

FOR IMMEDIATE RELEASE

VTech Announces 2015/2016 Interim Results

Higher revenue despite currency headwinds

- Group revenue rose by 3.0% to US\$928.1 million
- Profit attributable to shareholders of the Company decreased by 2.5% to US\$100.1 million
- Gross margin declined from 32.2% to 30.8%
- Interim dividend of US17.0 cents per ordinary share, the same as the dividend paid in the corresponding period last year
- Strong pipeline of innovative new products

Hong Kong, 12 November 2015 – VTech Holdings Limited (HKSE: 303) today announced its results for the six months ended 30 September 2015, reporting further growth in revenue.

Group revenue for the six months ended 30 September 2015 rose by 3.0% over the same period of the previous financial year to US\$928.1 million. This was primarily due to higher revenue in North America, Europe and Other Regions, offsetting lower revenue in Asia Pacific. Despite the increase, the strong US dollar depressed the Group's reported revenue during the period.

Profit attributable to shareholders of the Company decreased by 2.5% to US\$100.1 million. The fall in profit was mainly attributable to the decline in gross margin, which resulted from unfavourable currency movements and a change in product mix. Basic earnings per share decreased by 2.4% to US39.9 cents, compared to US40.9 cents in the corresponding period last year.

The Board of Directors has declared an interim dividend of US17.0 cents per ordinary share, which is the same as the dividend paid in the corresponding period last year.

"In the first six months of the financial year 2016, VTech continued to make progress in its core businesses, despite strong foreign exchange headwinds. In electronic learning products, the business in North America returned to growth while sales in the Asia Pacific region rose sharply. Telecommunication products continued to achieve expansion in commercial phones and other telecommunication products. Contract manufacturing

services turned in a good performance, with growth that continues to outpace the global electronic manufacturing services industry¹,” said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited.

Costs and Operations

Although material prices decreased slightly over the same period last year, cost of materials rose owing to a change in product mix. Manufacturing overhead also increased, as wages in mainland China continued to rise and the Group added manufacturing capacity. Despite the strong headwinds from foreign exchange movements and wage inflation, VTech was able to reduce the workforce through automation and process improvement, resulting in a stable direct labour cost. Gross margin declined over the same period last year. This was mainly due to the depreciation of currencies against the US dollar, the change in product mix and the higher manufacturing overhead.

Segment Results

North America

Group revenue in North America in the first six months of the financial year 2016 grew by 2.4% to US\$461.6 million, supported by higher sales of electronic learning products (ELPs) and contract manufacturing services (CMS). North America is the Group’s largest market, accounting for 49.7% of Group revenue.

ELPs revenue in North America rose by 5.3% to US\$148.7 million, as higher sales of standalone products offset lower sales of platform products. VTech retained its position as the number one manufacturer in the Infant and Preschool Electronic Learning category in the US².

The growth of standalone products was driven by sales increases in infant products, Go! Go! Smart Wheels® and Go! Go! Smart Animals®, which offset lower sales of Switch & Go Dinos® and preschool products. The launch of new products also supported growth, including Kidizoom® Action Cam, Go! Go! Smart Friends®, Baby Amaze™ and Flipsies™. Flipsies is a brand new product range of transformable dolls and playsets that feature VTech’s proprietary MagicPoint™ and MagicChat™ technologies. It began to sell in the US in August and has allowed the Group to expand into a new category.

¹ Source: *Manufacturing Market Insider*, September 2015

² Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the combined toy categories of infant electronic learning, other infant toys, bath toys, electronic entertainment (excluding tablets) and preschool electronic learning for the calendar year ending September 2015

Sales of platform products, in contrast, decreased. In August, the second generation of VTech's smartwatch, Kidizoom Smartwatch DX, hit the shelves in the US and was well received. However, higher sales of the Kidizoom Smartwatch line were unable to compensate for lower sales of InnoTab® educational tablets, which were affected by the continued contraction of the highly competitive children's tablet market.

VTech ELPs continued to garner prestigious awards in the US during the period. Go! Go! Smart Wheels Ultimate RC Speedway was included in the Toys "R" Us "Hot Toy" list, Walmart's "Chosen by Kids" list, TTPM's "Most Wanted" holiday list, as well as *The Toy Insider* "Hot 20" list of toys. Kidizoom Smartwatch DX made the "Top Tech 12" list of the most forward-thinking and impressive tech-based toys on the market. Kidizoom Action Cam made "Target's Top Toy List" and "Kmart's Fab 15", while Flipsies Sandy's House & Ocean Cruiser was selected for *The Toy Insider's* 10th annual holiday gift guide.

Revenue from telecommunication (TEL) products in North America decreased by 7.0% to US\$200.2 million. Sales of residential phones were lower, as the fixed-line telephone market has continued to contract. Nonetheless, VTech strengthened its number one position in the US residential phone market³.

