

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31st March 2002.

PRINCIPAL ACTIVITY

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

GROUP RESULTS

The results of the Group for the year ended 31st March 2002 are set out in the consolidated income statement on page 33.

DIVIDENDS

No interim dividend was paid during the year. The directors do not recommend the payment of a final dividend for the year ended 31st March 2002 to the shareholders.

COMMENTARY ON PERFORMANCE

A commentary on the performance of the Group is included in the review of operations set out on pages 8 to 19 and the financial review set out on page 24 respectively.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 66 to 67.

TANGIBLE ASSETS

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

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

On 27th September 2001, 375,900 new ordinary shares of US\$0.05 each of the Company were placed to Mr. James C. KRALIK, an independent third party on that date, at a price of HK\$2.075 per share (being the closing price of the shares of the Company on The Stock Exchange of Hong Kong Limited on 26th September 2001). The placing was completed in October 2001 and 375,900 new ordinary shares were allotted and issued to the placee, representing approximately 0.17% of the issued share capital of the Company as enlarged by the placing. The net proceeds from the placing of approximately HK\$780,000 were used by the Group for general working capital purposes.

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

RESERVES

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

DONATIONS

During the year, the Group made charitable and other donations in aggregate of US\$84,000.

DIRECTORS

The board of directors of the Company as at 31st March 2002 and up to 26th June 2002 comprised:

Mr. Allan WONG Chi Yun	(Chairman)
Mr. Albert LEE Wai Kuen	(Deputy Chairman, effective from 28th November 2001)
Mr. Paddy LAW Wai Leung	(Group Chief Executive Officer, effective from 26th June 2002)
Mr. Raymond CH'EN Kuo Fung	(Independent Non-Executive Director, appointed on 28th November 2001)
Mr. William FUNG Kwok Lun	(Independent Non-Executive Director, appointed on 28th November 2001)
Mr. Michael TIEN Puk Sun	(Independent Non-Executive Director, appointed on 28th November 2001)
Mr. Patrick WANG Shui Chung	(Independent Non-Executive Director, appointed on 28th November 2001)

Mr. TO Cheuck Wah, Mr. William HO Mook Lam, Mr. Jack Kenneth HIRSCH, Mr. Edward Barry ARMSTRONG, Mr. Nils Erik Vilhelm MARTENSSON and Mr. Philip Leigh TOSE resigned as directors of the Company on 28th November 2001.

Mr. Raymond CH'EN Kuo Fung, Mr. William FUNG Kwok Lun, Mr. Michael TIEN Puk Sun and Mr. Patrick WANG Shui Chung shall retire in accordance with bye-law 94 and bye-law 112 of the bye-laws of the Company, but being eligible, shall offer themselves for re-election as directors of the Company at the forthcoming annual general meeting.

Brief biographical details of directors and senior management are set out on pages 25 to 27.

DIRECTORS' SERVICE CONTRACTS

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

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 UK 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 2002, the directors and their associates had the following interests in the shares of the Company. All of these interests were beneficial:

Name of director	Number of shares			Total
	Personal interests	Family interests	Other interests	
Allan WONG Chi Yun	14,906,830	3,968,683	74,101,153 (i)	92,976,666
Albert LEE Wai Kuen	999,332	—	—	999,332
Paddy LAW Wai Leung	—	—	—	—
Raymond CH'EN Kuo Fung	—	—	—	—
William FUNG Kwok Lun	1,045,630	—	—	1,045,630
Michael TIEN Puk Sun	1,123,000	—	—	1,123,000
Patrick WANG Shui Chung	—	—	—	—

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.

During the period from 1st April 2002 to 26th June 2002, there was no change to the above interests.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the share option schemes adopted on 24th September 1991 (the "1991 Scheme") and on 10th August 2001 (the "2001 Scheme") respectively, 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 of directors in accordance with the terms of the 1991 Scheme and the 2001 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 UK 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 2002, the directors and their associates had the following interests in share options of the Company. All of these interests were beneficial:

Name of director	Date of grant	Exercise price	Exercisable period	1st April 2001	31st March 2002
				Number of share options	Number of share options
Allan WONG Chi Yun	11th March 2002	HK\$10.20	11th March 2002 to 10th March 2012 (i)	—	2,000,000
Albert LEE Wai Kuen	5th March 2002	HK\$10.20	5th March 2002 to 4th March 2012 (i)	—	1,750,000
Paddy LAW Wai Leung	1st May 1998	US\$2.90	1st May 1998 to 30th April 2008	200,000 (ii)	—
	5th March 2002	HK\$10.20	5th March 2002 to 4th March 2012 (i)	—	1,750,000

No options were exercised by any director or lapsed during the year.

