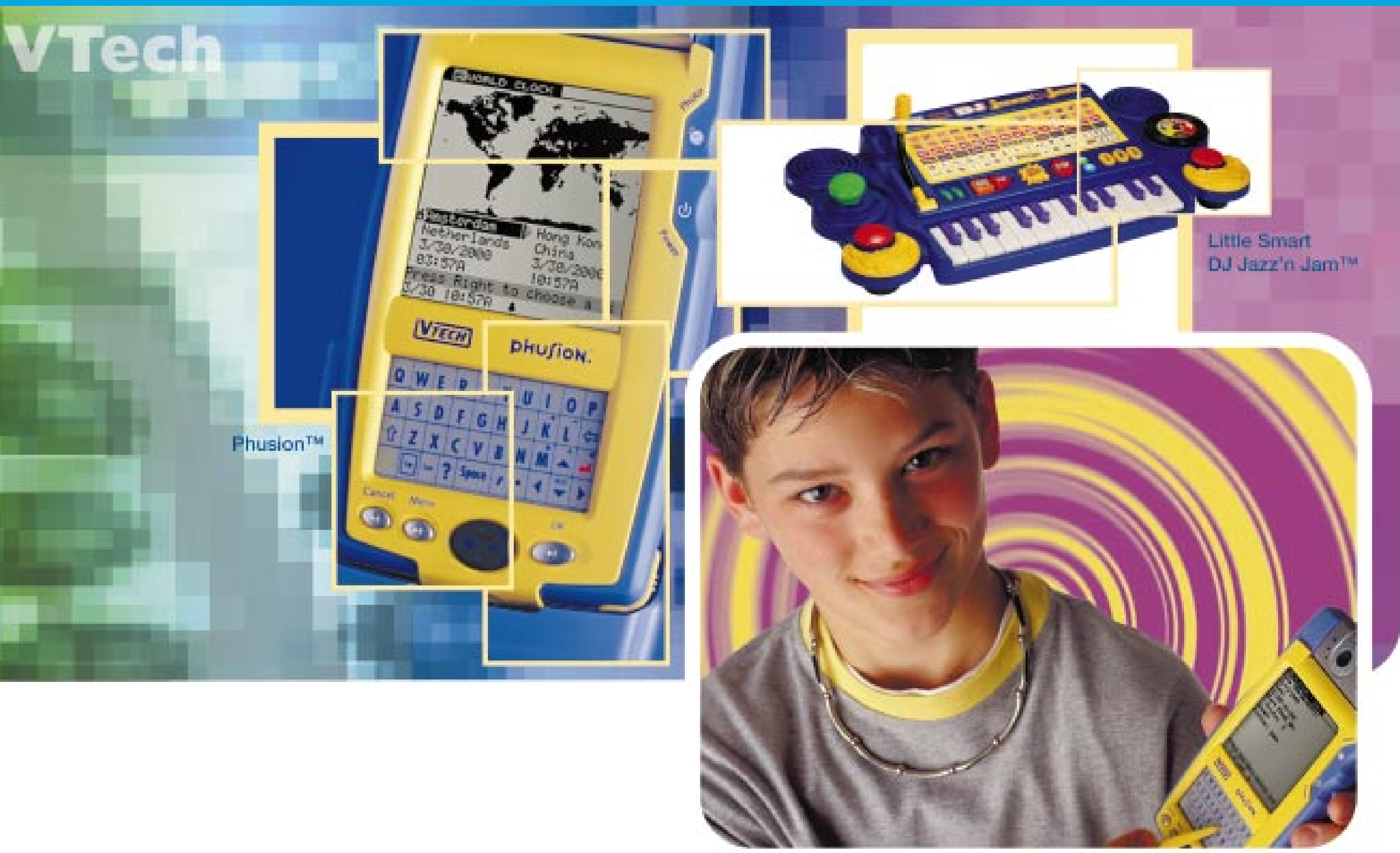
The profitability of our telecommunication product lines was nevertheless affected by two external factors and belies strong demand for our new higher margin products.

Firstly, sales were constrained by industry-wide component shortages. Production of our latest range of feature-rich 2.4GHz cordless phones, which enjoy much higher margins were badly affected. Thus, we were unable to meet the growing demand these products had excited in the US market on the back of only preliminary marketing efforts. We have taken steps to diversify our sources of supply for key components and to design products to be less dependent on these components, in order to make sales and margins less subject to swings in component supply.

Secondly, sales for the inventory of AT&T-branded phones acquired through the Lucent acquisition underperformed our original forecast. As a result, the provisions for the inventory we made upon acquisition have proven insufficient, affecting our bottom line this financial year.

Integration of the acquired assets remains a key focus of our activities in this financial year and remains on target. We are consolidating the former Lucent R&D team and product lines into the VTech structure, so as to achieve economies of scale. We therefore remain positive that the acquisition and the licensed AT&T brand name will bring long-term benefits to our shareholders which we had anticipated.

We have also been excited by the market response to our European-standard DECT (digitally enhanced cordless telephone) phone in Europe. Despite strong competition there, our superior design, features and pricing appear likely to allow us to become one of the market leaders, in a region that offers enormous potential.



