

**FOR IMMEDIATE RELEASE**

**VTech Announces 2007/2008 Interim Results**

***Solid profit growth driven by gross margin improvement and exchange gains***

- Group revenue increased by 2.8% to US\$734.1 million
- Profit attributable to shareholders rose by 31.5% to US\$86.5 million
- Net profit margin expanded 2.6% points to 11.8% despite cost pressures
- Increased interim dividend of US12.0 cents per ordinary share

Hong Kong, 14th November 2007 -- VTech Holdings Ltd (HKSE: 303; LSE: VTH; ADR: VTKHY) today announced its interim results for the six months ended 30th September 2007, showing a solid increase in net profit. Group revenue increased by 2.8% over the same period of the financial year 2007 to US\$734.1 million. Profit attributable to shareholders rose by 31.5% to US\$86.5 million as the Group successfully countered cost pressures and improved margins. Earnings per share increased by 30.4% to US36.0 cents, compared to US27.6 cents in the corresponding period last year.

In view of the continued growth in profitability and the Group's solid financial position, the Board of Directors has declared an increased interim dividend of US12.0 cents per ordinary share.

"VTech had a satisfactory performance in the first half of the financial year 2008, with solid growth in net profit," said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Ltd. "The Group achieved increased revenue from its telecommunication products (TEL) and electronic learning products (ELP) businesses in Europe, and improved net margins further, despite continued cost pressures."

**Higher Margin**

The Group's net margin improved from 9.2% to 11.8% in the first half of the financial year 2008, despite pressure from rising labour costs and the appreciation of the Renminbi. The improvement was mainly due to exchange gains and higher gross profit margin, as VTech was able to offset the cost increases through increased efficiency in its manufacturing process and better product engineering. Success in these areas led gross profit margin to improve by 1.8 percentage points to 33.7%.

**Strong Growth in Europe and Emerging Markets at TEL**

Revenue at the TEL business declined slightly by 0.9% to US\$356.1 million. During the period, the business accounted for 48.5% of Group revenue.

The North American market was weaker than expected, with revenue declining by 12.5% to US\$253.6 million, as the US cordless phone market slowed in the face of declining housing starts and fewer promotions by retailers. However, VTech's branded business in North America continued to gain market share as consumers responded well to new products, especially the DECT 6.0 range, with the DECT 6032 model named by *Good Housekeeping* magazine as its number one cordless phone.

Good growth was also seen from a new range of 5.8GHz products, and the VTech ia5824 5.8GHz phone was the only cordless phone to receive a *Consumer Report* "Best Buy" rating this year. It is a good example of how VTech is using its engineering know-how to enhance product quality, reduce cost and benefit consumers.

Outside North America, where the Group pursues an Original Design Manufacturing (ODM) strategy, revenue rebounded markedly. In Europe, revenue increased by 43.3% to US\$86.7 million as the market recovered from excess inventory. In Asia Pacific and other regions outside North America and Europe, revenue surged by 118.8% and 68.5% to US\$3.5 million and US\$12.3 million respectively. This impressive growth was due to VTech's success in opening up new markets, as well as expanding its presence in existing markets through partnerships with major importers.

### **Continued Growth at ELP**

The ELP business continued to perform well, with revenue increasing 17.4% to US\$262.1 million, equivalent to 35.7% of Group revenue. Growth was mainly driven by traditional ELPs as the Group continued to benefit from increased shelf space. The new Whiz Kid PC Learning System also contributed to the increase.

Sales of the entire V.Smile range - comprising V.Smile, V.Smile Pocket, V.Smile Baby, V.Flash, cartridges and accessories - were in line with management expectations. The basic V.Smile console, now in its fourth year, has been upgraded by the addition of a sing-along microphone and a writing joystick, and new titles were introduced to the V.Smile Smartridge library. The enhanced V.Smile received *Creative Child's* Toy of the Year Award in the educational play for babies and toddlers category, as well as the National Parenting Center's "2007 Seal of Approval".

Geographically, Europe recorded a higher sales growth, with revenue increasing by 20.9% to US\$123.0 million as VTech maintained its dominant position. In North America, revenue rose by 18.3% to US\$120.5 million.

### **Consolidation for CMS**

Following several years of exceptional growth, the contract manufacturing services (CMS) business saw revenue decline by 11.7% to US\$115.9 million, representing 15.8% of Group revenue. The decrease in revenue reflects a very strong first half in the previous financial year. Europe remained the leading source of revenue, representing 45.9% of the total CMS revenue, followed by North America at 39.8% and Asia Pacific at 14.3%.

Global economic growth has moderated somewhat, prompting customers to slow orders and reduce inventory. However, the Group signed new customers and continued to develop its Japan operations, bringing on stream a dedicated facility and furthering negotiations with a number of potential Japanese customers. The business also pushed ahead with projects to raise productivity and position for future growth. The new CMS manufacturing facility began operations in September, increasing capacity by some 50%, and a six sigma project designed to improve operational efficiency was launched.

VTech's ability to serve customers well again earned a service award from an important customer for helping the company launch its new product.

### **Toy Safety**

Toy safety has attracted considerable attention this year, with the products of a number of suppliers involved in safety recalls. VTech, which manufactures the majority of its ELPs in-house, is able to maintain strict control over product quality and the Group has not been subject to any product recalls. Since the recalls, however, VTech has conducted a comprehensive review of quality control procedures and stepped up the frequency of testing, from raw materials to finished products. It was able to achieve this without materially raising costs or delaying shipments.

VTech will continue its strategy of emphasizing in-house manufacturing. Through rigorous testing and strict controls, the Group will ensure that all VTech's products comply with the highest global safety standards.

### **Outlook**

The recent problems in the global credit markets, high oil prices, the downturn in the US housing market and the slow growth of US consumer spending are already reflected in weaker point of sales data at both the TEL and ELP businesses in the United States. We anticipate lower sales in the United States for the upcoming holiday season, as compared to last year.

The Group nonetheless expects continued sales growth in Europe during the second half of the financial year and hence should achieve modest overall growth in both Group revenue and profit for the full year.

The TEL business is expected to achieve a sales increase for the full year, with growth driven by strong demands in Canada, Europe, Asia Pacific and emerging markets. In North America, to strengthen its leadership position further, VTech will introduce more products with innovative designs, based on the popular DECT 6.0 range, and new technology, as it starts to ship the internet-enabled infoPhone™ to its first customer, a major US service provider.

Growth at the ELP business should continue, allowing it to achieve revenue increase for the full year. The 2008 product line-up has already been previewed to the trade, with an encouraging response. Europe is expected to perform well, while prospects in the United States will very much depend on the overall economy.

The CMS business is also forecast to achieve growth for the full year, as according to orders already secured, sales appear set to pick up in the second half.

"VTech has a solid foundation for growth, with a market leading position and innovative products, combined with cost effective and efficient operations," said Mr. Wong. "We will continue to build on this foundation, growing our businesses through product innovation, expansion of market share, developing emerging markets and pursuing new opportunities within our core businesses."

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About VTech

VTech is one of the world's largest suppliers of corded and cordless telephones and a leading supplier of 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, 14th November 2007 (HK time), the video archive of the 2007/2008 interim results announcement can be accessed through VTech's homepage [www.vtech.com](http://www.vtech.com) in the "Webcasting and Presentation" section under "Investor Relations".**

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