

FOR IMMEDIATE RELEASE

VTech Announces FY2015 Annual Results

Plans for modest revenue growth in FY2016

- Group revenue declined by 1.0% to US\$1,879.8 million
- Profit attributable to shareholders of the Company down 2.8% to US\$198.1 million
- Gross profit margin declined to 32.5%, from 33.4% in the last financial year
- Strong financial position, with deposits and cash of US\$294.2 million, and debt free
- Final dividend of US61.0 cents per ordinary share, providing a full-year dividend of US78.0 cents per ordinary share, a 2.5% decrease over last year
- Strong pipeline of new products

Hong Kong, 19 May 2015 – VTech Holdings Limited (HKSE: 303) today announced its results for the year ended 31 March 2015, reporting a decline in revenue and profit.

Group revenue for the year ended 31 March 2015 declined by 1.0% to US\$1,879.8 million. The decrease was mainly due to lower revenue in North America, which offset higher revenue in Europe, Asia Pacific and Other Regions.

Profit attributable to shareholders of the Company decreased by 2.8% to US\$198.1 million, as gross profit declined because of a change in product mix and the weaker-than-expected performance of children's educational tablets. Basic earnings per share fell by 3.0% to US78.9 cents, compared to US81.3 cents in the previous financial year.

The Board of Directors has proposed a final dividend of US61.0 cents per ordinary share, providing a full-year dividend of US78.0 cents per ordinary share, a 2.5% decrease over the US80.0 cents per ordinary share declared in the financial year 2014.

“In the financial year 2015, VTech continued its drive for product innovation and expanded its presence in existing and new markets, while continuing to raise levels of productivity. Telecommunication products returned to growth and contract manufacturing services again performed well. However, electronic learning products faced challenges in the children's

tablet market, affecting the Group's revenue and profitability," said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited.

Costs and Operations

Cost of materials remained largely unchanged in the financial year 2015 and a weakening of the Renminbi against the US dollar helped reduce costs. Despite wage inflation in China, labour costs and manufacturing overheads were also slightly lower as the Group continued to improve productivity through automation, process improvement and product optimisation. As a result, in the financial year 2015, the number of workers fell by a further 4.7% over the previous financial year. Despite these positive factors, the Group's gross margin declined year-on-year due to a change in product mix and the weaker-than-expected performance of children's educational tablets, which resulted in higher-than-anticipated trade allowances and increased stock provision.

Operations Review

North America

Group revenue in North America decreased by 5.4% to US\$899.5 million in the financial year 2015. Lower revenues from ELPs and CMS offset higher revenue from TEL products. North America remained VTech's largest market, accounting for 47.8% of Group revenue.

ELPs revenue in North America decreased by 16.2% to US\$300.0 million, as sales of both platform and standalone products declined. Nevertheless, in the calendar year 2014, VTech became the number one manufacturer in Infant and Preschool Electronic Learning toys in the US market¹.

In platform products, sales of VTech's InnoTab[®] range of educational tablets suffered from higher-than-expected channel inventory and severe competition, heightened by the contraction of the children's tablet market². In July 2014, VTech launched Kidizoom[®] Smartwatch, the world's first smartwatch for children with a built-in camera, in the US. It achieved strong sales and was recognised in numerous top toy lists.

¹ Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the combined toy categories of infant electronic learning, other infant toys and preschool electronic learning for the 12 months ending December 2014

² Source: NPD Group, Retail Tracking Service

Standalone products showed a slight sales decline, as retailers tightened inventory management. Strong growth of the Go! Go! Smart family of products was offset by lower sales of the core infant and preschool learning products. Switch & Go Dinos[®] also recorded a sales decrease as the product line matured. During the financial year 2015, Go! Go! Smart Wheels[®] was extended with the introduction of new models. The launch of Go! Go! Smart Animals[™] nationwide, coupled with the exclusive launch of Go! Go! Smart Friends[®] in partnership with Toys“R”Us, added incremental sales. The Go! Go! Smart Animals Zoo Explorers Playset won the prestigious “2015 Infant/Toddler Toy of the Year (TOTY) Award” from the American Toy Industry Association.

