VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

PERFORMANCE HIGHLIGHTS

- Group revenue was up by 1.9% to US$892.4 million
- Profit attributable to shareholders of the Company increased by 4.7% to US$95.2 million
- Gross margin improved by 1.3 percentage points to 31.7%
- Strong balance sheet, with deposits and cash of US$94.7 million and debt free
- 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 2013 together with the comparative figures for the same period last year as follows:

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2013

	Note	**Six months ended 30 September 2013 (Unaudited) US$ million**	2012 (Unaudited and restated) US$ million	Year ended 31 March 2013 (Audited and restated) US$ million
Revenue	3	**892.4**	876.1	1,858.0
Cost of sales		**(609.9)**	(609.8)	(1,260.2)
Gross profit		**282.5**	266.3	597.8
Selling and distribution costs		**(115.6)**	(111.9)	(260.0)
Administrative and other operating expenses		**(31.4)**	(26.9)	(56.8)
Research and development expenses		**(30.5)**	(28.5)	(57.1)
Operating profit	3 & 4	**105.0**	99.0	223.9
Net finance income		**0.8**	1.9	1.7
Profit before taxation		**105.8**	100.9	225.6
Taxation	5	**(10.6)**	(10.0)	(24.1)
Profit for the period/year and attributable to shareholders of the Company		**95.2**	90.9	201.5
Earnings per share (US cents)	7			
- Basic		**38.0**	36.4	80.6
- Diluted		**38.0**	36.3	80.5

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2013

	Note	Six months ended 30 September 2013 (Unaudited) US$ million	2012 (Unaudited and restated) US$ million	Year ended 31 March 2013 (Audited and restated) US$ million
Profit for the period / year		**95.2**	90.9	201.5
Other comprehensive income (after tax and reclassification adjustments) for the period / year				
Items that will not be reclassified to profit or loss:				
Deficit arising on revaluation of properties, net of deferred tax		**-**	-	(1.7)
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax	2	**3.6**	(1.7)	2.3
		3.6	(1.7)	0.6
Items that may be reclassified subsequently to profit or loss:				
Fair value gains on hedging		**4.6**	0.1	2.5
Realisation of hedging reserve		**(1.1)**	(0.8)	(1.5)
Exchange translation differences		**5.9**	(1.9)	(3.6)
		9.4	(2.6)	(2.6)
Other comprehensive income for the period / year		**13.0**	(4.3)	(2.0)
Total comprehensive income for the period / year		**108.2**	86.6	199.5

CONSOLIDATED BALANCE SHEET
As at 30 September 2013

	Note	30 September 2013 (Unaudited) US$ million	30 September 2012 (Unaudited and restated) US$ million	31 March 2013 (Audited and restated) US$ million
Non-current assets				
Tangible assets		**91.7**	92.6	88.4
Leasehold land payments		**5.2**	5.1	5.2
Investments		**0.1**	0.2	0.1
Deferred tax assets		**8.0**	9.7	4.6
		105.0	107.6	98.3
Current assets				
Stocks		**399.3**	340.0	276.9
Debtors, deposits and prepayments	8	**417.5**	411.8	257.1
Taxation recoverable		**0.7**	0.2	0.4
Deposits and cash		**94.7**	108.9	308.6
		912.2	860.9	843.0
Current liabilities				
Creditors and accruals	9	**(447.5)**	(417.2)	(330.6)
Provisions		**(28.8)**	(31.5)	(28.2)
Taxation payable		**(16.4)**	(11.0)	(7.2)
		(492.7)	(459.7)	(366.0)
Net current assets		**419.5**	401.2	477.0
Total assets less current liabilities		**524.5**	508.8	575.3
Non-current liabilities				
Net obligations on defined benefit scheme	2	**(2.9)**	(10.6)	(6.5)
Deferred tax liabilities		**(4.5)**	(5.7)	(4.5)
		(7.4)	(16.3)	(11.0)
Net assets		**517.1**	492.5	564.3
Capital and reserves				
Share capital		**12.5**	12.5	12.5
Reserves		**504.6**	480.0	551.8
Total equity		**517.1**	492.5	564.3

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*, issued 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 2013 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 judgements, 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 2410 "Review of Interim Financial Information performed by the independent auditor of the entity".

