

FOR IMMEDIATE RELEASE

VTECH ANNOUNCES FY2014 ANNUAL RESULTS

Record revenue and improved gross margin

- Group revenue increased by 2.2% to US\$1,898.9 million
- Gross profit margin improved to 33.4%, from 32.2% in the last financial year
- Profit attributable to shareholders of the Company rose 0.9% to US\$203.3 million
- Strong financial position, with deposits and cash of US\$322.9 million, and debt free
- Final dividend of US64.0 cents per ordinary share, providing a full-year dividend of US80.0 cents per ordinary share, the same as the dividend paid in the financial year 2013

Hong Kong, 22 May 2014 – VTech Holdings Limited (HKSE: 303) today announced its results for the year ended 31 March 2014, reporting higher revenue across its major markets and an improved gross margin.

Group revenue for the year ended 31 March 2014 increased by 2.2% to US\$1,898.9 million. The increase was mainly attributable to higher revenue in North America, Europe and Asia Pacific, offsetting lower revenue in Other Regions.

Profit attributable to shareholders of the Company rose 0.9% to US\$203.3 million. During the financial year 2014, the Group increased its advertising and promotion expenses to support InnoTab® in the US in response to a competitive market. Basic earnings per share grew by 0.6% to US81.1 cents, compared to US80.6 cents in the previous financial year.

The Board of Directors has proposed a final dividend of US64.0 cents per ordinary share, providing a full-year dividend of US80.0 cents per ordinary share, the same as the dividend paid in the financial year 2013.

“VTech delivered top-line growth across its major markets in the financial year 2014, reporting record revenue despite a generally soft retail environment. Gross margin continued to improve, as material costs were lower. The Group’s efforts to raise productivity through automation also began to bear fruit. Profit attributable to shareholders of the Company, however, showed lower growth due to higher advertising and promotion expenses. During the financial year, the Group’s leadership in core product categories was further strengthened,” said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited.

Costs and Operations

The Group’s gross margin improved in the financial year 2014 as lower material costs more than offset higher labour costs and manufacturing overheads. Material costs declined due to subdued global demand and VTech’s efforts in re-engineering products for lower cost. The Group also succeeded in reducing the impact of the rise in the minimum wage in China, via its initiatives to raise productivity through automation and process improvement. As a result, VTech employed 11% fewer workers on average compared with the previous financial year despite output being higher. Manufacturing overheads increased owing to higher production capacity, inflation in China and the appreciation of the Renminbi.

Operations Review

North America

Group revenue in North America increased by 1.9% to US\$950.7 million in the financial year 2014, as higher revenue from telecommunication (TEL) products and contract manufacturing services (CMS) offset lower revenue from electronic learning products (ELPs). North America remained VTech’s largest market, accounting for 50.1% of Group revenue.

ELPs revenue in North America declined by 1.1% to US\$358.1 million, mainly because of lower sales of platform products. InnoTab, the Group’s educational tablet for children, has faced increasing competition in the US market. Sales of MobiGo® 2 were lower due to the popularity of tablets, while V.Reader reached the end of its product life cycle.

Standalone products posted good growth, driven by strong sell-through of Go! Go! Smart Wheels, infant products and Switch & Go Dinos. The full launch of Go! Go! Smart Wheels in all major retailers in the US boosted sales, following only a limited launch in the financial year 2013. Its vehicles, Train Station and Airport playsets were the best performers. The range

was cited in a number of top awards, including Walmart's Top 20 Toys "Chosen by Kids" and Amazon.com's Holiday Toy List. In infant products, Sit-to-Stand Learning Walker™ and Alphabet Activity Cube™ performed especially well. Growth in Switch & Go Dinos was driven by the introduction of new models.

Revenue from TEL products in North America rose by 2.4% to US\$398.6 million, driven by higher sales of residential phones, commercial phones and other telecommunication products. Sales of residential phones grew as VTech gained further market share as a result of the continuing consolidation of brands in the market. This helped the Group to maintain its number one position in the US residential phones market¹. Sales of commercial phones and other telecommunication products also increased, as the existing product lines continued to perform well, while the Group expanded its offering by launching several new products.

