

FOR IMMEDIATE RELEASE

VTech Announces FY2016 Annual Results

Results affected by strong foreign exchange headwinds

- Group revenue decreased by 1.2% to US\$1,856.5 million
- Profit attributable to shareholders of the Company decreased by 8.4% to US\$181.4 million
- Gross margin declined from 32.5% to 31.4%
- Final dividend of US25.0 cents per ordinary share, resulting in a full-year dividend of US42.0 cents per ordinary share
- Acquisition of LeapFrog paves the way for future growth

Hong Kong, 17 May 2016 – VTech Holdings Limited (HKSE: 303) today announced its results for the financial year ended 31 March 2016, reporting lower revenue and profit.

Group revenue for the year ended 31 March 2016 decreased by 1.2% to US\$1,856.5 million. The decrease was due to lower revenue in North America and Europe, which offset higher revenue in Asia Pacific and Other Regions.

Profit attributable to shareholders of the Company decreased by 8.4% to US\$181.4 million. This fall in profit was partly attributable to the decline in gross profit margin, which resulted from unfavourable currency movements and a change in product mix. Profitability was also impacted by higher administrative and other operating expenses, which included a provision and expenses related to the cyber-attack on the Learning Lodge[®] app store.

Basic earnings per share fell by 8.5% to US72.2 cents, compared to US78.9 cents in the previous financial year. The Board of Directors has proposed a final dividend of US25.0 cents per ordinary share, providing a full-year dividend of US42.0 cents per ordinary share, a 46.2% decrease from the US78.0 cents per ordinary share declared in the previous financial year. This represents a reduction of the dividend payout ratio to 58.2%, from 98.9% in the financial year 2015, in order to fund the acquisition of LeapFrog. It also reflects the year-on-year decline of basic earnings per share.

“VTech experienced a challenging environment in the financial year 2016, resulting in a decrease in revenue and profitability. The strong US dollar depressed the Group’s reported revenue, while the weak economy in Europe affected sales in that region. In addition, the

data breach due to the cyber-attack on VTech's Learning Lodge in November 2015 added to the decline in sales and profitability. Looking at the Group's product lines, strength in standalone electronic learning products, commercial phones, other telecommunication products and contract manufacturing services was offset by weakness in platform products and residential phones. In April 2016 the Group completed the acquisition of LeapFrog Enterprises, Inc., a leading developer of educational entertainment for children, paving the way for future growth in electronic learning products," said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited.

Costs

Costs presented a mixed picture in the financial year 2016 and the gross profit margin declined year-on-year, largely because of strong headwinds from foreign exchange movements and a change in product mix. Because of these factors, cost of material as a percentage of Group revenue was higher, even though material costs decreased slightly from the previous financial year. Direct labour costs declined as VTech improved productivity further, reducing the number of workers by 9.9% year-on-year. This was achieved through automation, process improvement and product optimisation. Manufacturing overhead increased, however, owing to wage inflation in mainland China and the opening of additional CMS manufacturing facilities in July 2015.

Data Breach due to Cyber-Attack

The financial year 2016 results were affected by the data breach which occurred as a result of a cyber-attack on VTech's databases in November 2015. During the cyber-attack, an unauthorised party accessed databases containing personal information from users of the Learning Lodge, the PlanetVTech website and Kid Connect service. In total over five million parent accounts and related child profiles were affected, though no credit card or other financial information was involved. VTech immediately took steps to suspend all affected websites and services, inform customers and report the incident to the authorities. As a result, Learning Lodge was offline for several weeks during the key holiday period.

VTech is strongly committed to protecting customers' data. With the assistance of one of the world's leading cyber security teams, the Group has taken steps to strengthen data protection on Learning Lodge and its connected services. The Group has also worked with law enforcement to recover the stolen customer data and to ensure that copies of the information that were disseminated to two other parties (a journalist and a cyber-security

consultant) have been destroyed or taken off-line, held securely and not disseminated further.

Segment Results

North America

Group revenue in North America declined by 2.4% to US\$878.3 million in the financial year 2016 as lower telecommunication (TEL) products revenue offset higher sales of electronic learning products (ELPs) and contract manufacturing services (CMS). North America remained VTech's largest market, accounting for 47.3% of Group revenue.

ELPs revenue in North America increased by 4.8% to US\$314.4 million, led by higher sales of standalone products. In the calendar year 2015, VTech maintained its position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US¹.

In standalone products, growth was seen in the infant, toddler and pre-school categories, with higher sales of the core infant, toddler and preschool learning products, as well as the Go! Go! Smart family of products. Go! Go! Smart Wheels[®] Ultimate RC Speedway[™], the latest playset in the family, hit retailer shelves in August 2015. It was included in all the major retailers' hot toy lists for the season. More recently introduced items, such as Kidizoom[®] Action Cam, Baby Amaze[™] and Flipsies[™], added incremental growth. Switch & Go Dinos[®], being at the end of the current generation's product cycle and with only minimal retailer shelf space support, recorded a sales decline.

