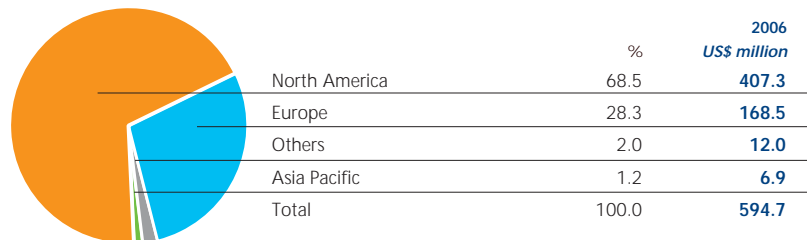


Telecommunication Products

The TEL business returned to profitability in the financial year 2006, as a result of the successful implementation of the US rationalisation plan. The business also achieved continuous growth in Europe.

TEL Revenue by Region



The TEL business continued to execute its plan to rationalise its US operations during the financial year 2006. As a result of the successful implementation, the business returned to profitability, although revenue declined slightly by 2.9% over the financial year 2005 to US\$594.7 million. For the financial year 2006, the business accounted for 49.4% of Group revenue, as compared to 59.9% in the previous financial year.

The rationalisation of the US business during the financial year saw a further reduction in overheads and operating expenses. A comprehensive improvement programme was put in place to re-engineer all processes worldwide to increase efficiency. As a result, profitability of the US business was successfully turned around. Revenue was lower, however, as we streamlined our product lines and exited unprofitable businesses. In the financial year 2006, revenue in North America declined by 14.3% to US\$407.3 million.



While re-engineering the operations, the business worked on creating an entirely new product line-up, which was unveiled at the Consumer Electronics Show in Las Vegas in January 2006. The new product range aims to be much more closely aligned with the needs of VTech customers and consumers in North America with close attention paid to the phones' features to enhance their value proposition. More emphasis has also been placed on developing more distinct identities for the VTech and AT&T brands, to allow the Group to exploit its dual brand strategy more fully.

To strengthen VTech's competitiveness, the business has rationalised component usage and standardised technology platforms to achieve cost savings and ensure more cost effective products. The revamped product line has been gradually appearing on shelves since April 2006 and customers are in general supportive of the products, in particular of some of the 5.8GHz analogue models.

Considerable effort was also devoted during the financial year 2006 to strengthening marketing in support of the launch of the new product line-up. The marketing team in the United States created a new window box packaging design that is completely recyclable and is much easier for the consumer to handle than the standard clamshell. It was first launched to club stores in May 2006. VTech has applied to patent this design, which has made the Group more environmentally

friendly in the eyes of consumers and is pressuring competitors to follow its lead, adding to our legacy as a pioneer in the telecommunication products industry.

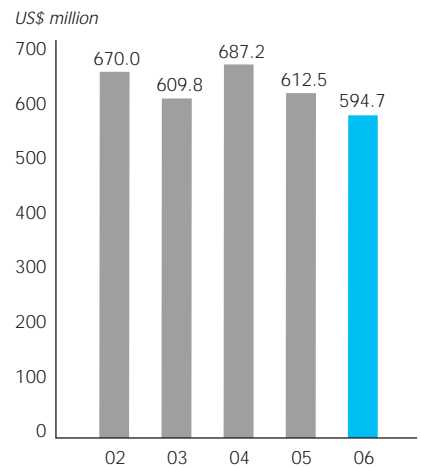
In the financial year 2006, the business in the United States also introduced a series of well designed print and online advertising campaigns. These were highly successful, winning considerable industry acclaim, including nationwide recognition "Campaign of the Week" from www.adbumb.com and third place in the A.M.A. Max Award for Marketing Excellence for 2005.

Outside the US market, VTech continued to achieve growth in Europe, offsetting a large part of the sales decline in North America. Revenue in Europe rose by 49.4% to US\$168.5 million, representing 28.3% of the total TEL revenue.

Growth was recorded mainly in Western Europe, notably France and Germany. The Group also made good progress in penetrating new markets such as Scandinavia and Eastern Europe.

