

FOR IMMEDIATE RELEASE

VTech Announces 2017/2018 Interim Results

Higher revenue and profit as LeapFrog and Snom consolidated

- Group revenue increased 5.8% to US\$1,039.7 million
- Profit attributable to shareholders of the Company rose 45.1% to US\$103.6 million
- Gross margin improved from 31.9% to 32.3%
- Interim dividend of US17.0 cents per ordinary share, the same as the dividend paid in the corresponding period last year
- Well-positioned to achieve further growth

Hong Kong, 9 November 2017 – VTech Holdings Limited (HKSE: 303) today announced its results for the six months ended 30 September 2017, reporting higher revenue and profit.

“The first six months of the financial year 2018 saw further progress at VTech. Revenue and profit increased as the Group reaped the benefit of its successful consolidation of the operations of LeapFrog and Snom. The growth of electronic learning products, however, was impacted by Toys“R”Us, which filed for bankruptcy protection in the US and Canada on 18 September this year,” said Mr. Allan Wong, Chairman and Group CEO of VTech Holdings Limited.

Results and Dividend

Group revenue for the six months ended 30 September 2017 increased by 5.8% to US\$1,039.7 million, supported by higher sales in North America, Europe and Asia Pacific.

Profit attributable to shareholders of the Company increased by 45.1% to US\$103.6 million. The rise in profit was due to higher revenue, product mix improvement, the absence of the one-off costs associated with the integration of LeapFrog Enterprises, Inc. (LeapFrog) and the contribution from the Snom Technology GmbH (Snom) business.

Basic earnings per share rose by 45.1% to US41.2 cents, compared to US28.4 cents in the first six months of the previous financial year.

The Board of Directors has declared an interim dividend of US17.0 cents per ordinary share, unchanged from the interim dividend declared in the corresponding period last year.

Costs and Operations

The Group's gross profit margin in the first six months of the financial year 2018 rose from 31.9% to 32.3%. The improvement was mainly due to a more favourable product mix, a positive currency impact and productivity gains, despite an increase in materials prices. During the period, the Group has successfully brought most of the LeapFrog and Snom products in-house for manufacture.

Segment Results

North America

Group revenue in North America increased by 5.3% to US\$499.7 million in the first six months of the financial year 2018. Sales of electronic learning products (ELPs) and contract manufacturing services (CMS) were higher, offsetting lower sales from telecommunication (TEL) products. North America was VTech's largest market, accounting for 48.0% of Group revenue.

ELPs revenue in North America rose by 2.6% to US\$192.4 million, driven by higher sales of both standalone and platform products. For the first nine months of the calendar year 2017, the Group maintained its position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US¹.

¹ Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales of VTech and LeapFrog products in the combined toy categories of early electronic learning, other infant toys, bath toys, electronic entertainment (excluding tablets) and preschool electronic learning for the calendar year ending September 2017

Revenue growth was negatively impacted by the filing for bankruptcy protection by Toys“R”Us. VTech’s sales to the retailer up to the date of the filing were covered by credit insurance. After the filing, shipments were no longer covered, and hence were temporarily suspended, pending negotiation of new terms. The Group makes every effort to support its long-term business partners and has worked closely with Toys“R”Us to ensure the right products are delivered to consumers in the run-up to the holiday season.

One of the Group’s strategies in the financial year 2018 has been to grow the LeapFrog standalone toy business. By launching more learning toys under the LeapFrog brand, this strategy has seen initial success in the first half, with rising sales of the brand’s standalone products. A number of the infant and preschool products performed particularly well, including both new and classic items, namely 2-in-1 LeapTop Touch™, Mr Pencil’s Scribble & Write™, Scoop & Learn Ice Cream Cart™, as well as My Pal Scout and Violet. Scoop & Learn Ice Cream Cart was featured in *The Toy Insider’s* “Hot 20” list of the hottest toys of the season.