Sales of platform products decreased. Although there was good growth in the Kidizoom Smartwatch range, this could not offset declining sales of InnoTab[®] educational tablets and related software, as this market has continued to contract and competition remains keen. The cyber-attack on Learning Lodge and other VTech websites in November 2015 also impacted sales. The second generation smartwatch, Kidizoom Smartwatch DX, hit the shelves in the US in August 2015 and performed strongly. The Group also rolled out InnoTV[™], an educational TV gaming system designed for preschoolers, in the US in October 2015.

¹ Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the combined toy categories of Toddler Electronic Learning, Toddler Figures, Playsets and Accessories, Preschool Electronic Learning, Electronic Entertainment excluding Tablets and Walkers for the 12 months ending December 2015

TEL products revenue in North America decreased by 10.7% to US\$371.4 million. Whilst growth in commercial phones and other telecommunication products continued, it was not sufficient to offset declining sales of residential phones.

Residential phones declined due to the continued contraction of the fixed-line telephone market. Nonetheless, VTech maintained its leading position in the US residential phones market² and increased its product placements among retailers.

Within commercial phones and other telecommunication products, baby monitors posted the strongest growth, driven by good sell-through of video models and additional product placements. Sales of commercial phones also rose, supported by demand for VTech's new range of four-line small business phone systems, which has been well-received by the market. The VTech branded ErisStation[®], a conference phone with wireless microphones, and ErisTerminal[®], the SIP (Session Initiation Protocol) based business phone system, enjoyed steady sales growth as distribution channels were expanded and the products gained solid traction in the market.

The revenue from CMS in North America increased by 4.9% to US\$192.5 million, as higher sales of professional audio equipment, industrial products and home appliances offset lower sales of solid-state lighting, communication and medical and health products.

Sales of professional audio equipment achieved good growth owing to a number of positive factors. A major customer increased orders after resolving excess inventory issues. Several other customers saw higher demand for their products. VTech's strong reputation also attracted new professional audio equipment customers during the financial year 2016. Industrial products benefited from supplier consolidation by a customer, while home appliances received more orders from existing clients. Solid state lighting, however, was affected by a fall in demand for the customer's products. Lower sales of communication products were recorded from a few existing customers, the reasons being overstocking, poor market response or the end of a product life cycle. The reduction in revenue from medical and health products was due to the change in outsourcing policy of one customer.

² Source: MarketWise Consumer Insights, LLC

Europe

Group revenue in Europe decreased by 2.0% to US\$795.9 million in the financial year 2016, as lower sales of both TEL products and ELPs offset an increase in CMS revenue. Europe was VTech's second largest market, accounting for 42.9% of Group revenue.

ELPs revenue in Europe fell by 10.2% to US\$325.5 million. This decline in US dollar terms was driven by the depreciation of the European currencies. Among the Group's key Western European markets, sales in France, the UK, Germany and Spain grew slightly in local currency terms. Despite the tough foreign exchange environment, VTech gained further market share in the calendar year 2015, strengthening its position as the number one infant and toddler toy manufacturer in France, the UK and Germany³. The Group also maintained its number one position in preschool electronic learning in France, Germany and Spain⁴.

Standalone products saw a decrease in sales. Core infant, toddler and preschool learning products, as well as Switch & Go Dinosaurs, recorded sales declines. However, there was growth in the Toot-Toot family of products and Little Love[®], while Kidizoom Action Cam and Flipsies brought additional revenue. In the financial year 2016, VTech won four "2015 Grand Prix du Jouet" awards, presented by *La Revue du Jouet* magazine in France. This was the highest number of awards granted to any manufacturer, with Toot-Toot Drivers Super RC Raceway gaining the top "Toy of the Year 2015" award.

In platform products, sales of InnoTab/Storio[®] children's educational tablets and software contracted further. The market has continued to decline and competition remained keen, while the cyber-attack had a negative impact on sales. Although sales of Kidizoom Smartwatch also experienced a slight decrease, the range continues to win industry awards. In November 2015, Kidizoom Smart Watch Plus was named one of the "Dream Toys 2015 – Toys for Christmas 2015 (Category of Tots Get Busy)" by the UK Toy Retailers Association. In late September 2015, VTech's new multi-function handheld device DigiGo[®] hit the shelves in the Group's key European markets, giving children a handy gadget for text messaging, pictures, videos and music. It has been well-received. The 5" Storio MAX tablets, which were launched in France and Germany, also enjoyed success.

