I am pleased to report that the full year results for the financial year 2005 were better than we expected when we announced our half year results in November 2004.

Allan WONG Chi Yun
Chairman

Dear Shareholders,

I am pleased to report that the full year results for the financial year 2005 were better than we expected when we announced our half year results in November 2004. The Group's Electronic Learning Products (ELP) and Contract Manufacturing Services (CMS) businesses achieved better than expected growth for the full year, helping to offset an unsatisfactory performance from our telecommunication products business in the United States. Through management efforts, the difficult situation of the telecommunication products business in the United States was brought under control and, following a series of rationalisation measures, its US operations are becoming more effective and efficient.

Results

Revenue for the Group increased by 11.7% over the financial year 2004 to US$1,022.0 million and profit attributable to shareholders, including US$6.7 million non-recurring income arising from settlement of an indemnification claim, increased by 22.9% to US$56.9 million. Earnings per share rose 22.9% to US25.2

cents. This has allowed the Board of Directors to propose a higher final dividend of US12.0 cents, giving a total dividend for the year of US13.0 cents per ordinary share, compared to US10.0 cents for the financial year 2004, representing an increase of 30.0%.

Operations

The financial year 2005 was challenging for our telecommunication products business, as our products were not as competitive as other major players in the US market on both product design and price, which resulted in lower sales that undermined a strong performance in Europe. Over-optimistic sales projections for the US market led to higher overheads and operating costs, resulting in operational inefficiency, which further impacted profitability of the business.

To rectify the problem in the United States, management of the business was changed while operations began the process of streamlining and rationalisation. Greater emphasis has been put on understanding retailer expectations to ensure product design and features correspond to consumer preferences. Through our efforts, the situation at the US operations was successfully brought under control in the second half of the financial year 2005.

In January 2005, the Group took an industry lead in responding to technological developments in the US cordless phone market by launching its first Voice over Internet Protocol (VoIP) 5.8GHz cordless phone with Vonage, and its first VoIP 2.4GHz cordless phone with Skype. The Group is now developing an entirely new range of more cost effective products that meet retailer expectations and consumer requirements, which will be introduced in early 2006.

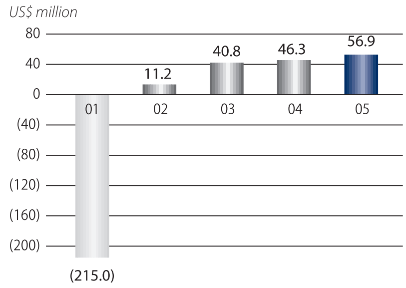
In contrast with the telecommunication products business, the ELP business has proven its successful turnaround with a strong rebound in both revenue and profitability. The V.Smile TV Learning System was enthusiastically received by retailers and consumers, garnering numerous top awards, and is enabling us to strengthen further our position in Europe while rebuilding sales in the United States.

The attraction of this new product platform, which in February 2005 was joined by the handheld model V.Smile Pocket, is greatly enhanced by highly interactive software using licensed children's characters, which now comprise a library of 27 titles. In support of V.Smile, VTech has also committed more promotional dollars than in the past, making this product fully competitive from a marketing perspective.

Despite the importance of V.Smile, which we see as a key growth platform, our traditional product lines also performed well during the financial year 2005. The Group is committed to maintaining a broad ELP range, focusing on the growing infant and pre-school segments.

The CMS business remains a steady contributor to the Group revenue and profit. In the financial year 2005, the business achieved record revenue and higher profit, and its revenue growth was much stronger than the global Electronic Manufacturing Services (EMS) industry. This outperformance testifies not only to our ability to deliver quality products, flexible and reliable service, but also to our success in maintaining margins while passing on savings to customers. The investment in R&D has paid off, with R&D related services increasingly driving sales, while the business has seen success in

Profit/(Loss) Attributable to Shareholders in Last 5 Years



gaining a new customer in the industrial printing sector. The business is also moving towards compliance with the Restriction of the use of certain Hazardous Substances in electrical and electronic equipment (RoHS), a European Union environmental directive that takes effect in July 2006.

Management Changes

During the financial year 2005, I assumed the role of CEO of the telecommunication products business following the departure of Mr. James C. Kralik. In December 2004, Mr. Edwin Ying, former CEO of the ELP business, made the decision to resign and subsequently Mr. Albert Lee, our Deputy Chairman took up the role.

mi6861 5.8GHz cordless phone

Touch Tablet™

VTech's mission is to be the most cost effective designer and manufacturer of innovative, high quality consumer electronics products and to distribute them to markets worldwide in the most efficient manner. We remain optimistic about the outlook of the financial year 2006, but this is tempered with caution in view of a number of factors.

