VTech Holdings Ltd
偉易達集團

Interim Report 2002 中期報告書

for the six months to 30th September 2001
二零零一年四月一日至二零零一年九月三十日

Corporate Information

Board of Directors

Executive Directors

Allan WONG Chi Yun
Chairman

Albert LEE Wai Kuen
Vice Chairman
(effective from 28th November 2001)

Paddy LAW Wai Leung

TO Cheuck Wah
(retired on 28th November 2001)

William HO Mook Lam
(retired on 28th November 2001)

Jack Kenneth HIRSCH
(retired on 28th November 2001)

Edward Barry ARMSTRONG
(retired on 28th November 2001)

Independent Non-Executive Directors

Nils Erik Vilhelm MARTENSSON
(retired on 28th November 2001)

Philip Leigh TOSE
(retired on 28th November 2001)

Raymond CH'IEN Kuo Fung
(appointed on 28th November 2001)

William FUNG Kwok Lun
(appointed on 28th November 2001)

Michael TIEN Puk Sun
(appointed on 28th November 2001)

Patrick WANG Shui Chung
(appointed on 28th November 2001)

Board of Management

Allan WONG Chi Yun
TO Cheuck Wah
William HO Mook Lam
Albert LEE Wai Kuen
Edwin YING Lin Kwan
Andy LEUNG Hon Kwong
Paddy LAW Wai Leung
Dennis W. PERRY
James C. KRALIK

Audit Committee

Retired on 28th November 2001
Nils Erik Vilhelm MARTENSSON
Philip Leigh TOSE

Appointed on 28th November 2001
Raymond CH'IEN Kuo Fung
William FUNG Kwok Lun
Michael TIEN Puk Sun
Patrick WANG Shui Chung

Secretary

William HO Mook Lam

Registered Office

Clarendon House
Church Street
Hamilton HM11, Bermuda

Principal Office

57 Ting Kok Road, Tai Po
New Territories, Hong Kong

Principal Bankers

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

Auditors

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

Principal Registrars

Butterfield Corporate Services Limited
Rosebank Centre, 11 Bermudiana Road
P.O. Box HM1540, Hamilton HM FX
Bermuda

UK Branch Registrars

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

Hong Kong Branch Registrars

Central Registration Hong Kong Limited
Shops 1712–16, 17th Floor,
Hopewell Centre,
183 Queen's Road East, Hong Kong

ADR Depositary

The Bank of New York
101 Barclay Street, 22nd Floor — West
New York, N.Y. 10286, USA

VTech's performance for the first six months of the 2002 financial year shows a return to profitability, despite the difficult market conditions that prevailed during the period.

The improvement in our bottom line, which we had committed to achieve, reflects the progress VTech has made in cutting costs and rationalizing our operations during the six months. We have divested non-core businesses and reduced staff overheads. We have focused on our three core businesses of consumer telephone products, electronic learning products (ELPs) and contract manufacturing services (CMS). This tighter focus on what we do best has enabled us in turn to pursue more effectively our strategy of concentrating on the higher margin segments of each business, which is also benefiting the bottom line.

MANAGEMENT DISCUSSION AND ANALYSIS

Group Results

Group turnover decreased by 25.3% to US$529.6 million over the same period of last year as a result of the softness in the US market, as growth in consumer demand slowed down during the early part of the year. More significantly, the reduction reflects the success of our rationalization efforts and the focus on gross margins rather than sales.

The resulting profit attributable to shareholders of US$3.3 million for the half year represents an improvement to the bottom line of US$2.5 million over the corresponding period of last year.

Liquidity and Financial Resources

In line with the improvement in our cost structure, VTech's financial position has continued to improve and the Group has been able to meet all of its payment obligations in a timely manner.

Net cash inflow from operating activities during the period under review was US$55.6 million, reversing last year's net outflow. This is mainly due to changes in working capital.

Total debts decreased by 26.7% from US$217.8 million to US$159.6 million. Long-term borrowings decreased to US$109.5 million, which represents 130.2% of the capital employed as compared to 49.8% at 30th September 2000. A majority of the Group's borrowings are on a floating rate basis except for term loans of US$3.1 million which are at fixed rates. The maturity profile of indebtedness is contained in note 13 to the financial statements. A small portion of the borrowings is secured against land and buildings which amounts to approximately US$6.4 million. With internal sources and banking facilities, the Group has adequate working capital to meet its working capital requirements.