Sales of commercial phones and other telecommunication products, in contrast, continued to rise. Baby monitors led the growth on a strong sell-through and additional product placements. Sales of VTech's four-line small business phone system also increased, as the new series was well received by the market. The VTech branded ErisStation™, a conference phone with wireless microphones, and ErisTerminal™, a SIP (Session Initiation Protocol) based business phone system, saw steady growth in sales, as the product ranges were completed with the addition of new models.

CMS revenue in North America rose by 19.8% to US\$112.7 million. The growth was driven by higher sales of professional audio equipment and industrial products, which offset lower sales of solid-state lighting. Professional audio equipment posted good growth as a major client increased orders after resolving excess inventory issues, while several other customers saw higher demand for their products. Growth in this category also benefited from the addition of new customers. Industrial products recorded higher sales as VTech gained more business following a customer's decision to consolidate suppliers. Sales of solid-state lighting, however, trended lower as the demand for the customers' products decreased.

³ Source: MarketWise Consumer Insights, LLC

Europe

Group revenue in Europe in the first six months of the financial year 2016 was up 3.8% to US\$373.7 million, mainly due to higher CMS sales. Europe is the second largest market of the Group, representing 40.3% of Group revenue.

ELPs revenue in Europe decreased by 8.7% to US\$129.2 million, a decline that was primarily due to the depreciation of the European currencies against the US dollar and lower sales of platform products. Among VTech's key Western European markets, sales in the UK increased, while those in France, Germany and Spain declined. During the first nine months of the calendar year 2015, VTech continued to gain market share and strengthened its position as the number one infant toy manufacturer in France, the UK, Germany and Belgium⁴.

In platform products, as in North America the children's educational tablet market remained challenging. The contraction of the market and tough competition led to lower sales of InnoTab/Storio[®], which offset higher sales of Kidizoom Smartwatch.

Sales of standalone products in Europe were flat during the period. Toot-Toot Drivers[®], Toot-Toot Animals[®] and Little Love[®] recorded growth, offsetting the declines in Switch & Go Dinos, infant and preschool products. Kidizoom Action Cam and Flipsies were rolled out to the Group's major European markets during the period, generating incremental sales.

VTech ELPs won acclaim in Europe during the first six months of the financial year 2016. In France, recognition included four "2015 Grand Prix du Jouet" awards presented by *La Revue du Jouet* magazine. This was the most awards granted to any manufacturer, with Toot-Toot Drivers Super RC Raceway gaining the top "Toy of the Year 2015" award. Toot-Toot Drivers Garage won a gold medal in the UK's prestigious "Independent Toy Awards", while Kidizoom Action Cam was the Belgian Federation of Toys' "Toy of the Year 2015".

TEL products revenue in Europe decreased by 4.1% to US\$74.4 million. Sales of residential phones were lower as the fixed-line telephone market has continued to contract. Despite the weak Euro which impacted the Group's customers, sales of commercial phones and other telecommunication products rose significantly.

In commercial phones, sales of CAT-iq (Cordless Advanced Technology—internet and quality) handsets saw robust growth, as network operators continued to encourage the replacement of traditional PSTN (Public Switched Telephone Network) services with VoIP (Voice over Internet Protocol) services. Sales of ErisStation and ErisTerminal also

⁴ Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales of infant toys for the calendar year ending September 2015

increased and in September, the Group launched the VTech branded ErisTerminal in the UK market. In other telecommunication products, baby monitors registered respectable growth as VTech increased sales to existing customers and boosted market share. The Group also started selling VTech branded baby monitors in the UK, with the Full Colour Video and Audio model winning a “Silver” award from *Right Start* magazine. Growth in IADs (Integrated Access Devices) was also strong, as the Group began shipping a high-end device that supports VDSL and dual band 802.11ac to several customers.

CMS revenue in Europe was up 20.8% to US\$170.1 million. Sales of hearables, professional audio equipment and home appliances grew, while those of power supplies were stable. Hearables recorded higher sales as VTech increased its revenue share with a major customer, alongside strong market demand for the customer’s products. In professional audio, the Group secured more projects from existing customers and there was a sales contribution from new customers. In home appliances, sales to existing customers also recorded an increase.

Asia Pacific

Group revenue in Asia Pacific decreased by 3.1% to US\$59.7 million in the first six months of the financial year 2016. Lower sales of TEL products and CMS offset growth in ELPs. The region accounted for 6.4% of Group revenue.

ELPs revenue in Asia Pacific was up 63.0% to US\$20.7 million, driven by sales increases in mainland China, Japan and Australia. Mainland China saw strong demand for infant products, Switch & Go Dinos, Go! Go! Smart Wheels and Kidizoom Smartwatch. Increased marketing efforts, expansion of the distribution base and higher online sales accelerated growth. Sales in Japan were buoyed by the launch of Kidizoom Smartwatch. In Australia, sales returned to a growth path following the establishment of the Group’s own sales office in the country.