New Manufacturing Facilities

Manufacturing facilities in mainland China have been increasingly migrating inland to be closer to untapped labour pools, which ultimately reduces operational costs. During the financial year 2005, the Group decided to establish its third manufacturing plant in Qingyuan city in the northern part of Guangdong province. The new 49,000 square metre facility will initially be used for supplying the plastics needs of our telecommunication products business. The plant is expected to start operations in the fourth quarter of the calendar year 2005.

Although VTech has currently not been affected by the tight supply of labour and electric power in the Pearl River Delta, where its manufacturing facilities are located, the Qingyuan facility offers the ability to relocate some processes to an area of lower cost if required.

Outlook - Cautiously Optimistic

VTech's mission is to be the most cost effective designer and manufacturer of innovative, high quality consumer electronics products and to distribute them to markets worldwide in the most efficient manner. We remain optimistic about the outlook of the financial year 2006, but this is tempered with caution in view of a number of factors.

The US economy appears to be on a reasonably firm footing, but rising short term interest rates and stubbornly high oil prices may at some point dampen consumer spending. The Group also faces potential challenges from rising resin prices and from RoHS compliance, which will increase the cost of manufacturing for products shipping to Europe and Japan. In addition, a potential upward revaluation of the RMB would increase our operating costs, while a weakening of the Euro and Sterling may also affect our results, although forward foreign exchange contracts are used to hedge certain exposures.

Nonetheless, the Group's three core businesses are well placed for the future, albeit with fundamentally different challenges and opportunities. The telecommunication products business is now on much more stable footing, with a lower cost structure and a pipeline of more competitive products under development. We will continue to leverage our dual brand strategy, using both the AT&T and VTech brands to develop products for different market segments.

Following the re-engineering measures, we expect the profitability of the telecommunication products business to be improved in the financial year 2006. Revenue, however, is expected to suffer in the short term and will not return to a growth path until the financial year 2007, when the revamped products hit the shelves in the US market in early 2006. This is despite further expansion in Europe, which will support sales.

We expect the strong momentum for the ELP business to continue in the financial year 2006. We will develop and expand the V.Smile product range, which provides a good platform for future growth. Although competing products are beginning to appear, we believe we have a head start in product awareness and that V.Smile offers the superior interactivity and software choice which will allow it to remain the market leader. We will invest further in R&D to increase the number and variety of Smartridges, and continue to negotiate license agreements to expand our portfolio of children's characters. We will also continue to invest in our traditional product lines and to support all our products with the promotional dollars required to make them compelling from a marketing perspective.

The global EMS industry is still in an uptrend and is expected to deliver further growth in the financial year 2006. VTech's CMS business is well positioned to take advantage of this favourable situation to deliver top and bottom line growth, given its stable customer base and efficient operations. The programme to meet RoHS requirements will continue to be a major focus and new market segments will be developed. Input costs are forecast to remain stable, although manufacturing costs will rise as a result of RoHS. The CMS business will work to maintain margins through strict cost control and working closely with material suppliers.

Finally, I would like to thank my fellow directors and senior management, as well as all VTech employees for their commitment to ensuring continued improvement for the Group. My appreciation also goes out to our shareholders, bankers and business partners for their invaluable support.

Looking ahead, I believe VTech has an improved cost structure, enhanced product ranges and the right management to allow the Group to capitalise on its core competencies to achieve continued progress, and bring solid long-term returns to shareholders.

Allan WONG Chi Yun
Chairman

Hong Kong, 22nd June 2005

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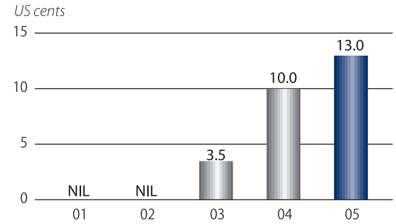
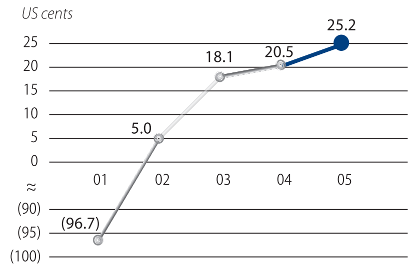
Dividends Per Share in Last 5 Years



Earnings/(Loss) Per Share in Last 5 Years



VoIP 5.8GHz cordless phone