VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

PERFORMANCE HIGHLIGHTS

- Group revenue increased by 0.9% to US$900.8 million
- Profit attributable to shareholders of the Company rose by 7.5% to US$102.7 million
- Gross margin improved from 31.7% to 32.2%
- Interim dividend of US17.0 cents per ordinary share, 6.3% increase over the same period last year
- Strong pipeline of innovative new products

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 2014 together with the comparative figures for the same period last year as follows:

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2014

	Note	**Six months ended 30 September 2014 (Unaudited) US$ million**	Six months ended 30 September 2013 (Unaudited and restated) US$ million	Year ended 31 March 2014 (Audited and restated) US$ million
Revenue	3	**900.8**	892.4	1,898.9
Cost of sales		**(610.6)**	(609.9)	(1,264.6)
Gross profit		**290.2**	282.5	634.3
Selling and distribution costs		**(115.0)**	(115.6)	(286.4)
Administrative and other operating expenses	2	**(33.6)**	(31.1)	(63.3)
Research and development expenses		**(28.4)**	(30.5)	(58.0)
Operating profit	3 & 4	**113.2**	105.3	226.6
Net finance income		**1.2**	0.8	1.4
Profit before taxation		**114.4**	106.1	228.0
Taxation	5	**(11.7)**	(10.6)	(24.2)
Profit for the period/year and attributable to shareholders of the Company		**102.7**	95.5	203.8
Earnings per share (US cents)	7			
- Basic		**40.9**	38.1	81.3
- Diluted		**40.9**	38.1	81.3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2014

	Note	Six months ended 30 September 2014 (Unaudited) US$ million	2013 (Unaudited and restated) US$ million	Year ended 31 March 2014 (Audited and restated) US$ million
Profit for the period/year		**102.7**	95.5	203.8
Other comprehensive income (after tax and reclassification adjustments) for the period/year				
Item that will not be reclassified to profit or loss:				
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax		**-**	3.6	4.7
		-	3.6	4.7
Items that may be reclassified subsequently to profit or loss:				
Fair value gains/(losses) on hedging		**12.1**	4.6	(4.3)
Realisation of hedging reserve		**0.8**	(1.1)	(2.3)
Exchange translation differences	2	**(8.1)**	5.7	6.4
		4.8	9.2	(0.2)
Other comprehensive income for the period/year		**4.8**	12.8	4.5
Total comprehensive income for the period/year		**107.5**	108.3	208.3

CONSOLIDATED BALANCE SHEET

As at 30 September 2014

	Note	30 September 2014 (Unaudited) US$ million	30 September 2013 (Unaudited and restated) US$ million	31 March 2014 (Audited and restated) US$ million
Non-current assets				
Tangible assets	2	**72.6**	72.6	68.6
Leasehold land payments		**5.1**	5.2	5.1
Investments		**0.1**	0.1	0.1
Deferred tax assets		**4.5**	8.0	2.5
		82.3	85.9	76.3
Current assets				
Stocks		**357.4**	399.3	265.9
Debtors, deposits and prepayments	8	**431.0**	417.5	235.8
Taxation recoverable		**1.4**	0.7	0.9
Deposits and cash		**106.4**	94.7	322.9
		896.2	912.2	825.5
Current liabilities				
Creditors and accruals	9	**(423.1)**	(447.5)	(304.4)
Provisions		**(29.1)**	(28.8)	(27.9)
Taxation payable		**(12.1)**	(16.4)	(5.1)
		(464.3)	(492.7)	(337.4)
Net current assets		**431.9**	419.5	488.1
Total assets less current liabilities		**514.2**	505.4	564.4
Non-current liability				
Net obligations on defined benefit scheme		**(2.1)**	(2.9)	(2.0)
		(2.1)	(2.9)	(2.0)
Net assets		**512.1**	502.5	562.4
Capital and reserves				
Share capital		**12.5**	12.5	12.5
Reserves		**499.6**	490.0	549.9
Total equity		**512.1**	502.5	562.4

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 2014 annual financial statements, except for the accounting policy changes as set out 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 2014 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 2014 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 May 2014.