For commercial phones and other telecommunication products, positive momentum continued for the small to medium sized business (SMB) phones, SynJ and Syn248®. Higher sales were recorded for baby monitors, as the Group expanded its distribution channels. Hotel phones also saw growth, with VTech expanding its customer base to an increasing number of the world's leading hotel chains. CareLine™ is VTech's home safety telephone system designed for seniors. This product line achieved increased sales and received many favourable online reviews during the financial year 2014.

The launch of ErisStation, the Group's first conference phone, in March 2014 was very successful. Featuring four DECT 6.0 microphones with Orbitlink Wireless Technology™, ErisStation makes conversations more comfortable by letting meeting participants spread out while allowing all parties to enjoy interference-free, high-quality conference calls.

CMS revenue in North America increased by 6.5% to US\$194.0 million. Sales of professional audio equipment, solid-state lighting, home appliances and communication products were higher, offsetting lower sales of industrial products. In professional audio equipment, the Group added a new account and secured more orders from an existing customer as it expanded its product portfolio to target a new market segment. Solid-state lighting posted solid growth, as the new client ramped up orders. Sales of home appliances and communication products also increased, supported by the customer's new product launch and more orders of VoIP (Voice over Internet Protocol) phones.

¹ Source: MarketWise Consumer Insights, LLC

Europe

Group revenue in Europe was up 2.8% to US\$791.8 million in the financial year 2014, as higher revenue from ELPs and CMS compensated for lower revenue from TEL products. Europe remained the second largest market of the Group, representing 41.7% of Group revenue.

ELPs revenue in Europe increased by 16.5% to US\$385.8 million, with sales growth across all major markets, especially France, from both standalone and platform products. The growth in standalone products was driven by the Toot-Toot Drivers[®] range, infant products, Kidizoom[®] and the Kidi line of products. During the calendar year 2013, VTech was the number one market player in the overall Infant Toys category in France, the UK and Germany². Furthermore, Toot-Toot Drivers garnered a number of top industry awards. In France, Its Train Station was given the "Toy Grand Prix 2013" award in the preschool toy category by *La Revue du Jouet* magazine, while in the UK, it was named "Preschool Toy of the Year" by the Toy Retailers Association. Toot-Toot Drivers Garage was also ranked among the top five best-selling infant items by retail value in France, the UK and Germany³.

In platform products, children's educational tablets led the growth. The InnoTab range was updated for the UK market through the introduction of InnoTab 3 and 3S, while Storio 2 was sold in all VTech's major European markets. In the calendar year 2013, Storio continued to be the number one children's educational tablet in Europe for the second year in a row⁴.

TEL products revenue in Europe decreased by 24.2% to US\$154.3 million. The decline was mainly due to lower sales of residential phones. This resulted from the decline of the fixed-line telephones market, a generally weak economy in Europe and the Group's decision to focus on higher margin business. For commercial phones and other telecommunication products, sales of baby monitors, connected home[™] devices and hotel phones were higher, offsetting lower sales of integrated access devices. In January 2014, the Group began initial shipments of its conference phone and SIP (Session Initiation Protocol) phones to the UK and France. These new products have been very well received by both customers and end-users.

² NPD Group, Retail Tracking Service

³ NPD Group, Retail Tracking Service

⁴ NPD Group, Retail Tracking Service. Ranking based on total retail sales of Storio for the combined market of France, the UK, Germany, Spain and Italy

CMS revenue in Europe increased by 7.1% to US\$251.7 million. Professional audio equipment, wireless headsets and home appliances saw higher sales, offsetting lower revenue from switching mode power supplies and medical and health products. Professional audio equipment delivered robust growth, as the Group benefited from new product launches by existing customers. More orders from new accounts in Germany also buoyed sales. Wireless headsets posted decent growth, as VTech gained market share owing to better service, while good sell-through of the client's products also contributed to higher revenue. Sales of home appliances rose as the new Italian customer increased orders. Switching mode power supplies and medical and health products, however, saw sales decline as the switching mode power supplies customer divested its solar power inverter business, while the product of the medical and health client did not sell as expected, resulting in lower orders.

Asia Pacific

Group revenue in Asia Pacific increased by 9.1% to US\$108.9 million during the financial year 2014, driven by higher sales among all product lines. The region represented 5.7% of Group revenue.

ELPs revenue in Asia Pacific increased by 9.2% to US\$21.3 million. Strong growth was seen in China, boosted by increasing revenues from traditional and online sales channels. Higher sales were also recorded in Korea, as the Group made some inroads in the market. Sales in Australia, however, registered a decline during the financial year 2014.