Mobile Phones

In June 2000, we announced the acquisition of Sensei Ltd, a UK-based specialist designer and developer of mobile phones. Although the costs involved in taking over this operation and in product development are currently impacting our bottom line, this acquisition is allowing VTech to leapfrog several years of development and enter the booming market for mobile handsets.

Our newly launched GSM phone (SPT88d) is one of the world's smallest and lightest GSM dual band phones. It also features one of the largest displays in its class. One particularly innovative feature is its central joystick, which concentrates the whole phone operation into one control. The product has been well received by trade customers and the media.

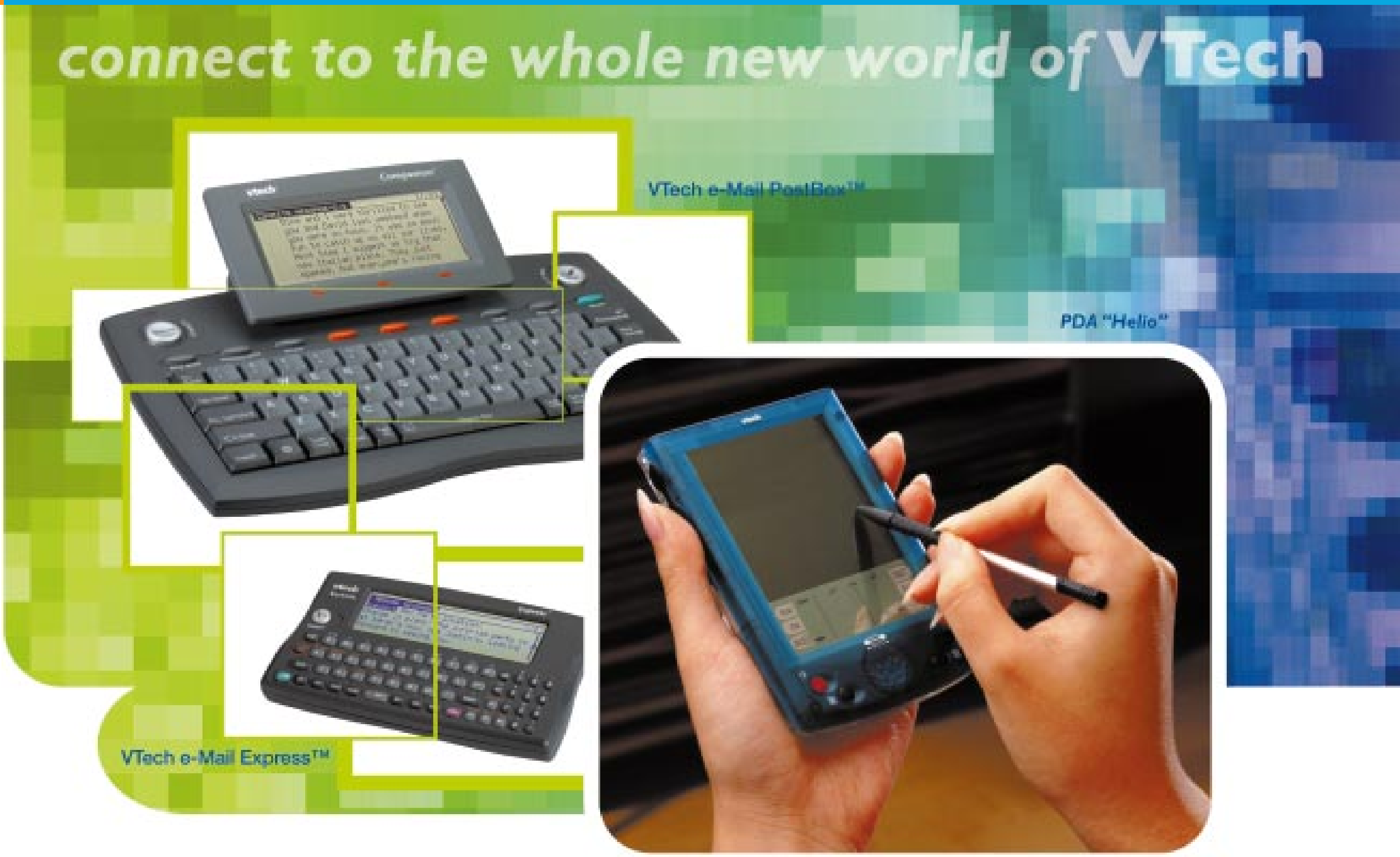
Electronic Learning Products

Overall sales of our electronic learning products (ELPs) fell 15% compared to the first six months of last year to US$160.4 million. Component shortages and delivery delays affected our ability to meet increased orders. Some of the slowdown in sales growth was also attributable to the chronic weakness of the euro. 45% of our ELP sales in Europe are denominated in euros.

Given the inevitability of further falls in the prices of PCs, it has long been our strategy to complement instead of compete against them. Providing children with a head start on the IT platform of the future, new features such as PC linkage, Internet capabilities and digital cameras have been explored and added to our electronic learning aid (ELAs) category, which targets children of six years and above.

We remain clear market leaders in the ELA category and are close behind the leader in the infant category. Our expanding range of infant and preschool products is allowing us to capitalise on the continuing growth in this segment. Sales in the infant and preschool category rose 7% over the same period of last year.

During the period under review, both rising component costs and the weak euro seriously affected our bottom line.



