

FOR IMMEDIATE RELEASE

VTECH ANNOUNCES FY2005 ANNUAL RESULTS

Revenue and profit increase, buoyed by V.Smile success

- Group revenue increased by 11.7% to US\$1,022.0 million
- Profit attributable to shareholders* increased by 22.9% to US\$56.9 million
- Final dividend of US12.0 cents per ordinary share, total dividend for the year up 30.0%
- Strong rebound in electronic learning products business
- Outperformance by contract manufacturing services business
- Unsatisfactory results of telecommunication products business in the United States
- Rationalisation of the telecommunication products business contributing to more efficient operations

**including US\$6.7 million non-recurring income arising from settlement of an indemnification claim*

Hong Kong, 22 June 2005 - VTech Holdings Ltd (SEHK: 303; London SE: VTH; ADR: VTKHY) today announced its annual results for the year ended 31 March 2005. Group revenue increased by 11.7% over the financial year 2004 to US\$1,022.0 million. Profit attributable to shareholders, including US\$6.7 million non-recurring income arising from settlement of an indemnification claim, increased by 22.9% to US\$56.9 million. This has allowed the Board of Directors to propose a higher final dividend of US12.0 cents, giving a total dividend for the year of US13.0 cents per ordinary share, compared to US10.0 cents for the financial year 2004, representing a 30.0% increase.

“I am pleased to report that the full year results for the financial year 2005 were better than we expected when we announced our half year results in November 2004. The Group’s electronic learning products and contract manufacturing services businesses achieved better than expected growth for the full year, helping to offset an unsatisfactory performance from our telecommunication products business in the United States,” said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Ltd. “Through management efforts, the difficult situation of the telecommunication products business in the United States was brought under control and, after a series of rationalisation measures, its US operations are becoming more effective and efficient.”

Rationalisation of Telecommunication Products Business

The financial year 2005 was challenging for the telecommunication products business. Revenue fell by 10.9% to US\$612.5 million due to the

unsatisfactory performance in the US market, which outstanding results in the European market were unable to offset. Profitability of the business was substantially affected by the underperformance in the United States. In the financial year 2005, the business accounted for 59.9% of Group revenue, compared to 75.1% in the financial year 2004.

In North America, revenue of the business declined by 23.6% to US\$475.3 million, accounting for 77.6% of the total telecommunication products revenue, compared to 90.5% in the financial year 2004. The decrease in revenue was mainly the result of lower sales in the United States, as our phones failed to compete on both product design and price. Over-optimistic sales projections also led to higher overheads and operating costs, resulting in operational inefficiency which further impacted profitability.

A change in management, streamlining and rationalisation succeeded in bringing the situation under control in the second half. As a result, VTech is now developing an entirely new range of more cost-effective products that will be introduced in early 2006. During the financial year, the Group has also taken an industry lead in responding to technological developments in the US cordless phone market by launching its first VoIP 5.8GHz cordless phone with Vonage, and its first VoIP 2.4GHz cordless phone with Skype.

Despite the challenges in the United States, VTech continued to make progress in developing the European markets, where revenue rose strongly by 102.2% to US\$112.8 million, as the business is benefiting from the increasing opening of the market. In the financial year 2005, Europe accounted for 18.4% of the total telecommunication products revenue, compared to 8.1% in the financial year 2004.

Tremendous Success of V.Smile

In contrast with the telecommunication products business, the Electronic Learning Products (ELP) business has proven its successful turnaround with a strong rebound in both revenue and profitability in the financial year 2005. Revenue of the business rose significantly by approximately 1.2 times or 115.1% to US\$281.1 million following the well-executed roll out of the award-winning V.Smile TV Learning System. Supported by effective and efficient operations, profitability rebounded sharply. During the financial year, the ELP business accounted for 27.5% of Group revenue, compared to 14.3% in the financial year 2004.

The successful launch of V.Smile has allowed the business to rebuild sales and regain lost shelf space gradually in the US market, while further strengthening its leadership position in Europe. In the financial year 2005, revenue from the North American market rebounded sharply by more than 3 times or 328.1% to US\$108.3 million, accounting for 38.5% of total ELP revenue, compared to 19.4% of total ELP revenue in the financial year 2004. Revenue from the European market also showed a robust increase of 60.3% to US\$160.0 million, accounting for 56.9% of the total ELP revenue.

The attraction of V.Smile, which in February 2005 was joined by the handheld model V.Smile Pocket, is greatly enhanced by highly interactive software using licensed children's characters, which now comprise a library of 27 titles.

Despite the importance of V.Smile, the traditional product lines also performed well and recorded respectable growth during the financial year. VTech is committed to maintaining a broad ELP range, focusing on the growing infant and pre-school segments.

Outperformance by CMS Business

The Contract Manufacturing Services (CMS) business delivered encouraging results in the financial year 2005, achieving record revenue and higher profit. Revenue increased by 32.0% over the financial year 2004 to US\$128.4 million, accounting for 12.6% of Group revenue.