2. Changes in Accounting Policies

The IASB has issued the following amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to IAS 39*, Novation of derivatives and continuation of hedge accounting*
- IFRIC 21, *Levies*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Change in accounting policy under IAS 16*, Property, plant and equipment*

The Group has reconsidered the appropriateness of the application of the fair value model on the measurement of the non-current assets of the Group held for own use purposes. Specifically, the Group owns a freehold property in the Netherlands and a leasehold industrial property in Hong Kong, both of which are core assets of the Group's operations and the Group does not intend to sell these properties in the foreseeable future. The Group has noted that the fair value of these properties is immaterial to the Group's consolidated net assets and that the additional depreciation charge on the revalued amount is immaterial to the Group's consolidated income statement. The Group has also noted that the adoption of the fair value model for such own use properties is inconsistent with the market practices adopted by companies in similar industries. On this basis, the Group has concluded that the "cost model" is a more appropriate accounting policy for these properties.

2. Changes in Accounting Policies *(continued)*

Change in accounting policy under IAS 16*, Property, plant and equipment* *(continued)*

In order to present the comparative information on a consistent basis, the Group has applied this change in accounting policy retrospectively. Upon retrospective adoption of the accounting policy, the reported carrying value of the Group's net assets as at 30 September 2013 and 31 March 2014 decreased by US$14.6 million and US$13.2 million respectively to US$502.5 million and US$562.4 million respectively. There is no material impact to the Group's profit or loss for the six months ended 30 September 2013 and the year ended 31 March 2014.

	As previously reported US$ million	Effect of adoption of change in accounting policy US$ million	As restated US$ million
Consolidated income statement for the six months ended 30 September 2013			
Administrative and other operating expenses	(31.4)	0.3	(31.1)
Profit for the period	95.2	0.3	95.5
Basic earnings per share (US cents)	38.0	0.1	38.1
Diluted earnings per share (US cents)	38.0	0.1	38.1
Consolidated statement of comprehensive income for the six months ended 30 September 2013			
Exchange translation differences	5.9	(0.2)	5.7
Total comprehensive income for the period	108.2	0.1	108.3
Consolidated balance sheet as at 30 September 2013			
Tangible assets	91.7	(19.1)	72.6
Deferred tax liabilities	(4.5)	4.5	-
Properties revaluation reserve	19.6	(19.6)	-
Exchange reserve	11.7	(1.2)	10.5
Revenue reserve	322.4	6.2	328.6

2. Changes in Accounting Policies *(continued)*

Change in accounting policy under IAS 16*, Property, plant and equipment* *(continued)*

	As previously reported US$ million	Effect of adoption of change in accounting policy US$ million	As restated US$ million
Consolidated income statement for the year ended 31 March 2014			
Administrative and other operating expenses	(63.8)	0.5	(63.3)
Profit for the year	203.3	0.5	203.8
Basic earnings per share (US cents)	81.1	0.2	81.3
Diluted earnings per share (US cents)	81.1	0.2	81.3
Consolidated statement of comprehensive income for the year ended 31 March 2014			
Deficit arising on revaluation of properties, net of deferred tax	(1.3)	1.3	-
Exchange translation differences	6.7	(0.3)	6.4
Total comprehensive income for the year	206.8	1.5	208.3
Consolidated balance sheet as at 31 March 2014			
Tangible assets	85.9	(17.3)	68.6
Deferred tax liabilities	(4.1)	4.1	-
Properties revaluation reserve	18.3	(18.3)	-
Exchange reserve	12.5	(1.3)	11.2
Revenue reserve	391.5	6.4	397.9

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 and accruals, provisions and net obligations on defined benefit scheme with the exception of taxation payable.

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**	
	2014	2013	**2014**	2013
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited and restated)
	US$ million	US$ million	**US$ million**	US$ million
North America	**450.6**	455.8	**51.2**	52.0
Europe	**359.9**	352.7	**47.8**	40.8
Asia Pacific	**61.6**	52.7	**9.1**	7.4
Others	**28.7**	31.2	**5.1**	5.1
	900.8	892.4	**113.2**	105.3

	Reportable segment assets		**Reportable segment liabilities**	
	30 September 2014	31 March 2014	**30 September 2014**	31 March 2014
	(Unaudited)	(Audited and restated)	**(Unaudited)**	(Audited)
	US$ million	US$ million	**US$ million**	US$ million
North America	**222.3**	154.6	**(59.8)**	(52.8)
Europe	**176.1**	96.8	**(38.7)**	(27.3)
Asia Pacific	**574.0**	646.5	**(355.2)**	(253.8)
Others	**0.1**	0.4	**(0.6)**	(0.4)
	972.5	898.3	**(454.3)**	(334.3)

