



# VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 303)

## BUSINESS PERFORMANCE UPDATE

VTech Holdings Limited (“VTech” or the “Group”) is scheduled to report its half-year results for the six-month period from 1st April to 30th September 2004 on 11th November 2004. Ahead of the interim results announcement, the Group expects to hold discussions with securities analysts and investors in the normal course of its business that may cover aspects of VTech’s business performance for the first six months of its financial year ending 31st March 2005.

In order to provide greater disclosure to investors and to ensure that they all receive equal access to the same information, this business performance update statement provides details of the information that may be covered in the discussions.

### Performance Overview

The Board of Directors of VTech announces that faster-than-expected price erosion of the telecommunication products, a lower level of savings in component costs, together with the underperformance of a major customer in North America, have resulted in an unsatisfactory performance in its telecommunication products business. A strong rebound in the electronic learning products (“ELP”) business and continued good performance from the contract manufacturing services (“CMS”) business may be insufficient to offset this negative impact, and consequently the Group’s profit attributable to shareholders for the six months ending 30th September 2004 is expected to be significantly less than the same period last year.

The Group has, however, already initiated a series of measures to address the issues outlined above to minimise any negative impact on the Group during the second half of the financial year ending 31st March 2005.

### ELP Business

With a lean operating structure and a revamped product line, especially the well-received TV Learning System, V.Smile, the ELP business is expected to report a substantial increase in sales and a strong rebound in profitability for the six-month period ending 30th September 2004, compared to the same period of the previous financial year.

### CMS Business

The recovery in the global economy has brought an increase in orders from the Group’s existing contract manufacturing customers, resulting in a rise in sales in the CMS business. This increase, together with effective cost controls, is expected to enable the business to report a moderate increase in sales and stable profitability.

### Telecommunication Products Business

The Group’s cordless telephones in North America are suffering from faster-than-expected price erosion due to difficult market conditions. At the same time, the market experienced tight component supply earlier in the current financial year. Hence, the business has been unable to achieve the same level of cost reductions for components as in the previous financial year. In addition, during recent months, the underperformance of a major customer has resulted in the cancellation of orders, affecting the level of sales in the North American market.

The above factors have affected the profitability of the telecommunication products business although it is expected to report a slight increase in sales following a good performance in Europe.

### Impact on the Group’s Profit

The Group’s profit attributable to shareholders for the six months ending 30th September 2004 is anticipated to be substantially lower, compared to the corresponding period last year due to the underperformance of the telecommunication products business.

“The Group has already initiated a series of measures to address the issues it faces in the telecommunication products business. These initiatives include streamlining of operations, increasing the efficiency of manufacturing, sales and distribution, as well as re-engineering products to reduce the number of components used,” said Allan Wong, Chairman and Group CEO of VTech. “Through these measures, the Group is making every effort to minimise any negative impact on the financial performance for the second half of the financial year ending 31st March 2005.”

Shareholders of VTech and holders of other securities related to VTech are advised to exercise caution when dealing in these securities.

This announcement is made pursuant to Rule 13.09 of the Rules Governing the Listing of Securities.

The Board of Directors as at the date of this announcement consists of:

Allan Wong Chi Yun	Chairman and Group Chief Executive Officer
Albert Lee Wai Kuen	Deputy Chairman
Raymond Ch’ien Kuo Fung	Independent Non-executive Director
William Fung Kwok Lun	Independent Non-executive Director
Michael Tien Puk Sun	Independent Non-executive Director
Patrick Wang Shui Chung	Independent Non-executive Director

By Order of the Board  
**Chang Yu Wai**  
Company Secretary