Treasury Policies

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

Contingent Liabilities

The Group has 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 unfavourable results. The Group is 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 that adequate provisions have been made.

REVIEW OF OPERATIONS

Consumer Telephone Products

Turnover at the consumer telephone business decreased by 18.8% to US$358.1 million compared to the corresponding period of last year. By volume, sales of phones amounted to 9.9 million units as compared to 10.4 million units as we reduced production of entry-level products.

Throughout the period, VTech has continued to make progress in focusing the consumer telephone products business on higher margin products, resulting in lower turnover and higher profitability. Completion of the restructuring of operations, as outlined in our 2001 annual report, also began to yield benefits.

Profitability improved due to strong demand for the higher-margin 2.4GHz cordless phones. Sales in Europe of our digital enhanced cordless telephones (DECT) also continued to perform well. Given the strong market response, we expect 2.4GHz phones to continue to be a major growth driver.

Several other factors have buoyed profitability. The critical component shortage we faced last year has eased and component cost prices have been lowered. Component integration in product development processes has reduced the number of different components used in production, lowering production costs. Tighter cost control and greater economies of scale, following the closure of the two Mexico factories and the consolidation of our production in China, also improved margins.

During the period under review, VTech has completed most of the restructuring actions announced in March 2001. These include the consolidation of the US consumer telephone offices in New Jersey to VTech facilities in Beaverton, Oregon, the outsourcing of distribution and call centre operations in San Antonio, Texas and St. Louis, Missouri respectively, as well as the integration of the information appliances business into the consumer telephone business unit. The sale of the facility in Reynosa, Mexico was also completed in August 2001, realizing US$7.9 million. Part of the building in Guadalajara was sold at a price of US$12.4 million and out of which the Group had already received US$4.8 million and the sale is targeted for completion in Mid 2002. We are now looking for buyers for the remaining part of the building in Guadalajara.

Mirage C100 DECT Phone

900MHz Cordless Phone

The lawsuit VTech filed in January 2001 against Lucent Technologies Inc. for alleged fraud in connection with our acquisition of the assets of its consumer telephone business is proceeding as expected.

To bring fresh marketing expertise to the Group and expand the global reach of the business, in September 2001 VTech appointed a new CEO to head the consumer telephone business unit.

Electronic Learning Products

The Electronic Learning Products business continued to suffer from a highly competitive market environment, which we sought to counter through tight cost controls and improved products. Turnover in ELPs decreased by 27.7% to US$115.9 million compared to the corresponding period last year.

The negative impact on profits of the decline in turnover was partially offset by cost saving measures, including the consolidation of sales offices in Europe and a reduction in administrative expenses. The Group has continued to streamline the ELP operations in Hong Kong and Dongguan in China.

To improve the competitiveness of our product range, we have been placing greater emphasis on a segmented marketing approach. In addition, by integrating technology features, such as PC and internet connectivity, we aim to raise the proportion of higher-margin sales in all categories, from infant toys to ELPs for the early school-aged market.

Contract Manufacturing Services

During the period under review, contract manufacturing services saw a slight decline in turnover as end-market activities slowed down across all sectors, leading to a decline in demand from our customers.

Turnover of CMS decreased by 6.4% to US$54.3 million compared to the corresponding period of last year. Despite the fall in turnover, CMS continued to make progress in other areas that positions us well for the future. In June 2001, our core contract manufacturing facility in Dongguan was awarded ISO14000 certification. Our long-term strategy is to diversify our customer base and offer a full service, flexible and high quality solution to companies' outsourcing needs.

Crazy Legs Noodle Bug™

Sing'n Learn™ CD Player

Other Businesses

Mobile phones continued to be a cost centre for VTech and recorded a loss. During the six month period, we closed the UK research unit and transferred the technology and know-how to our engineering office in Calgary, Canada.

We have downsized and re-organized eBusiness related services. Our aim is to use them in support of our core businesses, helping them achieve higher sales and an improved market profile.

The proposed spin off of VTech eLearning remains on hold, owing to adverse market conditions. Nevertheless, the learning website is operational and has little effect on revenues.

