VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

PERFORMANCE HIGHLIGHTS

- Group revenue was up by 2.1% to US$876.1 million
- Profit attributable to shareholders of the Company increased by 3.1% to US$91.2 million
- Strong balance sheet, with deposits and cash of US$108.9 million
- Interim dividend of US16.0 cents per ordinary share, same as the dividend paid in the corresponding period last year

UNAUDITED INTERIM RESULTS

The directors (the "Directors") of VTech Holdings Limited (the "Company") announce the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2012 together with the comparative figures for the same period last year as follows:

CONSOLIDATED INCOME STATEMENT

		(Unaudited) Six months ended 30 September		(Audited) Year ended 31 March
		2012	2011	2012
	Note	**US$ million**	US$ million	US$ million
Revenue	3	**876.1**	858.1	1,784.5
Cost of sales		**(609.8)**	(597.1)	(1,213.7)
Gross profit		**266.3**	261.0	570.8
Selling and distribution costs		**(111.9)**	(112.9)	(255.0)
Administrative and other operating expenses		**(26.6)**	(23.5)	(49.1)
Research and development expenses		**(28.5)**	(28.3)	(57.2)
Operating profit	3 & 4	**99.3**	96.3	209.5
Net finance income		**1.9**	1.6	2.1
Profit before taxation		**101.2**	97.9	211.6
Taxation	5	**(10.0)**	(9.4)	(19.7)
Profit for the period/year and attributable to shareholders of the Company		**91.2**	88.5	191.9
Earnings per share (US cents)	7			
- Basic		**36.5**	35.6	77.0
- Diluted		**36.5**	35.5	76.9

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) Six months ended 30 September 2012 US$ million	2011 US$ million	(Audited) Year ended 31 March 2012 US$ million
Profit for the period / year	**91.2**	88.5	191.9
Other comprehensive income (after tax and reclassification adjustments) for the period / year			
Fair value gains on hedging	**0.1**	1.3	1.4
Realisation of hedging reserve	**(0.8)**	(0.2)	(0.3)
Exchange translation differences	**(1.9)**	(3.2)	(2.7)
Surplus arising on revaluation of properties, net of deferred tax	**-**	-	9.1
Other comprehensive income for the period / year	**(2.6)**	(2.1)	7.5
Total comprehensive income for the period / year	**88.6**	86.4	199.4

CONSOLIDATED BALANCE SHEET

	Note	(Unaudited) 30 September 2012 US$ million	2011 US$ million	(Audited) 31 March 2012 US$ million
Non-current assets				
Tangible assets		**92.6**	78.3	91.0
Leasehold land payments		**5.1**	5.1	5.1
Investments		**0.2**	0.2	0.2
Deferred tax assets		**8.4**	7.9	5.9
		106.3	91.5	102.2
Current assets				
Stocks		**340.0**	320.2	239.2
Debtors, deposits and prepayments	8	**414.0**	369.9	244.2
Taxation recoverable		**0.2**	0.4	0.8
Deposits and cash		**108.9**	128.5	326.5
		863.1	819.0	810.7
Current liabilities				
Creditors and accruals	9	**(417.2)**	(376.4)	(314.9)
Provisions		**(31.5)**	(36.7)	(31.5)
Taxation payable		**(11.0)**	(11.6)	(4.5)
		(459.7)	(424.7)	(350.9)
Net current assets		**403.4**	394.3	459.8
Total assets less current liabilities		**509.7**	485.8	562.0
Non-current liabilities				
Deferred tax liabilities		**(5.7)**	(3.9)	(5.8)
Net assets		**504.0**	481.9	556.2
Capital and reserves				
Share capital		**12.5**	12.5	12.5
Reserves		**491.5**	469.4	543.7
Total equity		**504.0**	481.9	556.2

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 BASIS OF PREPARATION

The Directors are responsible for preparing the Interim Financial Report in accordance with applicable law and regulations. The unaudited Interim Financial Report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") including compliance with International Accounting Standard 34 ("IAS 34") – Interim Financial Reporting adopted by the International Accounting Standards Board (the "IASB").

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the changes mentioned in note 2.

The preparation of an Interim Financial Report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The Interim Financial Report has not been audited or reviewed by the auditors pursuant to the International Auditing Practices Board guidance on International Standards on Review Engagements 2400 "Review of Interim Financial Statements".

The financial information relating to the financial year ended 31 March 2012 included in the Interim Financial Report does not constitute the Company's annual financial statements for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31 March 2012 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 May 2012.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a few amendments to International Financial Reporting Standards ("IFRSs") that are first effective for the current accounting period of the Group and the Company. These include the amendments to IFRS 7, "Financial instruments: Disclosures – Transfers of financial assets".

The amendments to IFRS 7 concerning transfers of financial assets require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred.