The financial information relating to the financial year ended 31 March 2013 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 2013 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 15 May 2013.

2. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements.

- IAS 1 (Amendment), *Presentation of financial statements – Presentation of items of other comprehensive income*
- IAS 19 (Revised 2011), *Employee benefits*
- IFRSs (Amendment), *Annual Improvements to IFRSs 2009-2011 Cycle*
- IFRS 7 (Amendment), *Disclosures – Offsetting financial assets and financial liabilities*
- IFRS 10, *Consolidated financial statements*
- IFRS 12, *Disclosure of interests in other entities*
- IFRS 13, *Fair value measurement*

IAS 1 (Amendment), *Presentation of financial statements – Presentation of items of other comprehensive income*

The amendments to IAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

IAS 19 (Revised 2011), *Employee benefits*

IAS 19 (Revised 2011) introduces a number of amendments to the accounting for defined benefit scheme. Among them, IAS 19 (Revised 2011) eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit scheme could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. IAS 19 (Revised 2011) also changed the basis for determining income from plan assets from expected return to interest income calculated at the liability discount rate, and requires immediate recognition of past service cost, whether vested or not.

2. CHANGES IN ACCOUNTING POLICIES *(continued)*

IAS 19 (Revised 2011), *Employee benefits* (continued)

As a result of the adoption of IAS 19 (Revised 2011), the Group has changed its accounting policy with respect to defined benefit scheme, for which the corridor method was previously applied. This change in accounting policy has been applied retrospectively by restating the balances at 30 September 2012 and 31 March 2013, and the results for the six months ended 30 September 2012 and the year ended 31 March 2013 as follows:

	As previously reported US$ million	Effect of adoption of IAS 19 (Revised 2011) US$ million	As restated US$ million
Consolidated income statement for the six months ended 30 September 2012			
Administrative and other operating expenses	(26.6)	(0.3)	(26.9)
Profit for the period	91.2	(0.3)	90.9
Basic earnings per share (US cents)	36.5	(0.1)	36.4
Diluted earnings per share (US cents)	36.5	(0.2)	36.3
Consolidated statement of comprehensive income for the six months ended 30 September 2012			
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax	-	(1.7)	(1.7)
Total comprehensive income for the period	88.6	(2.0)	86.6
Consolidated balance sheet as at 30 September 2012			
Debtors, deposits and prepayments	414.0	(2.2)	411.8
Net obligations on defined benefit scheme	-	(10.6)	(10.6)
Deferred tax assets	8.4	1.3	9.7
Revenue reserve	321.1	(11.5)	309.6
Consolidated income statement for the year ended 31 March 2013			
Administrative and other operating expenses	(56.0)	(0.8)	(56.8)
Profit for the year	202.3	(0.8)	201.5
Basic earnings per share (US cents)	80.9	(0.3)	80.6
Diluted earnings per share (US cents)	80.8	(0.3)	80.5
Consolidated statement of comprehensive income for the year ended 31 March 2013			
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax	-	2.3	2.3
Total comprehensive income for the year	198.0	1.5	199.5
Consolidated balance sheet as at 31 March 2013			
Debtors, deposits and prepayments	259.5	(2.4)	257.1
Net obligations on defined benefit scheme	-	(6.5)	(6.5)
Deferred tax assets	3.7	0.9	4.6
Revenue reserve	392.1	(8.0)	384.1

IFRSs (Amendment), *Annual Improvements to IFRSs 2009-2011 Cycle*

The improvements to IFRSs 2009 to 2011 cycle consists of six amendments to five existing standards, including an amendment to IAS 34, *Interim Financial Reporting*. The amendment aligns the disclosure requirements for segment assets and liabilities in interim financial reports with those in IFRS 8, *Operating Segments*. It has had no significant impact on the results and financial position of the Group.