³ Source: NPD Group, Retail Tracking Service

⁴ Source: NPD Group, Retail Tracking Service

Revenue from TEL products in Europe decreased by 13.3% to US\$136.4 million. The sales growth in commercial phones and other telecommunication products was unable to offset fully the decline in sales of residential phones.

Sales of residential phones decreased as the fixed-line telephone market contracted. This was compounded by a weak Euro, which reduced the purchasing power of the Group's customers, leading to a further decline in sales.

In contrast, commercial phones and other telecommunication products posted good growth. Baby monitors was the best performing sector, driven by higher sales of video models. CAT-iq handsets registered a sales increase, benefiting from their first full-year sales contribution. Sales of integrated access devices (IADs) also grew as customers began shipments of a new generation of products. In addition to the well-established ODM (original design manufacturing) business in Europe, during the financial year 2016 VTech started selling ErisTerminal and ErisStation under the VTech brand in selected European markets, achieving steady growth in both product lines.

CMS revenue in Europe increased by 14.3% to US\$334.0 million, with sales rising in all product categories.

Professional audio equipment benefited from being given more projects by existing customers, while new customers also made a sales contribution. Sales of hearables trended higher, as VTech grew its revenue share with a major existing customer, while a new customer offering the world's first wireless smart earphones ramped up orders. Despite the change in ownership of a customer, switching mode power supplies experienced a temporary boost in sales. Sales of home appliances rose owing to more orders from an existing customer.

Asia Pacific

Group revenue in Asia Pacific increased by 9.7% to US\$129.0 million in the financial year 2016, as higher sales of ELPs and CMS offset a decline in TEL products. Asia Pacific represented 6.9% of Group revenue.

Revenue from ELPs in Asia Pacific was up 57.9% to US\$40.9 million, mainly driven by growth in China, Australia and Japan. In China, there was strong demand for core infant and toddler products, Switch & Go Dinos and Go! Go! Smart Wheels. Growth was further

supported by the expansion of distribution channels and higher online sales. Sales in Australia increased significantly as VTech completed the first full fiscal year of conducting sales and marketing through its own local office. The revenue growth in Japan was mainly attributable to the launch of Kidizoom Smartwatch in that market.

TEL products revenue in Asia Pacific declined by 16.3% to US\$36.0 million. Sales growth in India, Taiwan and Hong Kong only partially compensated for lower sales in Australia, Japan and China. In Australia, the Group successfully replaced all Telstra branded phones with VTech branded phones across all channels during the financial year 2016, while gaining more placements for its range of baby monitors. In Japan, sales were lower due to delays of new product launches by customers, while in China demand for residential phones was generally weak.

CMS revenue in Asia Pacific rose by 7.0% to US\$52.1 million, primarily driven by higher sales of home appliances, hearables and professional audio equipment. In home appliances, a customer closed its own factory and moved all manufacturing to VTech, leading to a significant sales increase. Sales of hearables also rose due to a new product introduction from an existing customer. Professional audio equipment recorded growth as an existing customer launched new product. Solid-state lighting, however, registered lower sales as the customer faced keen competition from mainland Chinese brands.

Other Regions

Group revenue in Other Regions, namely Latin America, the Middle East and Africa, grew by 5.8% to US\$53.3 million in the financial year 2016. Other Regions accounted for 2.9% of Group revenue.

ELPs revenue in Other Regions decreased by 22.3% to US\$11.5 million, as higher sales in the Middle East and Africa were offset by lower sales in Latin America.

TEL products revenue in Other Regions increased by 17.4% to US\$41.2 million. Growth was mainly attributable to a sales increase in the Middle East as shipments of IADs rose, offsetting lower sales in Latin America.

CMS revenue in Other Regions was US\$0.6 million in the financial year 2016, as compared to US\$0.5 million in the previous financial year.

Acquisition of LeapFrog

On 4 April 2016 VTech completed the acquisition of LeapFrog Enterprises, Inc. (LeapFrog), with the result that it became an indirect wholly-owned subsidiary of VTech. The acquisition was effected by way of a tender offer that had been announced in February 2016. The consideration was approximately US\$72 million and the acquisition was financed through internal resources.

LeapFrog is a strong educational toy brand, and complements VTech in geographical strength, product mix, skill sets and operations. VTech is stronger in Europe, while LeapFrog is more US focused. VTech performs well in standalone products, while LeapFrog's platform products are stronger in the US, Canada, the UK and Australia. VTech excels in technology and engineering, whereas LeapFrog has an edge in content development, backed by a strong education team. VTech's manufacturing is done predominantly in its own factories, while LeapFrog out-sourced its entire manufacturing. The Group will make it a priority to consolidate and streamline both companies' back-end operations, including logistics and manufacturing. This presents opportunities for improving the overall cost structure of the combined company. The acquisition will allow VTech to offer the broadest portfolio of products that enhance the education and development of children around the world.