None of the other developments are relevant to the Group's financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by geography. In accordance with IFRS 8 - Operating segments and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments.

- North America (including the United States and Canada)
- Europe
- Asia Pacific
- Others, which covers sales of electronic products to the rest of the world

The Company is domiciled in Bermuda. The results of its revenue from external customers located in North America, Europe, Asia Pacific and elsewhere are set out in the table below.

3 SEGMENT INFORMATION *(continued)*

Each of the above reportable segments primarily derive their revenue from the sale of telecommunication products, electronic learning products and products from contract manufacturing services to customers in the relevant geographical region.

All of these products and services are manufactured and performed in the Group's manufacturing facilities located primarily in the People's Republic of China, under the Asia Pacific segment.

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results and assets attributable to each reportable segment on the following bases:

(a) Segment revenues and results

Revenue is allocated to the reporting segment based on the location of the external customers. Expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those geographical locations or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is operating profit.

In addition to receiving segment information concerning operating profit, management is provided with segment information concerning revenue, depreciation and amortisation and impairment of assets.

(b) Segment assets and liabilities

Segment assets include all tangible and intangible assets and current assets with the exception of deferred tax assets and other corporate assets including taxation recoverable and investments.

Segment liabilities include trade creditors, bills payables, accruals and provisions for electronic product warranties attributable to the manufacturing and sales activities of the individual reportable segments with the exception of deferred tax liabilities and taxation payable.

Segment information regarding the Group's revenue, results, assets and liabilities by geographical market is presented below:

	Reportable segment revenue (Unaudited) Six months ended 30 September		**Reportable segment profit (Unaudited) Six months ended 30 September**	
	2012	2011	**2012**	2011
	US$ million	US$ million	**US$ million**	US$ million
North America	**439.0**	431.2	**47.7**	42.1
Europe	**352.0**	336.5	**37.6**	39.9
Asia Pacific	**51.0**	47.7	**8.1**	7.2
Others	**34.1**	42.7	**5.9**	7.1
	876.1	858.1	**99.3**	96.3

	Reportable segment assets		**Reportable segment liabilities**	
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
	30 September	31 March	**30 September**	31 March
	2012	2012	**2012**	2012
	US$ million	US$ million	**US$ million**	US$ million
North America	**210.0**	140.2	**(55.1)**	(41.7)
Europe	**183.9**	104.3	**(40.3)**	(28.4)
Asia Pacific	**565.9**	660.9	**(352.6)**	(275.9)
Others	**0.8**	0.6	**(0.7)**	(0.4)
	960.6	906.0	**(448.7)**	(346.4)

3 SEGMENT INFORMATION *(continued)*

(c) Reconciliation of reportable segment assets and liabilities

	(Unaudited) 30 September 2012 US$ million	(Audited) 31 March 2012 US$ million
Assets		
Reportable segment assets	**960.6**	906.0
Investments	**0.2**	0.2
Taxation recoverable	**0.2**	0.8
Deferred tax assets	**8.4**	5.9
Consolidated total assets	**969.4**	912.9
Liabilities		
Reportable segment liabilities	**(448.7)**	(346.4)
Taxation payable	**(11.0)**	(4.5)
Deferred tax liabilities	**(5.7)**	(5.8)
Consolidated total liabilities	**(465.4)**	(356.7)

4 OPERATING PROFIT

The operating profit is arrived at after charging / (crediting) the following:

	(Unaudited) Six months ended 30 September	
	2012 US$ million	2011 US$ million
Cost of inventories	**609.8**	597.1
Depreciation of tangible assets	**14.4**	14.5
Loss on disposal of tangible assets	**0.1**	-
Write-down of inventories net of reversals	**2.3**	(1.2)
Impairment loss of trade debtors net of reversals	**1.8**	(0.5)
Interest income from bank deposits	**(1.9)**	(1.6)
Net foreign exchange gain	**(0.4)**	(0.7)

5 TAXATION

	(Unaudited) Six months ended 30 September	
	2012 US$ million	2011 US$ million
Current tax		
- Hong Kong	**10.5**	9.7
- Overseas	**2.1**	2.2
Deferred tax		
- Origination and reversal of temporary differences	**(2.6)**	(2.5)
	10.0	9.4
Income tax	**12.6**	11.9
Deferred tax	**(2.6)**	(2.5)
	10.0	9.4

Provision for Hong Kong Profits Tax and overseas taxation has been calculated at tax rates prevailing in the countries in which the Group operates.

6 DIVIDENDS

(a) Dividends attributable to the period:

	(Unaudited) Six months ended 30 September 2012 US$ million	2011 US$ million
Interim dividend of US16.0 cents (2011: US16.0 cents) per share declared	**40.1**	39.9

The interim dividend was proposed after the balance sheet date and has not been recognised as liabilities at the balance sheet date.

