

FOR IMMEDIATE RELEASE

VTECH ANNOUNCES 2013/2014 INTERIM RESULTS

Further growth in revenue and profit with margin improvement

- Group revenue was up by 1.9% to US\$892.4 million
- Profit attributable to shareholders of the Company increased by 4.7% to US\$95.2 million
- Gross margin improved by 1.3 percentage points to 31.7%
- Strong balance sheet, with deposits and cash of US\$94.7 million and debt free
- Interim dividend of US16.0 cents per ordinary share, same as the dividend paid in the corresponding period last year

Hong Kong, 13 November 2013 – VTech Holdings Ltd (HKSE: [303](#)) today announced its results for the six months ended 30 September 2013, reporting higher revenue and profit with an improvement in gross margin.

Group revenue for the six months ended 30 September 2013 increased by 1.9% over the same period of the previous financial year to US\$892.4 million. This was primarily due to higher revenue in North America and Asia Pacific, more than offsetting lower revenue in Other Regions. Revenue in Europe was flat compared with the same period last year.

Profit attributable to shareholders of the Company increased by 4.7% to US\$95.2 million. The rise in profit was mainly attributable to higher revenue and an improved gross margin. Basic earnings per share consequently increased by 4.4% to US38.0 cents, compared to US36.4 cents in the corresponding period last year.

The Board of Directors (the Board) has declared an interim dividend of US16.0 cents per ordinary share, which is the same as the dividend paid in the corresponding period last year.

“I am pleased to report that VTech delivered both top-line and bottom-line growth in the first half of the financial year 2014, despite a weaker-than-expected performance of telecommunication (TEL) products in Europe,” said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited. “The Group also benefited from lower cost of materials, resulting in an improved gross margin and contributing to a higher profit during the period.”

Costs and Operations

In the first half of the financial year 2014, labour costs and manufacturing overheads in China continued to rise, as the minimum wage increased and the Renminbi appreciated further. This was offset by lower cost of materials and the Group's success in optimising product design. All these factors resulted in an improved gross margin during the period.

Segment Results

North America

Group revenue in North America increased by 3.8% to US\$455.8 million in the first half of the financial year 2014. The increase was due to higher revenue from TEL products and electronic learning products (ELPs), while contract manufacturing services (CMS) revenue in the region held steady. North America remains the largest market for the Group, accounting for 51.1% of Group revenue.

In the first half of the financial year 2014, revenue from TEL products rose by 2.1% to US\$201.5 million as VTech maintained its position as the number one supplier of cordless phones in the US. Sales of residential phones increased as the Group benefited from further consolidation in the market. Growth in this established product category was supplemented by higher sales of non-residential phone products, including small-to-medium sized business (SMB) phones, hotel phones and baby monitors. The SynJ[®] cordless business phone system increased its share in the SMB market, while the Synapse[®] business phone system began to reap the rewards of an improved sales strategy and better market segmentation. Sales of hotel phones have grown, as VTech has established itself as a reliable supplier to an increasing number of leading hotel chains. A strong increase in sales of baby monitors was recorded in the first half of the financial year, attributable to the expansion of distribution channels.

During the period, CareLine[™], VTech's home-safety telephone system designed specifically for the fast-growing seniors market, has received excellent feedback from consumers and generated a good number of favourable online reviews. The Group also shipped the world's first home entrance monitoring system which combines a versatile cordless phone with a digital video door bell. The product has been well-received by customers.

ELPs revenue in North America during the first six months rose by 8.5% to US\$157.8 million. The growth was driven by higher sales of standalone and platform products. Among standalone products, infant products were the key driver. VTech's line of smart infant vehicles and playsets, Go! Go! Smart Wheels[™], sold strongly and has been included in numerous recommended toy lists for the upcoming holiday season, including Walmart's '2013 Holiday Top Toy List Chosen By Kids', The Toy Insider's 'Hot 20 Toys for the Holidays' and Amazon.com's '2013 Holiday Toy List'. Switch and Go Dinos[®], the line of interactive pre-

school toys that transform between dinosaurs and vehicles, also contributed to higher sales of standalone products.

Sales of platform products rose during the period, as higher sales of the InnoTab® range more than compensated for lower sales of MobiGo® 2 and V.Reader®. VTech's new generation of tablets, InnoTab 3 and 3S, hit the shelves in the US in late August this year. InnoTab 3S has been selected as one of the Toy Insider's 'Top Tech 12', raising its profile among shoppers looking for the best technology toys. The InnoTab 3S exclusive bundle has also been included in '2013 Holiday Hot Toy List' from Toys“R”Us.

During the period, VTech once again set the industry standard by the introduction of VTech Kid Connect™, a ground-breaking communication app exclusive to the VTech InnoTab 3S. The app gives pre-schoolers as young as three years old the ability to communicate with their parents and older siblings, by exchanging voice messages, text messages, stickers, photos and drawings, all within a kid-safe, kid-friendly environment. Through these innovative features, children can communicate with their parents' smartphones and tablets, as well as with friends or siblings anywhere in the world who also have an InnoTab 3S.

CMS revenue in North America increased by 0.3% to US\$96.5 million. Although growth was seen in professional audio equipment, home appliances, communication and wireless products, this was mostly offset by a decline in sales of solid state lighting and industrial products. During the period, the Group added a new customer in the professional audio area, owing to its strong reputation in the industry.

Europe

Group revenue in Europe was up by 0.2% to US\$352.7 million, as higher revenues from ELPs and CMS were offset by lower revenue from TEL products. Europe is the second largest market for the Group, accounting for 39.5% of Group revenue.