Contract Manufacturing Services and Multimedia Communications Products

Our contract manufacturing services and multimedia communications products recorded substantial sales growth of 72% to US$104.3 million. The good performance of the contract manufacturing services resulted from our strong customer base and reputation as a reliable source of contract manufacturing, especially in telecommunication products.

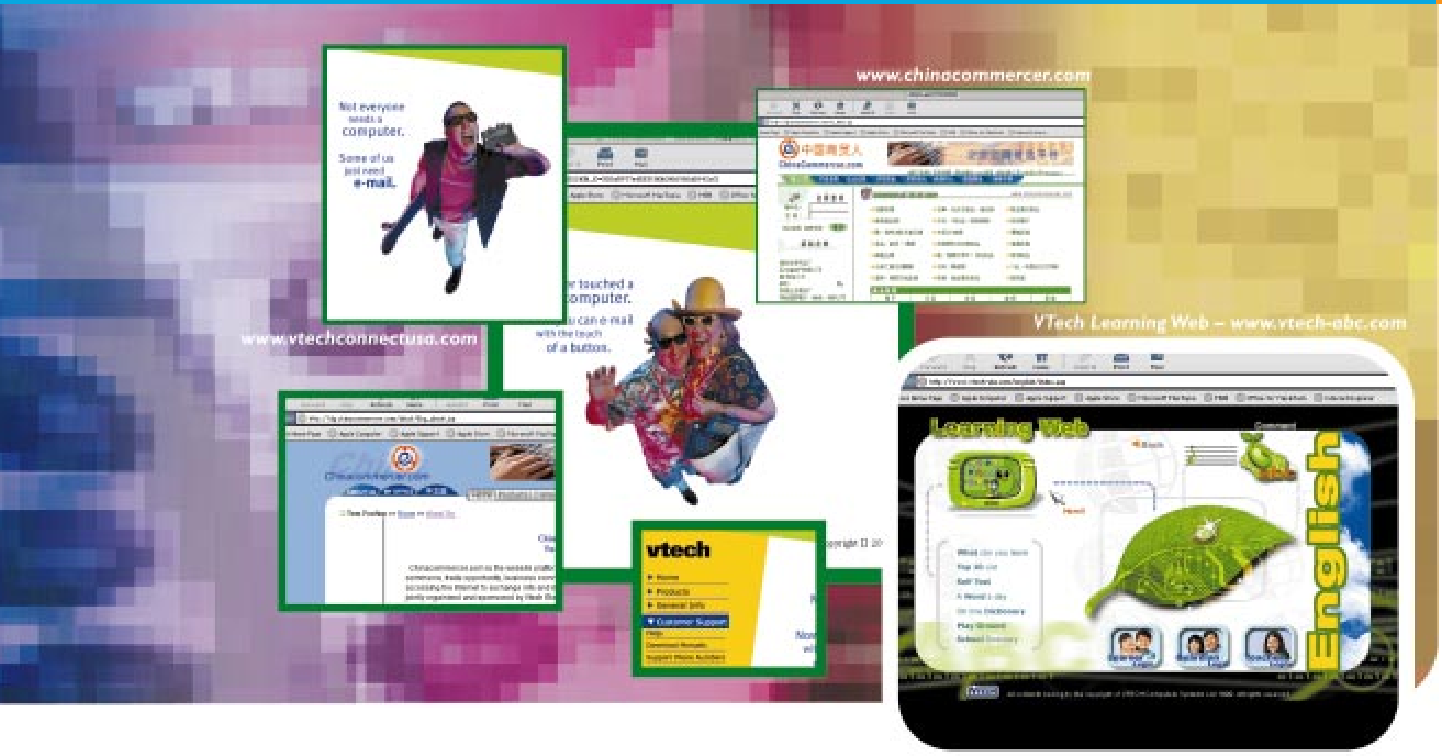
With continued advances in broadband-enabling technologies, more and more service operators are contemplating offering interactive services to home users via television set-top boxes. We are positioning ourselves to participate in this growth area. Sales of digital set-top boxes in the first six months continued to make steady growth, especially in the U.S. direct-to-home digital satellite television market.

Information Appliances

Our initiatives in the area of information appliances have been encouraging.

In the US, we have successfully expanded the marketing of our PDA *Helio* beyond our own web-site to major e-commerce retailers. We have also started to market this product through traditional retail channels. Local language versions in Dutch, German and Hebrew have enabled us to strengthen our foothold in Holland, Germany and Israel.

Our e-Mail PostBox™ and e-Mail Express™ appliances have received positive response from the market. These easy-to-use, portable and affordable appliances allow users to send and receive messages from any e-mail address world-wide, without the cost or complexity of a computer. Since the product launch in September 1999, the first generation products has been marketed through direct-to-consumer channels such as direct mail and the VTech web site. This was done to test receptivity to the product and the effectiveness of different advertising vehicles. Consumers are responding favourably and we will begin marketing these products through retail channels later this year.



Outlook

The rest of the financial year will remain difficult for VTech. But indications are that the shortage of components and raw materials is starting to ease, we therefore expect an improvement in our ability to meet the on-going demand for our products, which will result in an improved performance in the coming financial year.