Employees

As at 30th September 2001, the Group had approximately 18,000 employees. The majority of these employees work in Hong Kong and China. The Group has established incentive bonus schemes which are designed to motivate and reward employees at all levels. A new share option scheme has been adopted in August 2001.

OUTLOOK

There seems little doubt that the second half of the financial year will be challenging, not just for VTech but for many companies. The US economy looks almost certain to record negative economic growth over the next two quarters, as consumer sentiment has weakened in the wake of the events of September 11. How quickly the unprecedented cuts in interest rates by the US Federal Reserve Board will stimulate demand is difficult to predict.

With 79% of Group sales to the United States, VTech clearly will be affected by adverse developments in the US consumer market. On the positive side, however, the Group has taken steps to reduce overheads earlier than many other companies, which has increased our ability to weather any downturn. In addition, recent figures from the United States suggest that any sustained reduction in consumer demand will affect mainly the luxury and travel related sectors, which are at the opposite end of the spectrum from VTech products.

In the longer term, VTech has a clear strategy based on extensive market research that will allow us to exploit growth opportunities through the adaptation of new technologies and by entering new geographical markets. China's entry to the World Trade Organization (WTO), for example, should over the course of the coming five years create significant new opportunities for investment and commerce. As a Group with already a long and successful history of operating in the mainland, and headquartered in Hong Kong, VTech is unusually well placed to make the most of this development.

We will support our initiatives by a much greater emphasis on marketing and branding, a feature of our operations that will begin to become apparent during the course of 2002. We will make greater use of market research, launch new marketing campaigns and introduce radically redesigned packaging. Together, this should enable us to maintain sales momentum while increasing the proportion of higher margin products.

Consumer Telephone Products

Despite probably difficult overall market conditions, we expect generally positive developments in sales of our consumer telephone products in the second half of the financial year. VTech is strong in applied technology and a market leader in the development of high frequency cordless phones such as the 2.4GHz model and multi-feature 900MHz models, for which demand in the United States remains robust as households upgrade. We intend to build on the strong momentum we are currently experiencing by leveraging our two brands, VTech and AT&T, to segment the market in a way that should improve margins further. Sales of our products in Europe are also expected to expand, given the success of our DECT products in that market. Geographical expansion in the European markets will be a future growth driver.

Electronic Learning Products

The ELP business continues to face competitive pressures, especially in the United States.

VTech has an excellent R&D and manufacturing platform that has allowed us to develop high quality products that are well received by consumers. However, as the market changes, we recognize the need to adjust our product development and marketing strategies.

2.4GHz Cordless Phones

Vapor™

Beginning in 2002 our goal is to place a much greater emphasis on these two areas to ensure our innovative products respond to our customers' needs and wants, so increasing our market share.

More effort will be devoted to market research to ensure we are responding to the changes in the industry and providing viable benefits to our customers. We will be much more targeted in marketing these new products, both to the children who use them and to the parents and family members who have a strong influence on the purchase decision.

Contract Manufacturing Services

To reduce time-to-market and lower production costs, early this year, VTech established a New Product Introduction team that works in close strategic partnership with our customers. With long experience and know-how in the manufacturing industry, the VTech engineers who comprise this team can recommend the technology appropriate to customers' specific needs during the product design phase.

To increase our share of the outsourced market further, we have added new surface mounting equipment lines at our facilities in Dongguan and opened a new factory dedicated to contract manufacturing next to our existing facilities in Dongguan.

MESSAGE TO SHAREHOLDERS

VTech is strong in applied technology and has built size, expertise in cost efficient manufacturing, strong brands, deep customer relationships and a diversified product portfolio. With a focus on three core product areas that offer growth potential both geographically and through the introduction of new technologies, we believe our long-term future is positive.

More immediately, our success in cutting costs and shifting the focus of our operations to more stable margin products leaves us confident in the future. In the absence of a serious deterioration in global economic fortunes, VTech will continue to build on the current improvement in profitability in the second half of the financial year. By the 2003 financial year, the full benefits of our restructuring will be apparent.