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

IFRS 10, *Consolidated financial statements*

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the group in respect of its involvement with other entities as at 1 April 2013.

IFRS 12, *Disclosure of interests in other entities*

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting IFRS 12.

IFRS 13, *Fair value measurement*

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and nonfinancial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The Group has provided those disclosures in note 12 to the Interim Financial Report. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the group's assets and liabilities.

The adoption of the other revisions, amendments and new standards has had no effect on the Group's interim financial information.

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.

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.

3 SEGMENT INFORMATION *(continued)*

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, taxation payable and net obligations on defined benefit scheme.

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

	Reportable segment revenue Six months ended 30 September		**Reportable segment profit Six months ended 30 September**	
	2013	2012	**2013**	2012
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited and restated)
	US$ million	US$ million	**US$ million**	US$ million
North America	**455.8**	439.0	**52.0**	47.7
Europe	**352.7**	352.0	**40.8**	37.6
Asia Pacific	**52.7**	51.0	**7.1**	7.8
Others	**31.2**	34.1	**5.1**	5.9
	892.4	876.1	**105.0**	99.0

	Reportable segment assets		**Reportable segment liabilities**	
	30 September 2013	31 March 2013	**30 September 2013**	31 March 2013
	(Unaudited)	(Audited and restated)	**(Unaudited)**	(Audited)
	US$ million	US$ million	**US$ million**	US$ million
North America	**256.6**	168.0	**(58.3)**	(45.4)
Europe	**207.8**	109.7	**(45.7)**	(27.0)
Asia Pacific	**543.7**	658.0	**(371.0)**	(285.5)
Others	**0.3**	0.5	**(1.3)**	(0.9)
	1,008.4	936.2	**(476.3)**	(358.8)

3 SEGMENT INFORMATION *(continued)*

(c) Reconciliation of reportable segment assets and liabilities

	30 September 2013 (Unaudited) US$ million	31 March 2013 (Audited and restated) US$ million
Assets		
Reportable segment assets	**1,008.4**	936.2
Investments	**0.1**	0.1
Taxation recoverable	**0.7**	0.4
Deferred tax assets	**8.0**	4.6
Consolidated total assets	**1,017.2**	941.3
Liabilities		
Reportable segment liabilities	**(476.3)**	(358.8)
Taxation payable	**(16.4)**	(7.2)
Net obligations on defined benefit scheme	**(2.9)**	(6.5)
Deferred tax liabilities	**(4.5)**	(4.5)
Consolidated total liabilities	**(500.1)**	(377.0)

4. OPERATING PROFIT

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

	Six months ended 30 September 2013 (Unaudited) US$ million	2012 (Unaudited) US$ million
Cost of inventories	**609.9**	609.8
Depreciation of tangible assets	**15.4**	14.4
(Gain) / loss on disposal of tangible assets	**(0.1)**	0.1
Write-down of inventories net of reversals	**1.9**	2.3
Impairment loss of trade debtors net of reversals	**1.0**	1.8
Interest income from bank deposits	**(0.8)**	(1.9)
Net foreign exchange loss / (gain)	**0.5**	(0.4)

5. TAXATION

	Six months ended 30 September 2013 (Unaudited) US$ million	2012 (Unaudited) US$ million
Current tax		
- Hong Kong	**11.5**	10.5
- Overseas	**2.9**	2.1
Deferred tax		
- Origination and reversal of temporary differences	**(3.8)**	(2.6)
	10.6	10.0
Current tax	**14.4**	12.6
Deferred tax	**(3.8)**	(2.6)
	10.6	10.0

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:

	Six months ended 30 September 2013 (Unaudited) US$ million	2012 (Unaudited) US$ million
Interim dividend of US16.0 cents (2012: US16.0 cents) per share declared	**40.1**	40.1

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 15 May 2013, the Directors proposed a final dividend of US64.0 cents (2012: US60.0 cents) per ordinary share for the year ended 31 March 2013, which was estimated to be US$160.2 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2013. The final dividend was approved by shareholders at the annual general meeting on 12 July 2013. As a result of shares issuance upon exercise of share options during the period between 1 April 2013 and 12 July 2013, the final dividend paid in respect of the year ended 31 March 2013 totaled US$160.5 million (2012: US$150.2 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$95.2 million (2012: US$90.9 million, as restated).