Higher Margins in Cordless Phones

Sales of our telecommunication products will recover. With the component shortage starting to ease, we shall be well placed to meet orders in the US for our higher margin 2.4GHz cordless phones. To capture market share and achieve solid margins, we will also add to the range with new models of cordless phone, such as multiline models and handsets with wireless data gateway capability, as well as Voice over Internet-Protocol (VoIP) phones. We will also add features such as wireless headsets and email terminals as accessories to the 2.4GHz range.

Sales will also be boosted by growth in sales of our DECT phones in Europe. We will sell more aggressively in the UK, where the VTech brand is already growing exponentially, and move into Germany.

Our restructuring of the assets acquired from Lucent and the amortisation of the legacy inventory will continue in the second half. We are transitioning the AT&T-branded phones to our own cost-effective manufacturing processes, making them more competitive. This and the integration of the R&D teams will boost sales and margins next year.

Growing Worldwide Demand for Mobile Phones

We are confident of the potential offered by our new line of mobile phones. With industry forecasts of 650 million handsets for delivery worldwide in 2001, the market size remains colossal and VTech will benefit from the stated intention of major brand names in cellular phones to outsource production. Our strategy is to offer customised design to network operators and branded suppliers on an ODM (Original Design Manufacturing) basis. VTech-branded phones will also be sold to network operators. Our phone is currently under pilot production and we will begin delivery of ODM handsets in the third quarter of this financial year.

To capitalise on the new era in mobile telecommunications, we will begin to roll out other products in our roadmap, including Wireless Application Protocol (WAP) and "Smart" phones with touch screen display, GPRS, e-mail and basic PDA functionality.

Downloadable ELP

ELPs will benefit from the introduction of new products and marketing strategies. We are currently developing a new range of Internet-ready "Teentronics" products. These will link into the content portals we are developing, both increasing customer loyalty and giving us future opportunities to develop new revenue streams.

A particular focus will be on locking in customers through products that can be downloaded from our own website. We are working to introduce a range of such products by mid next year, beginning with nPhusion, a downloadable version of our popular Phusion™ device for pre-teenagers.

In addition to downloadable ELP product lines, we will increasingly use well-known icons to increase the attractiveness of our products. We have successfully negotiated licenses to "Curious George™" and "Bob the Builder™", popular icons that should help drive sales across all segments in the US and UK respectively, beginning later in 2001.

Strong Potential in Information Appliances

We are encouraged by the potential of our new information appliance businesses. Despite being only at the test-marketing stage during the first half, we anticipate that our PDA and e-mail devices should start contributing to VTech's revenues for the next financial year.

The geographic reach of these products is also expanding. We are adapting our e-mail products to a universal TCP/IP platform that will enable us to penetrate markets in Europe and Asia next year. For PDAs, French, Spanish and Japanese versions of Helio will be available.

Marketing of all our e-mail appliances will be aided by agreements with Yahoo!™. Roll-out of co-branded appliances began in October 2000, allowing us to gain maximum capture of the important holiday season and our product range will be featured on the Yahoo! Store website, supported by banner ads on other Yahoo sites.

In addition, we are developing "wireless e-mail messaging devices". Our first models will be launched in this financial year, utilizing paging protocols for real-time delivery of e-mails to hand held devices.

eBusiness Related Services

Our VTech eLearning business in Hong Kong has grown successfully that we have announced plans to spin it off for listing on Hong Kong's Growth Enterprise Market. VTech eLearning is an edutechnology service provider which specialises in providing traditional and online education to every age group, using original content and the latest enabling technologies for online education. VTech eLearning has two main streams of business from which VTech is already deriving revenues — corporate IT training and general learning delivered through our Learning Web (www.vtech-abc.com). The capital raised will allow us to make the desired investments to grow this business more significantly, realising its true potential and so boosting returns to VTech shareholders.

Beyond this, in October this year we launched a business-to-business website, Chinacommercer.com, in conjunction with partners in mainland China. Providing a complete range of "one-stop-shop" B2B e-commerce solutions for companies in the mainland, Chinacommercer.com will gain VTech entry into the rapidly expanding market for electronic commerce.

In November, we also reached a co-operative agreement with the South China University of Technology (SCUT), a leading tertiary institution in China, to form SCVTech. This is an application services provider and a consulting firm offering information systems integration, targeting the web-based electronic business application software market.

Our efforts to develop new web-based marketing channels is progressing well. Our Internet Service Provider (ISP) in the US launched their proxy server in October this year in conjuction with Yahoo!. The first subscription based service is the provision of Yahoo! Mail (e-mail) and Yahoo! Address Book to new and existing Yahoo! customers. This new service gives consumers access to e-mail without the cost or complexity of using a PC utilising our e-mail appliances.

Investing in Growth

Although our investment in new products and business lines has clearly impacted our earnings this year, we believe it is a sound investment in exciting new areas of growth that will sustain returns to shareholders in the coming decade, as earnings from new businesses come in. As the component shortages that have hit our results hard start to ease, we expect an improved performance next year.

VTech remains a strong competitor at the heart of the growth industries of our time.

