VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31ST MARCH 2009

PERFORMANCE HIGHLIGHTS

- 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

The directors of VTech Holdings Limited ("the Company") announce the results of the Company and its subsidiaries ("the Group") and associates for the year ended 31st March 2009 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March 2009

	Note	**2009 US$ million**	2008 US$ million
Revenue	2	**1,448.2**	1,552.0
Cost of sales		**(920.7)**	(969.0)
Gross profit		**527.5**	583.0
Selling and distribution costs		**(232.1)**	(248.5)
Administrative and other operating expenses		**(84.2)**	(54.3)
Research and development expenses		**(56.9)**	(51.3)
Operating profit	2&3	**154.3**	228.9
Net finance income		**4.7**	8.7
Profit before taxation		**159.0**	237.6
Taxation	4	**(15.8)**	(21.9)
Profit attributable to shareholders		**143.2**	215.7
Interim dividend	5	**29.5**	29.1
Final dividend	5	**100.8**	124.2
Earnings per share (US cents)	6		
- Basic		**58.5**	89.4
- Diluted		**58.4**	88.2

CONSOLIDATED BALANCE SHEET
As at 31st March 2009

	Note	**2009 US$ million**	2008 US$ million
Non-current assets			
Tangible assets		**99.9**	101.3
Leasehold land payments		**3.8**	3.8
Deferred tax assets		**5.2**	6.9
Investments		**0.2**	0.2
		109.1	112.2
Current assets			
Stocks		**128.0**	132.4
Debtors and prepayments	7	**190.2**	229.2
Financial assets at fair value through profit or loss		**4.9**	14.7
Taxation recoverable		**3.1**	0.7
Deposits and cash		**287.2**	285.4
		613.4	662.4
Current liabilities			
Creditors and accruals	8	**(232.9)**	(262.1)
Provisions		**(41.8)**	(46.4)
Taxation payable		**(3.3)**	(9.3)
		(278.0)	(317.8)
Net current assets		**335.4**	344.6
Total assets less current liabilities		**444.5**	456.8
Non-current liabilities			
Deferred tax liabilities		**(4.3)**	(4.5)
Net assets		**440.2**	452.3
Capital and reserves			
Share capital		**12.3**	12.1
Reserves		**427.9**	440.2
Shareholders' funds		**440.2**	452.3

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31st March 2009

	Note	**2009 US$ million**	2008 US$ million
Operating activities			
Operating profit		**154.3**	228.9
Depreciation of tangible assets	3	**31.7**	29.0
Amortisation of leasehold land payments	3	**0.1**	0.1
Loss on disposal of tangible assets	3	**0.4**	0.5
Decrease / (increase) in stocks		**4.4**	(8.3)
Decrease / (increase) in debtors and prepayments		**39.0**	(25.5)
(Decrease) / increase in creditors and accruals		**(29.2)**	5.6
Decrease in provisions		**(4.6)**	(1.5)
Cash generated from operations		**196.1**	228.8
Interest received		**4.7**	8.7
Taxes paid		**(22.9)**	(24.5)
Net cash generated from operating activities		**177.9**	213.0
Investing activities			
Purchase of tangible assets		**(27.1)**	(47.1)
Proceeds from disposal of tangible assets		**-**	0.5
Purchase of financial assets		**(5.0)**	(15.0)
Proceeds received upon maturity of financial assets		**15.0**	-
Deposits		**(45.0)**	-
Net cash used in investing activities		**(62.1)**	(61.6)
Financing activities			
Proceeds from issued shares upon exercise of share options		**6.9**	5.7
Dividends paid	5	**(154.9)**	(127.9)
Net cash used in financing activities		**(148.0)**	(122.2)
Effect of exchange rate changes		**(11.0)**	9.7
(Decrease) / increase in cash and cash equivalents		**(43.2)**	38.9
Cash and cash equivalents at beginning of the year		**285.4**	246.5
Cash and cash equivalents at end of the year		**242.2**	285.4
Analysis of the balance of cash and cash equivalents			
Deposits and cash in the consolidated balance sheet		**287.2**	285.4
Less: Bank deposits with maturity greater than three months		**(45.0)**	-
Cash and cash equivalents in the consolidated cash flow statement		**242.2**	285.4