(b) At a meeting held on 23 May 2012, the Directors proposed a final dividend of US60.0 cents (2011: US62.0 cents) per ordinary share for the year ended 31 March 2012, which was estimated to be US$149.7 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2012. The final dividend was approved by shareholders at the annual general meeting on 13 July 2012. As a result of shares issuance upon exercise of share options during the period between 1 April 2012 and 13 July 2012, the final dividend paid in respect of the year ended 31 March 2012 totaled US$150.2 million (2011: US$154.6 million).

7 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of the Company of US$91.2 million (2011: US$88.5 million).

The calculation of basic earnings per share is based on the weighted average of 249.9 million (2011: 248.8 million) ordinary shares in issue during the period after adjusting for shares held for Share Purchase Scheme.

The calculation of diluted earnings per share is based on 250.1 million (2011: 249.4 million) ordinary shares which is the weighted average number of ordinary shares in issue during the period after adjusting for shares held for Share Purchase Scheme and the number of dilutive potential ordinary shares under the Company's share option scheme.

	(Unaudited) Six months ended 30 September 2012	2011
Profit attributable to shareholders (US$ million)	**91.2**	88.5
Weighted average number of ordinary shares in issue less shares held for Share Purchase Scheme (in million)	**249.9**	248.8
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (in million)	**0.2**	0.6
Weighted average number of ordinary shares (diluted) (in million)	**250.1**	249.4
Diluted earnings per share (US cents)	**36.5**	35.5

8 DEBTORS, DEPOSITS AND PREPAYMENTS

Debtors, deposits and prepayments of US$414.0 million (31 March 2012: US$244.2 million, 30 September 2011: US$369.9 million) include trade debtors of US$377.3 million (31 March 2012: US$210.6 million, 30 September 2011: US$339.5 million).

An ageing analysis of net trade debtors by transaction date is as follows:

	(Unaudited) 30 September 2012 US$ million	(Audited) 31 March 2012 US$ million
0-30 days	**211.8**	114.8
31-60 days	**117.4**	73.7
61-90 days	**42.4**	18.1
>90 days	**5.7**	4.0
Total	**377.3**	210.6

The majority of the Group's sales are on letter of credit and on open credit with varying terms of 30 to 90 days. Certain open credit sales are covered by credit insurance or bank guarantees.

9 CREDITORS AND ACCRUALS

Creditors and accruals of US$417.2 million (31 March 2012: US$314.9 million, 30 September 2011: US$376.4 million) include trade creditors of US$244.5 million (31 March 2012: US$173.8 million, 30 September 2011: US$214.6 million).

An ageing analysis of trade creditors by transaction date is as follows:

	(Unaudited) 30 September 2012 US$ million	(Audited) 31 March 2012 US$ million
0-30 days	**86.3**	75.3
31-60 days	**87.7**	55.4
61-90 days	**54.2**	21.6
>90 days	**16.3**	21.5
Total	**244.5**	173.8

INTERIM DIVIDEND

The Board of Directors (the “Board”) has declared an interim dividend (“Interim Dividend”) of US16.0 cents per ordinary share in respect of the six months ended 30 September 2012, payable on 20 December 2012 to shareholders whose names appear on the register of members of the Company as at the close of business on 14 December 2012.

The Interim Dividend will be payable in United States dollars save that those shareholders with a registered address in Hong Kong will receive the equivalent amount in Hong Kong dollars which will be calculated at the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its mid rate of exchange prevailing on 10 December 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 10 December 2012 to 14 December 2012, both dates inclusive, during which period no transfer of shares will be effected.

In order to qualify for the Interim Dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the share registrars of the Company for registration no later than 4:30 p.m., the local time of the relevant share registrar, on Friday, 7 December 2012.

The principal registrar is Butterfield Fulcrum Group (Bermuda) Limited, 26 Burnaby Street, Hamilton HM11, Bermuda and the branch registrar in Hong Kong is Computershare Hong Kong Investor Services Limited, Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

CHAIRMAN'S STATEMENT

I am pleased to report that the Group managed to grow its top line in the first half of the financial year 2013, despite weak economic conditions in our major markets. Profit was modestly higher as margin stabilised.

Results and Dividend

Group revenue for the six months ended 30 September 2012 increased by 2.1% over the same period of the previous financial year to US$876.1 million. This was primarily due to higher revenue in North America and Europe, where electronic learning products (ELPs) and contract manufacturing services (CMS) recorded growth. Higher revenue from telecommunication (TEL) products and ELPs in Asia Pacific also contributed to the increase in Group revenue.

Profit attributable to shareholders of the Company increased by 3.1% to US$91.2 million. The increase in profit was mainly attributable to higher revenue and a modest improvement in operating profit margin. Basic earnings per share consequently increased by 2.5% to US36.5 cents, compared to US35.6 cents in the corresponding period last year.

