

FOR IMMEDIATE RELEASE

VTech Announces FY2008 Annual Results

Record revenue and profit despite difficult economic conditions

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- Group revenue increased by 6.0% to US\$1,552.0 million
- Profit attributable to shareholders rose by 17.9% to US\$215.7 million
- Net profit margin expanded 1.4% points to 13.9%
- Net cash topped US\$285.4 million
- Final dividend of US51.0 cents per share, total dividend per share for the year (exclude a special dividend of US30.0 cents per share in the financial year 2007) up 26.0%

Hong Kong, 3rd July 2008 -- VTech Holdings Ltd (HKSE: 303; LSE: VTH; ADR: VTKHY) today announced its annual results for the year ended 31st March 2008, reporting record revenue and profit, as net profit margin again expanded.

Revenue for the Group increased by 6.0% over the financial year 2007 to US\$1,552.0 million. Profit attributable to shareholders rose 17.9% to US\$215.7 million. Earnings per share rose 16.7% to US89.4 cents. In light of the continued increase in profitability, together with the very strong Group balance sheet, the Board of Directors has proposed a final dividend of US51.0 cents per share. Together with the interim dividend of US12.0 cents per share, this gives a total dividend for the year of US63.0 cents per share. Excluding a special dividend of US30.0 cents per share in the financial year 2007, the total dividend per share for the financial year 2008 increases 26.0% over the previous financial year.

“Despite challenging economic conditions, VTech reported record revenue and profit and we were able to expand net profit margin for a third consecutive year. The solid result reflects the success of our strategy, with its focus on the four key areas of product innovation, gains in market share, geographic expansion and operational excellence,” said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited.

Margin Improves Further

While rising costs posed a challenge to all manufacturers during the financial year 2008, VTech continued to build on its track record of achieving margin improvement, based on its know-how in R&D and manufacturing. The Group leveraged its economies of scale, re-engineered products and increased productivity through better utilisation of manufacturing capacity. At the same time, stringent quality control ensured that products met customer expectations, helping to raise sales.

Telecommunication Products (TEL) Business Strengthens Position

Revenue at the TEL business rose 4.1% over the previous financial year to US\$688.0 million and the business accounted for 44.3% of Group revenue. In contrast to the financial year 2007, growth was mainly driven by increased sales to Europe, Asia Pacific and emerging markets, where VTech mainly operates an Original Design Manufacturing (ODM) business.

Sales to Europe grew by 42.9% to US\$180.3 million, mainly buoyed by increasing sales to existing customers as the business delivered more price competitive products through its new technology platform. Sales to the Asia Pacific and emerging markets also rose by 126.1% and 32.3% respectively, with notable sales growth from Australia, Brazil and India.

Adding to the ODM business, in December 2007, the Group entered into a joint venture with Funkwerk Enterprise Communications GmbH (FEC), a leading supplier of network and communications solutions based in Germany. FEC will provide expertise and software for the development of integrated access devices, with VTech responsible for hardware design and manufacturing. The first shipment is expected in the final quarter of the financial year 2009.

Sales to North America, where VTech operates a branded business using the VTech and AT&T brands, declined by 7.3% to US\$476.8 million. Although sales to Canada increased markedly, this could not offset the decline in the United States where customers reduced inventory in anticipation of an economic slowdown. VTech nonetheless continued to outperform the competition in the United States and gain market share.

Strengthening its leadership position, on the technology side, VTech added to its track record of industry "firsts" by introducing a cordless phone with instant messaging capability. The new AT&T DECT 6.0 series, meanwhile, brought to the market phones that deliver the best range and voice clarity using a proprietary antenna technology.

In cutting edge design, the popular V.Mix range allows users to customise handsets with their own graphics. The new V.Style series also created a new trend and standard of high-end industrial design cordless telephones in stores.

Traditional Electronic Learning Products (ELP) Boost Sales

The ELP business achieved a record performance for the third consecutive year, with revenue increasing by 8.0% to US\$615.7 million, equivalent to 39.7% of total Group revenue, as innovative products supported by increased shelf space boosted growth. In Europe, revenue increased by 13.5% to US\$296.1 million, as VTech maintained its long-established leadership in its principal markets. Sales in North America also posted gains, rising 3.5% to US\$291.1 million. Traditional ELPs led the way, with good sales across the board, although sales of the award-winning Whiz Kid PC Learning System™ were not up to expectation.

The maturing of the basic V.Smile platform led to an easing off in sales of both consoles and cartridges. Consequently, contribution of the V.Smile range to total ELP sales declined to 40.7%, compared to 51.0% in the previous financial year. Nonetheless, the V.Smile console and cartridges continued to be the top selling platform items in the electronic preschool category in the United Kingdom, France and Germany in the calendar year 2007.

