

Report of the Directors

Corporate Services

PANG King Fai, aged 48, Group Chief Technology Officer, joined the Group in February 2004. Dr. PANG is responsible for establishing and maintaining a group-wide infrastructure in order to enhance VTech's capability for product development and introduction. Prior to joining VTech, he held various senior management positions at LSI Logic Corp. in the United States. He has also held senior engineering positions at Trident Microsystems, Inc and Hewlett Packard Company. Dr. PANG holds a BSc (Eng) from the University of Hong Kong, a MPhil from London University, and a PhD (EE) from Stanford University.

CHANG Yu Wai, aged 44, Company Secretary and Chief Compliance Officer. Joined the Group in June 2000 after spending 8 years with one of the leading international accounting firms in Hong Kong. He has over 15 years of experience in professional accounting and auditing. Mr. CHANG is a member of the Institute of Chartered Accountants in England and Wales.

Shereen TONG Ka Hung, aged 35, Group Chief Financial Officer, is responsible for the Group accounting, treasury and financial functions. She joined the Group in 1994 and had over 14 years of finance and accounting experience. She holds two Master degrees in Business Administration and Information Systems from Manchester Business School and Hong Kong Polytechnic University. She is an associate of Chartered Institute of Bankers, Chartered Institute of Management Accountants and Hong Kong Society of Accountants.

Helen WONG Shuk Ying, aged 50, Group Chief Information Officer, joined the Group in May 2003. With over 20 years of IT, consulting and accounting experience, she has held many senior positions in Hong Kong and Canada. Prior to joining the Group, she was with PricewaterhouseCoopers Consulting (Hong Kong) for over 13 years, and the last position held was partner in the consulting practice. Before that, she was a senior manager at the Hong Kong Hospital Authority. Prior to that, she worked in Canada as a senior systems manager in a commercial bank and a telecommunication company. Ms. WONG holds a Bachelor of Commerce degree from Queen's University, and is a member of the Certified Management Accountant (CMA) in Canada and the Hong Kong Computer Society.

The directors have pleasure to present their report and the audited financial statements of the Group for the year ended 31st March 2004.

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 2004 are set out in the consolidated income statement on page 29.

DIVIDENDS An interim dividend of US3.0 cents (2003: US1.5 cents) per ordinary share was paid to shareholders on 8th January 2004. The directors have recommended the payment of a final dividend of US7.0 cents (2003: US2.0 cents) per ordinary share to shareholders in respect of the year ended 31st March 2004 whose names appear on the register of members of the Company as at the close of business on 13th August 2004 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

The final dividend will be payable on 31st August 2004 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 23rd August 2004.

COMMENTARY ON PERFORMANCE A commentary on the performance of the Group is included in the review of operations set out on pages 10 to 15.

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 page 47.

TANGIBLE ASSETS Details of the movements in tangible assets are shown in note 8 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 18 to the financial statements.

RESERVES Movements in the reserves of the Group and the Company during the year are set out in note 19 to the financial statements.

DONATIONS During the year, the Group made charitable and other donations in aggregate of US\$20,000.

DIRECTORS The Board of Directors (the "Board") of the Company during the year and up to 29th June 2004 comprised:

Mr. Allan WONG Chi Yun	(Chairman and appointed as Group Chief Executive Officer since 1st January 2004)
Mr. Albert LEE Wai Kuen	(Deputy Chairman)
Mr. Paddy LAW Wai Leung	(Group Chief Executive Officer up to and including 31st December 2003 and a director of the Company up to and including 31st March 2004)
Mr. Raymond CH' IEN 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. Raymond CH' IEN Kuo Fung and Mr. William FUNG Kwok Lun 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.

The Company received confirmation of independence in respect of the year ended 31st March 2004 from each of the independent non-executive directors pursuant to Rule 3.13 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Brief biographical details of directors and senior management are set out on pages 21 to 24.