Revenue from TEL products decreased by 25.3% to US\$79.2 million. The decline was due to lower sales of cordless telephones, which was the result of market weakness and management's decision to focus on higher margin business. Sales of the Group's baby monitors and connected home™ devices, however, continued to grow during the period.

Revenue from ELPs in Europe was up by 10.3% over the first half of the last financial year to US\$141.5 million. Educational tablets led the growth, along with Toot-Toot Drivers®, the line of smart infant vehicles and playsets, and Switch and Go Dinosaurs. During the period, the InnoTab range was updated in the UK market with the introduction of InnoTab 3 and 3S, while Storio® 2 was sold in all VTech's major markets in Europe.

These product lines garnered a number of important awards during the first six months of the financial year 2014. Toot-Toot Drivers Train Station was given the 'Toy Grand Prix 2013 Award (Pre-school category)' by France's *La Revue du Jouet* magazine, while InnoTab 3 was selected as one of the 'Top Toys for Christmas 2013' by Smyths Toys Superstores in the UK.

Geographically, France, Germany, the Benelux countries and Spain saw good growth during the period, while sales were lower in the UK.

CMS revenue in Europe rose by 12.1% during the first half of the financial year 2014 to US\$132.0 million. The sales increase was driven by professional audio equipment, wireless headsets and home appliances. Professional audio equipment posted robust growth, as the Group benefited from the new product launch of a customer. The addition of a new customer in Germany also contributed to growth. Wireless headsets saw higher sales, driven by good sell-through of a customer's products and the Group's ability to gain more orders at the expense of the competition. During the period, VTech added a new customer in Italy in the area of home appliances, which led to higher sales in that category. In contrast to other categories, sales of switching mode power supplies declined owing to lower sales of solar power inverters.

Asia Pacific

Group revenue in Asia Pacific increased by 3.3% to US\$52.7 million in the first half of the financial year 2014. The region accounted for 5.9% of Group revenue.

Revenue from TEL products was up by 2.7% to US\$19.2 million. Growth was seen in Australia and China, driven by higher sales of integrated access devices and cordless telephones respectively. Sales in Japan returned to normal levels as compared with the strong rebound seen in the same period last year when the country was recovering from the severe earthquake.

Revenue from ELPs in Asia Pacific was US\$11.9 million, a 6.3% increase over the same period last year. Sales were higher in China, as VTech made further inroads into the market. Shipment to Australia, the biggest market for ELPs in Asia Pacific, was down due to the overall softness in the Australian toy market.

CMS revenue in Asia Pacific increased by 2.4% as compared with the first half of the previous financial year, to US\$21.6 million. Sales of marine radios and medical & health products were higher, offsetting lower sales of solid state lighting. During the period, VTech started shipping the first item of a new product category, testing and measurement equipment, to its Japanese customer.

Other Regions

Other Regions include Latin America, the Middle East and Africa. Revenue in the first half of the financial year 2014 was US\$31.2 million, down 8.5% as compared with the same period last year. These regions accounted for 3.5% of Group revenue.

Revenue from TEL products increased by 3.6% to US\$20.2 million. Growth was seen in Latin America, offsetting the sales declines in the Middle East and Africa.

ELPs revenue in Other Regions decreased by 25.9% to US\$10.6 million. The decline was mainly due to lower sales in Latin America and the Middle East.

CMS revenue in Other Regions was US\$0.4 million, as compared to US\$0.3 million in the same period last year.

Outlook

The operating environment in VTech's major markets is likely to remain challenging for the remainder of the financial year. In the US, the pace of recovery appears to be slowing, while many European economies face conditions that are still tough and uncertain. Nonetheless, the Group is optimistic of achieving top-line growth with improved gross profit margin for the full financial year 2014.

Although labour costs and manufacturing overheads are expected to rise further, these will be offset by lower cost of materials, resulting in gross margin improvement year on year. VTech is, however, planning for higher advertising and promotional expenses in the second half in order to maintain sales in a competitive environment.

Sales of TEL products are expected to pick up in the second half. The residential phone businesses in Europe and Other Regions are improving. Continued growth is expected in North America and Asia Pacific, driven by further market share gains and new product launches. The non-residential phone business will continue to expand, driven by a number of significant new product launches globally in the second half of the financial year. These include VTech's first wireless conferencing system, a SIP (Session Initiation Protocol) terminal, SIP-based commercial phones, new models of baby monitors and connected home devices.

The positive momentum in ELPs is expected to carry into the second half, driven by the good sell-through of standalone products, especially Go! Go! Smart Wheels and Switch and Go Dinos. Sales of platform products are expected to hold steady. In light of the keen competition in the children's tablet market in the US and the UK, aggressive advertising and promotions have been planned for the holiday season.

CMS is expected to see growth in the second half of the financial year. The sales increase will be driven by more orders from existing customers in professional audio equipment and wireless headsets. Additional business from new customers in both existing and new product categories will also support growth.

“We have made a solid start to the financial year 2014 and look set to continue on a growth path in the second half of the financial year. Even though the operating environment in our key markets remains challenging, VTech will continue to leverage its strength in product innovation, strong balance sheet, market leadership and operational excellence to bring sustainable returns to shareholders,” said Mr. Wong.

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About VTech

VTech is the world’s largest manufacturer of cordless telephones, and the largest supplier of electronic learning products from infancy to pre-school in the US and Western Europe. It also provides highly sought-after contract manufacturing services. Founded in 1976, VTech’s mission is to be the most cost effective designer and manufacturer of innovative, high quality consumer electronics products and to distribute them to markets worldwide in the most efficient manner.

Note: Starting from 22:30, 13 November 2013 (HK time), the video archive of the 2013/2014 interim results announcement can be accessed through VTech’s homepage www.vtech.com in the “[Webcasts](#)” section under “[Investors](#)”.

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