

of its wireline telephones and accessories for the term of the license. The new agreement also enables VTech, after the initial ten years term, to potentially extend the license for two additional five year renewal terms provided that certain financial and business performance criteria are achieved. This would greatly increase our ability in the future to capture premium segments of the more than 1.5 billion consumers in the strong markets these new regions comprise.

The agreement represents an important addition to our branding capability, which was embodied this year by the dynamic new corporate identity that pervades this annual report and which forms the basis of new packaging that will begin supporting sales this calendar year. For ELPs, we have committed to increase spending on marketing to target consumers, and will launch an aggressive marketing campaign, designed by the WPP Group.

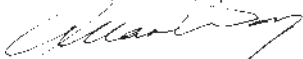
The use of brand to drive sales, customer loyalty and margins is part of a much more radical reorientation of VTech that is now underway. We have built economies of scale in R&D and manufacturing. We have also, in the past two years, squeezed costs out of our operation to the point where we are highly competitive from an overhead perspective.

Our strategy now is to leverage these strengths through not just a better marketing capability, but by changing our approach to focus on the customer and extract value from the factory, through the supply chain to the point-of-sale and service.

We will continue to hone down costs, by automating and systematizing the improvements we have made to the management of our supply chain. We are further looking at the supply chain to see where value can be aggregated to VTech.

Through the use of market research, data-sharing and other techniques, we are gaining a close and timely understanding of end-user preferences that will make our product design more market responsive. We intend to build on our improved sales team structure by the creation of a customer relationship management system that enables me and our senior executives to keep informed of key sources of product demand. We are now examining our operations to determine the best approach.

VTech is evolving into a new company. As a number of Asian firms before us, we are preparing to move up the value chain from being an efficient supplier of products to a company actively creating demand for those products. In the process, we aim in coming years to generate more substantial rewards for our shareholders than would otherwise have been possible.



Allan WONG Chi Yun
Chairman

Hong Kong, 26th June 2002

Message from the CEO



Paddy LAW
Group Chief Executive Officer
VTech Holdings Ltd

I would like to express my sincere thanks to all who have contributed in bringing VTech to where we are today. Our dedication to emerge from our restructuring to become a stronger, more dynamic and customer-focused Group has been a great success.

The Group's future direction will focus on several fundamental commitments. We will create an accountability system that will recognize and reward our best and brightest staff for outstanding performance. We will also overhaul our IT systems to ensure quick and transparent communications of business data to streamline our supply chain processes and achieve greater customer satisfaction. Finally, we will continue to implement a series of profitability improvement programs to maximize our shareholders' value.

By making these commitments top priorities, we will lay the foundation for making VTech one of the world's truly great companies in the years to come.

Paddy LAW Wai Leung
Group Chief Executive Officer

Hong Kong, 26th June 2002