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' FUNDS

For the year ended 31st March 2009

	Note	**2009 US$ million**	2008 US$ million
Shareholders' funds at 1st April		**452.3**	343.3
Exercise of share options		**6.9**	5.9
Surplus arising on revaluation of properties		**4.8**	-
Realisation of hedging reserve		**(0.6)**	9.8
Fair value gains / (losses) on hedging during the year		**1.3**	(10.8)
Capital reserve on employee share option scheme		**1.8**	0.9
Exchange translation differences		**(14.6)**	15.4
Net (losses) and gains not recognised in the income statement		**(0.4)**	21.2
Profit attributable to shareholders		**143.2**	215.7
Dividends approved and paid during the year	5	**(154.9)**	(127.9)
Shareholders' funds at 31st March		**440.2**	452.3

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board. IFRSs include International Accounting Standards ("IASs") and related Interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Bermuda Companies Act 1981.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The other accounting policies have been consistently applied by the Group.

2. Segment information

Revenue represents turnover of the Group derived from the amounts received and receivable for sale of goods and rendering of services to third parties.

The principal activity of the Group is the design, manufacture and distribution of consumer electronic products. The directors consider that these activities constitute one business segment since these activities are related and are subject to common risks and returns.

Segment information by geographical market is presented below:

Although the Group's business segments are managed on a worldwide basis, they principally operate in the following geographical areas:

North America - the operations are principally the sale and distribution of telecommunication and electronic products.

Europe - the operations are principally the sale and distribution of telecommunication and electronic products.

Asia Pacific - the Group is headquartered in the Hong Kong Special Administrative Region ("Hong Kong SAR") and the Group's principal manufacturing operations are located in mainland China.

Year ended 31st March 2009

		North America US$ million	**Europe US$ million**	**Asia Pacific US$ million**	**Others US$ million**	**Total US$ million**
i	Revenue	**772.8**	**570.5**	**55.2**	**49.7**	**1,448.2**
	Operating profit	**59.6**	**78.0**	**10.2**	**6.5**	**154.3**
ii	Total assets	**128.9**	**67.0**	**523.4**	**3.2**	**722.5**
	Total liabilities	**50.9**	**26.2**	**204.8**	**0.4**	**282.3**
iii	Capital expenditure	**1.6**	**0.7**	**24.8**	**-**	**27.1**
	Depreciation	**1.6**	**0.8**	**29.3**	**-**	**31.7**
	Amortisation of leasehold land payments	**-**	**-**	**0.1**	**-**	**0.1**
	Other non-cash (revenue) / expenses	**(3.3)**	**(1.8)**	**7.2**	**(0.2)**	**1.9**

Year ended 31st March 2008

		North America US$ million	Europe US$ million	Asia Pacific US$ million	Others US$ million	Total US$ million
i	Revenue	868.2	590.0	56.1	37.7	1,552.0
	Operating profit	113.3	96.7	10.5	8.4	228.9
ii	Total assets	128.6	119.1	525.2	1.7	774.6
	Total liabilities	52.0	41.7	228.2	0.4	322.3
iii	Capital expenditure	0.9	0.4	45.8	-	47.1
	Depreciation	1.5	1.0	26.5	-	29.0
	Amortisation of leasehold land payments	-	-	0.1	-	0.1
	Other non-cash expenses	5.9	2.1	5.0	0.4	13.4

3. Operating profit

The operating profit is arrived at after charging / (crediting) the following:

	2009 US$ million	2008 US$ million
Depreciation of tangible assets	**31.7**	29.0
Amortisation of leasehold land payments	**0.1**	0.1
Loss on disposal of tangible assets	**0.4**	0.5
Net foreign exchange loss / (gain)	**28.2**	(20.5)
Net (gain) / loss on forward foreign exchange contracts	**(0.6)**	9.8

4. Taxation

	2009 US$ million	2008 US$ million
Current tax		
- Hong Kong	**10.9**	16.3
- Overseas	**4.5**	6.8
Over-provision in respect of prior years		
- Hong Kong	**(0.1)**	-
- Overseas	**(0.1)**	(0.1)
Deferred tax		
- Origination and reversal of temporary differences	**0.6**	(1.1)
	15.8	21.9

(a) Hong Kong profits tax has been calculated at the rate of 16.5% (2008:17.5%) on the estimated assessable profit for the year. In 2008, the Hong Kong SAR Government enacted a reduction in the profits tax rate from 17.5% to 16.5% for the fiscal year 2008/09, and the deferred tax balances have been calculated at 16.5% (2008: 16.5%).