As national fixed line telephone operators and other incumbent players are still dominant in several major European markets, our business strategy will remain to supply cordless phones to these companies on an ODM basis. Our relationships with these customers have strengthened as they see the advantage to their businesses of having a reliable, cost effective and high quality ODM partner that has complied with the European environmental directive RoHS.

TEL Revenue in Last 5 Years



This strategy is ensuring a quicker expansion in the near term than pursuing one based on our own brand.

In the longer term, we remain convinced that the VoIP market will offer considerable opportunities as fixed line traffic moves to this new technology platform. However, we will phase our investment to ensure it matches the growth with actual consumer demand. Currently, the Group offers three VoIP phone models in North America in partnership with Vonage, North America's leading broadband telephone service provider, Skype, an eBay company which is the world's fast growing Internet communication software and Yahoo!, the world's leading Internet portal. The Skype and Yahoo! models are dual mode, allowing users to make and receive both fixed line and peer-to-peer VoIP calls.



The new window box packaging design



VTech DECT Cordless Phone with Colour LCD Display and SMS Function

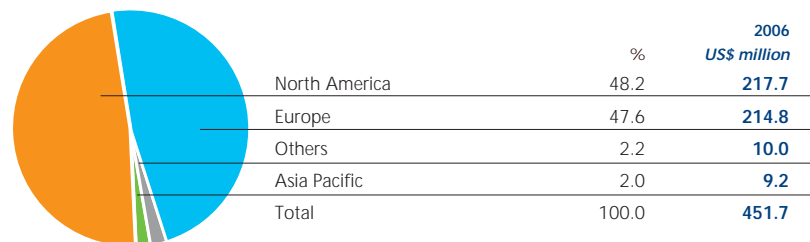


Two Handset Expandable Internet Phone System with Caller ID

Electronic Learning Products

The ELP business achieved very good results in the financial year 2006, setting a new record revenue.

ELP Revenue by Region



The ELP business achieved another year of excellent results in the financial year 2006, with revenue rising by 60.7% to US\$451.7 million to set a new record. The expanding V.Smile range continued to show strong momentum while the traditional ELP also posted solid growth.

The outstanding performance was due to the increased brand recognition that has resulted from our increasing efforts in marketing and promotion, as well as the remarkable success of V.Smile. As a result of the sharp rise in revenue, the ELP business accounted for 37.5% of Group revenue in the financial year 2006, as compared with 27.5% in the previous financial year.

The revenue increase was apparent in all markets, but was particularly marked in the United States. Led by the highly acclaimed V.Smile range, the ELP business continued to gain shelf space among major retailers. Revenue from



North America rose by 101.0% to US\$217.7 million while that from Europe increased by 34.3% to US\$214.8 million. VTech has thus further strengthened its leadership position in its principal European markets, while gaining market share in the United States.

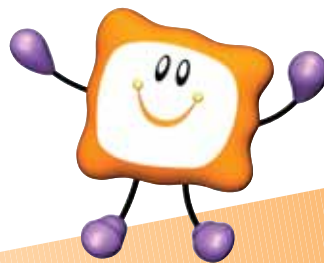
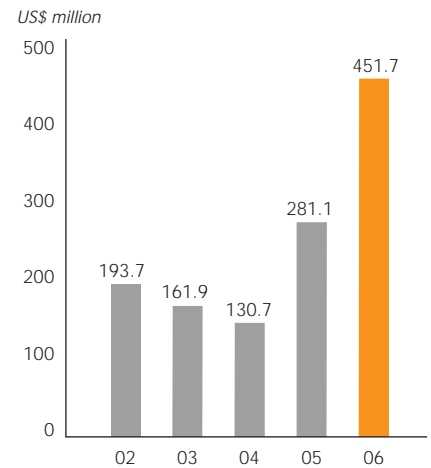
In the financial year 2006, the V.Smile range benefited from its first full year of sales and its second year in the market. Sales of the range accounted for a significant part of the total ELP revenue. The rising installed base of consoles and V.Smile Pocket handheld units generated higher software sales.