The percentage increase in revenue was markedly higher than the growth of the global Electronic Manufacturing Services (EMS) industry. This performance reflects VTech's success in delivering exceptional services to its core focus of small and medium sized customers.

The growth in CMS revenue was primarily driven by strong demand from existing customers and a new customer in the industrial printing sector. The investment in R&D has paid off, with R&D related services increasingly driving sales. The business also moved towards compliance with RoHS, a European Union environmental directive that takes effect in July 2006.

Europe continued to be the largest market of the CMS business, accounting for 49.2% of the total CMS revenue, followed by the United States at 27.7% and Japan at 17.2%.

By product category, switching mode power supplies and professional audio equipment accounted for 35.6% and 27.8% of the total CMS revenue respectively, followed by home appliances at 14.6% and wireless products at 10.9%.

New Manufacturing Facilities

During the financial year 2005, VTech took the decision to establish its third manufacturing plant in Qingyuan city in the northern part of Guangdong province. The new 49,000 square metre facility will initially be used for supplying the plastics needs of the telecommunication products business. The plant is expected to start operations in the fourth quarter of the calendar year 2005 and it offers the Group's ability to relocate some processes to an area of lower cost if required.

Outlook

VTech's mission is to be the most cost effective designer and manufacturer of innovative, high quality consumer electronics products and to distribute them in the most efficient manner. The Group remains optimistic about the outlook of the financial year 2006, but this is tempered with caution in view of a number of factors.

The US economy appears to be on a reasonably firm footing, but rising short term interest rates and stubbornly high oil prices may at some point dampen consumer spending. The Group also faces potential challenges from rising resin prices and from RoHS compliance, which will increase the cost of manufacturing for products shipping to Europe and Japan. In addition, a potential upward revaluation of the RMB would increase operating costs, while a weakening of the Euro and Sterling may also affect the Group's results, although forward foreign exchange contracts are used to hedge certain exposures.

Nonetheless, the Group's three core businesses are well placed for the future, albeit with fundamentally different challenges and opportunities. The telecommunication products business is now on much more stable footing, with a lower cost structure and a pipeline of more competitive products under development. The Group will continue to leverage its dual brand strategy, using both the AT&T and VTech brands to develop products for different market segments.

Following the re-engineering measures, management expects the profitability of the telecommunication products business to improve in the financial year 2006. Revenue, however, is expected to suffer in the short term and will not return to a growth path until the financial year 2007, when the revamped products hit the shelves in the US market. This is despite further expansion in Europe, which will support sales.

Management expects the strong momentum for the ELP business to continue in the financial year 2006. The Group will develop and expand the V.Smile product range, which provides a good platform for future growth. Although competing products are beginning to appear, management believes VTech has a head start in product awareness and that V.Smile offers the superior interactivity and software choice which will allow it to remain the market leader. The Group will invest further in R&D to increase the number and variety of Smartridges, and continue to negotiate license agreements to expand our portfolio of children's characters. The Group will also continue to invest in our traditional product lines and to support all the products with the promotional dollars required to make them compelling from a marketing perspective.

The global EMS industry is still in an uptrend and is expected to deliver further growth in the financial year 2006. VTech's CMS business is well positioned to take advantage of this favourable situation to deliver top and bottom line growth, given its stable customer base and efficient operations. The programme to meet RoHS requirements will continue to be a major focus

for the CMS business and new market segments will be developed. Input costs are forecast to remain stable, although manufacturing costs will rise as a result of RoHS. The CMS business will work to maintain margins through strict cost control and working closely with material suppliers.

“Looking ahead, I believe VTech has an improved cost structure, enhanced product ranges and the right management to allow the Group to capitalise on its core competencies to achieve continued progress, and bring solid long-term returns to shareholders,” said Mr. Wong.

~ End ~

About VTech:

VTech is the one of the world’s largest suppliers of corded and cordless telephones in North America and a leading supplier of electronic learning products. It also provides highly sought-after contract manufacturing services. VTech is a pioneer in the establishment of China-based manufacturing facilities and sells its products via a strong brand platform supported by a well-established distribution network in North America, Europe and Asia.

Note: Starting from 21:30, 22 June 2005 (HK time), the video archive of the annual results announcement can be accessed through VTech’s homepage www.vtech.com in the “Webcasting and Presentation” section under “Investor Relations”.

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

Grace Pang
VTech Holdings Ltd
(852) 2680 1703 (office)
(852) 2662 7434 (fax)
grace_pang@vtech.com (email)

VTech representative in HK
Nick Bradbury
GolinHarris
(852) 2522 6475 (office)
(852) 2810 4780 (fax)
nick.bradbury@golinharris.com (email)

VTech representative in the US
Marlene Wechselblatt, GolinHarris
International
(1 212) 373-6037 (office)
(1 212) 373-6001 (fax)
mwechselblatt@golinharris.com (email)