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 AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES As at 31st March 2004, the interests and short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") and according to 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 (the "UK Listing Rules") were as follows:

(1) Long positions in the ordinary shares of the Company

Name of director	Capacity	Number of shares held	Total number of shares held as at 31st March 2004	Percentage of shareholding held as at 31st March 2004
Allan WONG Chi Yun	Beneficial owner	10,307,393	88,377,229	39.2%
	Interest of spouse	3,968,683		
	Founder Interest	74,101,153 (Note 1)		
Albert LEE Wai Kuen	Beneficial owner	499,332	499,332	0.2%
Paddy LAW Wai Leung	—	—	—	—
Raymond CH' IEN Kuo Fung	—	—	—	—
William FUNG Kwok Lun	Beneficial owner	1,041,630	1,041,630	0.5%
Michael TIEN Puk Sun	Founder interest	1,123,000 (Note 2)	1,123,000	0.5%
Patrick WANG Shui Chung	—	—	—	—

Note 1: The shares were held as to 1,416,325 directly by Honorex Limited ("Honorex"), as to 65,496,225 directly by Conquer Rex Limited ("Conquer Rex") and as to 7,188,603 directly by Twin Success Pacific Limited ("Twin Success"). Conquer Rex is a wholly-owned subsidiary of Honorex. Each of Conquer Rex, Honorex and Twin Success is a wholly-owned subsidiary of Newcourt Trustees Limited as the trustee of The Wong Chung Man 1984 Trust, a discretionary trust of which Mr. Allan WONG Chi Yun is the founder. Newcourt Trustees Limited was therefore deemed to have an aggregate indirect interest in 74,101,153 shares. Honorex was also deemed to have an indirect interest in the 65,496,225 shares. Effecting on 7th June 2004, Trustcorp Limited has been appointed as the trustee of The Wong Chung Man 1984 Trust in place of Newcourt Trustees Limited.

Note 2: The shares were registered in the name of Romsley International Limited which is a wholly-owned subsidiary of J.P. Morgan Trust Company (Bahamas) Limited as the trustee of The Joy Plus Trust. The Joy Plus Trust is a discretionary trust of which Mr. Michael TIEN Puk Sun is the founder.

(2) Share options of the Company

Name of director	Date of grant	Exercise price	Exercisable period (Note 1)	Number of share options held	
				as at 1st April 2003	as at 31st March 2004
Allan WONG Chi Yun	11th March 2002	HK\$10.2	11th March 2005 to 10th March 2007	2,000,000	2,000,000
Albert LEE Wai Kuen	5th March 2002	HK\$10.2	5th March 2005 to 4th March 2007	1,750,000	1,750,000
Paddy LAW Wai Leung	5th March 2002	HK\$10.2	5th March 2005 to 4th March 2007	1,750,000	—
					(Note 2)
Paddy LAW Wai Leung	26th July 2002	HK\$8.71	26th July 2005 to 25th July 2007	150,000	—
					(Note 2)

Note 1: For 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 accepted and shall not be exercisable after 60 months from the date on which such options were accepted.

Note 2: All share options which were granted to Mr. Paddy LAW Wai Leung lapsed on the date on which he served his notice of resignation as a director of the Company.

Save as disclosed above, as at 31st March 2004, none of the directors and the chief executive of the Company has any interest or short position in the shares or the underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies containing in the Listing Rules or which were required to be notified to the UK Listing Authority pursuant to Paragraphs 16.13 to 16.17 of the UK Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS Save as the transaction described under the paragraph headed "Connected Transaction", 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 As at 31st March 2004, according to the register maintained by the Company under Section 336 of the SFO and the records of notification made to the UK Listing Authority pursuant to Paragraphs 9.11 to 9.14 of the UK Listing Rules and in so far as is known to the Company, the parties, (other than the directors and the chief executive of the Company), who held 3% or more equity interest in the issued share capital of the Company, together with the amount of each of such parties' interests were as follows:

Name of shareholder	Capacity	Number of shares held	Approximate Percentage of shareholding
HKSCC Nominees Limited	Nominee	107,049,074	47.5%
Newcourt Trustees Limited	Interest of controlled corporation (Notes 1 & 3)	74,101,153	32.9%
Honorex Limited	Beneficial owner (Notes 1 & 3)	1,416,325	29.7%
	Interest of controlled corporation (Notes 1 & 3)	65,496,225	
Conquer Rex Limited	Beneficial owner (Notes 1 & 3)	65,496,225	29.0%
Value Partners Limited	Investment manager (Notes 2 & 3)	29,482,000	13.1%
CHEAH Cheng Hye	Interest of controlled corporation (Notes 2 & 3)	29,482,000	13.1%
HSBC Nominees (Hong Kong) Nominee Limited	Nominee	17,137,195	7.6%
Twin Success Pacific Limited	Beneficial owner (Notes 1 & 3)	7,188,603	3.2%

Note 1: The shares were held as to 1,416,325 directly by Honorex Limited ("Honorex"), as to 65,496,225 directly by Conquer Rex Limited ("Conquer Rex") and as to 7,188,603 directly by Twin Success Pacific Limited ("Twin Success"). Conquer Rex is a wholly-owned subsidiary of Honorex. Each of Conquer Rex, Honorex and Twin Success is a wholly-owned subsidiary of Newcourt Trustees Limited as the trustee of The Wong Chung Man 1984 Trust, a discretionary trust of which Mr. Allan WONG Chi Yun ("Mr. WONG"), a director of the Company, is the founder. Newcourt Trustees Limited was therefore deemed to have an aggregate indirect interest in 74,101,153 shares. Honorex was also deemed to have an indirect interest in the 65,496,225 shares. Mr. WONG's founder interests in the 74,101,153 shares of the Company has also been disclosed under the section headed "directors' interests and short positions in shares and underlying shares" above. Effecting on 7th June 2004, Trustcorp Limited has been appointed as the trustee of The Wong Chung Man 1984 Trust in place of Newcourt Trustees Limited.

Note 2: Mr. CHEAH Cheng Hye is deemed to be interested in such shares through its 31.82% interest in Value Partners Limited.

Note 3: The interest stated above represents long position.

Save as disclosed above, the Company has not been notified by any person (other than the directors of the Company) who had interests or short positions in the shares or underlying shares of the Company as at 31st March 2004 which were required to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register required to be kept by Company under Section 336 of the SFO or which were required to be notified to the UK Listing Authority pursuant to Paragraphs 9.11 to 9.14 of the UK Listing Rules.

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 6th August 2003, 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 Group's largest supplier accounted for approximately 13.3% of the total value of the Group's purchases and the five largest suppliers in aggregate accounted for 32.7% of the total value of the Group's purchases. The Group's largest customer accounted for approximately 13.9% of the Group revenue and the Group's five largest customers in aggregate accounted for approximately 41.0% 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 SCHEME The Company operates share option scheme 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 executive directors and employees of the Company and its subsidiaries.

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.

HomeRelay Communications, Inc. ("HomeRelay"), 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. All outstanding stock options of HomeRelay Plan lapsed since 10th September 2003 as a result of the termination of employment of the relevant grantees under the HomeRelay Plan.

Details of the 2001 Scheme and the HomeRelay Plan are set out in note 18 to the financial statements.

CONNECTED TRANSACTION As announced on 11th April 2003 and 14th May 2004, the Company has entered into a transaction which constituted a connected transaction of the Company under the Listing Rules and Chapter 11 of the UK Listing Rules (as the case may be) as set out below:

On 11th April 2003, the Company as tenant entered into a lease (the "Lease") 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 and expiring on 31st March 2005 at a monthly rental of HK\$250,000 for the purpose of providing housing to Mr. Allan WONG Chi Yun ("Mr. WONG"), a director and a substantial shareholder holding 41.22% of the entire issued share capital of the Company at that time. As at 11th April 2003 when the Lease was entered into, Aldenham was 50% owned by the spouse of Mr. WONG and 50% indirectly owned by a trust, the discretionary objects of which were Mr. WONG and his family members. Aldenham subsequently became an indirect wholly-owned subsidiary of the said trust, the beneficiaries of which are family members of Mr. WONG, a director, the chief executive and a substantial shareholder.

ANNUAL GENERAL MEETING The following business will be proposed at the annual general meeting to be held on 13th August 2004:

1. the grant to the directors of the Company of a general mandate to repurchase shares representing up to 10% of the issued share capital of the Company as at the date of the Annual General Meeting;