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.

Operations

In the last financial year, rising input costs posed a challenge to the Group. During the first half of the current financial year, raw material prices declined somewhat, as global economies weakened. The impact of Renminbi appreciation has also eased off. However, labour cost and manufacturing overhead in China have continued to rise, as recruitment and retention of workers have become more challenging. In response, we have raised workers' compensation, as well as stepped up our investment in factory improvements to address these issues. Driven by these cost increases, gross margin for the period stayed flat from the same period of the last financial year.

Segment Results

North America

Group revenue in North America increased by 1.8% to US$439.0 million in the first half of the financial year 2013. The increase was mainly due to higher revenue from ELPs and CMS, which offset lower revenue from TEL products. North America remains the largest market for the Group, accounting for 50.1% of Group revenue.

During the period, revenue from TEL products declined by 10.4% to US$197.4 million. This was due to lower sales of residential cordless telephones, as the market is mature, compounded by uncertain economic growth and weaker than expected demand.

Nonetheless, we maintained our number one position in the US. Our new Connect to Cell™ system has sold well, proving that connectivity with mobile phones is a feature valued by consumers. Our strength in product development and design was also demonstrated by the Retro Phone, which featured in *People* magazine as one of the most innovative new consumer electronics products.

Sales of our commercial phones, including the small to medium sized business (SMB) phones and hotel phones, increased. The growth was primarily driven by a full six-month contribution from the hotel phones and increased sales of our SynJ® and Synapse® business phone systems. SynJ features optional repeaters that can extend the range of cordless handsets, making it a unique solution for operations such as warehouses, restaurants and retail shops. Synapse can accommodate up to 100 extensions, and is an easy to use and affordable system for SMBs.

In September this year, we shipped our new four-line Small Business System to office super stores in the US. It is a user-friendly, easy-to-install 16-station system that does not require professional maintenance, saving companies time and money. This highly competitive product has been well-received by all of our retail customers.

ELP revenue in North America during the first six months rose by 26.0% to US$145.4 million, with growth attributable to both platform and standalone products. The revenue growth was driven primarily by InnoTab® and InnoTab® 2, our first and second generation educational tablets. This contrasts with the last financial year, when the majority of InnoTab revenue was not recognised in the first half.

InnoTab 2 hit the US market in August 2012. Offering increased storage capacity, a new rotatable camera and a built-in microphone, it has been well-received and has garnered a number of accolades, including being named one of Walmart's "Top 20 Toys for Christmas". MobiGo®, our educational handheld game console, was also updated to MobiGo® 2. Sales of MobiGo 2 also made a good contribution to growth.

Standalone products also performed well in North America. Switch & Go Dinos®, a new line of toys that transform between dinosaurs and vehicles, made the strongest contribution to growth in the first half. This new line was launched in May 2012, gaining us additional shelf space beyond the learning aisle. Other notable successes in new standalone products in the region included the Alphabet Activity Cube™ and the Stencil and Learn Studio™.

Revenue from CMS in North America increased by 0.6% to US$96.2 million. Although good growth was seen in industrial products and commercial solid state lighting, this was offset by a decline in sales to a professional audio customer, which entered the period with high inventory. Business with other professional audio customers, however, remained stable. Sales of internet phones for office use were lower, as our customer changed its inventory management strategy.

Europe

Group revenue in Europe rose by 4.6% to US$352.0 million in the first half of the financial year 2013. As in North America, the increase was mainly due to higher revenue from ELPs and CMS, which offset lower revenue from TEL products. Europe is the second largest market for the Group, accounting for 40.2% of Group revenue.

Revenue from TEL products decreased by 8.1% to US$106.0 million. The decline in revenue was primarily due to lower sales of cordless telephones, as the region's weak economies have caused customers to reduce lead times and inventory. However, our integrated access devices (IADs) and baby monitors posted good growth during the period. VTech maintained its position as the leading manufacturer of cordless telephones in Western Europe.

Revenue from ELPs in Europe was up by 3.0% over the first half of the last financial year to US$128.3 million. Growth in the region was somewhat hampered by a weaker Euro-US Dollar exchange rate as compared with the same period last year. Educational tablets and the Switch & Go Dinos range were again the main growth drivers. Toot-Toot Drivers™, a line of infant smart vehicles and accessories, also made a strong contribution. During the period, InnoTab was updated with InnoTab 2 in the UK, while Storio® 2 was shipped to our major markets in continental Europe. Among the many awards won by our educational tablets in Europe, InnoTab 2 has been included in the "Top Toys for Christmas" list by the Toy Retailers Association in the UK. Geographically, the UK and France turned in the best results. Sales were lower in Germany, Spain and the Benelux countries.