(b) Overseas taxation has been calculated at the rates of taxation prevailing in the countries in which the Group operates.

5. Dividends

	2009 US$ million	2008 US$ million
Interim dividend of US12.0 cents (2008: US12.0 cents) per share declared and paid	**29.5**	29.1
Final dividend of US41.0 cents (2008: US51.0 cents) per share proposed after the balance sheet date	**100.8**	124.2

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

At a meeting held on 3rd July 2008, the directors proposed a final dividend of US51.0 cents per ordinary share for the year ended 31st March 2008, which was estimated to be US$124.2 million at the time calculated on the basis of the ordinary shares in issue as at 31st March 2008. The final dividend was approved by shareholders at the Annual General Meeting on 5th September 2008. As a result of shares issuance upon exercise of share options during the period between 1st April 2008 and 5th September 2008, the final dividend paid in respect of the year ended 31st March 2008 totaled US$125.4 million.

6. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group’s profit attributable to shareholders of US$143.2 million (2008: US$215.7 million).

The basic earnings per share is based on the weighted average of 244.8 million (2008: 241.2 million) ordinary shares in issue during the year. The diluted earnings per share is based on 245.3 million (2008: 244.7 million) ordinary shares which is the weighted average number of ordinary shares in issue during the year after adjusting for the number of dilutive potential ordinary shares under the Company’s share option scheme.

7. Debtors and prepayments

At 31st March 2009, total debtors and prepayments of US$190.2 million (31st March 2008: US$229.2 million) include trade debtors of US$154.0 million (31st March 2008: US$182.2 million).

An ageing analysis of net trade debtors by transaction date is as follows:

	2009	2008
	US$ million	US$ million
0-30 days	**67.2**	88.8
31-60 days	**43.4**	48.1
61-90 days	**22.6**	30.3
>90 days	**20.8**	15.0
Total	**154.0**	182.2

The majority of the Group's sales are on letter of credit and on open credit with varying terms of 30 to 90 days. Certain open credit sales are covered by credit insurance or bank guarantees.

8. Creditors and accruals

At 31st March 2009, total creditors and accruals of US$232.9 million (31st March 2008: US$262.1 million) include trade creditors of US$102.4 million (31st March 2008: US$106.2 million).

An ageing analysis of trade creditors by transaction date is as follows:

	2009	2008
	US$ million	US$ million
0-30 days	**49.2**	53.3
31-60 days	**30.9**	27.7
61-90 days	**10.2**	17.7
>90 days	**12.1**	7.5
Total	**102.4**	106.2

DIVIDENDS

The Board of Directors (the "Board") have recommended a final dividend of US41.0 cents per ordinary share in respect of the year ended 31st March 2009, payable on 10th August 2009 to shareholders whose names appear on the register of members of the Company as at the close of business on 7th August 2009 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

The final dividend will be payable in United States dollars save that those shareholders with a registered address in Hong Kong will receive the equivalent amount in Hong Kong dollars which will be calculated at the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its mid rate of exchange prevailing on 29th July 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 31st July 2009 to 7th August 2009, both dates inclusive, during which period no transfer of shares will be effected.

In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates, must be lodged with the share registrars of the Company no later than 4:00 p.m., the local time of the relevant share registrars, on 30th July 2009.

The principal registrar of the Company is Butterfield Fulcrum Group (Bermuda) Limited, Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda and the branch registrar in Hong Kong is Computershare Hong Kong Investor Services Limited, Room 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

CHAIRMAN'S STATEMENT

The financial year 2009 was very much a year of two halves. In the first half, we achieved higher revenue despite slowing US economy. Although raw material prices and labour costs stayed high, we were able to maintain a stable gross profit margin.

However, in the middle of September 2008, global economy began to deteriorate dramatically. Consumer confidence plunged and demand shrank. This occurred when the bulk of our products for the holiday season had already been manufactured.

To respond to the sudden change in market conditions, we 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 as at 31st March 2009 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.