Allan WONG Chi Yun
Chairman
Hong Kong, 28th November, 2001

(Audited) Year ended 31st March 2001 US$'M		Notes	(Unaudited) Six months ended 30th September 2001 US$'M	2000 US$'M
1,334.9	**Turnover**	2	**529.6**	708.6
(1,013.6)	Cost of sales		**(371.6)**	(524.5)
321.3	**Gross profit**		**158.0**	184.1
(275.2)	Selling and distribution costs		**(91.0)**	(118.7)*
(69.2)	Administrative and other operating expenses		**(29.5)**	(27.3)*
(66.6)	Research and development expenses		**(16.3)**	(28.8)*
(110.4)	Restructuring and impairment charges	4	**(9.9)**	—
(200.1)	**Operating profit/(loss)**	3	**11.3**	9.3
(12.5)	Net finance costs	5	**(6.5)**	(5.8)
(0.5)	Share of results of associates		**(0.2)**	(0.1)
(213.1)	**Profit/(loss) before taxation**		**4.6**	3.4
(1.8)	Taxation	6	**(1.3)**	(2.5)
(214.9)	**Profit/(loss) after taxation**		**3.3**	0.9
(0.1)	Minority interests		**—**	(0.1)
(215.0)	**Profit/(loss) attributable to shareholders**	15	**3.3**	0.8
	Earnings/(losses) per share (in US cents)	8		
(96.7)	— Basic		**1.5**	0.3
(96.7)	— Diluted		**1.4**	0.3

* In the prior period, negative goodwill of US$30.0 million had been recognized as income to offset selling and 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.

The notes on pages 11 to 21 form an integral part of these condensed consolidated financial statements.

Condensed Consolidated Balance Sheet

(Audited) 31st March 2001 US$'M		Notes	(Unaudited) 30th September 2001 US$'M	2000 US$'M
	Non-current assets			
102.8	Tangible assets	9	**88.3**	166.9
—	Intangible assets		**—**	23.5
4.0	Deferred tax assets		**4.1**	3.2
0.5	Investments		**0.7**	0.6
107.3			**93.1**	194.2
	Current assets			
187.5	Stocks		**161.9**	301.5
30.4	Assets held for sale	10	**16.1**	—
255.6	Debtors and prepayments	11	**284.0**	354.4
3.6	Taxation recoverable		**2.8**	2.9
56.2	Cash at bank and deposits		**34.7**	27.6
533.3			**499.5**	686.4
	Current liabilities			
(308.0)	Creditors and provisions	12	**(346.5)**	(361.2)
(112.7)	Borrowings	13	**(50.1)**	(69.5)
(1.0)	Current tax liabilities		**(1.0)**	(2.6)
(421.7)			**(397.6)**	(433.3)
218.9	**Total assets less current liabilities**		**195.0**	447.3
	Long-term liabilities			
(136.9)	Borrowings	13	**(109.5)**	(148.3)
(1.3)	Deferred tax liabilities		**(1.4)**	(1.4)
(138.2)			**(110.9)**	(149.7)
80.7	**Net operating assets**		**84.1**	297.6
11.3	Share capital	14	**11.3**	11.2
68.5	Reserves	15	**71.9**	285.4
79.8	**Shareholders' funds**		**83.2**	296.6
0.9	Minority interests		**0.9**	1.0
80.7	**Capital employed**		**84.1**	297.6

The notes on pages 11 to 21 form an integral part of these condensed consolidated financial statements.