The calculation of basic earnings per share is based on the weighted average of 250.6 million (2012: 249.9 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 250.7 million (2012: 250.1 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.

	Six months ended 30 September 2013 (Unaudited)	2012 (Unaudited and restated)
Profit attributable to shareholders (US$ million)	**95.2**	90.9
Weighted average number of ordinary shares in issue less shares held for Share Purchase Scheme (in million)	**250.6**	249.9
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (in million)	**0.1**	0.2
Weighted average number of ordinary shares (diluted) (in million)	**250.7**	250.1
Diluted earnings per share (US cents)	**38.0**	36.3

8. DEBTORS, DEPOSITS AND PREPAYMENTS

Debtors, deposits and prepayments of US$417.5 million (31 March 2013: US$257.1 million, as restated, 30 September 2012: US$411.8 million, as restated) include trade debtors of US$380.2 million (31 March 2013: US$224.9 million, 30 September 2012: US$377.3 million).

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

	30 September 2013 (Unaudited) US$ million	31 March 2013 (Audited) US$ million
0-30 days	**218.8**	114.9
31-60 days	**115.7**	77.3
61-90 days	**42.5**	24.3
>90 days	**3.2**	8.4
Total	**380.2**	224.9

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$447.5 million (31 March 2013: US$330.6 million, 30 September 2012: US$417.2 million) include trade creditors of US$259.3 million (31 March 2013: US$176.2 million, 30 September 2012: US$244.5 million).

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

	30 September 2013 (Unaudited) US$ million	31 March 2013 (Audited) US$ million
0-30 days	**81.0**	68.3
31-60 days	**80.6**	35.1
61-90 days	**71.2**	47.5
>90 days	**26.5**	25.3
Total	**259.3**	176.2

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 2013, payable on 19 December 2013 to shareholders whose names appear on the register of members of the Company as at the close of business on 9 December 2013.

The Interim Dividend will be payable in United States dollars save that those shareholders with a registered address in Hong Kong will receive an 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 middle rate of exchange prevailing on 9 December 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 9 December 2013, during which 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, 6 December 2013.

The principal registrar is MUFG Fund Services (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 VTech delivered both top-line and bottom-line growth in the first half of the financial year 2014, despite a weaker-than-expected performance of telecommunication (TEL) products in Europe. The Group also benefited from lower cost of materials, resulting in an improved gross margin and contributing to a higher profit during the period.

Results and Dividend

Group revenue for the six months ended 30 September 2013 increased by 1.9% over the same period of the previous financial year to US$892.4 million. This was primarily due to higher revenue in North America and Asia Pacific, more than offsetting lower revenue in Other Regions. Revenue in Europe was flat compared with the same period last year.

Profit attributable to shareholders of the Company increased by 4.7% to US$95.2 million. The rise in profit was mainly attributable to higher revenue and an improved gross margin. Basic earnings per share consequently increased by 4.4% to US38.0 cents, compared to US36.4 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.

Cost and Operations

In the first half of the financial year 2014, labour costs and manufacturing overheads in China continued to rise, as the minimum wage increased and the Renminbi appreciated further. This was offset by lower cost of materials and our success in optimising product design. All these factors resulted in an improved gross margin during the period.

Segment Results

North America

Group revenue in North America increased by 3.8% to US$455.8 million in the first half of the financial year 2014. The increase was due to higher revenue from TEL products and electronic learning products (ELPs), while contract manufacturing services (CMS) revenue in the region held steady. North America remains the largest market for the Group, accounting for 51.1% of Group revenue.

