

Message from Deputy Chairman



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Albert LEE Wai Kuen, Deputy Chairman

The financial year 2006 was another remarkable achievement for our ELP business as we turned in a record performance.

The huge success of the V.Smile range, which we launched in 2004, has been an important factor. Since the initial introduction of the console and 10 Smartridges, each year we have expanded the software library by adding more popular characters, which has given us additional sales growth.

Through the success of V.Smile, the VTech brand in the electronic learning products category has also enjoyed a renaissance in the US market, which has allowed us to regain shelf space among retail customers and boosted sales of our traditional ELPs. We have continued to invest in these and our traditional range has shown solid growth, still accounting for a significant portion of the total ELP revenue.

We have supported this growth in our business through much more effective and well targeted marketing and sales promotions, ranging from TV commercials to promotional campaigns in partnership with retailers. We have also ensured that our products remain competitive

and that growth remains profitable through much improved planning and forecasting. These and other measures have raised operational efficiency and maintained good costs control.

This is a powerful formula that we will continue to apply as we move forward. Our track record of innovation and adaptation of technology enables us continually to create exciting new products and platforms that quickly gain acceptance among customers and consumers.

V.Smile is far from a single product. It has firmly established itself as a distinct product category – the educational video game system – that will grow long into the future as we expand its reach. In 2005, we launched the handheld version, V.Smile Pocket and in this calendar year, we have added V.Smile Baby and V.Flash, widening the target age range from 9 months to the pre-teen years.

We are also selling an increasing array of accessories, ranging from simple travel bags to new interfaces that enhance the value of the current product platforms. The software library also continues to grow. In the calendar

year 2006, the software library will grow to 33 titles in all, and we are negotiating further titles for the future.

We fully recognise the need to support these products with the full array of marketing tools. It is our goal to turn VTech into a “well recognised brand” globally within the toy industry and to this end we continue to bring more product innovations to the market, supported by effective and well targeted marketing and promotional campaigns.

We are firmly established in Europe as a leader in our field and enjoy increasing recognition in North America.

VTech is a pioneer in the ELP industry. We have excellent R&D capability, strong brand equity and cost effective manufacturing. This unique combination makes us highly competitive in the marketplace.

With the proven success of V.Smile and our commitment to the traditional product range, we will continue to innovate in new categories and develop high quality educational products that bring interactive and fun learning to children.