TEL product revenue in Asia Pacific decreased by 26.0% to US\$16.5 million as sales weakened in Australia, Japan and mainland China, offsetting growth in Taiwan, India and Hong Kong. In Australia, the Group successfully replaced all Telstra-branded phones with its own brand across all channels during the period. In Japan, sales were lower due to delays in new product launches by customers. In mainland China, demand for residential phones was weak.

CMS revenue in Asia Pacific declined by 15.4% to US\$22.5 million. Sales of testing and measurement equipment fell, as the weaker Japanese Yen led the customer to move production back to Japan. The keen competition from mainland Chinese brands faced by customers resulted in lower orders for solid-state lighting, while sales of medical and

health equipment trended lower on weakening demand for the customer's products. Sales of home appliances and hearables, however, saw an increase during the period.

Other Regions

Group revenue from Other Regions in the first half of the financial year 2016 grew by 15.3% to US\$33.1 million, as higher sales of TEL products and CMS offset lower sales of ELPs. Other Regions, which include Latin America, the Middle East and Africa, represented 3.6% of Group revenue.

ELPs revenue in Other Regions fell by 12.0% to US\$8.8 million. Higher sales in the Middle East were offset by lower sales in Africa and Latin America.

TEL products revenue in Other Regions posted 28.8% growth to US\$23.7 million, driven by higher sales in the Middle East and Africa.

CMS revenue in Other Regions was US\$0.6 million, as compared to US\$0.3 million in the same period last year.

Outlook

Given the Group's year-to-date financial results and the continued strong headwinds from currency movements, management expects stable revenue and lower gross margin year-on-year.

ELPs revenue is forecast to be slightly lower year-on-year. Sales of platform products are anticipated to decline, as the business will continue to be affected by declining sales of children's educational tablets. To stabilise the platform business, VTech is introducing a range of innovative platform products in different form factors that aim to capture demand in different market segments. Following Kidizoom Smartwatch DX, a new multi-function handheld device called DigiGo™ hit the shelves in the Group's major European markets in late September. It gives children a handy gadget for text messaging, pictures, videos and music. Furthermore, the Group has launched InnoTV™, an educational TV gaming system designed for preschoolers, which was rolled out in the US and the Group's major European markets in October.

Sales of standalone products, in contrast, are forecast to grow further. The good sell-through of infant products and Go! Go! Smart Family is expected to continue, while Kidizoom Action Cam, Flipsies and Baby Amaze will add incremental sales.

Revenue from TEL products is expected to improve over the first half. Sales of residential phones worldwide are expected to remain slow, but commercial phones and other telecommunication products will continue to grow.

Sales of ErisStation are forecast to accelerate in the second half. The full range reached US shelves in July. The product has been very well received by customers and the Group is recruiting more resellers. ErisTerminal, meanwhile, is expected to grow steadily. Following the UK launch in September, the Group started shipping the VTech branded ErisTerminal to markets in the Middle East. The product will also be rolled out to Eastern Europe later in the second half. In North America, the customer base for ErisTerminal will expand steadily, while the good momentum of the four-line small business phone system will continue. In addition, CAT-iq handsets will maintain their good performance.

In other telecommunication products, the strong momentum in baby monitors will carry into the second half, supported by a new range to be rolled out in both the US and Europe. One of these new models works with ULE (Ultra Low Energy) sensors, enabling users to monitor their children via sound, video and motion. This product will be unique to the market and is expected to stimulate growth further. IADs are forecast to remain on a positive trend, while a new wireless monitoring system will be shipped to US and some Asian Pacific markets in the second half of the financial year.

The good momentum in CMS is anticipated to continue. Sales of professional audio equipment, hearables and home appliances will increase as business with existing customers expands, while new customers add to demand. The switching mode power supplies business is expected to remain stable. Sales of solid-state lighting are expected to decline, as the customers face strong competition. To cater for further expansion, a new manufacturing building for CMS commenced operations in July, adding 25% to production capacity.

“It has been a steady start to the financial year 2016. Going forward, VTech will continue to focus on product innovation, increasing market share, expanding geographically and pursuing operational excellence to enhance shareholder value,” said Mr. Wong.

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About VTech

VTech is the global leader in electronic learning products from infancy to preschool and the world's largest manufacturer of cordless phones. It also provides highly sought-after contract manufacturing services. Founded in 1976, VTech's mission is to design, manufacture and supply innovative and high quality products in a manner that minimises any impact on the environment, while creating sustainable value for its stakeholders and the community.

Note: Starting from 22:30, 12 November 2015 (HKT), the video archive of the 2015/2016 interim results announcement can be accessed through VTech website via this link <https://www.vtech.com/en/investors/financial-briefings/>.

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