



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