Allan WONG Chi Yun
Chairman
Hong Kong, 29th November, 2000

(Audited) Year ended 31st March, 2000 US$'M		Note	(Unaudited) Six months ended 30th September, 2000 US$'M	1999 US$'M
1,045.9	**Turnover**	2	**708.6**	520.8
(723.2)	Cost of sales	16	**(524.5)**	(367.1)
322.7	**Gross profit**		**184.1**	153.7
(179.7)	Distribution costs		**(118.7)**	(84.5)
(53.9)	Administrative and other operating expenses		**(27.3)**	(20.9)
(42.7)	Research and development expenses	16	**(28.8)**	(23.2)
46.4	**Operating profit**	3	**9.3**	25.1
1.3	Net finance (expense)/income	4	**(5.8)**	1.2
(0.1)	Share of results of associates		**(0.1)**	—
47.6	**Profit before taxation**		**3.4**	26.3
(2.5)	Taxation	5	**(2.5)**	0.3
45.1	Profit after taxation		**0.9**	26.6
(0.1)	Minority interests		**(0.1)**	(0.2)
45.0	**Profit attributable to shareholders**		**0.8**	26.4
	Earnings per share (in US cents)	7		
20.5	— Basic		**0.3**	12.1
20.4	— Diluted		**0.3**	12.0
17.5	**Dividend per share (in US cents)**		**—**	5.0

The notes on pages 11 to 19 form an integral part of these condensed consolidated financial statements.

Condensed Consolidated Balance Sheet

(Audited) 31st March, 2000 US$'M		Note	(Unaudited) 30th September, 2000 US$'M	1999 US$'M
	Non-current assets			
172.8	Tangible assets	8	**166.9**	109.1
(32.2)	Intangible assets	9	**23.5**	—
4.3	Deferred tax assets		**3.2**	7.8
1.8	Investments		**0.6**	2.0
146.7			**194.2**	118.9
	Current assets			
256.8	Stocks		**301.5**	180.2
244.5	Debtors and prepayments	10	**354.4**	255.9
3.1	Taxation recoverable		**2.9**	0.7
79.6	Cash at bank and deposits		**27.6**	36.8
584.0			**686.4**	473.6
	Current liabilities			
(242.4)	Creditors and provisions	11	**(361.2)**	(267.3)
(16.2)	Borrowings	12	**(69.5)**	(24.3)
(3.4)	Current tax liabilities		**(2.6)**	(2.7)
(262.0)			**(433.3)**	(294.3)
322.0	**Net current assets**		**253.1**	179.3
	Long-term liabilities			
(169.7)	Borrowings	12	**(148.3)**	(11.9)
(1.4)	Deferred tax liabilities		**(1.4)**	(1.9)
(171.1)			**(149.7)**	(13.8)
297.6	**Net operating assets**		**297.6**	284.4
10.7	Share capital	13	**11.2**	10.6
286.1	Reserves	14	**285.4**	272.9
296.8	**Shareholders' funds**		**296.6**	283.5
0.8	Minority interests		**1.0**	0.9
297.6	**Capital employed**		**297.6**	284.4

The notes on pages 11 to 19 form an integral part of these condensed consolidated financial statements.

(Audited) Year ended 31st March, 2000 US$'M		(Unaudited) Six months ended 30th September, 2000 US$'M	1999 US$'M
10.3	**Net cash (outflow)/inflow from operating activities**	**(44.7)**	(23.8)
	Investing activities		
(155.2)	**Net cash used in investing activities**	**(26.7)**	(18.8)
	Financing activities		
122.3	**Net cash generated from/(used in) financing activities**	**12.7**	(31.6)
(0.4)	Effect of exchange rate changes	**(2.1)**	0.4
(23.0)	**Decrease in cash and cash equivalents**	**(60.8)**	(73.8)
90.5	Cash and cash equivalents at start of interim period	**67.5**	90.5
67.5	Cash and cash equivalents at end of interim period	**6.7**	16.7
	Analysis of the balance of cash and cash equivalents		
79.6	Cash at bank and deposits	**27.6**	36.8
(12.1)	Bank overdrafts	**(20.9)**	(20.1)
67.5		**6.7**	16.7

Condensed Statement of Recognised Gains and Losses

(Audited) Year ended 31st March,			(Unaudited) Six months ended 30th September,	
2000 US$'M		Note	**2000 US$'M**	1999 US$'M
1.6	Surplus arising on revaluation of land and buildings		**—**	—
(0.3)	Deficit arising on revaluation of investment properties		**—**	—
(0.2)	Deferred taxation arising on revaluation of land and buildings		**—**	—
—	Exchange differences on translation of land and buildings	14	**(0.4)**	(0.1)
(2.0)	Exchange differences on translation of the financial statements of foreign subsidiaries	14	**(2.6)**	0.6
(0.9)	Net losses not recognised in the income statement		**(3.0)**	0.5
45.0	Profit attributable to shareholders		**0.8**	26.4
44.1	Total recognised (losses) / gains		**(2.2)**	26.9
—	Effect of changes in accounting policies	14	**—**	27.2

1 ACCOUNTING POLICIES

The unaudited interim condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 — Interim Financial Reporting.

Except for a new accounting policy on intangibles, as set out below, the accounting policies used in the interim financial statements are consistent with those used in the annual financial statements for the year ended 31st March, 2000.

Intangible assets

Intangibles represent purchased research and development on acquisition of businesses and is initially recognised at cost, being the fair value at date of acquisition. After initial recognition, purchased research and development is carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation commences when the developed product is ready for its intended use. The estimated useful life of the purchased research and development is three years and the cost will be amortised over this period on a systematic basis.