In the first half of the financial year 2014, revenue from TEL products rose by 2.1% to US$201.5 million as VTech maintained its position as the number one supplier of cordless phones in the US. Sales of residential phones increased as we benefited from further consolidation in the market. Growth in this established product category was supplemented by higher sales of non-residential phone products, including small-to-medium sized business (SMB) phones, hotel phones and baby monitors. Our SynJ® cordless business phone system increased its share in the SMB market, while the Synapse® business phone system began to reap the rewards of an improved sales strategy and better market segmentation. Sales of hotel phones have grown, as VTech has established itself as a reliable supplier to an increasing number of leading hotel chains. A strong increase in sales of baby monitors was recorded in the first half of the financial year, attributable to the expansion of our distribution channels.

During the period, our CareLine™, a home-safety telephone system designed specifically for the fast-growing seniors market, has received excellent feedback from consumers and generated a good number of favourable online reviews. We also shipped the world's first home entrance monitoring system which combines a versatile cordless phone with a digital video door bell. The product has been well-received by our customers.

ELPs revenue in North America during the first six months rose by 8.5% to US$157.8 million. The growth was driven by higher sales of standalone and platform products. Among standalone products, infant products were the key driver. Our line of smart infant vehicles and playsets, Go! Go! Smart Wheels™, sold strongly and has been included in numerous recommended toy lists for the upcoming holiday season, including Walmart's '2013 Holiday Top Toy List Chosen By Kids', The Toy Insider's 'Hot 20 Toys for the Holidays' and Amazon.com's '2013 Holiday Toy List'. Switch and Go Dinos®, our line of interactive pre-school toys that transform between dinosaurs and vehicles, also contributed to higher sales of standalone products.

Sales of platform products rose during the period, as higher sales of the InnoTab® range more than compensated for lower sales of MobiGo® 2 and V.Reader®. Our new generation of tablets, InnoTab 3 and 3S, hit the shelves in the US in late August this year. InnoTab 3S has been selected as one of the Toy Insider's 'Top Tech 12', raising its profile among shoppers looking for the best technology toys. The InnoTab 3S exclusive bundle has also been included in '2013 Holiday Hot Toy List' from Toys"R"Us.

During the period, VTech once again set the industry standard by the introduction of VTech Kid Connect™, a ground-breaking communication app exclusive to the VTech InnoTab 3S. The app gives pre-schoolers as young as three years old the ability to communicate with their parents and older siblings, by exchanging voice messages, text messages, stickers, photos and drawings, all within a kid-safe, kid-friendly environment. Through these innovative features, children can communicate with their parents' smartphones and tablets, as well as with friends or siblings anywhere in the world who also have an InnoTab 3S.

CMS revenue in North America increased by 0.3% to US$96.5 million. Although growth was seen in professional audio equipment, home appliances, communication and wireless products, this was mostly offset by a decline in sales of solid state lighting and industrial products. During the period, we added a new customer in the professional audio area, owing to our strong reputation in the industry.

Europe

Group revenue in Europe was up by 0.2% to US$352.7 million, as higher revenues from ELPs and CMS were offset by lower revenue from TEL products. Europe is the second largest market for the Group, accounting for 39.5% of Group revenue.

Revenue from TEL products decreased by 25.3% to US$79.2 million. The decline was due to lower sales of cordless telephones, which was the result of market weakness and our decision to focus on higher margin business. Sales of our baby monitors and connected home™ devices, however, continued to grow during the period.

Revenue from ELPs in Europe was up by 10.3% over the first half of the last financial year to US$141.5 million. Educational tablets led the growth, along with Toot-Toot Drivers®, our line of smart infant vehicles and playsets, and Switch and Go Dinos. During the period, the InnoTab range was updated in the UK market with the introduction of InnoTab 3 and 3S, while Storio® 2 was sold in all VTech's major markets in Europe.