To augment the basic console, three new members of the V.Smile family have been launched in the calendar year 2008. The new V-Motion™ console combines educational video gaming with a wireless motion-activated controller. Together with the associated game titles, it creates an interactive gaming experience that engages both minds and

bodies. The new Cyber Pocket™ joins the existing V.Smile Pocket™ in the Group's offering of handheld educational gaming systems. To complete the line-up, PC Pal™ is an interactive TV educational game console equipped with a wireless keyboard, a mouse and a writing pad, teaching young children basic computer skills such as typing and mouse manipulation.

Both V-Motion and Cyber Pocket include V.Link™, a USB drive that connects children to VTech's secure online site to unlock bonus games and track their learning progress. These new V.Smile products are also compatible with the entire existing V.Smile Smartridge library, which, in the calendar year 2008 will be joined by eight new titles.

In addition to the strengthened V.Smile family, major product launches in the calendar year 2008 also include the KidiCreative™ line and Create-A-Story™. KidiCreative is a line of products that offer high tech creative play for children. It includes the award-winning Kidizoom Camera™, KidiArt Studio™, KidiJamz Studio™ music keyboard and KidiDoodle™ game pad. Create-A-Story is a TV connected interactive reading system that lets children create their own animated stories involving their favourite Disney characters.

Record Performance at Contract Manufacturing Services (CMS)

The CMS business achieved a fourth consecutive record, with revenue for the financial year 2008 increasing by 6.5% to US\$248.3 million, accounting for 16.0% of Group revenue. The growth was driven by new customers in professional audio equipment and radio frequency products.

VTech continued to build its reputation in the Electronic Manufacturing Services industry and is increasingly winning business through word-of-mouth recommendation. This is especially true for professional audio equipment, which accordingly became the largest product category, accounting for 26.8% of total CMS revenue, followed by switching mode power supplies at 25.4%, home appliances at 13.0% and wireless products at 13.0%.

While North America raised its share of total CMS revenue to 40.4%, Europe remained the largest market at 45.7%, followed by Asia Pacific at 13.9%. Good progress was made in developing Japanese customers, who have been impressed by the new dedicated facility.

The quality of the service VTech offers was again evidenced by a number of supplier awards. Despite continued cost pressures, the CMS business has been able to mitigate the impact of cost increases through economies of scale and leveraging the procurement power of the Group. The business was also able to pass on some cost increases to customers.

Outlook

"It is prudent not to foresee growth for the financial year 2009, as economic conditions in our markets, especially the United States, are worsening. In addition, cost pressures will continue owing to the high oil price, rising labour costs and inflation in mainland China. Nevertheless, we remain positive about our future. Our track record in product innovation, dominant position in many markets, strong balance sheet and operational excellence should allow us to strengthen our competitive position. We will continue to manage costs closely and focus on our four strategic drivers for expansion," said Mr. Wong.

In the TEL business, the ODM business is expected to grow, as competition weakens and VTech continues to develop emerging markets. The joint venture with FEC will start to contribute to sales in the final quarter of the financial year.

Although the branded business will be affected by the slowing US economy, new product categories that will bring incremental sales are to be launched. These include AT&T office headsets and a new range of enterprise phones for medium sized businesses.

For the ELP business, market conditions will be challenging. Not only is the US economy slowing, but competition is increasing, while the benefit the Group has reaped from an appreciating Euro is unlikely to continue.

Nonetheless, the global toy business has historically performed relatively well during economic downturns. We also have a sound strategy that should allow us to grow the business. Continued innovation in products remains at the core of this strategy and this will help rejuvenate the V.Smile range. V-Motion, an interactive educational gaming system that engages both minds and bodies, is already on the shelves. It will be joined by Cyber Pocket, a new handheld version to complement the V.Smile Pocket. Both of these products feature USB connectivity, offering more value to consumers.

Following the success of V.Smile, which brought a new dimension to the ELP business, the Group is working to create other new categories that can become major growth drivers. One of the new product lines to be launched during the financial year 2009 is the KidiCreative line, which offers high tech creative play for children.

The prospects for the CMS business looks promising and further sales increases from both existing and new customers are anticipated. The business will continue to focus on medium sized customers and maintain our edge in quality and cost. In mid 2007, the CMS business set up a six sigma team to improve operational efficiency and this is beginning to yield results. Work processes are being streamlined and automation increased in order to reduce the dependence on labour, raise productivity and improve product quality. The business is also consolidating the supplier base and strengthening relationships with fewer suppliers to ensure it achieves the most favourable pricing.

“We should not underestimate the challenges that lie ahead, but with leadership in our markets, a strong balance sheet and a highly efficient manufacturing capability, VTech should benefit in the longer term from the industry consolidation that will ensue,” concluded Mr. Wong.

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About VTech

VTech is one of the world's largest suppliers of corded and cordless telephones and electronic learning products. It also provides highly sought-after contract manufacturing services. Founded in 1976, the Group'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.

Note: Starting from 21:30, 3rd July 2008 (HK time), the video archive of the FY2008 annual results announcement can be accessed through VTech's homepage www.vtech.com in the “Webcasting and Presentation” section under “Investor Relations”.

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