In VTech standalone products, there were higher sales of preschool products and the Kidizoom® Camera range, which offset declines in the infant category and the Go! Go! Smart family of products. Among the successes, Pop-a-Balls™ Drop & Pop Ball Pit™ was included in Walmart’s “Chosen by Kids” Top Toys List. The all-weather Kidizoom Action Cam 180 was named in *The Toy Insider’s* 12th annual Holiday Gift Guide, alongside the new GearZooz™ Roll & Roar Animal Train™. Despite a decline in overall Go! Go! Smart sales, several new products were well received by the market, with Go! Go! Smart Wheels® Race & Play Adventure Park™ making the elite “Hot 20” list at *The Toy Insider*. During the period, the Group also brought its product innovation to the outdoor tricycle category, with the “grow-with-me” 4-in-1 Stroll & Grow Tek Trike™.

Among platform products, the Kidizoom Smartwatch range remains a growth driver. The older models continued to sell well, while the launch of the third generation Kidizoom Smartwatch DX2 featuring dual cameras, and a new Star Wars™ themed version, added to the momentum. Touch and Learn Activity Desk™ Deluxe and the LeapStart™ Interactive Learning System, which were both launched in August last year, continued to perform well. In August 2017, the Group introduced an updated LeapStart system, with an enhanced stylus and additional titles, including licensed books. This product was included in *The Toy Insider’s* 12th annual Holiday Gift Guide. A new children’s communication device called KidiBuzz™ also hit the US shelves. During the period, the Group launched LeapPad™ Ultimate to replace LeapPad Platinum, while LeapFrog Epic™ was updated with the new Academy Edition. Despite these new launches, sales of children’s educational tablets decreased in line with the overall market decline.

Adding a new dimension to the Group's offerings, the LeapFrog Academy™ was launched in major English-speaking countries in August 2017. This is a subscription-based guided learning system for children aged 3 to 6 years. Designed by educational experts, it currently offers over 1,000 curriculum based activities.

TEL products revenue in North America decreased by 8.5% to US\$166.6 million, as continued growth in commercial phones and other telecommunication products was unable to offset a further sales decline in residential phones, which reflected the ongoing contraction of the fixed-line telephone market. Nonetheless, VTech maintained its leadership position in the US residential phones market².

Commercial phones and other telecommunication products posted growth, driven by higher sales of headsets, small to medium sized business (SMB) phones, VoIP (Voice over Internet Protocol) phones and conference phones. Sales of headsets rose on the popularity of the Bluetooth models specially designed for the professional trucker market. The growth of VoIP phones was attributable to the contribution of Snom, the German company acquired in November last year. The VTech branded ErisStation®, a conference phone with wireless microphones, achieved a sales increase as new channels were developed. Hotel phones sales were stable, while baby monitors saw a slight sales decline as customers delayed project launches to the second half of the financial year. Despite this, the market continued to respond well to the Group's two new baby monitor products, one featuring a video camera with interchangeable standard and wide-angle lenses, the other a Wi-Fi remote access high definition camera with local viewer.

CMS revenue in North America increased sharply by 34.4% to US\$140.7 million, as higher sales of professional audio equipment, solid-state lighting and industrial products offset a decline in communication products. Sales of professional audio equipment recorded significant growth. The growth was mainly driven by higher demand of new active speakers launched by an existing customer. A recovery of orders from another existing customer as it worked through an excess inventory issue that had impacted orders in the previous financial year also contributed to the growth. Sales of solid-state lighting grew as an existing customer transferred production of a product line to VTech. Industrial products also posted solid growth, as we gained orders for printed circuit board assembly for industrial printers and note counting devices. Sales of communication products, however, registered a decline as a client's product line reached the end of its life cycle. Sales of home appliances were stable during the period.

² Source: MarketWise Consumer Insights, LLC

Europe

Group revenue in Europe increased by 0.3% to US\$413.7 million in the first six months of the financial year 2018, as higher sales of ELPs and TEL products offset a decline at CMS. Europe remained VTech's second largest market, accounting for 39.8% of Group revenue.

ELPs revenue in Europe rose by 7.8% to US\$155.7 million, with growth in both standalone and platform products. Geographically, all the Group's key Western European markets, namely France, UK, Germany, the Benelux and Spain recorded sales increases. In the first nine months of the calendar year 2017, VTech strengthened its position as the number one infant and toddler toy manufacturer in France, UK, Germany, Spain and Belgium³.