TEL products revenue in North America rose by 4.4% to US\$416.0 million. The increase was driven by higher sales of commercial phones and other telecommunication products, offsetting a slight sales decline in residential phones.

Commercial phone sales continued to grow, as a result of higher sales of VTech’s small-to-medium sized business (SMB) phones and cordless headsets. This was augmented by the launch of ErisStation[™], the Group’s first conference phone with wireless microphones, and ErisTerminal[™], its SIP (Session Initiation Protocol) phone systems. Hotel phones also reported higher sales, as VTech continued to win new installations from global hotel brands. In other telecommunication products, baby monitors recorded a strong sales increase. The Group expanded its distribution channels and gained more placements, as major retailers began to replace older analogue models with VTech’s more advanced digital baby monitors.

Sales of residential phones, however, recorded a slight decline owing to the further contraction of the fixed-line telephone market. Despite this, VTech maintained its number one position in the US residential phones market³. The Group continued to gain retail shelf space and expand sales channels.

The revenue from CMS in North America decreased by 5.4% to US\$183.5 million, as sales declines in professional audio equipment and communication products were only partially offset by higher sales of solid-state lighting, industrial products, home appliances and medical and health products.

Sales of professional audio equipment declined as an existing customer placed fewer orders in response to over-inventory and completed transferring the manufacture of one product family to its own facility, where there was excess capacity. Sales of communication products also decreased, as a client’s product line reached the end of its life cycle. In contrast, sales of solid-state lighting and industrial products grew, as a customer ramped up orders in solid-

³ Source: MarketWise Consumer Insights, LLC

state lighting. VTech has also started to become the sole supplier to an existing industrial products customer. Home appliances posted good growth as a customer expanded its sales channels. Medical and health products recorded higher sales owing to new product launches by customers.

Europe

Group revenue in Europe increased by 2.6% to US\$812.3 million in the financial year 2015. Higher sales of TEL products and CMS offset a sales decline in ELPs. Europe was VTech's second largest market, accounting for 43.2% of Group revenue.

ELPs revenue in Europe decreased by 6.0% to US\$362.6 million, as higher sales of standalone products failed to offset a decrease in sales of platform products. The depreciation of the Euro and Pound Sterling against the US dollar during the financial year 2015 also negatively impacted the reported revenue. Among the Group's key Western European markets, sales in Germany increased, while those in the UK, France and Spain declined.

For platform products, VTech's educational tablet InnoTab/Storio[®] faced similar challenges as in North America, namely, high channel inventory and market contraction. Despite this, InnoTab/Storio remained the best-selling children's tablet in Europe, and regained the number one position among all toys in the top five European markets in the calendar year 2014⁴. Kidizoom Smartwatch was introduced to the Group's major European markets in June 2014 and performed well, becoming one of the top 10 best-selling new toys in the UK in 2014⁵. It was also selected as one of the "Top 12 Dream Toys 2014" by the British Toy Retailers Association.

For standalone products, growth was driven by the Toot-Toot family of products. New models were added to the popular Toot-Toot Drivers[®] range, while Toot-Toot Animals[®] was launched in VTech's key European markets. In the calendar year 2014, VTech again increased its market share and strengthened its position as the number one infant toy manufacturer in France, the UK and Germany, while becoming the largest infant toy manufacturer in Spain⁶.

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

⁵ Source: NPD Group, Retail Tracking Service

⁶ Source: NPD Group, Retail Tracking Service

Among new products, the Group launched Kidizoom® Action Cam in its major European markets in March 2015. This latest addition to the popular Kidizoom range of cameras has been well received by customers. In the fourth quarter of the financial year 2015, new models of Little Love®, a range of interactive baby dolls, hit the shelves. They met with an especially positive reception in France, where the new Peek-a-Boo doll became the best-selling nurturing doll of Spring 2015⁷.