CMS revenue in Europe rose by 22.0% during the first half of the financial year 2013 to US$117.7 million. It was driven by strong growth in medical and health products, as we increased sales to existing and new customers. Wireless headsets saw robust growth, as we benefited from new product launches by our customer and its consolidation of suppliers. Switching mode power supplies also contributed to higher revenue, buoyed by solar power inverters. Sales of professional audio equipment, however, saw a slight decline during the period.

Asia Pacific

Group revenue in Asia Pacific increased by 6.9% to US$51.0 million in the first half of the financial year 2013. The region accounted for 5.8% of Group revenue.

Revenue from TEL products was up by 31.7% to US$18.7 million, as our Japanese customer increased orders after recovering from the earthquake in March 2011. We also expanded further in Taiwan, and entered into new markets such as Indonesia. In Australia, our sales declined moderately as new products have been scheduled for introduction in the second half of the financial year.

Revenue from ELPs in Asia Pacific was US$11.2 million, a 6.7% increase over the same period last year. Sales were higher in China, Korea and Japan, as we made further inroads into those markets. Shipment to Australia, our biggest market in Asia Pacific, held steady.

CMS revenue in Asia Pacific declined by 8.3% as compared with the first half of the previous financial year to US$21.1 million. In Japan, revenue was lower as sales in marine radio were unable to offset lower sales of consumer LED light bulbs and medical and health products. The handheld radiation detector business returned to normal, as the effect of the earthquake last year receded. However, CMS did achieve strong growth in China and Korea. In China, our enhanced manufacturing facility, which started operation in November 2011, has helped customers to distribute products in the domestic market more efficiently. In Korea, we managed to grow our business with an existing customer.

Other Regions

Other regions include Latin America, the Middle East and Africa. Revenue in the first half of the financial year 2013 was US$34.1 million, down 20.1% as compared with the same period last year. These regions accounted for 3.9% of Group revenue.

Africa and the Middle East recorded growth during the period, but this was more than offset by a decline in Latin America. All product lines saw sales decline in other regions overall. Revenue from TEL products fell by 27.8% to US$19.5 million while revenues from ELPs and CMS decreased by 6.5% and 25.0% to US$14.3 million and US$0.3 million respectively.

Outlook

The global economic environment remains challenging. In the US, growth is uncertain, with a lingering high level of unemployment. In Europe, austerity measures are depressing consumer demand. Nevertheless, we remain cautiously optimistic of achieving overall top line growth in the financial year 2013. Labour cost and manufacturing overhead will increase further from the first half of the current financial year. Additionally, we will continue to invest in Corporate Social Responsibility (CSR) to achieve sustainable development with our people, the community and the environment. As a result, we do not expect gross margin to improve, while bottom line growth will be modest.

The operating environment for residential cordless telephones will continue to be difficult in the second half of the financial year. Consumer demand is expected to remain soft, while our customers have been delaying replenishment until the last minute. Despite these challenges, we will continue to build on our success in SMB and hotel phones, while bringing further innovation to the residential phone market.

In North America, we expect our sales of commercial phones to increase. With the introduction of the new four-line Small Business System, we have a strong line-up of well-priced, easy-to-install SMB phones. This will enable us to extend our market penetration into broader market segments. We also expect to ship more hotel phones as our reputation as a reliable supplier increases in this sector.

In the residential phone area, we expect to outperform the market. We will launch a new category of phone called CareLine™. Designed to meet the needs of an aging population, these new products offer innovation such as Voice Announce® Caller ID, Voice Command Recognition and a portable safety pendant with no monthly fee. Customer response has been very positive and the line has been started rolling out to the US market since October 2012.

Sales of TEL products via online retailers will also be higher, as we continue to increase our effort in expanding these channels.

Although sales of TEL products in Europe have been weak due to the sluggish economy, we have started to see some improvement in the order situation. We expect that sales in the second half will improve over the first half of the financial year.

In Asia Pacific, sales of TEL products will pick up in Australia as we roll out new products. The positive momentum we have achieved in Japan is expected to continue.

We expect the positive momentum for ELPs to continue despite the challenging global economic environment. Platform and standalone products are expected to maintain their solid contributions to growth for the full financial year.

In North America, platform products will lead the way in the second half of the financial year, as we benefit from the full impact of MobiGo 2 and InnoTab 2. They have been joined since late October by InnoTab® 2S, a further evolution of our line of educational tablets, featuring a secure Wi-Fi connection.

In addition to hardware, we are also expanding our cartridge and download offering. Our download library, accessible via the Learning Lodge®, already contains over 200 e-book, game, video and music titles. By Christmas this year, we will have over 300 titles available for download.

The Switch & Go Dinos line will continue as the growth driver for standalone products for the full financial year, augmented by our core infant and pre-school ranges.