Growth in standalone products was driven by higher sales of both VTech and LeapFrog infant and preschool products, the Kidizoom Camera range, as well as the Kidi and Little Love[®] lines. These offset lower sales of the Toot-Toot family of products. During the first six months of the financial year 2018, VTech ELPs garnered many awards in Europe. Kidizoom Flix was included in the "Top 10 Toys for Christmas 2017" at Amazon in the UK. In France, VTech won four "2017 Grand Prix du Jouet" awards presented by *La Revue du Jouet* magazine. Little Love Puppy Pal was named "Toy of the Year 2017" and "Best Special Feature Doll", while GearZooz Roll & Roar Animal Train was named "Best Educational Toddler Toy".

Platform products sales in Europe increased during the first half of the financial year 2018, driven by Kidizoom Smartwatch, DigiGo[®] and LeapStart. The second generation Kidizoom Smartwatch DX, which was launched in all key Western European markets in the second half of the previous financial year, continued to perform well. Growth was supported by the new Star Wars themed Kidizoom Smartwatches and KidiCom[™] MAX, the new version of DigiGo. Sales of children's educational tablets recorded a decline.

Revenue from TEL products in Europe increased by 10.3% to US\$69.5 million. Higher sales of commercial phones and other telecommunication products offset lower sales of residential phones.

Growth in VoIP phones was the main reason for the sales increase as the Group consolidated the first full six months sales of the Snom business. Baby monitors were another factor behind the growth, due to good sell-through and increased orders from existing and new customers. Sales of CAT-iq (Cordless Advanced Technology – internet and quality) handsets also rose as the Group secured more orders from an existing customer and began to sell VTech branded

³ Source: NPD Group, Retail Tracking Service

CAT-iq handsets into the Swiss market. Integrated access devices (IADs) saw sales increase to existing and new customers, while hotel phones achieved good growth. Sales of residential phones continued to decline as the fixed-line telephone market contracted further.

CMS revenue in Europe decreased by 8.1% to US\$188.5 million. The decrease was mainly due to a fall in sales of switching mode power supplies, as a change in ownership led a customer to begin moving production back in-house. Sales of professional audio equipment and hearables retreated slightly. The decline in sales of professional audio equipment was due to a product being phased out by an existing customer. Keen competition in the wireless headset market explained lower sales of hearables. Despite this, sales of industrial products and medical and health products saw increases. Growth of industrial products was led by smart meters for the UK market. Utility suppliers are encouraging households to install the devices to track their energy consumption, supported by Government policy. Meanwhile, the Group ramped up orders of hearing aids to a European customer, driving growth in medical and health products.

Asia Pacific

Group revenue in Asia Pacific rose by 43.9% to US\$100.6 million in the first six months of the financial year 2018, with higher sales in all three product lines. Asia Pacific represented 9.7% of Group revenue.

Revenue from ELPs in Asia Pacific rose by 43.4% to US\$35.0 million, led by growth in mainland China, Australia, Hong Kong and South Korea. In mainland China, the Group benefited from new product launches, channel expansion and increased marketing efforts. In Australia and South Korea, the Group's products achieved broader listings, while more promotions drove sales higher in Hong Kong. Increased sales of LeapFrog branded products in other Asia Pacific markets also contributed to overall growth.

TEL products revenue in Asia Pacific rose by 30.7% to US\$21.7 million, driven by higher sales in Japan and Hong Kong. In Japan, the Group secured more projects and orders from an existing customer. In Hong Kong, VTech supplied telecommunication devices to a leading local broadband service provider, driving sales of IADs and CAT-iq handsets. Sales in Australia saw a decline despite increased sales of baby monitors, which were insufficient to offset lower sales of residential phones.

CMS revenue in Asia Pacific increased by 51.9% to US\$43.9 million. Higher sales of medical and health products, professional audio equipment, hearables and communication products

offset lower sales of solid-state lighting and home appliances. The sales contribution from the newly acquired high precision metal parts business added to growth.

Medical and health products gained momentum as the Group ramped up shipments of diagnostic ultrasound systems to its Japanese customer. Professional audio equipment posted higher sales as the Group's existing customers sold more products to mainland China. Sales growth in hearables was driven by orders from a new customer. Communication products performed well as VTech started producing the digital version of a marine radio for an existing customer. Sales of solid-state lighting and home appliances, however, recorded declines as customers faced keen competition.