Revenue from TEL products in Europe increased by 2.0% to US\$157.4 million, as higher sales of commercial phones and other telecommunication products offset a sales decline in residential phones.

For commercial phones, sales of SIP phones increased as VTech continued to expand its distribution channels. Sales of CAT-iq handsets enjoyed strong growth as Network Operators continue to encourage the replacement of traditional PSTN (Public Switched Telephone Network) services with VoIP (Voice over Internet Protocol) services. Sales of baby monitors increased as the Group introduced new video models, completing a full range of products for the market.

Sales of residential phones were lower, mainly due to the decline of the fixed-line telephone market. Despite this, VTech maintained its market share as one of the leading cordless phone manufacturers in the region⁸.

CMS revenue in Europe increased by 16.1% to US\$292.3 million, driven by higher sales in most product categories. Sales of wireless headsets saw growth as VTech secured more orders from existing customers. One client placed additional orders in recognition of good customer service while another launched new products that were well-received by the market. Sales of switching mode power supplies were higher as an existing customer increased orders in a new business area for data centres, and in response to the region's general upgrade from 3G to 4G technology. Sales of home appliances rose owing to more orders from an existing customer in Italy. Sales of professional audio equipment, however, registered a decline, as a client transferred products requiring custom configuration to in-house production.

⁷ Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales of all nurturing dolls in France by unit from January to April 2015

⁸ Source: MZA Ltd, 2015

Asia Pacific

Group revenue in Asia Pacific increased by 8.0% to US\$117.6 million in the financial year 2015, with higher sales in all three product lines. Asia Pacific accounted for 6.3% of Group revenue.

Revenue from ELPs in the Asia Pacific increased by 21.6% to US\$25.9 million, on the back of growth in China, Hong Kong and Korea. The growth in China was driven by the continued good performance of Switch & Go Dinos, together with the introduction of Go! Go! Smart Wheels and Kidizoom Smartwatch. In Hong Kong, growth was seen in all product categories as the Group increased its sales and marketing efforts. Further inroads were made in Korea, following the expansion of the distribution network. Sales in Australia recorded a decline as VTech completed the transition from the previous distribution arrangement for ELPs to its own sales office, positioning itself for future growth.

TEL products revenue increased by 4.6% to US\$43.0 million. Sales growth was recorded in Australia and Japan, the Group's major markets in Asia Pacific. Sales in Australia rose as residential phones and baby monitors recorded higher sales. For residential phones, VTech increased market share as a result of gaining more retail shelf space, while baby monitors were supported by the expansion of distribution channels in the country. Higher sales were achieved in Japan as a customer launched new models. The Group also made inroads in Thailand, Malaysia and Korea.

CMS revenue in Asia Pacific increased by 4.7% to US\$48.7 million, driven by higher sales of wireless products, medical and health products and solid-state lighting. Sales of wireless products posted good growth, driven by increased orders of wireless headsets and the sales contribution from a new customer. Sales of medical and health products increased, as a customer in Japan benefited from the weaker Japanese Yen and achieved higher sales. Growth in solid-state lighting was supported by additional orders arising from the Youth Olympic Games in Nanjing, China in the first half of the financial year 2015.

Other Regions

Group revenue in Other Regions, namely Latin America, the Middle East and Africa, rose by 6.1% to US\$50.4 million in the financial year 2015. Other Regions accounted for 2.7% of Group revenue.

ELPs revenue in Other Regions increased by 10.4% to US\$14.8 million, as a sales decline in the Middle East was offset by higher sales in Latin America and Africa.

TEL products revenue in Other Regions increased by 6.7% to US\$35.1 million, with higher sales in Latin America, the Middle East and Africa.

CMS revenue in Other Regions was US\$0.5 million in the financial year 2015, as compared to US\$1.2 million in the previous financial year.

