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vtech
VTech Holdings Limited
(incorporated in Bermuda with limited liability)
(Stock Code : 303)

Continuing Connected Transaction

On 10th August 2007, VCL, being an indirectly wholly owned subsidiary of the Company, and Ality entered into the Manufacturing Agreement which constitutes a continuing connected transaction (the "Transaction") of the Company under Rule 14A.34 of the Listing Rules and shall be disclosed by way of an announcement.

Brief details of the Transaction will also be disclosed in the Company's subsequent published annual report and accounts for each of the relevant financial years ending 31st March 2008, 2009 and 2010 in accordance with the requirements under the Listing Rules.

I. The Transaction

On 10th August 2007, VCL as manufacturer entered into the Manufacturing Agreement with Ality as purchaser. The principal terms of the Manufacturing Agreement are as follows:

- Date : 10th August 2007
- Purchaser : Ality
- Manufacturer : VCL
- Terms : Initial term of 24 months commencing from 10th August 2007
- Services : VCL agrees to manufacture and supply to Ality, and Ality agrees to purchase from VCL, the products subject to the terms and conditions contained in the Manufacturing Agreement.
- Annual Caps : For the periods from 1st August 2007 to 31st March 2008, from 1st April 2008 to 31st March 2009 and from 1st April 2009 to 9th August 2009 (end of the initial term of the Manufacturing Agreement), the Annual Caps shall be US\$3.69 million (equivalent to approximately HK\$28.68 million), US\$6.59 million (equivalent to approximately HK\$51.25 million) and US\$3.28 million (equivalent to approximately HK\$25.19 million) respectively.

Ality is a company which is wholly owned by Mr. William WONG Yee Lai. Mr. William WONG Yee Lai is the son of Mr. Allan WONG Chi Yun, who is a director, chief executive and substantial shareholder holding 38.90% of the entire issued share capital of the Company. Ality is therefore a connected person of the Company as ascribed by the Listing Rules and the Manufacturing Agreement constitutes a continuing connected transaction under the Listing Rules.

The ordinary business of VCL includes providing OEM and ODM contract manufacturing services of electronic products to global customers. Ality engages the design and sales of certain electronic products and shall require VCL to provide contract manufacturing services. The purchase amount of the products will be settled by open credit with personal guarantee of Mr. William WONG Yee Lai.

The Annual Cap is based on the expected annual purchase amount for the periods from 1st August 2007 to 31st March 2008, from 1st April 2008 to 31st March 2009 and from 1st April 2009 to 9th August 2009 (end of the initial term of the Manufacturing Agreement), whereas the expected annual purchase amount paid by Ality to VCL for the products supplied during the periods under the Manufacturing Agreement shall not exceed US\$3.69 million (equivalent to approximately HK\$28.68 million), US\$6.59 million (equivalent to approximately HK\$51.25 million) and US\$3.28 million (equivalent to approximately HK\$25.19 million) respectively. The expected annual purchase amount (being the forecasted annual total quantity of products manufactured by VCL and supplied to Ality under Manufacturing Agreement) is calculated and determined based on the expected price per product unit and the forecasted annual sales of the existing products of Ality and are at market rates. Previous transactions over the past twelve months in respect of the manufacture and supply by VCL to Ality of certain electronic products amounted to US\$1.18 million (equivalent to approximately HK\$9.18 million). Such transactions are not required to be aggregated under Rule 14A.25 of the Listing Rules.

II. Reasons for the Manufacturing Agreement

The Transaction is conducted in the ordinary and usual course of business of VCL and is on normal commercial terms. VCL has assessed the business volume, profit margin, manufacturing capacity and technology competence when entering the Manufacturing Agreement. The Board (including all independent non-executive directors) are of the view that the Manufacturing Agreement is entered into upon normal commercial terms which are fair and reasonable and is in the interest of the Company and its independent shareholders as a whole as it will increase the revenue and profit of VCL and widen the customer base. The Board also considers that the Manufacturing Agreement is entered in the usual and ordinary course of business of the Company and the Annual Caps represent fair and reasonable calculations as per the forecasted annual sales of the existing products of Ality.

III. General

The Group is principally engaged in the business of the design, manufacture and distribution of electronic learning products and telecommunication products. It also provides contract manufacturing services.

Based on the annual cap, the relevant percentage ratios applicable to the aggregate purchase price under the Manufacturing Agreement exceed 0.1% but are less than 2.5% of the applicable percentage ratios of the Company under Rule 14A.34 of the Listing Rules and accordingly, no independent shareholders' approval is required. Details of the Transaction shall be disclosed by way of an announcement and are to be included in the Company's subsequent published annual report and accounts of each of the relevant financial years in accordance with Rules 14A.45 and 14A.46 of the Listing Rules.

As at the date of this announcement, the Board of Directors of the Company comprises:

Executive Directors	:	Allan WONG Chi Yun Edwin YING Lin Kwan PANG King Fai
Independent Non-executive Directors	:	Raymond CH'IEN Kuo Fung William FUNG Kwok Lun Michael TIEN Puk Sun Patrick WANG Shui Chung

Definitions:

Unless otherwise defines, the following terms used in this announcement shall have the following meanings:

"Ality"	Ality Limited, a company incorporated in Hong Kong, which is wholly owned by Mr. William WONG Yee Lai;
"Allan WONG Chi Yun"	Mr. Allan WONG Chi Yun, a director, chief executive and substantial shareholder holding 38.90% of the entire issued share capital of the Company;
"Board"	the board of directors of the Company;
"Company"	VTech Holdings Limited, a company incorporated in Bermuda, the shares of which are listed on The Stock Exchange of Hong Kong Limited and The London Stock Exchange plc;

"Group"	the Company and its subsidiaries;
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"Manufacturing Agreement"	manufacturing agreement dated 10th August 2007 entered between VCL and Ality Limited;
"VCL"	VTech Communications Limited, a company incorporated in Hong Kong, being the indirectly wholly owned subsidiary of the Company;
"William WONG Yee Lai"	Mr. William WONG Yee Lai, the son of Mr. Allan WONG Chi Yun.

By Order of the Board
VTech Holdings Limited
CHANG Yu Wai
Company Secretary

Hong Kong, 13th August 2007

Website: <http://www.vtech.com>
<http://www.irasia.com/listco/hk/vtech>