Other Regions

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, decreased by 1.2% to US\$25.7 million in the first six months of the financial year 2018. Lower sales of TEL products in Other Regions offset higher sales of ELPs and CMS. Other Regions accounted for 2.5% of Group revenue.

ELPs revenue in Other Regions rose by 12.8% to US\$10.6 million for the period, as higher sales in the Middle East compensated for lower sales in Latin America and Africa.

TEL products revenue in Other Regions decreased by 10.5% to US\$14.5 million. The decline was attributable to lower sales in Latin America, offsetting growth in the Middle East and Africa.

CMS revenue in Other Regions was US\$0.6 million in the first six months of the financial year 2018, as compared to US\$0.4 million in the corresponding period of the last financial year.

Outlook

Group revenue for the financial year 2018 is expected to increase. Sales of TEL products are anticipated to pick up in the second half, while the good momentum behind CMS is forecast to continue. For ELPs, sales for the full financial year are difficult to gauge, as there is uncertainty regarding the level of shipments in the second half to Toys“R”Us, one of the Group's top five customers. Consequently, the trend in gross margin is also difficult to predict.

Despite the near-term uncertainty, the Group is experiencing good demand for its ELPs. In standalone products, the LeapFrog portfolio is being strengthened by the introduction of more new learning toys, while VTech infant and toddler products, as well as the Kidizoom Camera range, are gaining market share. Platform products will benefit from the strong sell-through of Kidizoom Smartwatch, LeapStart and the newly introduced children's communication devices KidiBuzz and KidiCom MAX. Subscriptions to the LeapFrog Academy are expected to grow in the second half as more marketing efforts come on stream and more LeapFrog Epic Academy Editions are sold through during the holiday seasons. Geographically, Asia Pacific will continue to outperform. The relaxation of the one child policy in mainland China is increasing the size of the Group's target market for baby and infant products. In Australia and South Korea, broader listings will continue to drive sales growth in these two key regional markets.

Sales of TEL products are expected to recover in the second half resulting in full-year growth, as sales of commercial phones and other telecommunication products continue to improve, offsetting a further decline in sales of residential phones. Two key new VoIP phones have been introduced by Snom, one features a large, full-colour LCD screen and the other has a high resolution second screen for programmable function keys. Conference phones will also benefit from new Snom models and the development of additional sales channels. Hotel phones will grow as previously delayed projects come on-stream and a new Boutique range catering to the demand for smaller handsets is launched. The strong momentum in headsets for the professional trucker market is expected to continue. Additionally, VTech will launch two new headset models for the business market later in the financial year. The popular VTech baby monitors will see growth due to increased retail shelf placement. Sales of CAT-iq handsets and IADs will grow as a result of increasing orders from both existing and new customers.

VTech CMS is forecast to achieve solid growth for the full year, despite a slow EMS market in the first six months of the calendar year 2017⁴. Sales are expected to rise on the back of increasing orders from existing customers in professional audio, wearables, industrial products, solid-state lighting as well as medical and health products, offsetting a further decline in switching mode power supplies. There will also be a full-year sales contribution from the high precision metal parts business. To position CMS for further growth, the Group plans to migrate towards "Industry 4.0", in which machines are augmented with web connectivity and connected to a system that can visualise the entire production chain and make autonomous decisions. VTech believes that by embracing this concept it will continue to achieve excellence in manufacturing, thereby lowering costs, increasing productivity and improving time to market for its customers.

⁴ Source: *Manufacturing Market Insider*, August 2017

“VTech has had a solid first half despite near-term uncertainties. With strength in product innovation, market leadership and operational excellence, we are confident in the Group’s long-term outlook. VTech is well-positioned to achieve further growth and deliver sustainable returns to shareholders,” said Mr Wong.

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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 advanced educational expertise and cutting-edge innovation, VTech products provide fun and learning to children around the world. Leveraging decades of success in cordless telephony, VTech’s diverse collection of telecommunication products elevates both home and business users’ experience through the latest in 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.

Note: Starting from 22:30, 9 November 2017 (HKT), the video archive of the 2017/2018 interim results announcement can be accessed through VTech website via this link

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

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