These product lines garnered a number of important awards during the first six months of the financial year 2014. Toot-Toot Drivers Train Station was given the 'Toy Grand Prix 2013 Award (Pre-school category)' by France's *La Revue du Jouet* magazine, while InnoTab 3 was selected as one of the 'Top Toys for Christmas 2013' by Smyths Toys Superstores in the UK.

Geographically, France, Germany, the Benelux countries and Spain saw good growth during the period, while sales were lower in the UK.

CMS revenue in Europe rose by 12.1% during the first half of the financial year 2014 to US$132.0 million. The sales increase was driven by professional audio equipment, wireless headsets and home appliances. Professional audio equipment posted robust growth, as we benefited from the new product launch of a customer. The addition of a new customer in Germany also contributed to growth. Wireless headsets saw higher sales, driven by good sell-through of our customer's products and our ability to gain more orders at the expense of our competition. During the period, we added a new customer in Italy in the area of home appliances, which led to higher sales in that category. In contrast to other categories, sales of switching mode power supplies declined owing to lower sales of solar power inverters.

Asia Pacific

Group revenue in Asia Pacific increased by 3.3% to US$52.7 million in the first half of the financial year 2014. The region accounted for 5.9% of Group revenue.

Revenue from TEL products was up by 2.7% to US$19.2 million. Growth was seen in Australia and China, driven by higher sales of integrated access devices and cordless telephones respectively. Sales in Japan returned to normal levels as compared with the strong rebound seen in the same period last year when the country was recovering from the severe earthquake.

Revenue from ELPs in Asia Pacific was US$11.9 million, a 6.3% increase over the same period last year. Sales were higher in China, as we made further inroads into the market. Shipment to Australia, our biggest market in Asia Pacific, was down due to the overall softness in the Australian toy market.

CMS revenue in Asia Pacific increased by 2.4% as compared with the first half of the previous financial year, to US$21.6 million. Sales of marine radios and medical & health products were higher, offsetting lower sales of solid state lighting. During the period, we started shipping the first item of our new product category, testing and measurement equipment, to our Japanese customer.

Other Regions

Other Regions include Latin America, the Middle East and Africa. Revenue in the first half of the financial year 2014 was US$31.2 million, down 8.5% as compared with the same period last year. These regions accounted for 3.5% of Group revenue.

Revenue from TEL products increased by 3.6% to US$20.2 million. Growth was seen in Latin America, offsetting the sales declines in the Middle East and Africa.

ELPs revenue in Other Regions decreased by 25.9% to US$10.6 million. The decline was mainly due to lower sales in Latin America and the Middle East.

CMS revenue in Other Regions was US$0.4 million, as compared to US$0.3 million in the same period last year.

Outlook

The operating environment in our major markets is likely to remain challenging for the remainder of the financial year. In the US, the pace of recovery appears to be slowing, while many European economies face conditions that are still tough and uncertain. Nonetheless, we are optimistic of achieving top-line growth with improved gross profit margin for the full financial year 2014.

Although we expect labour costs and manufacturing overheads to rise further, these will be offset by lower cost of materials, resulting in gross margin improvement year on year. We are, however, planning for higher advertising and promotional expenses in the second half in order to maintain sales in a competitive environment.

Sales of TEL products are expected to pick up in the second half. Our residential phone businesses in Europe and Other Regions are improving. Continued growth is expected in North America and Asia Pacific, driven by further market share gains and new product launches. Our non-residential phone business will continue to expand, driven by a number of significant new product launches globally in the second half of the financial year. These include VTech's first wireless conferencing system, a SIP (Session Initiation Protocol) terminal, SIP-based commercial phones, new models of baby monitors and connected home devices.

The positive momentum in ELPs is expected to carry into the second half, driven by the good sell-through of our standalone products, especially Go! Go! Smart Wheels and Switch and Go Dinos. Sales of platform products are expected to hold steady. In light of the keen competition in the children's tablet market in the US and the UK, aggressive advertising and promotions have been planned for the holiday season.

