

5 May, 2021

Dr. Allan Wong
Chairman and Group Chief Executive Officer
VTech Holdings Limited
23/F, Tai Ping Industrial Centre
Block 1, 57 Ting Kok Road
Tai Po, New Territories
Hong Kong

Dear Dr. Wong,

Greetings! As a long-term shareholder of VTech, we write to you on behalf of our investors and Chartwell Capital to express our sincere gratitude for the shareholder value that you and the management team have delivered over the years. The Company's outstanding engineering and manufacturing capabilities have played a pivotal role in the development of children toys and education, as well as telecommunications equipment. While there are infinite opportunities ahead, our recent research has pointed us towards several directions, which we would like to share with you in this letter. We welcome your insights and comments and hope to facilitate further discussion on the following topics:

1) Become an education technology solution provider

The early childhood (age 0-8) education technology ("EdTech") global market was worth USD10 billion in 2020 and accounted for just 3.6% of total spending on early childhood education. Studies¹ have shown that technology not only increases learning engagement, but also benefits children's social, physical, and cognitive development. The global early childhood EdTech market is expected to more than double by 2025 to USD24 billion, and VTech is in a prime position to gain a foothold.

With a proven track record of supplying electronic learning products ("ELP") since 1976, we suggest that management allocate more capital towards R&D to strengthen its EdTech learning solutions. Specifically, we hope to see VTech reformulate its products to address science, technology, engineering and mathematics ("STEM") subjects to better prepare children for formal education

¹ Werling, Krista. *The Effects of Technology in Early Childhood*, Northwestern College, 2020

either from home or in the classroom. Alternatively, VTech may establish an investment arm to conduct direct investments or form partnerships within the EdTech space. By deploying part of its free cash flow towards the incubation of early-stage companies, VTech can explore new opportunities without the need for day-to-day management or extra operating costs.

2) Build on retail success by offering educational solutions to institutions

VTech's primary business is the production and distribution of children's toys through retail channels. In line with our first proposal, VTech can build on its solid position in the retail ELP market to provide solutions for educational institutions. If VTech can harness the knowledge of PhD learning experts from its LeapFrog acquisition to develop systematic learning programs, it can directly engage pre-primary educational institutions on a number of levels: (1) supply ELP products for leisure and play, (2) supply select ELP products that cater to existing curriculums, and (3) provide proprietary education programs supported by tailored ELP products.

The addressable market for this service is enormous with nearly USD19 billion spent on 3 million private preschool and nursery students across the US and UK, VTech's largest ELP markets. As a starting point, VTech may consider piloting this program in its own backyard in Hong Kong. We hope that in doing so, VTech can play a part in ensuring that our future generations are intelligent, inquisitive, and future-ready.

With Chartwell's extensive research library and stakeholder network in the EdTech industry, we are eager to share our knowledge and introduce potential partners to take VTech to new heights! We look forward to hearing your thoughts on this.

Sincerely,



Ronald Chan
Chief Investment Officer
Chartwell Capital Limited