VTech Strategies

The Group's proven strategy focuses on four main areas: product innovation, market share gains, geographic expansion and operational excellence.

Product Innovation

Product innovation is the key to VTech staying ahead of the competition in fast-changing markets.

With regard to ELPs, the Group has a strong pipeline of products. In standalone products, the successful Go! Go! Smart family is being expanded through the introduction of different themes, more vehicles and more playsets. In the US, Go! Go! Smart Friends, which was launched exclusively with Toys“R”Us last year, will be introduced nationwide in the calendar year 2015. VTech will also enter new aisles by launching new categories of product. The global launch of Flipsies™, a range of transformable dolls and playsets, will enable the Group to penetrate into the girl aisle. VTech is also successfully breaking into the dolls aisle with a range of interactive dolls, branded Little Love® in Europe and Baby Amaze™ in the US, which was first launched in the European markets in June 2014. Kidizoom Action Cam, the latest addition to VTech's range of cameras for children, will also be launched globally in the calendar year 2015. For core learning products, VTech will continue to broaden and refresh its product portfolio, adding over 100 new models worldwide.

The portfolio of platform products will become more diversified. The Group will build on the success of Kidizoom Smartwatch to roll out a new generation of this popular product. The calendar year 2015 will also see the launch of new innovative platform products. Despite recent challenges, VTech intends to stay in the children's tablet market as it remains a sizeable business around the world. Market research shows that parents are still looking for VTech tablets, as they are specifically designed for children, with content that is both educational and engaging. The Group will focus on bringing out tablet products that are even more compelling for both children and their parents.

In TEL products, commercial phones and other telecommunication products will continue to be the growth drivers. New models will be introduced for ErisTerminal and ErisStation to complete a full product range for VTech SIP phone systems and conference phones. The highly successful baby monitor range will be expanded with new video models boasting a bigger screen, as well as Wi-Fi enabled devices. The Group is also planning to enter the “Smart Home” arena by launching a range of wireless monitoring devices based on the ULE (Ultra Low Energy) standard. These products include specially designed, ULE enabled cordless phones, IP hubs, baby monitors and a high-definition Wi-Fi camera, which wirelessly connect to a range of ULE controls and sensors. In residential phones, the Group will continue to launch feature-rich products with superior design to strengthen its global leadership in cordless phones.

VTech CMS enjoys an enviable reputation for service and expertise in certain product categories. Supported by a stringent quality control system and an experienced management team, the Group will continue to innovate in the area of Design for Manufacture (DFM), delivering flexible service and high quality products. Competence in handling low to medium volumes and a high mix of different products enables VTech to grow with new customers from a small base, which is an important factor in the continuous growth of CMS.

Gains in Market Share

In addition to developing a steady stream of innovative products and breaking into new product categories, VTech strives to increase market share through improving services and increasing its efforts in sales and marketing.

In the calendar year 2014, VTech gained market share and reaffirmed its position as the number one cordless phone manufacturer worldwide⁹. The Group also strengthened its position as the global leader in ELPs from infancy and preschool¹⁰. VTech CMS continued to be one of the world’s top 50 EMS providers¹¹.

Geographic Expansion

As markets outside North America and Europe currently account for less than 10% of Group revenue, VTech will put more emphasis on expanding in Asia Pacific and Other Regions. In Asia Pacific, the Group will focus on increasing its presence in China and Australia, where its

⁹ Source: MZA Ltd, 2015

¹⁰ Source: MarketWise Consumer Insights, LLC and NPD Group Retail Tracking Service. Ranking based on 2014 total estimated annual retail sales in the combined toy categories of infant electronic learning and preschool electronic learning

¹¹ Source: *Manufacturing Market Insider*, March 2015

products have been well received. Recently, VTech has established its own sales office for ELPs in Australia, aiming to drive growth by providing better support to its retailer customers and increasing sales and marketing efforts. The Group has also started selling residential phones under the VTech brand in Australia, following the expiry of the licensing agreement with Telstra in December 2014. The Group will step up its efforts to extend its reach into Japan and Korea. In Other Regions, selected markets in Latin America and the Middle East will continue to be developed.