Outlook

Despite a strong US dollar and slow economic growth in both the US and Europe, management expects the Group's revenue to be higher in the financial year 2017. Profitability, however, will be impacted by the integration of LeapFrog, which will make a negative contribution during the financial year 2017.

ELPs revenue is forecast to grow due to a number of positive factors. The acquisition of LeapFrog will result in an immediate sales contribution. Sales of VTech branded standalone products are expected to increase further. The successful baby line and Go! Go! Smart Wheels will be expanded, while the award-winning Go! Go! Smart Friends® will see the introduction of a princess-themed line that combines traditional role-play with cutting-edge technology, providing a multi-sensory learning experience. The Little Love/Baby Amaze ranges will see more products added to take advantage of good demand. New core infant, toddler and preschool products will also be launched. This will be augmented by the introduction of several new LeapFrog branded learning toys. Geographically, VTech's

ELPs sales in China and Australia will grow further, supported by increased sales and marketing efforts, new product launches and the continued growth of online sales.

With the addition of LeapFrog branded products, the combined platform product business will see growth. In the VTech branded line, Touch & Learn Activity Desk™ Deluxe, a three-in-one learning desk designed for children aged between two and five, will be launched globally during the calendar year 2016. The handy communication device for children, DigiGo, which was well received following its launch in Europe in late September 2015, will be rolled out to the US market this year. Similarly, the Group's key European markets will start to launch Kidizoom Smartwatch DX later this year following the successful debut in the US. For the LeapFrog branded line, a new multi-activity learning platform will be launched and will contribute to the overall platform product business. The combined VTech and LeapFrog tablet offerings will give the Group a strong presence in the children's educational tablet category.

The TEL products business is expected to improve, buoyed by higher sales of commercial phones and other telecommunication products. Global product launches, new sales channels and geographic expansion will help to maintain the momentum in baby monitors. Sales of CAT-iq handsets will continue to increase, based on the shift from PSTN (Public Switched Telephone Networks) to VoIP (Voice over Internet Protocol) technology. ErisTerminal is gaining customer acceptance and market attention. New models with enhanced features will be rolled out to the US market in the second half of this financial year, while VTech has recently secured a significant new project in Korea. ErisStation will benefit from wider distribution and new SIP-based models designed for large conference rooms that will be introduced in the US market. The Group's wireless monitoring system based on the ULE (Ultra Low Energy) standard will add incremental sales.

The decline in sales of residential phones is expected to moderate. In the US, the Group aims to capture more market share by growing online sales and introducing new products with enhanced Connect-to-Cell features. In Europe, the business is expected to stabilise, while higher sales in Australia and Japan will support growth in Asia Pacific.

Higher sales are forecast for CMS. Professional audio equipment will grow further as VTech's strong reputation attracts more customers and a new design support approach secures new projects. As category leaders, existing customers are expected to grow their businesses further, resulting in additional orders for the Group. Hearables will grow as existing customers expand their businesses. The successful production of the world's first wireless smart earphones shows VTech's manufacturing capability in the growing area of

miniaturisation, enabling VTech CMS to target more business in miniaturised electronic devices. Industrial products will grow as the Group continues to benefit from the consolidation of suppliers by a customer. However, for switching mode power supplies, the change of ownership of a customer creates some uncertainty.

The Group has signed an agreement to acquire the assets from a third party which allows VTech CMS to extend its supply chain vertically and secure the supply of high precision metal tooling and parts. Contribution from this acquisition would start in the fourth quarter of the financial year 2017.

Costs remain a key area of focus for management. Material costs are expected to be largely stable, but labour costs and manufacturing overhead are expected to rise moderately. The Group will therefore continue to offset cost increases through more automation, process improvement and product optimisation.

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About VTech

VTech is the global leader in electronic learning products from infancy through toddler and preschool and the world's largest manufacturer of cordless phones. It also provides highly sought-after contract manufacturing services. Since its establishment in 1976, VTech has been a pioneer in the electronic learning toy category. With state-of-the-art educational expertise and cutting-edge innovation, VTech products provide fun and learning to children around the world. Leveraging decades of success, VTech's diverse collection of telecommunication products elevates the consumer experience through state-of-the-art technology and design. As one of the world's leading electronic manufacturing service providers, VTech offers world-class, full turnkey services to customers in a number of product categories. The Group'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. For more information, please visit www.vtech.com.

Note: Starting from 22:30, 17 May 2016 (HKT), the video archive of the FY2016 annual results announcement can be accessed through VTech website via this link

<https://www.vtech.com/en/investors/financial-briefings/>

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