Revenue from TEL products in the region grew by 8.7% to US\$41.1 million, mainly due to higher sales in Australia, China and Japan. In Australia, sales rose as VTech increased its share of the cordless phone market. The Group also started selling baby monitors to Australian customers, adding to the growth in this market. Sales in China climbed, as the Group increased market penetration by introducing more VTech and AT&T branded products. In Japan, sales growth was driven by the addition of a new ODM (Original Design Manufacturing) customer.

CMS revenue in Asia Pacific rose by 9.4% to US\$46.5 million. Japan posted higher sales, driven by more orders for marine radio and medical and health products. Australia also recorded sales growth, with sales increases in professional audio equipment, home appliances and medical and health products. Sales in China and Korea, however, were lower as orders for solid-state lighting and Bluetooth speakerphones declined.

Other Regions

Other Regions comprise Latin America, the Middle East and Africa. Group revenue in Other Regions declined by 13.5% to US\$47.5 million, mainly due to lower sales of TEL products and ELPs. These regions accounted for 2.5% of Group revenue.

ELPs revenue in Other Regions dropped 28.0% to US\$13.4 million, with all regions seeing sales declines, especially Latin America.

Revenue from TEL products in Other Regions fell 7.6% to US\$32.9 million, with Latin America and the Middle East recording sales decreases during the financial year 2014.

CMS revenue in Other Regions was US\$1.2 million in the financial year 2014, as compared to US\$0.7 million in the financial year 2013.

VTech's Strategies

VTech's proven strategy centres on four growth drivers: product innovation, gains in market share, geographical expansion and operational excellence.

Product innovation has given the Group leadership in core product categories, while acting as the driver for growth in the new product areas.

VTech's ELPs have benefited from tremendous growth in areas beyond that of core learning and the Group will build on this momentum by introducing new product ranges. The infant-toddler vehicles line Go! Go! Smart Wheels and its playsets were strong performers in the financial year 2014. Riding on their success, the Group will increase its presence in the playset arena with the launch of Go! Go! Smart Animals™ in the US and Europe. More vehicles and playsets, meanwhile, will be added to the Go! Go! Smart Wheels line. The Switch & Go Dinos® range of vehicles for the preschool segment will expand further with the introduction of Switch & Go Dinos Turbo, adding nine new models to the range.

VTech will also continue to broaden its learning products portfolio. More than 100 new standalone products targeting infants, toddlers, preschoolers and grade-schoolers, will be introduced globally this calendar year.

In platform products, VTech continues to innovate to capture the latest trends. Kidizoom® Smart Watch, the world's first children's smartwatch with a camera, will hit the shelves in both the US and Europe this summer. To maintain momentum in children's tablets, the Group will upgrade InnoTab with new versions, including InnoTab Max. With a 7" LCD screen and a child-proof design, InnoTab Max has an upgraded processor for an enhanced experience, backed by a rich and expert-endorsed library of educational software titles.

For TEL products, growth will be driven by commercial phones and other telecommunication products, which will see new offerings across the spectrum during the financial year 2015. Among them, a new range of SMB phones will be launched under the VTech brand. This will include a new conference phone model with wireless microphones, SIP phones and a 4-line, SIP-based telephone system catering to the needs of small businesses. VTech's range of baby monitors will be enhanced by the introduction of more video and audio models. For connected home devices, in addition to Wi-Fi video monitors, a new family of home monitoring devices based on the DECT ULE (Ultra Low Energy) standard will be launched in the second half of the financial year 2015.

In residential phones, the Group continues to develop products with new styling and features. The DECT platform has been re-engineered to make it more cost-competitive. This supports the strategy to revitalise the European TEL products business and strengthen VTech's leadership position in the US. The Group will also introduce new CAT-iq handsets in Europe offering affordable, high-definition voice quality supporting multiple lines during the financial year 2015.

The ability to offer DFM (Design for Manufacturing), flexible services and manufacturing know-how in a number of product categories has made VTech CMS a leading contract manufacturer. It has a dedicated manufacturing facility offering reduced logistics and customs clearance costs for customers wishing to distribute their products in China. The Group's stringent quality control system and experienced staff allow it to handle low to medium volumes as well as a high mix of different products. As in previous years, VTech CMS received numerous customer service awards during the financial year 2014.