CMS is expected to see growth in the second half of the financial year. The sales increase will be driven by more orders from existing customers in professional audio equipment and wireless headsets. Additional business from new customers in both existing and new product categories will also support growth.

In conclusion, we have made a solid start to the financial year 2014 and look set to continue on a growth path in the second half of the financial year. Even though the operating environment in our key markets remains challenging, VTech will continue to leverage its strength in product innovation, strong balance sheet, market leadership and operational excellence to bring sustainable returns to shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

	Six months ended 30 September		
	2013	2012 (Restated)	Change
For the period ended 30 September 2013	**US$ million**	US$ million	US$ million
Revenue	**892.4**	876.1	16.3
Gross profit	**282.5**	266.3	16.2
Gross profit margin	**31.7%**	30.4%	
Total operating expenses	**(177.5)**	(167.3)*	(10.2)
Total operating expenses as a percentage of revenue	**19.9%**	19.1%	
Operating profit	**105.0**	99.0*	6.0
Operating profit margin	**11.8%**	11.3%	
Net finance income	**0.8**	1.9	(1.1)
Profit before taxation	**105.8**	100.9*	4.9
Taxation	**(10.6)**	(10.0)	(0.6)
Effective tax rate	**10.0%**	9.9%	
Profit for the period and attributable to shareholders of the Company	**95.2**	90.9*	4.3

** Restated upon the adoption of IAS 19 (Revised 2011) as described in note 2 to the interim financial report.*

Revenue

Group revenue for the six months ended 30 September 2013 rose by 1.9% over the same period of the previous financial year to US$892.4 million. The increase in revenue was largely driven by higher sales in North America, Europe and Asia Pacific, which offset a decrease in revenue in other regions.

	Six months ended 30 September 2013		Six months ended 30 September 2012		Increase / (decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**455.8**	**51.1%**	439.0	50.1%	16.8	3.8%
Europe	**352.7**	**39.5%**	352.0	40.2%	0.7	0.2%
Asia Pacific	**52.7**	**5.9%**	51.0	5.8%	1.7	3.3%
Other regions	**31.2**	**3.5%**	34.1	3.9%	(2.9)	-8.5%
	892.4	**100.0%**	876.1	100.0%	16.3	1.9%

Gross Profit/Margin

Gross profit for the six months ended 30 September 2013 was US$282.5 million, an increase of US$16.2 million or 6.1% compared to the US$266.3 million recorded in the same period last year. Gross profit margin for the period rose from 30.4% to 31.7%. The decline in material costs offset the higher labour cost and manufacturing overheads arising from the increase in wages and production capacity, as well as Renminbi appreciation during the first half of the financial year 2014.

Operating Profit/Margin

Operating profit for the six months ended 30 September 2013 was US$105.0 million, an increase of US$6.0 million or 6.1% compared with the same period of the previous financial year. Operating profit margin also rose from 11.3% to 11.8%. The improvement in both operating profit and operating profit margin was mainly due to the increase in gross profit and the improvement in gross profit margin, which offset the increase in total operating expenses as percentage of Group revenue.

Total operating expenses were US$177.5 million, an increase of 6.1% over the same period last year. Total operating expenses as a percentage of Group revenue also rose from 19.1% to 19.9%.

Selling and distribution costs increased from US$111.9 million to US$115.6 million, an increase of 3.3% compared with the same period last year. It was mainly attributable to the increased spending on advertising and promotional activities by the Group during the first half of the financial year. As a percentage of Group revenue, selling and distribution costs rose from 12.8% to 13.0%.

Administrative and other operating expenses rose from US$26.9 million to US$31.4 million over the same period last year, which was mainly due to the increase in employee related costs. An exchange loss of US$0.5 million arising from the Group’s global operations in the ordinary course of business was also recorded in the first half of the financial year 2014, which contrasted with an exchange gain of US$0.4 million in the same period last year. Administrative and other operating expenses as a percentage of Group revenue increased from 3.0% to 3.5%.