Results

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. The Board has proposed a final dividend of US41.0 cents per ordinary share, as compared to US51.0 cents per ordinary share in the previous financial year.

Operations

Revenue at the telecommunication products (TEL) business for the year declined by 9.8% over the financial year 2008 to US$620.7 million.

In North America, still the largest market for our TEL business, revenue declined as consumer demand was weak. Retailers also reduced inventory in view of the slowing economy. Despite the decrease in sales, VTech continued to be the largest supplier in the US cordless phone market, and we expanded our market share further during the financial year.

In Europe, we continued to work on an ODM basis with major fixed line telephone operators and well-known brand names. The European market was more stable than that in North America, and we managed not only to gain market share, but also to increase revenue. The sole supplier agreement we signed in September 2008 with Deutsche Telekom AG (Deutsche Telekom) helped us to increase our presence in Germany.

Revenue at the electronic learning products (ELP) business dropped by 7.9% over the financial year 2008 to US$566.9 million. The ELP business initially saw rising sales in the first half, but sales quickly turned negative owing to the rapidly deteriorating market conditions.

In Europe, sales declined more as the European business was further affected by the steep depreciation of the Euro and Sterling against the US dollar. In response to the worsening market environment, we moved aggressively to step up price promotions to stimulate sales and reduce inventory.

Despite a slowing second half, revenue at the contract manufacturing services (CMS) business managed to increase by 5.0% over the previous financial year to another record of US$260.6 million. This was a considerably better performance than the global Electronic Manufacturing Services (EMS) industry, which has been badly affected by the global slump in manufacturing.

Our superior performance was due to higher sales to existing customers, as some of them outsourced more production to VTech in search of lower costs. We also continued to gain new customers, especially in the field of professional audio equipment, who were attracted by our growing reputation.

Senior Management Change

Our Group Chief Operating Officer, Mr. Edwin YING Lin Kwan, retired on 1st January 2009. I would like to express my sincere gratitude to him for his valuable contributions to the Group. Following his retirement, Mr. Andy LEUNG Hon Kwong, Chief Executive Officer of our CMS business, was appointed as Executive Director.

In addition, Dr. PANG King Fai, our Group Chief Technology Officer, was promoted to Group President on 1st January 2009. He continues to hold the position of Executive Director.

Outlook

There seems little doubt that consumer sentiment will 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 our key markets.

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

To drive growth for the Group, we will continue to pursue our 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 our market lead even further. For the branded business, we expect to see the full benefit of the exit of a major competitor in North America. For the ODM business, we have 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 further increase our 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 we are 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, we will step up our efforts to deliver products that offer tremendous value. Across our product ranges, we will continue to support sales with aggressive retail level promotions. We expect margin pressure to be partially offset by lower raw material costs, especially of plastics, and by our 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, we are 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.

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

It has been a year of unprecedented volatility in both the financial and consumer markets. I would like to thank my fellow directors, employees, customers and suppliers for staying the course as we navigate the turbulence. As a company with market leadership, excellent R&D, efficient operations and a strong balance sheet, we are very well placed not merely to ride out the storm, but to grow even stronger as global economy eventually recovers.

REVIEW OF OPERATIONS

Telecommunication Products (TEL)

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 we mainly operate 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 with us owing to our strong cash position and the weakening of other suppliers. In September 2008, we signed an exclusive supplier agreement with 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. We have 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 we operate 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 we continued to increase our market share, maintaining the number one position in the US cordless phone market. During the financial year, 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)

The ELP business saw revenue decrease by 7.9% to US$566.9 million in the financial year 2009 as compared with the financial year 2008. 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. It should be noted that 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 in our overall business. 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 our 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 during the financial year. 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)

The CMS business achieved a fifth consecutive record in its revenue in the financial year 2009 as sales rose by 5.0% over the financial year 2008 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. Our high quality of service, acknowledged expertise in professional audio and word-of-mouth recommendation enabled us to secure additional orders. In the financial year 2009, 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 for the CMS business, 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 EMS market in the financial year 2009. As with other EMS providers generally, we experienced a reduction in business from many existing customers in the second half of the financial year as they scaled back orders across the board in the face of economic turmoil. However, the economic slump also brought more business from our 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 our ability to attract business is the high quality of service we offer, 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.

