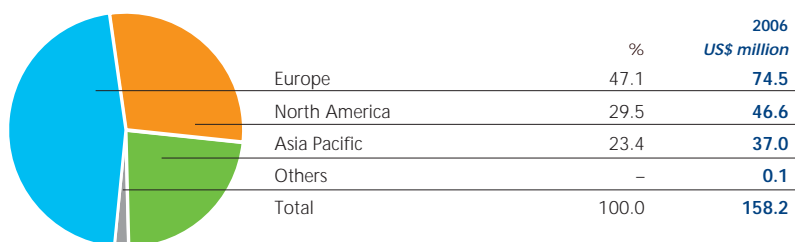


Contract Manufacturing Services

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.

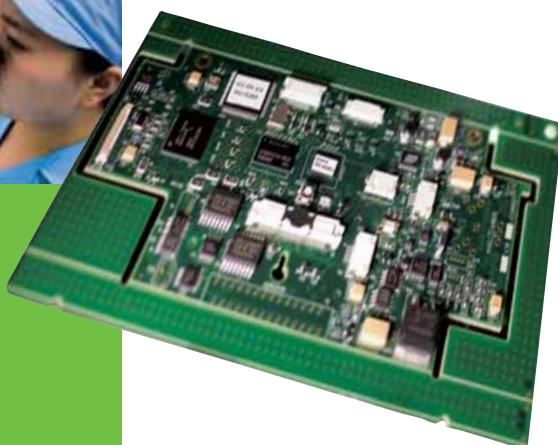
CMS Revenue by Region



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.

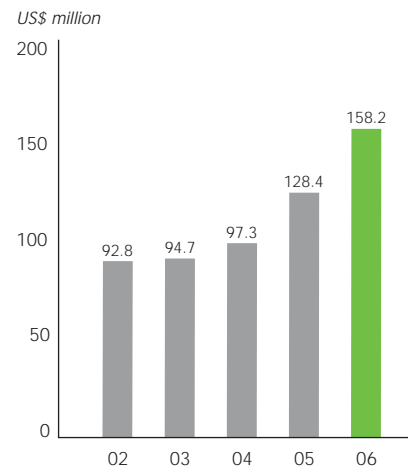
The switching mode power supply and professional audio equipment segments continued to account for the majority





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

CMS Revenue in Last 5 Years



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%.

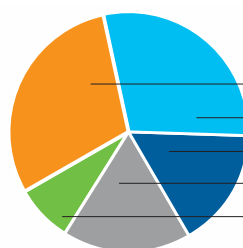
The strong order flow was supported by continuous improvements in product quality and customer service. VTech's CMS facilities have ISO14001 certification and have achieved full compliance with RoHS, the European environmental directive, for all affected products. Quality levels, as measured by percentage 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

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



	%	2006 US\$ million
Professional Audio Equipment	29.9	47.3
Power Supplies	28.9	45.8
Others	17.3	27.4
Home Appliances	16.1	25.4
Wireless Products	7.8	12.3
Total	100.0	158.2