(Audited) Year ended 31st March 2001 US$'M		(Unaudited) Six months ended 30th September 2001 US$'M	2000 US$'M
(22.3)	**Cash inflow/(outflow) from operations**	**62.5**	(36.9)
(12.5)	Net interest paid	**(6.5)**	(5.8)
(4.5)	Tax paid	**(0.4)**	(2.0)
(39.3)	**Net cash inflow/(outflow) from operating activities**	**55.6**	(44.7)
	Investing activities		
(30.7)	Purchase of tangible assets	**(6.9)**	(17.0)
7.1	Proceeds on disposal of tangible assets	**8.9**	0.3
—	Proceeds on disposal of assets held for sale	**10.6**	—
(0.8)	Purchase of associates	**(0.4)**	(0.4)
(9.6)	Purchase of subsidiaries and businesses	**(0.1)**	(9.6)
(34.0)	**Net cash inflow/(outflow) from investing activities**	**12.1**	(26.7)
	Financing activities		
(4.0)	Repayment of long term borrowings	**(39.2)**	—
10.8	Proceeds from long term borrowings	**—**	—
66.2	Net (repayment)/proceeds of short term borrowings	**(51.6)**	23.4
(10.8)	Dividends paid	**—**	(10.7)
62.2	**Net cash (outflow)/inflow from financing activities**	**(90.8)**	12.7
(3.0)	Effect of exchange rate changes	**0.9**	(2.1)
(14.1)	**Decrease in cash and cash equivalents**	**(22.2)**	(60.8)
67.5	Cash and cash equivalents at beginning of period	**53.4**	67.5
53.4	**Cash and cash equivalents at end of period**	**31.2**	6.7
	Analysis of the balance of cash and cash equivalents		
56.2	Cash at bank and deposits	**34.7**	27.6
(2.8)	Bank overdrafts	**(3.5)**	(20.9)
53.4		**31.2**	6.7

Consolidated Statement of Recognized Gains and Losses

(Audited) Year ended 31st March 2001 US$'M		Note	**(Unaudited) Six months ended 30th September 2001 US$'M**	2000 US$'M
—	Fair value losses on cash flow hedge	15	**(0.4)**	—
—	Exchange differences on translation of land and buildings	15	**—**	(0.4)
(3.9)	Exchange differences on translation of the financial statements of foreign subsidiaries	15	**0.5**	(2.6)
(3.9)	Net gains/(losses) not recognized in the income statement		**0.1**	(3.0)
(215.0)	Profit/(loss) attributable to shareholders		**3.3**	0.8
(218.9)	Total recognized gains/(losses)		**3.4**	(2.2)

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 the new accounting policies on investment properties and derivative financial instruments, 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 2001.

Investment properties

Investment properties are interests in land and buildings which are held for 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. As required by IAS 40, "Investment Properties", which took effect on 1st January 2001, the Group changed its accounting policy for recognizing the changes in fair value of investment properties. These changes were previously taken directly to property revaluation reserves but are now recognized in the consolidated income statement.

To reflect this change, the amount held in revaluation surplus for investment properties has been reclassified to the opening balance of revenue reserves and there is no impact on net profit for the six months ended 30th September 2000.

Derivative financial instruments

The Group uses forward foreign exchange contracts in its management of currency risks. In accordance with IAS 39, "Financial Instruments: Recognition and Measurement", derivatives are recognized on the balance sheet at fair value. Unrealized gains and losses arising from the changes in the fair value of forward contracts are taken to reserves until realized. This is a change in accounting policy as in previous years the unrealized gains and losses on forward contracts to hedge specific future currency transactions were deferred against the matching losses and gains on the specific transactions.

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, 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	
	2001 US$'M	2000 US$'M	**2001 US$'M**	2000 US$'M
Telecommunication and electronic products	**528.3**	708.4	**16.0**	17.9
e-Business related services	**1.3**	0.2	**(4.4)**	(7.8)
Unallocated corporate services	**—**	—	**(0.3)**	(0.8)
	529.6	708.6	**11.3**	9.3

Secondary reporting format — geographical segments

	Six months ended 30th September			
	Turnover		Operating Profit	
	2001 US$'M	2000 US$'M	**2001 US$'M**	2000 US$'M
U.S.A. and Mexico	**417.1**	575.7	**10.7**	4.0
Europe	**77.5**	78.5	**7.0**	0.7
Asia Pacific	**20.3**	19.0	**(6.8)**	1.2
Others	**14.7**	35.4	**0.4**	3.4
	529.6	708.6	**11.3**	9.3

3. OPERATING PROFIT/(LOSS)

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

		Six months ended 30th September	
	Note	**2001 US$'M**	2000 US$'M
Recognition of negative goodwill		**—**	(30.0)
Amortization of negative goodwill		**—**	(0.2)
Depreciation		**17.8**	21.8
Loss on disposal of tangible assets		**0.9**	0.7
Restructuring and impairment charges	4	**9.9**	—

4. RESTRUCTURING AND IMPAIRMENT CHARGES

The Group launched a comprehensive restructuring plan in March 2001. Details of the plan have been provided in the annual financial statements for the year ended 31st March 2001. The restructuring charges during the period predominantly comprise the full provision for the closure costs associated with the disposal of the Mexican factories, scale down of e-Business related services and additional provision for the reorganization costs of the information appliances business unit.

