

Report of the Directors

The directors have pleasure to submit their report together with the audited financial statements for the year ended 31st March 2003.

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

GROUP RESULTS The results of the Group for the year ended 31st March 2003 are set out in the consolidated income statement on page 32.

DIVIDENDS An interim dividend of US1.5 cents per ordinary share (2002: nil) was paid on 6th January 2003. The directors have recommended the payment of a final dividend of US2.0 cents per ordinary share (2002: nil) to shareholders in respect of the year ended 31st March 2003 whose names appear on the register of members of the Company at the close of business on 6th August 2003.

The final dividend will be payable on 25th August 2003 in United States dollars save that those shareholders with a registered address in Hong Kong will receive the equivalent amount in Hong Kong dollars and those shareholders whose names appear on the register of members of the Company in the United Kingdom will receive the equivalent amount in sterling pounds both calculated at the rates of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its mid rate of exchange prevailing on 29th July 2003.

CLOSURE OF REGISTER OF MEMBERS The register of members of the Company will be closed from 30th July 2003 to 6th August 2003, both dates inclusive, during which period no transfer of shares will be effected.

In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates, must be lodged with the share registrars of the Company for registration not later than 4:00 p.m., the local time of the share registrars, on 29th July 2003.

The principal registrar in Bermuda is Butterfield Fund Services (Bermuda) Limited, Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda, the branch registrar in the United Kingdom is Capita IRG Plc, Bourne House, 34 Beckenham Road, Kent BR3 4TU, DX91750, Beckenham West, United Kingdom, and the branch registrar in Hong Kong is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

COMMENTARY ON PERFORMANCE A commentary on the performance of the Group is included in the review of operations set out on pages 14 to 19.

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 49 and 50.

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

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS Details of the movements in share capital, share options and warrants of the Company during the year are set out 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\$118,000.

DIRECTORS The board of directors of the Company as at 31st March 2003 and up to 25th June 2003 comprised:

Mr. Allan WONG Chi Yun	(Chairman)
Mr. Albert LEE Wai Kuen	(Deputy Chairman)
Mr. Paddy LAW Wai Leung	(Group Chief Executive Officer)
Mr. Raymond CH'EN Kuo Fung	(Independent Non-executive Director)
Mr. William FUNG Kwok Lun	(Independent Non-executive Director)
Mr. Michael TIEN Puk Sun	(Independent Non-executive Director)
Mr. Patrick WANG Shui Chung	(Independent Non-executive Director)

Mr. Albert LEE Wai Kuen and Mr. Paddy LAW Wai Leung shall retire from the Board in accordance with 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 2003, the directors and their associates had the following interests in the shares of the Company. All of these interests were beneficial:

Name of director	Personal interests	Number of shares		Total
		Family interests	Other interests	
Allan WONG Chi Yun	10,307,393	3,968,683	78,700,590 <i>notes 1,2,3</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	—	—	—	—

Notes:

1. The shares are held as to 65,496,225 by Conquer Rex Limited, as to 1,416,325 by Honorex Limited, as to 7,188,603 by Twin Success Pacific Limited and as to 4,599,437 by Power Precise Holdings Limited which are corporations controlled by Mr. Allan WONG Chi Yun.
2. Conquer Rex Limited is beneficially owned by Honorex Limited.
3. Conquer Rex Limited, Honorex Limited and Twin Success Pacific Limited are beneficially owned by Newcourt Trustees Limited as trustee of The Wong Chung Man 1984 Trust, the discretionary objects of which are family members of Mr. Allan WONG Chi Yun.

A register of directors' and chief executives' interests and short positions was maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance of Hong Kong which had replaced the Securities (Disclosure of Interests) Ordinance of Hong Kong and came in force on 1st April 2003.

During the period from 1st April 2003 to 25th June 2003, there was no change to the above interests.

DIRECTORS' RIGHTS TO ACQUIRE SHARES Pursuant to the share option scheme adopted on 10th August 2001 (the "2001 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 of directors in accordance with the terms of 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 2003, 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	At 1st April 2002	At 31st March 2003
				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>note 1</i>)	2,000,000	2,000,000
Albert LEE Wai Kuen	5th March 2002	HK\$10.20	5th March 2002 to 4th March 2012 (<i>note 1</i>)	1,750,000	1,750,000
Paddy LAW Wai Leung	5th March 2002	HK\$10.20	5th March 2002 to 4th March 2012 (<i>note 1</i>)	1,750,000	1,750,000
	26th July 2002	HK\$8.71	26th July 2002 to 25th July 2012 (<i>note 1</i>)	—	150,000

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

Note 1: 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.

A register of directors' and chief executives' interests and short positions was maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance of Hong Kong which

had replaced the Securities (Disclosure of Interests) Ordinance of Hong Kong and came in force on 1st April 2003.