In Europe, we expect a continuation of our good performance in the UK and France, led by InnoTab 2 and Storio 2 respectively. This will be reinforced by the Switch & Go Dinos and Toot-Toot Drivers lines, as well as our core standalone products. Germany and the Benelux countries are expected to return to growth for the full financial year. Sales in Spain are expected to remain slow due to its weak economy.

Globally, ELP sales via online retailers will continue to grow, as we maintain our increased focus on this fast expanding channel.

The global electronic manufacturing services market is forecast to remain subdued in the calendar year 2012 but our CMS will continue to outperform the industry. Business from existing customers is expected to be stable and hence growth will be driven by new customers.

Professional audio equipment will see solid growth in the second half. Sales in North America will return to normal, as our customer has now worked through inventory. In Europe, sales will rise as we have added several new customers in Germany in the first half and their orders will ramp up in the second half. We also expect to add more customers in Europe in the coming six months. As a result, sales of professional audio equipment will see growth for the full year.

Sales of switching mode power supplies, including solar power inverters, will be stable in the second half, following the good growth in the first half of the financial year. For the full year, solid growth is expected in this category.

Our other categories will achieve higher revenue also. Growth in commercial solid state lighting will more than compensate for a further sales decline in consumer LED light bulbs, while sales of wireless products will continue to increase, led by wireless headsets and marine radio.

The enhanced manufacturing facility of CMS, which started operations in November 2011, will help drive growth. It will support continued expansion in our China business, as it is helping our customer to distribute products more efficiently in the domestic market. It will also enable us to grow our medical and health products, as we are now able to manufacture sophisticated products with stringent safety and quality requirements, including those requiring FDA (the US Food and Drug Administration) approval.

Conclusion

Our ability to deliver growth in the face of difficult market conditions testifies to the strength of the Group. Although labour cost and manufacturing overhead in China have continued to rise, the Group's gross margin has stabilised as raw material price pressure has eased off. In addition, CSR measures we put in place will foster a stable workforce, which in turn will lead to an improvement in our efficiency in the longer term. VTech is a company with strong R&D, market leadership position, a strong balance sheet and a highly efficient operation. We will continue to focus on product innovation and geographical expansion to drive growth, while managing costs and risks to enhance profitability.

REVIEW OF FINANCIAL RESULTS

Revenue

Group revenue for the six months ended 30 September 2012 rose by 2.1% over the same period of the previous financial year to US$876.1 million. The increase in revenue was largely driven by higher sales in North America, Europe and Asia Pacific, which contrasted with a decrease in revenue in other regions. Sales in North America increased by 1.8% to US$439.0 million, accounting for 50.1% of Group revenue. In Europe, revenue rose by 4.6% to US$352.0 million, representing 40.2% of Group revenue. Sales to the Asia Pacific market grew by 6.9% to US$51.0 million, accounting for 5.8% of Group revenue. Revenue from other regions declined by 20.1% to US$34.1 million, representing 3.9% of Group revenue.

Increase in revenue to North America was mainly due to the higher sales of ELPs and CMS, which offset a decrease in revenue of TEL products. Revenue from TEL products in North America reduced by 10.4% to US$197.4 million over the same period last year. The decrease in revenue was mainly due to the lower sales of residential cordless telephones as the market is mature, compounded by uncertain economic growth and weaker than expected demand. For ELPs, revenue grew by 26.0% to US$145.4 million as both platform and standalone products achieved growth. Platform products revenue during this period was primarily driven by InnoTab, InnoTab 2 and MobiGo 2. For standalone products, the Switch & Go Dinos range also contributed to the growth. Revenue from CMS rose by 0.6% to US$96.2 million. The increase in sales mainly came from the growth of industrial products and commercial solid state lighting, which offset the decline in revenue of professional audio equipment and internet phones.

Sales growth in the European market was largely driven by higher sales in ELPs and CMS, which offset a decrease in revenue of TEL products. For TEL products, which we sell to customers largely on an original design manufacturing (ODM) basis, revenue reduced by 8.1% to US$106.0 million over the same period last year. The decline in revenue was primarily due to lower sales of cordless telephones, as the region's weak economies had caused customers to reduce lead times and inventory, which offset the solid growth of IADs and baby monitors during the period. Revenue from ELPs rose by 3.0% to US$128.3 million. Educational tablets and the Switch & Go Dinos range were again the main growth drivers. Toot-Toot Drivers, a line of infant smart vehicles and accessories, also made strong contribution. Sales of CMS products in Europe rose by 22.0% to US$117.7 million over the same period last year. It was driven by strong growth in medical and health products, as we increased sales to existing and new customers. Wireless headsets saw robust growth, as we benefited from new product launches by our customer and its consolidation of suppliers. Switching mode power supplies also contributed to higher revenue, buoyed by solar power inverters.