2 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.

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

Primary reporting format — business segments

	Six months ended 30th September,			
	Turnover		Operating Profit	
	2000 US$'M	1999 US$'M	**2000 US$'M**	1999 US$'M
Telecommunication and electronic products	**708.4**	519.8	**17.9**	29.2
e-Business related services	**0.2**	1.0	**(7.8)**	(3.5)
Unallocated	**—**	—	**(0.8)**	(0.6)
	708.6	520.8	**9.3**	25.1

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.

2 SEGMENT INFORMATION (Continued)

Secondary reporting format — geographical segments

	Six months ended 30th September,			
	Turnover		Operating Profit	
	2000 US$'M	1999 US$'M	**2000 US$'M**	1999 US$'M
U.S.A.	**575.7**	392.0	**4.0**	15.0
Europe	**78.5**	82.7	**0.7**	6.4
Asia Pacific	**19.0**	15.4	**1.2**	(0.8)
Others	**35.4**	30.7	**3.4**	4.5
	708.6	520.8	**9.3**	25.1

3 OPERATING PROFIT

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

	Six months ended 30th September,	
	2000 US$'M	1999 US$'M
Recognition of negative goodwill (Note)	**(30.0)**	—
Depreciation	**21.8**	16.9
Loss on disposal of fixed assets	**0.7**	0.2
Amortisation of negative goodwill	**(0.2)**	—

Note: Negative goodwill of US$30.0 million has been recognised as income to offset distribution costs in the amount of US$16.1 million, administrative and other operating expenses in the amount of US$10.7 million and research and development expenses in the amount of US$3.2 million.

4 NET FINANCE EXPENSE/(INCOME)

Interest expense	**7.6**	1.0
Interest income	**(1.8)**	(2.2)
	5.8	(1.2)

5 TAXATION

Current tax	**1.4**	1.5
Underprovision in prior years	**—**	0.4
Deferred tax	**1.1**	(2.2)
	2.5	(0.3)

5 TAXATION (Continued)

Tax on profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the group operates and includes:

	Six months ended 30th September,	
	2000 US$'M	1999 US$'M
Company and subsidiaries		
Hong Kong	**1.3**	2.0
United Kingdom	**0.1**	0.1
U.S.A.	**1.1**	(2.6)
Other countries	**—**	0.2
	2.5	(0.3)

6 DIVIDENDS

Interim dividend proposed	**—**	10.6

The Board has not recommended an interim dividend for the period under review (1999: US5.0 cents per share).

7 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the group's profit attributable to shareholders of US$0.8 million (1999: US$26.4 million).

The basic earnings per share is based on the weighted average of 219.7 million (1999: 219.5 million) ordinary shares in issue during the period. The diluted earnings per share is based on 220.8 million (1999: 220.1 million as adjusted) ordinary shares which is the weighted average number of ordinary shares in issue during the period after adjusting for the weighted average of 1.1 million (1999: 0.6 million) ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised.

8 CAPITAL EXPENDITURE AND COMMITMENTS

	30th September,	
	2000 US$'M	1999 US$'M
Tangible assets		
Opening net book amount	**172.8**	109.1
Translation differences	**(1.0)**	0.2
Additions	**18.0**	16.9
Disposals	**(1.1)**	(0.2)
Depreciation and other movements	**(21.8)**	(16.9)
Closing net book amount	**166.9**	109.1
Capital commitments	**12.3**	13.3

9 INTANGIBLE ASSETS

	30th September, 2000		
	Negative goodwill US$'M	Purchased research & development US$'M	Total US$'M
At 1st April, 2000	(32.2)	—	(32.2)
Transferred from other investments	—	1.3	1.3
Additions during the period	—	23.9	23.9
Recognized as income	30.0	—	30.0
Fair value adjustment	0.3	—	0.3
Amortised during the period	0.2	—	0.2
At 30th September, 2000	(1.7)	25.2	23.5

Purchased research and development arose on the acquisition of Sensei Limited, details of which are set out in Note 15.

10 DEBTORS AND PREPAYMENTS

The total debtors and prepayments of US$354.4M (31st March, 2000: US$244.5M) includes trade debtors of US$303.6M (31st March, 2000: US$188.0M). An ageing analysis of the trade debtors by transaction date is as follows:

	0–30 days US$'M	31–60 days US$'M	61–90 days US$'M	>90 days US$'M	Total US$'M
Balance at 30th September, 2000	**157.6**	**112.2**	**22.1**	**11.7**	**303.6**
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 credit terms of 30 to 90 days. Certain open credit sales are covered by credit insurance or bank guarantees.