REVIEW OF FINANCIAL RESULTS

Revenue

Group revenue for the year ended 31st March 2009 decreased by 6.7% over the previous financial year to US$1,448.2 million as a result of a decrease in revenue at TEL business and ELP business despite an increase in revenue at the CMS business. Revenue from TEL business fell by 9.8% to US$620.7 million, accounting for 42.9% of Group revenue. For ELP business, revenue decreased by 7.9% to US$566.9 million, representing 39.1% of Group revenue. Revenue of the CMS business rose by 5.0% to US$260.6 million, accounting for 18.0% of Group revenue.

Geographically, North America continues to be the largest market for the Group in the financial year 2009. Revenue from this market was US$772.8 million, a decrease of 11.0% over the previous financial year, and it accounted for 53.4% of Group revenue. In Europe, revenue decreased by 3.3% to US$570.5 million, representing 39.4% of Group revenue. Revenue from Asia Pacific declined by 1.6% to US$55.2 million, accounted for 3.8% of Group revenue. However, revenue from other regions grew by 31.8% to US$49.7 million, representing 3.4% of Group revenue.

Despite the ODM business has sales growth in the financial year 2009, the TEL business recorded a 9.8% decline in revenue to US$620.7 million due to the sales decline at the branded business in North America. Revenue from the North American market declined by 19.5% over the previous financial year to US$383.8 million, 61.8% of total TEL revenue. The decline was mainly due to the economic downturn in the United States, which led to slowing demand and a reduction of inventories by retailers. Due to good performance of our ODM business, revenue in Europe rose by 7.4% over the previous year to US$193.7 million, 31.2% of total TEL revenue. Growth was mainly driven by new customers and increasing orders from existing customers owing to the weakening of other suppliers. With good progress in penetrating into Latin America, Middle East, Australia and India, revenue from the Asia Pacific and other emerging markets also rose by 38.5% and 40.5% to US$14.4 million and US$28.8 million respectively, representing 2.3% and 4.7% of total TEL revenue.

Revenue of the ELP business fell by 7.9% to US$566.9 million for the financial year 2009. The decrease was mainly due to a rapid and severe deterioration of the global economy in the second half of the financial year that led to softening of consumer demands and necessitated aggressive retail level promotions. As consumers flocked to value in the weak economy, standalone products played a significant role in our overall ELP business. During the financial year 2009, standalone products accounted for 64% of total ELP revenue whereas platform products accounted for the remaining 36%. Due to the economy slowdown, both North America and Europe recorded sales decline during the financial year 2009. Revenue in North America decreased by 5.7% to US$274.6 million, 48.4% of total ELP revenue. In Europe, revenue fell by 12.7% to US$258.6 million, representing 45.6% of total ELP revenue. However, revenue in Asia Pacific and other regions increased by 13.3% and 21.5% to US$12.8 million and US$20.9 million as the business increased its penetration into areas such as Latin America and Middle East.

For the CMS business, revenue increased by 5.0% over the previous financial year, reaching US$260.6 million. The growth was mainly driven by strong demand from certain major customers in the area of solid-state lighting, professional audio equipment and switching mode power supply. Geographically, revenue in North America and Europe increased by 14.1% and 4.0% to US$114.4 million and US$118.2 million respectively. Revenue in the Asia Pacific region, however, declined by 18.6% to US$28.0 million.

Gross Profit/Margin

The gross profit for the financial year 2009 was US$527.5 million, a decrease of US$55.5 million or 9.5% compared to the US$583.0 million recorded in the previous financial year. Gross margin for the financial year reduced from 37.6% to 36.4%. The reasons for the decrease in gross margin were mainly due to cost pressure from rising labour costs in China and raw material cost increase. Also, the prices of the Group's products were reduced as poor conditions in the global markets that led to softening of consumer demand and necessitated aggressive retail level promotions.

Operating Profit/Margin

The operating profit for the year ended 31st March 2009 was US$154.3 million, a decrease of US$74.6 million or 32.6% over the previous financial year. The operating profit margin also decreased from 14.7% in the previous financial year to 10.7% in the financial year 2009. The decrease was mainly attributable to the decline in gross profit and gross margin together with the steep depreciation of the Euro and Sterling against the US dollar.