Gains in market share will continue to be the growth driver for the Group in the financial year 2015.

VTech continued to be the world's largest player in ELPs from infancy to preschool in the calendar year 2013⁵. The pipeline of new products will enable the Group to strengthen its market leadership in the core learning area, while pursuing growth in new areas.

In addition to leadership in ELPs, VTech remained the world's number one manufacturer of cordless telephones in the calendar year 2013⁶. In the calendar year 2014, further market share gains are expected for TEL products in the US and Asia Pacific. Market share in Europe and Other Regions will recover, driven by new product launches and the signing of a major new distributor for the Middle East.

The Group's commitment to quality products and services has enabled CMS to win market share year after year. According to *Manufacturing Market Insider*, VTech CMS ranked among the world's top 50 EMS providers in the calendar year 2013. The Group expects to continue to increase its CMS sales globally in the financial year 2015.

Geographic expansion will see more emphasis on expanding outside North America and Western Europe, in order to capture growth opportunities. In Asia Pacific, the potential in China is huge and it will continue to be the most important market for development. The developed markets in the region such as Australia and Japan will continue to be a focus. The Group will also extend its reach to other markets including Taiwan, Malaysia and Korea. In Other Regions, the Group aims to grow sales in Latin America and the Middle East.

Operational excellence underpins VTech's success. As costs in China are set to rise further, operational efficiency is becoming increasingly important. In addition to process improvement and product optimisation for manufacturing, the Group will increase its application of automation by deploying more commercially available and in-house custom-made machines. This will reduce the number of workers further, even as output increases. The Group will also benefit from enhanced competitiveness as automation improves product quality, reduces time to market and increases flexibility in production.

⁵ Source: MarketWise Consumer Insights, LLC and Retail Tracking Service of NPD Group. Ranking based on 2012 and 2013 total estimated annual retail sales in the combined toy categories of infant electronic learning and preschool electronic learning

⁶ Source: MZA Ltd, 2014

Outlook

Economic recovery in the US appears to be on a sustainable footing, while the economies of Western Europe are improving. With a stabilised market environment and new products ready to be launched, the Group is targeting further revenue growth in the financial year 2015.

Sales of ELPs in the financial year 2015 are forecast to increase as the strong momentum in standalone products carries through. Innovative products including Go! Go! Smart Animals and Switch & Go Dinos Turbo, as well as new core learning products, will drive growth. Despite the introduction of Kidizoom Smart Watch, sales of platform products are still expected to be challenging. InnoTab will face rising competition as more low-cost tablets are being introduced to the consumer electronics aisles.

TEL products revenue is also expected to increase. Growth will be driven by commercial phones and other telecommunication products, as the Group introduces new products and makes higher shipments of continuing products. Sales of residential phones in Europe and Other Regions are expected to recover, while in Asia Pacific growth will continue. In the US, although the residential phone market will shrink further, VTech will continue to increase its share.

CMS is expected to grow further in the financial year 2015. Business with existing customers will increase, as the Group continues to take market share from the competition. New customers will add a further stimulus to growth. To cope with higher expected demand over the next three years, the Group plans to add a new CMS factory building. This will raise manufacturing capacity by 25% once it enters operation in the middle of the calendar year 2015.

Regarding costs, material prices are expected to hold broadly steady, although labour costs and manufacturing overheads in China will continue to rise. However, the Group's gross profit margin is expected to be stable as efficiency gains through automation, process improvements and product optimisation should offset higher costs in China.

As a global company that is part of the communities in which it operates, VTech recognises the need to step up its effort to achieve sustainable development. The goal is to design, manufacture and supply innovative and high quality products in a manner that minimises any impact on the environment, while creating value for stakeholders and communities. To this end, VTech will continue to incorporate sustainability concepts into product design, improve

energy and resource efficiency in operations, and upgrade employees' living and working environments.

"VTech's product innovation and operational efficiency have given it market-leading positions in a number of areas. It continues to gain market share and expand geographically, while maintaining a strong financial position. The Group will continue to implement its sustainability strategies, while exploring every avenue of potential growth to generate higher returns for shareholders," said Mr. Wong.

~ End ~

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 our stakeholders and the communities.

Note: Starting from 22:30, 22 May 2014 (HKT), the video archive of the FY2014 annual results announcement can be accessed through VTech's homepage www.vtech.com in the "Webcasts" section under "Investors".

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