11 CREDITORS AND PROVISIONS

The total creditors and provisions of US$361.2M (31st March, 2000: US$242.4M) includes trade creditors of US$197.4M (31st March, 2000: US$108.1M). An ageing analysis of the trade creditors by transaction date is as follows:

	0–30 days US$'M	31–60 days US$'M	61–90 days US$'M	>90 days US$'M	Total US$'M
Balance at 30th September, 2000	**99.8**	**61.7**	**22.7**	**13.2**	**197.4**
Balance at 31st March, 2000	68.5	22.6	7.2	9.8	108.1

12 BORROWINGS

	30th September, 2000 US$'M	31st March, 2000 US$'M
Bank loans, overdrafts and finance lease obligations		
Repayable by instalments, any one of which is due for repayment after five years:		
Secured bank loans	**4.7**	4.5
Repayable by instalments, all of which are due for repayment within five years:		
Unsecured bank loans and overdrafts	**207.1**	178.8
Secured bank loans	**6.0**	2.6
	213.1	181.4
Less: amounts due within one year included under current liabilities:		
Unsecured bank loans and overdrafts	**(65.4)**	(16.2)
Secured bank loans	**(4.1)**	—
	(69.5)	(16.2)
	148.3	169.7
Bank loans and overdrafts are repayable as follows:		
Between one and two years	**32.2**	163.9
Between two and five years	**111.4**	1.3
In more than five years	**4.7**	4.5
	148.3	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 5.0% to 8.68%.

13 SHARE CAPITAL

	30th September, 2000 US$'M	31st March, 2000 US$'M
Authorised		
Ordinary shares:		
400,000,000 (31st March, 2000: 400,000,000) of US$0.05 each	**20.0**	20.0

13 SHARE CAPITAL (Continued)

		30th September,		31st March,
			2000	2000
	Note	No. of shares	US$'M	US$'M
Issued and fully paid				
Ordinary shares of US$0.05 each:				
Balance as at 1st April, 2000		**214,454,787**	**10.7**	10.6
Exercise of share options		**4,000**	**—**	—
Issued on the acquisition of a subsidiary	15	**5,578,292**	**0.3**	—
Issued in lieu of scrip dividend		**5,114,154**	**0.2**	0.1
Balance as at 30th September, 2000		**225,151,233**	**11.2**	10.7

On 26th September, 2000, 5,578,292 shares were issued at US$0.05 each for the acquisition of Sensei Limited (refer to Note 15). Based on the closing price of the company's shares on the Hong Kong Stock Exchange on 26th September, 2000 of HK$17.70, a share premium of US$12.4 million resulted from the issue.

Share option scheme

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.

The movements in the number of share options under the Scheme during the period were as follows:

	Number of options granted under the Scheme
Balance as at 1st April, 2000	5,265,300
Exercised during the period	(4,000)
Balance as at 30th September, 2000	5,261,300

In August and September, 2000, 4,000 options were exercised. The 5,261,300 options outstanding at 30th September, 2000 include 316,300 options that may be exercised at a price of US$0.733 per share, 4,575,000 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 and 170,000 options that may be exercised at a price of US$2.3 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 trademark licence agreement between the company and AT&T pursuant to which AT&T granted the company the exclusive right to use the AT&T brand for 10 years in connection with the manufacture and sale of wireless telephones and accessories in the United States and Canada, the company granted AT&T warrants carrying rights to subscribe for 3,000,000 shares in the company at a subscription price of HK$20.0 per share on or before 18th January, 2012. No warrants have been exercised since the date of grant.

14 RESERVES

	Note	30th September, 2000 US$'M	1999 US$'M
Revenue reserves		**204.1**	222.2
Exchange reserve		**(5.1)**	0.1
Investment properties revaluation reserve		**1.0**	1.3
Other properties revaluation reserve		**11.1**	10.0
Share premium		**74.3**	39.3
		285.4	272.9

An analysis of movements on reserves is set out below:

	Note	2000 US$'M	1999 US$'M
Revenue reserves			
Brought forward			
— as previously reported		**230.1**	195.1
— effect of adopting IAS 10 (revised 1999)		**—**	26.5
— effect of adopting IAS 19 (revised 1998)		**—**	0.7
— as restated		**230.1**	222.3
Profit attributable to shareholders		**0.8**	26.4
Final dividends paid		**(26.8)**	(26.5)
Carried forward		**204.1**	222.2
Exchange reserve			
Brought forward		**(2.5)**	(0.5)
Exchange translation differences		**(2.6)**	0.6
Carried forward		**(5.1)**	0.1
Investment properties revaluation reserve			
Brought forward and carried forward		**1.0**	1.3
Other properties revaluation reserve			
Brought forward		**11.5**	10.1
Exchange translation differences		**(0.4)**	(0.1)
Carried forward		**11.1**	10.0
Share premium			
Brought forward		**46.0**	39.3
Issued on the acquisition of a subsidiary	15	**12.4**	—
Shares issued in lieu of scrip dividend		**15.9**	—
Carried forward		**74.3**	39.3

15 PURCHASE OF SUBSIDIARIES AND BUSINESSES

Acquisition of Sensei Limited

	Note	Six months ended 30th September, 2000 US$'M
Tangible assets		**1.0**
Intangible assets	9	**23.9**
Debtors and prepayments		**3.0**
Cash at bank and deposits		**1.4**
Trade creditors		**(4.8)**
Other creditors and accruals		**(0.8)**
Total consideration		**23.7**
Satisfied by		
Cash		**11.0**
Shares		**12.7**
		23.7
Net cash outflow arising on acquisition		
Cash consideration		**(11.0)**
Bank balances and cash acquired		**1.4**
		(9.6)

On 5th July, 2000, the group entered into an agreement to acquire the entire issued share capital of Sensei Limited, other than those shares already owned by the group. Sensei 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$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 Sensei Limited was effectively transferred to the company. On the same date, the company alloted and issued 5,578,292 of its shares in accordance with the sale 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.