	Six months ended 30th September	
	2001 US$'M	2000 US$'M
Closure and termination costs	**8.9**	—
Write-down of discontinued stocks	**1.0**	—
	9.9	—

5. NET FINANCE COSTS

	Six months ended 30th September	
	2001 US$'M	2000 US$'M
Interest expense	**7.4**	7.6
Interest income	**(0.9)**	(1.8)
	6.5	5.8

6. TAXATION

	Six months ended 30th September	
	2001 US$'M	2000 US$'M
Current tax	**0.9**	1.4
Underprovision in prior years	**0.4**	—
Deferred tax	**—**	1.1
	1.3	2.5

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:

Company and subsidiaries		
Hong Kong	**1.1**	1.3
United Kingdom	**0.1**	0.1
U.S.A.	**—**	1.1
Other countries	**0.1**	—
	1.3	2.5

7. DIVIDEND

The Board has not recommended an interim dividend for the period under review (2000: Nil).

8. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of US$3.3 million (2000: US$0.8 million).

The basic earnings per share is based on the weighted average of 225.2 million (2000: 219.7 million) ordinary shares in issue during the period. The diluted earnings per share is based on 229.5 million (2000: 220.8 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 4.3 million (2000: 1.1 million) ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised.

9. TANGIBLE ASSETS

	US$'M
Balance as at 1st April 2001	102.8
Additions	6.9
Disposals	(7.7)
Depreciation	(17.8)
Transfer from assets held for sale	3.7
Translation differences	0.4
Balance as at 30th September 2001	88.3

10. ASSETS HELD FOR SALE

	30th September 2001 US$'M	31st March 2001 US$'M
Land and buildings	**11.8**	20.1
Machinery and equipment	**4.3**	10.3
	16.1	30.4

Pursuant to the restructuring plan mentioned in note 4 above, certain land, buildings, machinery 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.

The contract for the sale of the land and buildings of US$11.8 million has been signed and the first partial payment received upon the signing of the contract of US$4.8 million is included in creditors and provisions. The transaction is anticipated to be completed in July 2002.

11. DEBTORS AND PREPAYMENTS

Total debtors and prepayments of US$284.0 million (31st March 2001: US$255.6 million) includes trade debtors of US$236.0 million (31st March 2001: US$195.3 million). An ageing analysis of 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 2001	**126.1**	**64.6**	**27.9**	**17.4**	**236.0**
Balance at 31st March 2001	81.3	75.4	25.2	13.4	195.3

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.

12. CREDITORS AND PROVISIONS

Total creditors and provisions of US$346.5 million (31st March 2001: US$308.0 million) includes trade creditors of US$155.9 million (31st March 2001: US$106.2 million) and provision for restructuring costs of US$10.6 million (31st March 2001: US$30.3 million).

An ageing analysis of 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 2001	**82.8**	**45.3**	**15.3**	**12.5**	**155.9**
Balance at 31st March 2001	30.1	38.8	9.6	27.7	106.2

The movements in the provision for restructuring costs are as follows:

	US$'M
Balance as at 1st April 2001	30.3
Additional provision charged to income statement	4.3
Utilized during the period	(24.0)
Balance as at 30th September 2001	10.6

13. BORROWINGS

	30th September 2001 US$'M	31st March 2001 US$'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	**1.1**	4.6
Repayable by instalments, all of which are due for repayment within five years:		
Unsecured bank loans and overdrafts	**156.0**	241.4
Secured bank loans	**2.0**	3.1
Obligations under finance leases	**0.5**	0.5
	158.5	245.0
Less: amounts due within one year included under current liabilities:		
Unsecured bank loans and overdrafts	**(49.2)**	(111.3)
Secured bank loans	**(0.8)**	(1.3)
Obligations under finance leases	**(0.1)**	(0.1)
	(50.1)	(112.7)
	109.5	136.9
Bank loans, overdrafts and finance lease obligations are repayable as follows:		
Between one and two years	**79.9**	50.5
Between two and five years	**28.5**	81.9
In more than five years	**1.1**	4.5
	109.5	136.9

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 Netherlands Guilders. Interest rates vary from 3.2% to 7.0% (31st March 2001: 5.09% to 8.68%).

