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VTech Announces FY2009 Annual Results

Strong balance sheet to ride out global economic downturn

- Group revenue decreased by 6.7% to US\$1,448.2 million
- Profit attributable to shareholders declined by 33.6% to US\$143.2 million
- Final dividend of US41.0 cents per ordinary share
- Net cash position of US\$287.2 million, as compared to US\$285.4 million in the last financial year

Hong Kong, 15th June 2009 – VTech Holdings Ltd (HKSE: 303; ADR: VTKHY) today announced its annual results for the year ended 31st March 2009, reporting lower revenue and profit. Despite this, the Group's balance sheet remains strong with the net cash position as at 31st March 2009 increased from US\$285.4 million to US\$287.2 million.

Group revenue for the year ended 31st March 2009 decreased by 6.7% over the previous financial year to US\$1,448.2 million. Profit attributable to shareholders declined by 33.6% to US\$143.2 million. The decrease in profit was mainly due to lower sales, increased price promotions and an exchange loss of US\$27.6 million arising from the Group's global operations in the ordinary course of business, as the Euro and Sterling weakened sharply against the US dollar. Excluding the impact of exchange differences, profit attributable to shareholders decreased by 16.7% over the previous financial year.

Basic earnings per share decreased by 34.6% to US58.5 cents, compared to US89.4 cents in the financial year 2008. A final dividend of US41.0 cents per ordinary share was proposed, as compared to US51.0 cents per ordinary share in the previous financial year.

"To respond to the sudden change in market conditions, VTech moved swiftly to step up retail level promotions to stimulate sales. Although margins were affected, it enabled VTech to end the full year with lower inventory than last year. In addition, our balance sheet remains strong, with our net cash position slightly ahead of the previous financial year. Our decisive and aggressive action enabled us to establish a solid financial position from which to move forward," said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited.

Telecommunication Products (TEL) Business Strengthens Leadership Position

Revenue for the financial year 2009 at the TEL business declined 9.8% over the previous financial year to US\$620.7 million. The business accounted for 42.9% of Group revenue, against 44.3% in the previous financial year. The decline was mainly due to the poor market conditions in the United States, following the onset of problems in the global credit markets.

As in the financial year 2008, sales to Europe, Asia Pacific and other markets, where VTech mainly operates an ODM business, continued to expand. Sales to Europe rose by 7.4% to US\$193.7 million, equivalent to 31.2% of total TEL revenue. VTech's market share continued to grow, as customers placed more orders owing to its strong cash position and the weakening of other suppliers. In September 2008, VTech signed an exclusive supplier agreement with Deutsche Telekom AG (Deutsche Telekom) and the co-branded "T-Home/VTech" products began shipping in January 2009.

Sales to Asia Pacific and other markets grew 38.5% and 40.5% to US\$14.4 million and US\$28.8 million respectively. VTech has made good progress in penetrating into Latin America, Middle East, Australia and India, demonstrating the success of the Group's strategy of geographic expansion.

Sales to North America, where VTech operates a branded business, declined by 19.5% to US\$383.8 million and it accounted for 61.8% of total TEL revenue. The decline in sales was attributable to slowing demand and a reduction of inventories by retailers, in anticipation of an uncertain US economy.

Despite the weak economic conditions, both the VTech and AT&T brands performed well and the Group continued to increase its market share, maintaining the number one position in the US cordless phone market. VTech DECT 6.0 models for warehouse clubs sold well, while the AT&T DECT 6.0 products with Bluetooth technology outperformed the competition, as their Bluetooth feature became highly regarded by consumers.

A new product category, AT&T cordless headsets, was introduced in October last year. These products have been well received by the market, although shipments have so far been on a modest scale.

Electronic Learning Products (ELP) Business Led by Standalone Products

The ELP business saw revenue decrease by 7.9% to US\$566.9 million. This is equivalent to 39.1% of total Group revenue, as compared to 39.7% in the previous financial year. After a solid first half, the financial year witnessed a rapid and severe deterioration of the global economy in the second half. This led to softening of consumer demand, and necessitated aggressive retail level promotions.

North America and Europe were the markets most affected by the slowdown. Sales to North America dropped 5.7%, from US\$291.1 million to US\$274.6 million, while sales to Europe declined 12.7%, from US\$296.1 million to US\$258.6 million. Results from the European operations were further impacted by the steep depreciation of the Euro and Sterling against the US dollar. Results from Asia Pacific and other markets were more promising, with revenues increasing by 13.3% and 21.5%, to US\$12.8 million and US\$20.9 million respectively.

As consumers flocked to value in the weak economy, standalone products played a significant role. They accounted for 64.0% of total ELP revenue, against 57.0% in the financial year 2008. The infant category showed the strongest growth. Among pre-school products, the Kidizoom Camera™, launched in the previous financial year, continued to sell well.

Platform products, led by the V.Smile range, accounted for 36.0% of total ELP revenue, compared to 43.0% in the last financial year. Three new members, V-Motion™, Cyber Pocket™ and PC Pal™, were added to the V.Smile family. As the new flagship learning console, V-Motion met sales expectations in spite of a challenging year for new platform products. Overall, unit sales of both consoles and handhelds across the V.Smile range managed to hold their ground.

VTech's electronic learning products again garnered a good number of awards. Among the award winners, V-Motion™ won the National Parenting Center Seal of Approval and *Family Fun* magazine Toy of the Year 2008 award, both in the United States. In the United Kingdom, the Kidizoom Camera was named Pre-School Toy of the Year 2008 by the Toy Retailers Association.

Contract Manufacturing Services (CMS) Sets Another Record

The CMS business achieved a fifth consecutive record in its revenue in the financial year 2009 as sales rose by 5.0% to US\$260.6 million. The business accounted for 18.0% of Group revenue, against 16.0% in the previous financial year.