15 PURCHASE OF SUBSIDIARIES AND BUSINESSES (Continued)

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 Technologies Consumer Products and Lucent Technologies Inc. related to their wired phone manufacturing operations (the "Wired Business") on 31st March, 2000. The consideration paid for the acquisition was US$126.1 million. The fair value of the assets acquired and liabilities assumed at acquisition has been revised from US$158.3 million to US$158.0 million resulting in revised negative goodwill of US$31.9 million. In accordance with the group's accounting policy for negative goodwill, US$ 30.0 million of negative goodwill arising on the acquisition of the Wired Business has been released to offset the losses of the Wired Business in the period ended 30th September, 2000. The balance of negative goodwill of US$1.9 million is being amortised over a period of six years, being the estimated weighted average useful life of the tangible assets acquired (refer to note 9 above).

16 DEPRECIATION ON MOULDS

Depreciation on moulds for new products that go into production should be included within cost of sales instead of within research and development expenses and accordingly, amounts of US$3.7 million and US$7.8M have been reclassified from research and development expenses to cost of sales for the six months ended 30th September, 1999 and for the year ended 31st March, 2000 respectively.

Year ended 31st March, 2000 US$'M	%		Six months ended 30th September, 2000 US$'M	%	1999 US$'M	%
		Consumer Telephone Products				
502.7	91.5	U.S.A.	**408.0**	**92.5**	247.2	92.1
13.6	2.5	Europe	**10.2**	**2.3**	6.5	2.4
1.5	0.3	Asia Pacific	**0.9**	**0.2**	1.2	0.4
31.2	5.7	Others	**22.0**	**5.0**	13.7	5.1
549.0	100.0		**441.1**	**100.0**	268.6	100.0
		Electronic Learning Products				
158.4	45.5	U.S.A.	**92.3**	**57.6**	102.8	54.7
155.9	44.8	Europe	**53.1**	**33.1**	64.3	34.3
14.0	4.0	Asia Pacific	**5.2**	**3.2**	5.9	3.1
20.0	5.7	Others	**9.8**	**6.1**	14.9	7.9
348.3	100.0		**160.4**	**100.0**	187.9	100.0
		Contract Manufacturing Services and Multimedia Communications Products				
95.6	68.4	U.S.A.	**74.3**	**71.2**	41.6	68.6
24.4	17.5	Europe	**14.9**	**14.3**	11.0	18.2
16.6	11.9	Asia Pacific	**12.0**	**11.5**	6.0	9.9
3.1	2.2	Others	**3.1**	**3.0**	2.0	3.3
139.7	100.0		**104.3**	**100.0**	60.6	100.0
		Others				
2.4	27.0	U.S.A.	**1.1**	**39.3**	0.4	10.8
2.1	23.6	Europe	**0.3**	**10.7**	0.9	24.3
4.0	44.9	Asia Pacific	**0.9**	**32.1**	2.3	62.2
0.4	4.5	Others	**0.5**	**17.9**	0.1	2.7
8.9	100.0		**2.8**	**100.0**	3.7	100.0

INTERIM DIVIDEND

The directors do not recommend the payment of interim dividend for the six months ended 30th September, 2000 to the shareholders.

DIRECTORS' INTERESTS

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 Rules 16.13 to 16.17 of the Listing Rules of the Financial Services Authority in the U.K. ("U.K. Listing Rules"), as at 30th September, 2000, the directors and their associates had the following interests in the shares and share options of the company. All of these interests were beneficial:

	Number of Shares				
	Personal Interests	Family Interests	Other Interests	Total	Number of Share Options
Allan WONG Chi Yun	9,991,830	3,968,683	74,101,153(i)	88,061,666	—
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	—
Paul Anthony MURPHY	—	—	—	—	500,000 (ii)
Jack Kenneth HIRSCH	230,578	—	—	230,578	100,000 (ii)
Edward Barry ARMSTRONG	101,607	—	—	101,607	200,000 (ii)
Nils Erik 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) All the share options are exercisable at any time 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 period.

As at 30th September, 2000, Mr. William HO Mook Lam was the registered and beneficial owner of 499 Class "A" shares in the share capital of VTech Electronics Canada Limited, a subsidiary of the company.

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 Rules 9.11 to 9.14 of the U.K. Listing Rules, in so far as is known to the company, the parties (other than those directors as abovementioned) who were directly or indirectly holding 3% or more interest in the issued share capital of the company as at 30th September, 2000 were as follows:

Name of shareholder	Number of shares	Percentage of shareholding
HKSCC Nominees Limited	104,548,748	46.43%
The Capital Group Companies, Inc.	26,320,934	11.69%
HSBC Nominees (Hong Kong) Limited	13,662,715	6.07%

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

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The company had not redeemed any of its shares during the period under review. Neither the company nor any of its subsidiaries had purchased or sold any of the company's shares during the period under review.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements.

The members of the committee are Mr. Nils Erik Vilhelm MARTENSSON (chairman) and Mr. Philip Leigh TOSE, the two independent non-executive directors of the company.

CODE OF BEST PRACTICE

None of the directors of the company is aware of any information which would reasonably indicate that the company is not, or was not for any part of the accounting period under review, in compliance 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 except that the independent non-executive directors of the company are not appointed for a specific term.