V.Smile has successfully established itself as a product category in its own right – the educational video game system – and the Group is committed to ensuring the longevity of the category through its further evolution and expansion. In May 2005, the handheld unit, V.Smile Pocket was introduced. During the financial year 2006, significant developments were undertaken in accessories, software and platforms to help drive sales in the financial year 2007.

In accessories, V.Smile Jammin' Gym Class offers a touch sensitive number-coded mat that connects to the system to teach children physical exercise, music, dance and maths in an entertaining way. V.Smile Art Studio is another plug in accessory that develops children's artistic skills through an electronic drawing and colouring board.

In software, the V.Smile library will see 10 new Smartridges added to its line-up by the end of the calendar year 2006, such as Noddy, Backyardigans, Bert & Ernie, Lil Bratz, Cars, Spider-Man and Friends II, Batman, Shrek III and Superman. The software library will grow to 33 titles in all and we are negotiating further titles for the future. For the growing Spanish speaking population in the United States, VTech has introduced 12 Spanish Smartridges that include favourite characters such as Nemo, Scooby-Doo and Batman.

ELP Revenue in Last 5 Years



V.Smile Baby
9-36 months



V.Smile Pocket
5-9 yrs.



V.Smile
3-7 yrs.



V.Smile Flash
6+ yrs.

With both V.Smile Baby and V.Smile Flash, the V.Smile range thus now encompasses ages from 9 months to pre-teens.

Review of Operations

1 & 2 A new line of interactive animal character play sets for toddlers, SmartVille, was unveiled during the toy fairs in early 2006.

3 The counter for the V.Smile range at international toy fair.

4, 5 & 6 Well designed printed advertisements in France, Spain and the United States respectively.



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Alongside V.Smile, the traditional ELPs, ranging from infant toys to electronic learning aids for older children, continue to sell well.

VTech also announced the launch of two important new platforms, the V.Smile Baby® Infant Development System™ and the V.Flash™ Home Edutainment System during the London and Nuremburg international toy fairs in January and February 2006. V.Smile Baby combines a colourful activity panel with a receiver that hooks into the TV, giving parents an innovative way to help children between the ages of 9 and 36 months to learn shapes, colours and baby sign language. The activity panel can also be detached to provide stand-alone fun for the very young.

V.Flash, meanwhile, is for children aged 6 to 10 years old. This is a video game console that connects directly to the TV to deliver educational video gaming, MP3-quality sound, videos, 3D graphics and real life images. It uses "V.Disc", an exclusive CD-ROM based software, to take children through exciting environments and realistic video that makes learning an adventure. The V.Disc is protected by durable plastic jacket, which is a proprietary VTech design. Through the addition of V.Smile Baby and V.Flash, the V.Smile range thus now encompasses ages from 9 months to pre-teens.

Alongside V.Smile, the traditional ELPs, ranging from infant toys to electronic learning aids for older children, continue to sell well. The Group continues to invest in new product development in traditional range. During the toy fairs in



V.Smile Baby





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early 2006, over 30 new products in the traditional range were unveiled, including a new line of interactive animal character play sets for toddlers, SmartVille.

The Group's success in developing innovative products and serving its customers led to a number of awards during the financial year, including the "Toy Supplier of the Year 2005" award from the Toy Retailers Association in the

United Kingdom. Our newly launched TV Learning Station was also the winner of the Educational Innovation category in the InnovationAward 2006 at the Nuremburg International Toy Fair.

In addition to investing in the development of new products, the Group has devoted ever more attention to supporting its products and the VTech brand through effective marketing and promotion. The financial year 2006 saw an increasing array of well targeted TV, print, advertising and public relations campaigns that were

successful in generating higher sales. Enhanced design in point of sales displays also brought incremental sales and increased our brand awareness among consumers.

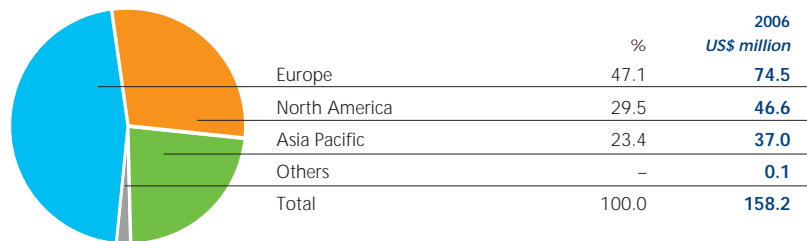
At the same time as expanding sales, the business worked hard during the financial year to control costs. Rising labour costs, the appreciation of the Renminbi and high raw material prices were factors affecting costs during the financial year, but we worked hard to offset these through a continuous improvement in operating efficiency.