3. Segment Information *(continued)*

(c) Reconciliation of reportable segment assets and liabilities

	30 September 2014 (Unaudited) US$ million	31 March 2014 (Audited and restated) US$ million
Assets		
Reportable segment assets	**972.5**	898.3
Investments	**0.1**	0.1
Taxation recoverable	**1.4**	0.9
Deferred tax assets	**4.5**	2.5
Consolidated total assets	**978.5**	901.8
Liabilities		
Reportable segment liabilities	**(454.3)**	(334.3)
Taxation payable	**(12.1)**	(5.1)
Consolidated total liabilities	**(466.4)**	(339.4)

4. Operating Profit

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

	Six months ended 30 September	
	2014 (Unaudited) US$ million	2013 (Unaudited and restated) US$ million
Cost of inventories	**610.6**	609.9
Depreciation of tangible assets	**15.6**	15.1
Write-down of inventories net of reversals	**1.9**	1.9
Impairment loss of trade debtors net of reversals	**0.6**	1.0
Interest income from bank deposits	**(1.2)**	(0.8)
Net foreign exchange loss	**0.2**	0.5

5. Taxation

	Six months ended 30 September	
	2014 (Unaudited) US$ million	2013 (Unaudited) US$ million
Current tax		
- Hong Kong	**10.4**	11.5
- Overseas	**3.3**	2.9
Deferred tax		
- Origination and reversal of temporary differences	**(2.0)**	(3.8)
	11.7	10.6
Current tax	**13.7**	14.4
Deferred tax	**(2.0)**	(3.8)
	11.7	10.6

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 2014 (Unaudited) US$ million	2013 (Unaudited) US$ million
Interim dividend of US17.0 cents (2013: US16.0 cents) per share declared	**42.7**	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 22 May 2014, the Directors proposed a final dividend of US64.0 cents (2013: US64.0 cents) per ordinary share for the year ended 31 March 2014, which was estimated to be US$160.6 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2014. The final dividend was approved by shareholders at the annual general meeting on 18 July 2014. As a result of shares issuance upon exercise of share options during the period between 1 April 2014 and 18 July 2014, the final dividend paid in respect of the year ended 31 March 2014 totaled US$160.8 million (2013: US$160.5 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$102.7 million (2013: US$95.5 million, as restated).

The calculation of basic earnings per share is based on the weighted average of 251.1 million (2013: 250.6 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 251.1 million (2013: 250.7 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 2014 (Unaudited)	2013 (Unaudited and restated)
Profit attributable to shareholders (US$ million)	**102.7**	95.5
Weighted average number of ordinary shares in issue less shares held for Share Purchase Scheme (in million)	**251.1**	250.6
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (in million)	**-**	0.1
Weighted average number of ordinary shares (diluted) (in million)	**251.1**	250.7
Diluted earnings per share (US cents)	**40.9**	38.1

8. Debtors, Deposits and Prepayments

Debtors, deposits and prepayments of US$431.0 million (31 March 2014: US$235.8 million, 30 September 2013: US$417.5 million) include trade debtors of US$387.4 million (31 March 2014: US$208.6 million, 30 September 2013: US$380.2 million).

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

	30 September 2014 (Unaudited) US$ million	31 March 2014 (Audited) US$ million
0-30 days	**226.5**	120.6
31-60 days	**119.4**	67.9
61-90 days	**38.9**	18.4
>90 days	**2.6**	1.7
Total	**387.4**	208.6

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$423.1 million (31 March 2014: US$304.4 million, 30 September 2013: US$447.5 million) include trade creditors of US$235.1 million (31 March 2014: US$140.8 million, 30 September 2013: US$259.3 million).

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

	30 September 2014 (Unaudited) US$ million	31 March 2014 (Audited) US$ million
0-30 days	**94.8**	56.5
31-60 days	**86.5**	33.4
61-90 days	**44.2**	34.8
>90 days	**9.6**	16.1
Total	**235.1**	140.8

INTERIM DIVIDEND

The Board of Directors (the "Board") has declared an interim dividend (the "Interim Dividend") of US17.0 cents per ordinary share in respect of the six months ended 30 September 2014, payable on 18 December 2014 to shareholders whose names appear on the register of members of the Company as at the close of business on 8 December 2014.

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 8 December 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 8 December 2014, 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, 5 December 2014.