Selling and distribution costs decreased by 6.6% from US$248.5 million in the previous financial year to US$232.1 million in the financial year 2009. The decrease was mainly attributable to the decreased spending on advertising and promotional activities of the Group. Royalty payments to licensors for the use of popular cartoon characters for certain ELPs also decreased, which led the decline in selling and distribution costs in the financial year 2009. As a percentage of Group revenue, selling and distribution costs were 16.0% in the financial year 2009, the same as the previous financial year.

Administrative and other operating expenses increased from US$54.3 million in the previous financial year to US$84.2 million in the financial year 2009. An exchange loss of US$27.6 million arising from the Group's global operations in the ordinary course of business was recorded under administrative and other operating expenses in the financial year 2009 owing to the Euro and Sterling weakened abruptly against the US dollar. This contrasted with an exchange gain of US$10.7 million recorded in the previous financial year. Excluding the effect of exchange differences, the administrative and other operating expenses decreased by US$8.4 million compared to the previous financial year. Administrative and other operating expenses as a percentage of Group revenue, excluding the effect of exchange differences, improved from 4.2% in the previous financial year to 3.9% in the financial year 2009.

Research and development activities are vital for the long-term development of the Group. During the financial year 2009, the research and development expense was US$56.9 million, an increase of 10.9% over the previous financial year. Research and development expenses as a percentage of Group revenue increased from 3.3% in the previous financial year to 3.9% in financial year 2009.

Net Profit and Dividends

The profit attributable to shareholders for the year ended 31st March 2009 was US$143.2 million, a decrease of US$72.5 million as compared to the previous financial year. The ratios of EBIT and EBITDA to revenue were 10.7% and 12.9% respectively.

Basic earnings per share for the year ended 31st March 2009 were US58.5 cents as compared to US89.4 cents in the previous financial year. During the year, the Group declared and paid an interim dividend of US12.0 cents per share, which aggregated to US$29.5 million. The directors have proposed a final dividend of US41.0 cents per share, which will aggregate to US$100.8 million.

Liquidity and Financial resources

Shareholders' funds as at 31st March 2009 were US$440.2 million, a 2.7% decrease from the US$452.3 million reported for the financial year 2008. The net assets per share decreased by 3.8% from US$1.86 to US$1.79.

As at 31st March 2009 and 2008	**2009 US$ million**	2008 US$ million
Deposits and cash	**287.2**	285.4
Less: Total interest bearing liabilities	**-**	-
Net cash position	**287.2**	285.4
Currency-linked deposits	**4.9**	14.7
	292.1	300.1

As at 31st March 2009, the net cash plus currency-linked deposits with principal protected had decreased to US$292.1 million, fell 2.7% from US$300.1 million at the previous year-end. The Group is debt-free as at 31st March 2009.

Treasury Policies

The Group's treasury policies are designed to mitigate the impact of fluctuations in foreign currency exchange rates arising from the Group's global operations and to minimize the Group's financial risks. The Group cautiously uses derivatives, principally forward foreign exchange contracts as appropriate for risk management purposes only, for hedging transactions and for managing the Group's assets and liabilities. It is the Group's policy not to enter into derivative transactions for speculative purposes.

Working Capital

As at 31st March 2009 and 2008 All figures are in US$ million unless stated otherwise	**2009**	2008
Stocks	**128.0**	132.4
Average stocks as a percentage of Group revenue	**9.0%**	8.3%
Turnover days	**67 days**	72 days
Trade debtors	**154.0**	182.2
Average trade debtors as a percentage of Group revenue	**11.6%**	11.6%
Turnover days	**73 days**	65 days

The stock balance as at 31st March 2009 decreased by 3.3% over the balance at 31st March 2008 to US$128.0 million. The turnover days decreased from 72 days to 67 days. The trade debtor balance as at 31st March 2009 was US$154.0 million as compared to US$182.2 million in the previous financial year. The turnover days increased from 65 days to 73 days. The decrease in trade debtor balance as at 31st March 2009 was mainly due to a decrease in revenue in the fourth quarter when compared with the corresponding period of the previous financial year.

Capital Expenditure

For the year ended 31st March 2009, the Group invested US$27.1 million in the construction of buildings, purchase of plant and machinery, equipment, computer systems and other tangible assets. All of these capital expenditures were financed from internal resources.