The growth in sales was mainly driven by customers in the area of professional audio equipment, switching mode power supplies and solid-state lighting. VTech's high quality of service, acknowledged expertise in professional audio and word-of-mouth recommendation enabled it to secure additional orders. Professional audio remained the largest product category of the CMS business, accounting for 29.4% of total CMS revenue. This category was followed by switching mode power supplies at 25.4%, home appliances at 17.8% and communications products at 9.8%.

Geographically, Europe remained the largest market, despite North America having shown a greater growth momentum. Sales to Europe in the financial year 2009 rose by 4.0% to US\$118.2 million, while sales to North America increased by 14.1% to US\$114.4 million. Sales to Asia Pacific, however, fell by 18.6% to US\$28.0 million.

VTech continued to outperform the global Electronic Manufacturing Services (EMS) market in the financial year 2009. As with other EMS providers generally, VTech experienced a reduction in business from many existing customers in the second half as they scaled back orders across the board in the face of economic turmoil. However, the economic slump also brought more business from the existing customer base, as certain companies ceased to manufacture their own products, instead transferring their production to VTech in search of cost savings.

VTech also benefited from industry consolidation within the EMS market. Tight credit conditions have forced some smaller players to exit the market. VTech, with its strong balance sheet, economies of scale and tradition of socially responsible manufacturing has been able to gain market share overall as the industry consolidates.

An important factor in VTech's ability to attract business is the high quality of service, which again resulted in a number of industry and supplier awards. These include the Hong Kong Awards for Industries 2008 – Productivity and Quality Award presented by the Hong Kong Productivity Council. This recognises the achievement of the CMS business in continuously improving productivity and quality. The business was also greatly encouraged by the findings of the latest annual customer survey, conducted in December 2008, which showed high levels of satisfaction, especially in the areas of flexibility and quality.

Outlook

Looking ahead, consumer sentiment is expected to remain weak throughout most of the calendar year 2009. The International Monetary Fund estimates that global GDP will contract by 1.3% for the year, and the decline is likely to be even more severe in many of VTech's key markets.

Top line growth will therefore be very difficult to achieve in the financial year 2010, even though economies may recover and the Group anticipates increasing market shares for its TEL business. VTech is, however, cautiously optimistic that profitability will improve, as the Euro, Sterling and Renminbi show stability. It is also benefiting from the fall in raw material prices and labour costs, which will ease cost pressure.

To drive growth for the Group, VTech will continue to pursue its strategy based on product innovation, gains in market share, geographic expansion and operational excellence.

The TEL business is expected to perform well as industry consolidation strengthens VTech's market lead even further. For the branded business, the Group expects to see the full benefit of the exit of a major competitor in North America. For the ODM business, the Group has recently signed a licensing agreement with Telstra, a leading telecommunications and information services company in Australia, to become its direct supplier of fixed line handsets. The agreement will increase VTech's presence in the Australian market. In addition, the sole supplier agreement with Deutsche Telekom will start to make a full-year sales contribution.

In addition to gains in market share, the second half of the financial year should also see contributions from two new product categories. The enterprise phone for small and medium sized business in the United States will allow VTech to enter the commercial sector. Another potential new growth area is Integrated Access Devices, which VTech is developing jointly with Funkwerk Enterprise Communications GmbH.

The market for ELPs is likely to remain challenging, and consumers are expected to look for deals. In response, VTech will step up its efforts to deliver products that offer tremendous value. Across its product ranges, the Group will continue to support sales with aggressive retail level promotions. Margin pressure is expected to be partially offset by lower raw material costs, especially of plastics, and by VTech's proven ability to engineer for lower cost.

Product innovation will remain an important factor in driving sales for the ELP business. For standalone products, following the successes of the infant category in recent years, VTech is introducing "Jungle Gym". Combining electronic learning, fun and physical activities, Jungle Gym products continue the push outside the learning aisle, giving the ELP business new avenues for growth.

Platform products will be augmented with a new reading system, Bugsby. Offering pen-touch technology and ease-of-use at an affordable price, children will be able to read along with Bugsby and interact with their favourite characters in stories that build early reading skills.

Although the global EMS market is forecast to contract in the calendar year 2009, the Group expects that its CMS business will continue to outperform the global EMS market. VTech's position in the professional audio segment will continue to increase following the establishment of a new state-of-the-art audio laboratory at its R&D Centre in Shenzhen. Staffed by specially trained engineers, the facility enables customers to design, test and fine-tune products on site, giving a great advantage over the competition in time-to-market for new products. VTech also expects considerable momentum from solid-state lighting, where the market is growing and the Group's existing customers are expanding their presence.

"It has been a year of unprecedented volatility in both the financial and consumer markets. As a company with market leadership, excellent R&D, efficient operations and a strong balance sheet, VTech is very well placed not merely to ride out the global economic downturn, but to grow even stronger as global economy eventually recovers," said 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 22:00, 15th June 2009 (HK time), the video archive of the FY2009 annual results announcement can be accessed through VTech's homepage www.vtech.com in the "Webcasting and Presentation" section under "Investors".

This release is issued by VTech Holdings Ltd through GolinHarris. For further information, please contact:

Grace Pang
VTech Holdings Ltd
(852) 2680-1000 (office)
(852) 2680-1788 (fax)
grace_pang@vtech.com (email)

VTech representatives in Hong Kong
Gloria Chiu, GolinHarris
(852) 2501-7970 (office)
(852) 2810-4780 (fax)
gloria.chiu@golinharris.com (email)

VTech representative in the US
Meredith Klein, GolinHarris
(212) 373 6022 (office)
(212) 373 6001 (fax)
mklein@golinharris.com (email)