14. SHARE CAPITAL

	30th September 2001 US$'M	31st March 2001 US$'M
Authorized		
Ordinary shares:		
400,000,000 (31st March 2001: 400,000,000) of US$0.05 each	**20.0**	20.0

	30th September		31st March
	2001 No. of shares	**2001 US$'M**	2001 US$'M
Issued and fully paid			
Ordinary shares of US$0.05 each:			
Beginning of period	**225,151,233**	**11.3**	10.7
Issued on the acquisition of a subsidiary	**—**	**—**	0.3
Issued in lieu of scrip dividend	**—**	**—**	0.3
End of period	**225,151,233**	**11.3**	11.3

14. SHARE CAPITAL (continued)

Share option schemes

Pursuant to the share option scheme adopted on 24th September 1991 (the "1991 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 1991 Scheme.

The movements in the number of share options under the 1991 Scheme during the period were as follows:

Date of grant	Exercise Price US$	Exercisable Period	Balance in issue at 1st April 2001	Number of share options cancelled during the period	Balance in issue at 30th September 2001
8th October 1991	0.733	8th October 1991 to 7th October 2001	316,300	—	**316,300**
1st May 1998	2.9	1st May 1998 to 30th April 2008	4,025,000	(365,000)	**3,660,000**
1st June 1999	2.72	1st June 1999 to 30th May 2009	200,000	—	**200,000**
17th December 1999	2.3	17th December 1999 to 16th December 2009	140,000	—	**140,000**
16th November 2000	1.76	16th November 2000 to 15th November 2010	40,000	—	**40,000**
			4,721,300	(365,000)	**4,356,300**

On 9th August 2001, the Company adopted a share option scheme (the "2001 Scheme") under which the directors may, at their discretion, at any time during the 10 years from the date of adoption of the 2001 Scheme, invite employees of any member company of the Group, including executive directors (but excluding non-executive directors) to take up share options of the Company. The Company may issue options so that the number of shares that may be issued upon the exercise of all options to be granted under all the share option schemes does not in aggregate exceed 10 percent of the shares in issue from time to time. No options have been granted since the date of the adoption of the 2001 Scheme.

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.

15. RESERVES

	30th September	
	2001 US$'M	2000 US$'M
Revenue reserves	**(5.4)**	204.1
Exchange reserve	**(5.9)**	(5.1)
Investment properties revaluation reserve	**—**	1.0
Other properties revaluation reserve	**9.4**	11.1
Share premium	**74.2**	74.3
Cash flow hedge	**(0.4)**	—
	71.9	285.4

An analysis of movements on reserves is set out below:

Revenue reserves		
At 31st March		
— as previously reported	**(11.0)**	230.1
— effect of adopting IAS 40	**1.0**	—
— as restated	**(10.0)**	230.1
Profit attributable to shareholders	**3.3**	0.8
Final dividends paid	**—**	(26.8)
Disposal of a property previously revalued	**1.3**	—
Carried forward	**(5.4)**	204.1
Exchange reserve		
At 31st March	**(6.4)**	(2.5)
Exchange translation differences	**0.5**	(2.6)
Carried forward	**(5.9)**	(5.1)
Investment properties revaluation reserve		
At 31st March		
— as previously reported	**1.0**	1.0
— effect of adopting IAS 40	**(1.0)**	—
Carried forward	**—**	1.0
Other properties revaluation reserve		
At 31st March	**10.7**	11.5
Exchange translation differences	**—**	(0.4)
Disposal of a property previously revalued	**(1.3)**	—
Carried forward	**9.4**	11.1
Share premium		
At 31st March	**74.2**	46.0
Issued on the acquisition of a subsidiary	**—**	12.4
Shares issued in lieu of scrip dividend	**—**	15.9
Carried forward	**74.2**	74.3
Cash flow hedge		
Fair value losses arising during the period and carried forward	**(0.4)**	—

16. CAPITAL COMMITMENTS

	30th September 2001 US$'M	31st March 2001 US$'M
Authorized not contracted for	**4.3**	14.1
Contracted not provided for	**1.7**	3.2
	6.0	17.3