The principal registrar is MUFG Fund Services (Bermuda) Limited, The Belvedere Building, 69 Pitts Bay Road, Pembroke HM08, 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 announce that VTech delivered solid profit growth in the first half of the financial year 2015. Profit attributable to shareholders of the Company grew by 7.5%, despite revenue being broadly stable. The profit increase was due to an enhanced gross margin, as the Group benefited from lower cost of materials and an increase in the proportion of higher margin products in all three product lines.

Results and Dividend

Group revenue for the six months ended 30 September 2014 rose by 0.9% over the same period of the previous financial year to US$900.8 million. This was primarily due to higher revenue in Europe and Asia Pacific, offsetting lower revenue in North America and Other Regions.

Profit attributable to shareholders of the Company increased by 7.5% to US$102.7 million. The rise in profit was mainly attributable to an improved gross margin. Basic earnings per share increased by 7.3% to US40.9 cents, compared to US38.1 cents in the corresponding period last year.

The Board has declared an interim dividend of US17.0 cents per ordinary share, representing an increase of 6.3% over the same period last year.

Cost and Operations

Cost pressures eased slightly in the first half of the financial year 2015. Cost of materials was lower due to falling component prices. Labour costs and manufacturing overheads remained largely stable, as automation, process improvements and product optimisation continued to generate efficiency gains. This was despite the fact that wages in China continued to rise, although the Renminbi weakened slightly against the US dollar.

Segment Results

North America

Group revenue in North America in the first six months of the financial year was US$450.6 million, down 1.1% over the same period last year. This was mainly due to lower revenue from electronic learning products (ELPs) and contract manufacturing services (CMS). Despite the sales decline, North America remains the largest market for the Group, accounting for 50.0% of Group revenue.

ELPs revenue in North America was US$141.2 million, a 10.5% decrease. The decline was attributable to lower sales of platform products, which was only partially offset by higher sales of standalone products. Despite a challenging market, VTech became the number one manufacturer in the category of Infant and Preschool Electronic Learning in the US[1].

[1] Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the combined toy categories of infant electronic learning, other infant toys and preschool electronic learning between 29 December 2013 and 21 September 2014

The children's tablet market in the US was difficult. Our fourth generation of children's educational tablets, InnoTab® 3 PLUS and 3S PLUS, hit the shelves in August 2014. High channel inventory and increasing competition led to heavy discounting by retailers, resulting in price pressure and reduced shipments of tablets in the education aisle. In other platform categories, the handheld gaming console MobiGo® is reaching the end of its product life cycle.

Continuing our history of product innovation, VTech has successfully harnessed the latest technology trend in smartwatches for adults and brought it to children with the launch of Kidizoom Smartwatch. This is the world's first smartwatch for children with a built-in camera. It hit retailers' shelves in the US in July 2014 and sales have been strong. It is recommended in numerous top toy lists, including Walmart's "Chosen by Kids Top 20 Toy" list, Kmart's "Fab 15" list of hot holiday toys and *Toy Insider's* "Top Tech 12" list.

Standalone products continued to perform well during the period, led by core infant products and Go! Go! Smart Wheels®, the line of smart infant vehicles and playsets. The newly introduced Go! Go! Smart Wheels Ultimate Amazement Park playset was named one of the hottest holiday toys by US retailers, securing listings that include Walmart's "Chosen by Kids Top 20 Toy" and Target's "Top Toy". Go! Go! Smart Animals™, a brand new extension of the successful Go! Go! Smart Wheels line, reached US retailers' shelves in August 2014. It also contributed to the growth of standalone products.

Revenue from telecommunication (TEL) products in North America increased by 6.8% to US$215.3 million. The growth was driven by higher sales of residential phones, commercial phones and other telecommunication products.

For residential phones, the Group continued to gain market share in North America on the back of a declining market. In other telecommunication products, sales of baby monitors grew strongly as the Group expanded distribution channels and launched new models. Among commercial phones, sales of small-to-medium sized business (SMB) phones and hotel phones increased. The new VTech branded SMB phones include ErisStation™, a conference phone with four wireless microphones; ErisTerminal™, SIP (Session Initiation Protocol) based business phones; and ErisBusinessSystem™, a four-line business phone system. These products have been shipped to customers since April 2014 and have received positive feedback, while adding incremental revenue.