For the Asia Pacific market, the increase in revenue came from the higher sales of TEL products and ELPs. Revenue from TEL products rose by 31.7% to US$18.7 million compared with the same period last year. Increase in orders from our Japanese customer after recovering from the earthquake in March 2011 contributed to the growth. In Australia, our sales declined moderately as new products have been scheduled to introduce in the second half of the financial year. Sales of ELPs in Asia Pacific rose by 6.7% to US$11.2 million as we made further inroads in China, Korea and Japan. Shipment to Australia, our biggest market in Asia Pacific, held steady. For CMS products, revenue in the region reduced by 8.3% to US$21.1 million. This was mainly attributable to the decrease in sales of LED light bulbs and medical and health products, which offset the sales growth in marine radio and Bluetooth speaker phone.

Other regions include Latin America, the Middle East and Africa. All product lines had sales declines in other regions compared with the same period last year. Africa and the Middle East recorded growth during the period, but this was more than offset by the sales decline in Latin America. Sales of TEL products in other regions were US$19.5 million, a decrease of 27.8% compared with the same period of the previous financial year. Revenue from ELPs and CMS reduced by 6.5% and 25.0% to US$14.3 million and US$0.3 million respectively over the same period last year.

Gross Profit/Margin

Gross profit for the six months ended 30 September 2012 was US$266.3 million, an increase of US$5.3 million or 2.0% compared with the same period last year. Gross profit margin for the period was 30.4%, same as the corresponding period of last year. The decline in raw material prices largely offset the higher labour cost and manufacturing overhead arising from the increase in wages and production capacity during the first half of the financial year 2013.

Operating Profit/Margin

Operating profit for the six months ended 30 September 2012 was US$99.3 million, an increase of US$3.0 million or 3.1% compared with the same period of the previous financial year. Operating profit margin also rose from 11.2% to 11.3%. The improvement in both operating profit and operating profit margin was mainly due to the increase in gross profit and the lower selling and distribution costs.

Selling and distribution costs reduced from US$112.9 million to US$111.9 million, a decrease of 0.9% compared with the same period last year. It was mainly attributable to the decreased spending on advertising and promotional activities and the lower royalty payments during the first half of the financial year. As a percentage of Group revenue, selling and distribution costs fell from 13.2% to 12.8%.

Administrative and other operating expenses rose from US$23.5 million to US$26.6 million over the same period last year mainly due to the higher employee related costs. The net exchange gain arising from the Group’s global operations in the ordinary course of business was US$0.4 million in the first half of the financial year 2013. This compared with a net exchange gain of US$0.7 million in the same period last year. Administrative and other operating expenses as a percentage of Group revenue increased from 2.7% to 3.0%.

During the first half of the financial year 2013, the research and development expense was US$28.5 million, an increase of 0.7% over the same period last year. Research and development expense as a percentage of Group revenue was 3.3%, same as the corresponding period of last year.

Profit attributable to shareholders and Dividends

The profit attributable to shareholders of the Company for the six months ended 30 September 2012 was US$91.2 million, an increase of US$2.7 million as compared with the same period last year.

Basic earnings per share for the six months ended 30 September 2012 were US36.5 cents as compared to US35.6 cents in the first half of the previous financial year. Since the balance sheet date, the Directors have declared an interim dividend of US16.0 cents per share, which is estimated to be US$40.1 million.

Liquidity and Financial Resources

The Group's financial resources remain strong. As of 30 September 2012, the Group had deposits and cash of US$108.9 million and was debt-free. The Group has adequate liquidity to meet its current and future working capital requirements.

Treasury Policies

The Group's treasury policies are designed to mitigate the impact of fluctuations in foreign currency exchange rates arising from the Group's global operations and to minimise the Group's financial risks. The Group principally uses forward foreign exchange contracts as appropriate for risk management purposes only, for hedging foreign exchange transactions and for managing the Group's assets and liabilities. It is the Group's policy not to enter into derivative transactions for speculative purposes.

Working Capital

Stocks as of 30 September 2012 were US$340.0 million, increased from US$239.2 million as of 31 March 2012. The higher stock level was primarily to cater for the increased demand of the Group's products in the second half of the financial year and the seasonality of most of the Group's businesses. Furthermore, we had arranged early production of the Group's products in order to better utilise the Group's production capacities. As compared to the corresponding period of last financial year, stocks increased by US$19.8 million or 6.2%, and turnover days increased from 108 days to 111 days.

Trade debtors as of 30 September 2012 were US$377.3 million, increased from US$210.6 million as of 31 March 2012. This was mainly due to the growth in revenue in the first half of the financial year and the seasonal nature of most of the Group's businesses. As compared to the corresponding period of last financial year, trade debtors increased by US$37.8 million or 11.1%, and turnover days increased from 58 days to 61 days.