Product Sales Analysis by Geographical Area

Year ended 31st March			Six months ended 30th September			
2001			**2001**		2000	
US$'M	%		**US$'M**	**%**	US$'M	%
		Consumer Telephone Products				
764.5	92.8	U.S.A.	**338.3**	**94.5**	408.0	92.5
22.5	2.7	EUROPE	**10.7**	**3.0**	10.2	2.3
1.7	0.2	ASIA PACIFIC	**1.2**	**0.3**	0.9	0.2
35.1	4.3	OTHERS	**7.9**	**2.2**	22.0	5.0
823.8	100.0		**358.1**	**100.0**	441.1	100.0
		Electronic Learning Products				
139.8	48.0	U.S.A.	**58.7**	**50.7**	92.3	57.5
126.2	43.3	EUROPE	**46.4**	**40.0**	53.1	33.2
11.1	3.8	ASIA PACIFIC	**5.1**	**4.4**	5.2	3.2
14.1	4.9	OTHERS	**5.7**	**4.9**	9.8	6.1
291.2	100.0		**115.9**	**100.0**	160.4	100.0
		Contract Manufacturing Services				
56.3	44.3	U.S.A.	**21.2**	**39.0**	29.8	51.4
31.2	24.5	EUROPE	**20.1**	**37.0**	14.7	25.3
36.7	28.9	ASIA PACIFIC	**11.9**	**22.0**	11.2	19.3
2.9	2.3	OTHERS	**1.1**	**2.0**	2.3	4.0
127.1	100.0		**54.3**	**100.0**	58.0	100.0
		Others				
86.6	93.3	U.S.A.	**(1.1)**	**—**	45.6	92.9
1.7	1.9	EUROPE	**0.3**	**12.5**	0.5	1.0
1.5	1.6	ASIA PACIFIC	**2.1**	**87.5**	1.7	3.5
3.0	3.2	OTHERS	**—**	**—**	1.3	2.6
92.8	100.0		**1.3**	**100.0**	49.1	100.0

DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30th September 2001 to the shareholders.

SHARE CAPITAL

On 27th September 2001, 375,900 shares of the Company were placed to an independent third party. The placement was completed in October 2001 and 375,900 shares were allotted and issued to the placee.

DIRECTORS' INTERESTS IN SHARES

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 30th September 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			
Name of Director	**Personal Interests**	**Family Interests**	**Other Interests**	**Total**
Allan WONG Chi Yun	14,906,830	3,968,683	74,101,153(i)	92,976,666
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	999,332	—	—	999,332
Paddy LAW Wai Leung	138,000	—	—	138,000
Jack Kenneth HIRSCH	230,578	—	—	230,578
Edward Barry ARMSTRONG	101,607	—	—	101,607
Nils Erik Vilhelm MARTENSSON	1,521,395	—	—	1,521,395
Philip Leigh TOSE	—	—	—	—

NOTE:

(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.

As at 30th September 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the share option scheme adopted on 24th September 1991 (the "1991 Scheme"), the Company granted share options in favour of certain directors to subscribe for shares of the Company at prices to be determined by the board in accordance with the terms of the 1991 Scheme, the summary of which are as follows:

				Number of Share Options	
Name of Director	**Date of grant**	**Exercise price** US$	**Exercisable period**	**At 1st April 2001**	**At 30th September 2001**
Paddy LAW Wai Leung	1st May 1998	US$2.90	1st May 1998 to 30th April 2008	200,000	**200,000**
Jack Kenneth HIRSCH	1st May 1998	US$2.90	1st May 1998 to 30th April 2008	100,000	**100,000**
Edward Barry ARMSTRONG	1st May 1998	US$2.90	1st May 1998 to 30th April 2008	200,000	**200,000**

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 30th September 2001, were as follows:

	30th September 2001	
Name of Shareholder	**Number of Shares**	**Percentage of Shareholding**
HKSCC Nominees Limited	**102,724,494**	**45.62%**
The Capital Group Companies, Inc.	**20,013,199**	**8.89%**
HSBC Nominees (Hong Kong) Limited	**13,606,965**	**6.04%**

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

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

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

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 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 period under review except that certain independent non-executive directors of the Company are not appointed for a specific term.