During the first half of the financial year 2014, the research and development expense was US$30.5 million, an increase of 7.0% over the same period last year. Research and development expense as a percentage of Group revenue rose from 3.3% to 3.4%.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the six months ended 30 September 2013 was US$95.2 million, an increase of US$4.3 million or 4.7% compared with the same period last year. Net profit margin also increased from 10.4% to 10.7%.

Basic earnings per share for the six months ended 30 September 2013 were US38.0 cents as compared to US36.4 cents in the first half of the previous financial year.

Dividends

Since the balance sheet date, the Directors of the Company 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 2013, the Group had deposits and cash of US$94.7 million and was debt-free. The Group has adequate liquidity to meet its current and future working capital requirements.

Stocks as of 30 September 2013 were US$399.3 million, increased from US$276.9 million as of 31 March 2013. 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$59.3 million or 17.4%, and turnover days increased from 111 days to 126 days.

Trade debtors as of 30 September 2013 were US$380.2 million, increased from US$224.9 million as of 31 March 2013. 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$2.9 million or 0.8%, and turnover days decreased from 61 days to 59 days.

Trade creditors as of 30 September 2013 were US$259.3 million, increased from US$176.2 million as of 31 March 2013. As compared to the corresponding period of last financial year, trade creditors increased by US$14.8 million or 6.1%, and turnover days increased from 74 days to 85 days.

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.

Capital Expenditure and Contingencies

For the six months ended 30 September 2013, the Group invested US$17.3 million in the purchase of tangible assets including plant and machinery, equipment, computer systems, as well as the improvement of manufacturing working environment. All of these capital expenditures were financed from internal resources.

As of 30 September 2013, the Group had no material contingencies.

CORPORATE GOVERNANCE CODE

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 2013, 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 independent non-executive Directors form the majority of the Board, with four out of seven 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 and Sustainability 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 2013 are in line and consistent with those practices set out in the Company's 2013 Annual Report.

Mr. Denis Morgie HO Pak Cho retired as an independent non-executive Director with effect from the conclusion of the annual general meeting of the Company held on 12 July 2013 ("2013 AGM"). Following Mr. Denis Morgie HO Pak Cho's retirement, he also ceased to be the chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee, and Mr. WONG Kai Man was appointed as the chairman of the Audit Committee in place of Mr. Denis Morgie HO Pak Cho with effect from the conclusion of the 2013 AGM.

AUDIT COMMITTEE

The Audit Committee is chaired by Mr. WONG Kai Man, succeeding Mr. Denis Morgie HO Pak Cho, with Dr. William FUNG Kwok Lun and Mr. Michael TIEN Puk Sun 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, corporate governance functions and evaluation of internal controls and auditing processes. It also ensures that the Group complies with all applicable laws and regulations.

Mr. WONG Kai Man, 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 2013;
- report from the external auditor for the year ended 31 March 2013;
- unaudited Group Interim Financial Report for the six months ended 30 September 2013;
- 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 2013;
- accounting principles and practices adopted by the Group;
- implementation of applicable International Financial Reporting Standards;
- appointment of the external auditor and their remuneration;
- significant findings by the Internal Audit Department and recommendations for corrective actions;
- reports made under Whistleblowing Policy; 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.

The Audit Committee has also been given the responsibility to oversee the effectiveness of formal procedures for employees to raise any matters of serious concerns and is required to review any reports made by the Internal Audit Department regarding this.

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 2013.

REVIEW OF INTERIM RESULTS

The Group's unaudited interim results for the six months ended 30 September 2013 have been reviewed by the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company and its subsidiaries have not redeemed any of its shares during the six months ended 30 September 2013. 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 69,000 Company's shares at a consideration of US$1.0 million.

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

Hong Kong, 13 November 2013

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. Michael TIEN Puk Sun, Dr. Patrick WANG Shui Chung and Mr. WONG Kai Man.

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