Capital Expenditure and Contingencies

For the six months ended 30 September 2012, the Group invested US$17.0 million in the purchase of plant and machinery, equipment, computer systems and other tangible assets. All of these capital expenditures were financed from internal resources.

As of 30 September 2012, the Group had no material contingencies.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is incorporated in Bermuda and has its shares listed on the Stock Exchange. The corporate governance rules applicable to the Company are the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules. Throughout the six months ended 30 September 2012, the Company has complied with all the code provisions of the Code and to a large extent, the recommended best practices in the Code except for the deviation from code provision A.2.1 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Dr. Allan WONG Chi Yun has the combined role of Chairman and Group Chief Executive Officer. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group as non-executive directors form the majority of the Board, with five out of eight of the Directors being independent non-executive Directors. The Board believes the appointment of Dr. Allan WONG Chi Yun to the posts of Chairman and Group Chief Executive Officer is beneficial to the Group as he has considerable industry experience.

The Board has established an Audit Committee, a Nomination Committee, a Remuneration Committee and a Risk Management Committee with defined terms of reference which are no less exacting than those set out in the Code. Corporate governance practices adopted by the Company during the six months ended 30 September 2012 are in line and consistent with those practices set out in the Company's 2012 Annual Report and the Code which was effective from 1 April 2012.

AUDIT COMMITTEE

The Audit Committee is chaired by Mr. Denis Morgie HO Pak Cho, with Dr. William FUNG Kwok Lun, Mr. Michael TIEN Puk Sun, Mr. WONG Kai Man (appointed on 19 September 2012) and Dr. David SUN Tak Kei (ceased to be a member on 30 June 2012) as members. All of the members are independent non-executive Directors. It has been established to assist the Board in fulfilling its overseeing responsibilities for financial reporting, risk management and evaluation of internal controls and auditing processes. It also ensures that the Group complies with all applicable laws and regulations.

Mr. Denis HO Pak Cho, as chairman of the Audit Committee, has the appropriate financial management expertise as required under the Listing Rules. The Audit Committee held two meetings during the financial period to the date of this Announcement. The meetings were attended by the Chairman, the Chief Compliance Officer, the Chief Financial Officer and the external auditor. In addition, the chairman of Audit Committee held periodic independent meetings with the Chief Compliance Officer, the Chief Financial Officer and the external auditor. Work performed by the Audit Committee during the financial period to the date of this Announcement included, but not limited to, reviewing the following:

- audited Group financial statements and reports for the year ended 31 March 2012;
- report from the external auditor for the year ended 31 March 2012;
- unaudited Group Interim Financial Report for the six months ended 30 September 2012;
- report from the external auditor based on limited agreed-upon procedures on the unaudited Group Interim Financial Report for the six months ended 30 September 2012;
- the revised Group Whistle-blowing Policy;
- the monthly reports on Whistle-blowing cases reported;
- the Continuous Disclosure Policy;
- independent assessments on Corporate Governance compliance and Risk Control procedures;
- accounting principles and practices adopted by the Group;
- implementation of applicable International Financial Reporting Standards;
- remuneration of the external auditor;
- significant findings by the Internal Audit Department and recommendations for corrective actions; and
- respective audit plans of the internal and external auditors.

The Audit Committee assists the Board in meeting its responsibilities for maintaining an effective system of internal control during the financial period. The Audit Committee reviews the process by which the Group evaluates its control environment and risk assessment procedures, and the way in which business and control risks are managed. Based on the information received from the management, the external auditor and the Internal Audit Department, the Audit Committee is satisfied that the overall financial and operational controls for the Group continue to be effective and adequate.

MODEL CODE OF SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules regarding securities transactions by Directors and senior management. After specific enquiry, all Directors confirmed that they have complied with the required standard of dealings set out in the Model Code throughout the six months ended 30 September 2012.

REVIEW OF INTERIM RESULTS

The Group's unaudited interim results for the six months ended 30 September 2012 have been reviewed by the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company has not redeemed any of its shares during the six months ended 30 September 2012. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the financial period, except that the trustee of the Share Purchase Scheme, pursuant to the rules and trust deed of the Share Purchase Scheme, purchased on the Stock Exchange a total of 1,400 Company's shares at a consideration of US$15,000.

By Order of the Board
VTech Holdings Limited
Allan WONG Chi Yun
Chairman

Hong Kong, 14 November 2012

As at the date of this announcement, the Executive Directors of the Company are Dr. Allan WONG Chi Yun (Chairman and Group Chief Executive Officer), Dr. PANG King Fai and Mr. Andy LEUNG Hon Kwong. The Independent Non-executive Directors are Dr. William FUNG Kwok Lun, Mr. Denis Morgie HO Pak Cho, Mr. Michael TIEN Puk Sun, Dr. Patrick WANG Shui Chung and Mr. WONG Kai Man.

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