During the period from 1st April 2003 to 25th June 2003, 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 SHAREHOLDERS 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 register of interests in shares and short positions pursuant to Section 336 of the Securities and Futures Ordinance of Hong Kong which had replaced the Securities (Disclosure of Interests) Ordinance of Hong Kong and come in force on 1st April 2003 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 equity interest in the issued share capital of the Company, together with the amount of each of such parties' interests as at 31st March 2003 and 25th June 2003, were as follows:

Name of shareholder	31st March 2003		25th June 2003	
	Number of shares	Percentage of shareholding	Number of shares	Percentage of shareholding
HKSCC Nominees Limited	109,521,834	48.56%	103,569,507	45.92%
Newcourt Trustees Limited as Trustee of The Wong Chung Man 1984 Trust (<i>note 1</i>)	74,101,153	32.85%	74,101,153	32.85%
Honorex Limited (<i>note 2</i>)	66,912,550	29.66%	66,912,550	29.66%
Conquer Rex Limited	65,496,225	29.04%	65,496,225	29.04%
HSBC Nominees (Hong Kong) Limited	16,010,483	7.10%	16,011,483	7.10%
Twin Success Pacific Limited	7,188,603	3.19%	7,188,603	3.19%

Notes:

1. Newcourt Trustees Limited as trustee of The Wong Chung Man 1984 Trust beneficially owned all the issued shares in Conquer Rex Limited, Honorex Limited and Twin Success Pacific Limited.
2. Honorex Limited beneficially owned all the issued shares in Conquer Rex Limited.

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 9th August 2002, 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 10.3% of the Group revenue and the Group's five largest customers in aggregate accounted for approximately 37% of the Group revenue 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 by the Company on 24th September 1991 (the "1991 Scheme") expired on 23rd September

2001. Options granted and not yet exercised under the 1991 Scheme have lapsed during the year.

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 TRANSACTION As announced on 11th April 2003, the Company has entered into a transaction which constitutes a connected transaction 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 11th April 2003, the Company as tenant entered into an agreement with Aldenham Company Limited ("Aldenham") as landlord for the lease of the premises situated at Bowen Road, Hong Kong for 2 years commencing on 1st April 2003 at a monthly rental of HK\$250,000 for the purpose of providing housing to Mr. Allan WONG Chi Yun, a director of the Company, in accordance with the terms of his employment contract. Aldenham is a company 50% owned by Mr. Allan WONG Chi Yun's wife and 50% owned by a trust the beneficiaries of which are Mr. Allan WONG Chi Yun and his family members. Aldenham is therefore a connected person of the Company as defined in the Listing Rules. The entering into of the lease by the Company constituted a connected transaction 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 agreed to adjust the purchase price of the acquisition downward by US\$50.0 million and such amount was fully settled in cash during the year ended 31st March 2003.

After settling its claims against Lucent, the Group commenced litigation against PricewaterhouseCoopers LLP ("PwC") on 28th February 2003, seeking damages for PwC's alleged malpractice and breach of duty and fraud in representing the Group concerning the acquisition of part of the Lucent Consumer Telephone Business in March 2000. On 1st May 2003, PwC moved to dismiss the complaint and it is anticipated that the Court will rule on that motion within the next several months. The Group remains confident that it will prevail on PwC's motion to dismiss although there is no way to accurately predict the outcome. The Group attempted to settle with PwC which refused to enter any settlement discussion with the Group.

ANNUAL GENERAL MEETING SPECIAL BUSINESS The following special business will be proposed at the annual general meeting to be held on 6th August 2003:

1. the grant to the directors of the Company a general mandate to repurchase shares of the Company;
2. the grant to the directors of the Company 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 for the year ended 31st March 2003. The Audit Committee also received reports from external auditors to review the nature, scope and results of the external audit.

The members of the Audit Committee comprised Mr. Raymond CH'EN Kuo Fung, Mr. William FUNG Kwok Lun and Mr. Michael TIEN Puk Sun, the 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 certain independent non-executive directors of the Company are not appointed for a specific term.

AUDITORS In February 2003, PricewaterhouseCoopers resigned as auditors of the Company and KPMG were appointed as the auditors of the Company to fill the casual vacancy caused by the resignation of PricewaterhouseCoopers until the conclusion of the next annual general meeting of the Company.

The financial statements have been audited by KPMG, who retire and, being eligible, offer themselves for re-appointment in the forthcoming annual general meeting of the Company. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By Order of the Board

Allan WONG Chi Yun
Chairman

Hong Kong, 25th June 2003



AUDITORS' REPORT TO THE SHAREHOLDERS OF VTECH HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of VTech Holdings Limited and its subsidiaries ("the Group") on pages 32 to 48 which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS These consolidated financial statements are the responsibility of the directors who are required to prepare financial statements which give a true and fair view. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

BASIS OF OPINION We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

OPINION In our opinion the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31st March 2003 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and the Bermuda Companies Act.

KPMG
Certified Public Accountants

Hong Kong, 25th June 2003