Notes:

- (i) As one of the conditions of grant, the grantee concerned agreed with the Company that the options granted shall not be exercisable within the period of 36 months from the date on which such options were granted or deemed to be granted and accepted and shall not be exercisable after 60 months from the date on which such options were granted or deemed to be granted and accepted.
- (ii) The outstanding and unexercised 200,000 options at US\$2.90 each granted to Mr. Paddy LAW Wai Leung under the share option scheme adopted on 24th September 1991 were all surrendered and cancelled on 5th March 2002.

During the period from 1st April 2002 to 26th June 2002, there was no change to the above interests.

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors and their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group'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 UK 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 2002 and 26th June 2002, were as follows:

Name of shareholder	31st March 2002		26th June 2002	
	Number of shares	Percentage of shareholding	Number of shares	Percentage of shareholding
HKSCC Nominees Limited	102,335,437	45.38%	103,621,817	45.95%
HSBC Nominees (Hong Kong) Limited	13,617,965	6.04%	13,622,965	6.04%

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

SECURITIES PURCHASE ARRANGEMENTS

At the annual general meeting held on 10th August 2001, shareholders renewed the approval of a general mandate authorizing 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% of the total value of the Group's purchases. The Group's largest customer accounted for approximately 12.1% of the Group's turnover and the Group's five largest customers in aggregate accounted for approximately 35.8% of the Group's turnover during the year.

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

SHARE OPTION SCHEMES

The Company operates share option schemes for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of these share option schemes include employees of the Company and/or any of its subsidiaries, including executive directors of any of such companies.

On 10th 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 the Company and any subsidiaries of the Group, including executive directors (but excluding non-executive directors) to take up shares of the Company in accordance with the terms of the 2001 Scheme.

The share option scheme adopted on 24th September 1991 (the "1991 Scheme") expired on 23rd September 2001. However, options granted and not yet exercised under the 1991 Scheme will continue to remain effective.

HomeRelay Communications, Inc. ("HomeRelay", formerly known as Unbound Communications, Inc.), a subsidiary of the Company, located and established under the laws of the United States of America, adopted a stock option plan in August 2000 (the "HomeRelay Plan"). Under the HomeRelay Plan, HomeRelay may grant up to 10% of HomeRelay's common stock and a committee designated by the board of directors of HomeRelay may fix the terms and vesting of the options which in no event shall exceed 10 years.

Details of the 1991 Scheme, the 2001 Scheme and the HomeRelay Plan are set out in note 20 to the financial statements.

CONNECTED TRANSACTIONS

The Company has entered into certain transactions during the year ended 31st March 2002 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 (the "Listing Rules") and Chapter 11 of the Listing Rules of the Financial Services Authority in the United Kingdom (as the case may be) as set out below:

On 26th March 2002, VTech Electronics Holdings Limited ("VTE"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Jean VINCENT and Mr. Patrick WAWRZYNIAK to sell the 64% interest in the issued share capital of Fagoe Limited (a non wholly-owned subsidiary of the Company) held by the Group to Mr. Jean VINCENT and Mr. Patrick WAWRZYNIAK. VTE also entered into a sale and purchase agreement with Mr. Jean VINCENT to sell the 73% interest in the issued share capital of VJV Services SARL (a non wholly-owned subsidiary of the Company) held by the Group to Mr. Jean VINCENT.

Mr. Jean VINCENT was a substantial shareholder of each of Fagoe Limited and VJV Services SARL and therefore a connected person of the Company as defined in the Listing Rules. The entering into of these agreements by VTE constituted connected transactions for the Company.

MATERIAL LEGAL PROCEEDINGS

On 7th June 2002, the Group and Lucent Technologies Inc. ("Lucent") settled the lawsuit filed by the Group against Lucent in January 2001 in a mutually satisfactory manner. There was no admission of wrongdoing by either party. Under the terms of the settlement, Lucent has agreed to adjust the purchase price of the acquisition downward by US\$50 million, such amount will be fully settled in cash on or before 3rd July 2002.

ANNUAL GENERAL MEETING SPECIAL BUSINESS

The following special business will be proposed at the annual general meeting to be held on 9th August 2002:

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; and
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 the number of shares repurchased under the repurchase mandate.

AUDIT COMMITTEE

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

The current members of the Audit Committee comprised:

Mr. Raymond CH' IEN Kuo Fung	(appointed on 28th November 2001)
Mr. William FUNG Kwok Lun	(appointed on 28th November 2001)
Mr. Michael TIEN Puk Sun	(appointed on 28th November 2001)

Other members of the Audit Committee during the year under review:

Mr. Nils Erik Vilhelm MARTENSSON	(ceased to be a member on 28th November 2001)
Mr. Philip Leigh TOSE	(ceased to be a member on 28th November 2001)
Mr. Patrick WANG Shui Chung	(appointed on 28th November 2001 and ceased to be a member on 26th March 2002)

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 certain 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. PricewaterhouseCoopers replaced Price Waterhouse on 6th August 1999 following the merger of Price Waterhouse and Coopers & Lybrand.

By Order of the Board

Allan WONG Chi Yun
Chairman

Hong Kong, 26th June 2002