Capital Commitments and Contingencies

In the financial year 2010, the Group will incur capital expenditure of US$21.2 million for ongoing business operations.

All of these capital expenditures will be financed from internal resources.

As of the financial year end date, the directors have been advised that certain accusations of infringements of patents have been lodged against the Company and its subsidiaries. In the opinion of the legal counsels, it is too early to evaluate the outcome of these cases and provisions have been made only to the extent that the amounts can be reliably estimated.

Employees

The average number of employees for the financial year 2009 was 28,300, a decrease of 2.4% from 29,000 in the previous financial year. Employee costs for the year ended 31st March 2009 were approximately US$168 million, as compared to approximately US$157 million in the financial year 2008.

CODE ON CORPORATE GOVERNANCE PRACTICES

VTech Holdings Limited is incorporated in Bermuda. The Company has its share listing on The Stock Exchange of Hong Kong Limited and had its shares listing on the London Stock Exchange Plc ("London Stock Exchange") until 6th October 2008. With effect from 7th October 2008, the Company was voluntarily delisted from London Stock Exchange. The corporate governance rules applicable to the Company is the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules. Throughout the year ended 31st March 2009, the Company has complied with all the code provisions of the Code and to a large extent, the recommended best practices in the Code except for the deviation from code provision A.2.1 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Dr. Allan WONG Chi Yun has the combined role of Chairman and Group Chief Executive Officer. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group as the non-executive directors form the majority of the Board, as four out of seven of our directors are independent non-executive directors. The Board believes the appointment of Dr. Allan WONG to the posts of Chairman and Group Chief Executive Officer is beneficial to the Group as he has considerable industry experience.

The Board has established four committees including Remuneration Committee, Nomination Committee, Audit Committee and Risk Management Committee with defined terms of reference which are of no less exacting terms than those set out in the Code. Full details on the subject of corporate governance are set out in the Company's Annual Report for the year ended 31st March 2009.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

AUDIT COMMITTEE

The Audit Committee is chaired by Mr. Denis Morgie HO Pak Cho, succeeding Dr. Raymond CH'IEN Kuo Fung, with Dr. William FUNG Kwok Lun and Mr. Michael TIEN Puk Sun as members, all of whom are independent non-executive directors. It has been established to assist the Board in fulfilling its oversight responsibilities for financial reporting, risk management and evaluation of internal controls and auditing processes. It also ensures that the Group complies with all applicable laws and regulations.

Mr. Denis HO, succeeding Dr. Raymond CH'IEN Kuo Fung, is the Chairman of the Audit Committee and has the appropriate financial management expertise as required under the Listing Rules. The Audit Committee held two meetings during the year. The meetings were attended by the Chairman, Chief Compliance Officer, Chief Financial Officer and external auditors. The Group's annual results for the year ended 31st March 2009 have been reviewed by the Audit Committee and agreed by the Group's external auditors. The major work performed by the Committee during the year included:

- reviewing the financial reports for the year ended 31st March 2008 and for the six months ended 30th September 2008;
- reviewing the significant findings by the internal audit department and recommendations for corrective actions;
- reviewing the reports from external auditors for the year ended 31st March 2008 and for the six months ended 30th September 2008;
- reviewing the new International Financial Reporting Standards, where applicable, and the progress of implementation;
- considering and recommending to the Board the appointment of external auditors and their remuneration for the year.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules regarding securities transactions by directors and senior management in relation to the accounting period covered by the Annual Report. After specific enquiry, all directors of the Company confirmed that they have complied with the required standard of dealings set out therein for the year ended 31st March 2009.

By Order of the Board
VTech Holdings Limited
Allan WONG Chi Yun
Chairman

Hong Kong, 15th June 2009

As at the date of this announcement, the Executive Directors of the Company are Dr. Allan WONG Chi Yun (Chairman and Group Chief Executive Officer), Dr. PANG King Fai and Mr. Andy LEUNG Hon Kwong. The Independent Non-executive Directors are Dr. William FUNG Kwok Lun, Mr. Denis Morgie HO Pak Cho, Mr. Michael TIEN Puk Sun and Dr. Patrick WANG Shui Chung.

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