Contract Manufacturing Services

The CMS business again delivered good results in the financial year 2006, with a second record year of revenue. The solid performance reflects the positive state of the overall EMS market and increasing orders from existing customers.

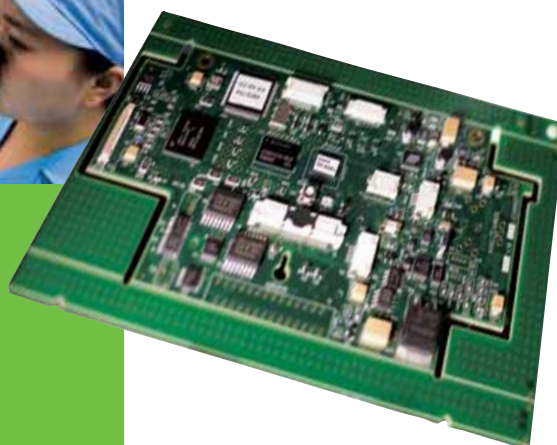
CMS Revenue by Region



The CMS business again delivered good results in the financial year 2006, with a second record year of revenue. Revenue rose by 23.2% over the financial year 2005 to US\$158.2 million, representing 13.1% of Group revenue, up from 12.6% in the previous financial year.

The solid performance in part reflects the positive state of the overall electronic manufacturing services (EMS) market which expanded by approximately 10% in the calendar year 2005. The rise in revenue was, however, also driven by increased orders from existing customers in all segments, as well as new accounts, including those for LED lighting systems and handheld wireless audio-visual devices for on site sports events.

The switching mode power supply and professional audio equipment segments continued to account for the majority





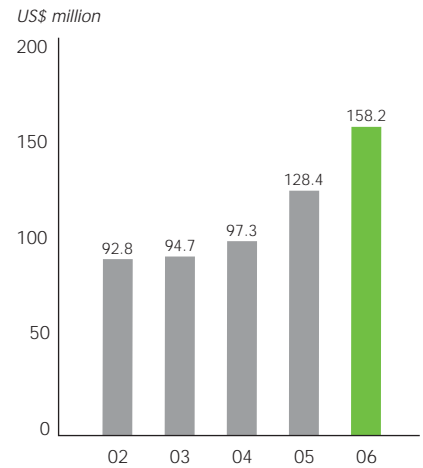
The strong capability of the CMS business is supported by the certifications we received.

of CMS sales, at 58.8% of total CMS revenue. Europe remained the leading source of revenue, accounting for 47.1% of the total, followed by the United States at 29.5% and Asia Pacific at 23.4%.

The strong order flow was supported by continuous improvements in product quality and customer service. VTech's CMS facilities have ISO14001 certification and have achieved full compliance with RoHS, the European environmental directive, for all affected products. Quality levels, as measured by percentage failures per million units of output (ppm) further improved to well below 1,000 ppm, which meets or exceeds customers' requirements. The R&D service continued to drive business, increasing its direct contribution to the total CMS revenue and generating incremental orders.

The business was also successful in maintaining margins through good overheads control and efficiency enhancements. Rising labour costs, the appreciation of the Renminbi, and higher raw material costs were all factors leading to higher operating expenses, while demands for price reduction from customers also added to pressure on margins. To counteract this pressure, the business put a lot of effort into improving process efficiency to

CMS Revenue in Last 5 Years



keep the increase in factory overheads below that of business revenue.

While the cost structure of the business has been well managed, VTech targets to strengthen its competitiveness in the EMS market by tightening customer relationships through a new organisational structure that allows management to pay more attention to individual customers. In this way, flexibility and effectiveness of our service will be enhanced despite the continued expansion of the business.

CMS Revenue by Product Line