Operational Excellence

Operational excellence is crucial for raising competitiveness and driving profitable growth. As wages in China continue to rise and recruitment becomes more difficult, VTech will increase automation by deploying more standard and in-house custom-made machines. Together with continuous process improvement and the optimisation of products for manufacturing, this will allow the Group to reduce the number of workers further while increasing output.

Outlook

The US economy continues its moderate recovery. However, the prospects for Europe are uncertain and quantitative easing by the European Central Bank has already led to a significant depreciation of the Euro, which will have a negative impact on our European revenue.

Despite a mixed picture, the Group is planning for a modest revenue increase in the financial year 2016.

The business of ELPs is expected to be stable. Sales of platform products are forecast to decline, as the children's tablet market remains challenging. The sales contribution of children's educational tablets will become smaller year-on-year, while Kidizoom Smartwatch will continue to grow. Furthermore, new innovative platform products will contribute additional revenue streams. Standalone products are forecast to grow, bolstered by the expansion of the Go! Go! Smart family, nationwide distribution of Go! Go! Smart Friends in the US and the launch of Kidizoom Action Cam and Flipsies worldwide. Extension of the Little Love/Baby Amaze line will enable VTech to increase its presence in the dolls category in Europe, while winning shelf space in the US. The new core infant and preschool learning products will strengthen the Group's leadership position in these categories.

TEL products are expected to maintain their positive sales trend, led by commercial phones and other telecommunication products. In commercial phones, the Group will benefit from the full deployment of CAT-iq (Cordless Advanced Technology - internet and quality) handsets in major European countries such as France, Germany and Switzerland. The introduction of the new conference phones and SIP phone models will further stimulate growth. VTech is also stepping up its efforts on the interoperability of its SIP based products with Network Operators, which will boost market presence further. Higher sales of other telecommunication products will come from the strong momentum of baby monitors, as sales channels are expanded and further new products introduced. The global launch of the wireless monitoring system will add incremental sales. Despite the continued decline of the overall fixed-line telephone market, sales of VTech residential phones are forecast to be stable as the Group is maintaining its leading position in North America and Europe, while growing its market share in Asia Pacific and Other Regions.

Sales of CMS are expected to increase. Professional audio equipment is on track to return to a growth path. The customer who faced excess inventory has worked through the issue and intends to increase orders. Business with other professional audio customers will grow, as VTech secures more projects owing to its service excellence. The Group also added new clients in professional audio equipment in the last financial year, who will ramp up orders gradually in this financial year. Wireless headsets will achieve further growth as existing customers launch new products. VTech's strong reputation in the wireless product area enables the Group to enter new product categories, such as smart hearable and wearable devices. Business from solid-state lighting will remain stable. In contrast, the change of ownership of a customer in switching mode power supplies creates uncertainty. To cope with the growth, a new factory building has been built for CMS. It will commence operations in July 2015, increasing manufacturing capacity by 25%.

On gross margin, the Group does not anticipate any improvement year-on-year against the backdrop of the strong US dollar. Cost of materials is expected to be stable and the Renminbi to remain in a narrow range. Labour costs and manufacturing overheads in China will rise further. The Group will continue to offset these cost increases through automation, process improvement and product optimisation.

"VTech has a culture rooted in innovation and technology. Our market leadership, R&D capability, strong balance sheet and operational efficiency differentiate us from our competitors. We will continue to bring out innovative products, increase market share, expand geographically and strive for operational excellence to generate sustainable returns for shareholders," 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, 19 May 2015 (HKT), the video archive of the FY2015 annual results announcement can be accessed through VTech's homepage via this link <http://www.vtech.com/en/investors/webcasts>.

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