CMS revenue in North America was US$94.1 million, down 2.5%. The decline was primarily due to lower sales of professional audio equipment, communication products and home appliances, offsetting higher sales of solid-state lighting.

Sales of professional audio equipment were lower, as a customer completed the transfer of the manufacture of one product family to its own facility that had excess capacity. Sales of communication products and home appliances decreased, as demand for customers' products reduced. The sales decline was partially offset by higher sales of solid-state lighting, driven by more business from an existing customer and the ramping up of orders by a new customer. During the period, the Group added a new customer in the medical and health area, generating incremental business.

Europe

Group revenue in Europe in the first six months of the financial year was up 2.0% to US$359.9 million, mainly due to higher sales of CMS. Europe is the second largest market of the Group, representing 40.0% of Group revenue.

ELPs revenue in Europe was US$141.5 million, the same as the corresponding period last year. Higher sales of standalone products offset lower sales of platform products. Among VTech's key Western European markets, sales in France, Germany, Belgium and Spain were higher, while sales in the UK declined. During the first nine months of the calendar year 2014, VTech further strengthened its position as the number one infant toy manufacturer in France, the UK and Germany[2].

[2] Source: NPD Group, Retail Tracking Service

Among standalone products, infant products saw higher sales. Toot-Toot Drivers®, VTech's line of smart infant vehicles and playsets, achieved robust growth as customers continued to respond well to its expanding range of vehicles, playsets and tracks. In the UK, the new Toot-Toot Animals Safari Park was one of the two VTech products selected as the "Top 12 Dream Toys 2014" by The Toy Retailers Association. In France, VTech won five "2014 Grand Prix du Jouet" awards presented by *La Revue du Jouet* magazine, the highest among all toy manufacturers. The awards for Little Love: My Baby Learns to Talk and My Stroller 3-in-1 Interactive were especially significant as they mark the Group's success in expanding into the dolls aisle.

VTech also introduced its pioneering Kidizoom Smartwatch in Europe. The product has been on the shelves in the Group's major European markets since June 2014 and it has been well received by customers. In the UK, Argos and Hamleys named it one of the top toys for Christmas 2014. It was also selected as one of the "Top 12 Dream Toys 2014" by The Toy Retailers Association.

In contrast to the success of standalone products, sales of platform products decreased. This was mainly due to lower sales of educational tablets and MobiGo. The children's tablet market is getting more competitive in Europe owing to the weak economies and new entrants, resulting in high channel inventory. This led to heavy discounting and reduced shipments. In addition, MobiGo is approaching the end of its product life cycle in the European markets.

TEL products revenue in Europe declined by 2.0% to US$77.6 million. Sales of residential phones were lower due to the weak economies and a declining market. This was partially offset by higher sales of commercial phones and other telecommunication products. Since January 2014, the Group has been shipping its conference phones with wireless microphones and SIP phones to customers in the region, who have responded positively to these new products. Sales of baby monitors were also higher, as the Group expanded the product line. Signs of improvement were seen in residential phones, as the sales decline in the UK, France and Germany narrowed.

CMS revenue in Europe was up 6.7% to US$140.8 million. Growth was achieved in most product categories. Sales of switching mode power supplies were higher, as an existing customer increased orders in a new business area for data centres, and in response to the upgrade from 3G to 4G technology. Wireless headsets also saw growth, owing to strong demand for a customer's products and gains in market share. In contrast, sales of professional audio equipment were lower as a customer transferred products requiring custom configuration to manufacturing in-house. This was partially offset by higher sales to other professional audio equipment customers.

Asia Pacific

Group revenue in Asia Pacific increased by 16.9% to US$61.6 million, with growth in all three product lines. The region accounted for 6.8% of Group revenue.

ELPs revenue in Asia Pacific was up 6.7% to US$12.7 million, driven by sales increases in China. In mainland China, the full distribution of Switch and Go Dinos® and the launch of Go! Go! Smart Wheels contributed to higher sales. In the Hong Kong Special Administrative Region, core infant products and Go! Go! Smart Wheels were the main growth drivers.

TEL product revenue in Asia Pacific rose 16.1% to US$22.3 million as sales trended higher in Australia, Japan and China. In Australia, the Group gained market share in residential phones, while further gains were made following the launch of VTech branded baby monitors. In Japan, sales of residential phones increased as the Group added a new customer, while further inroads were made into the China market.

CMS revenue in Asia Pacific grew 23.1% to US$26.6 million, buoyed by higher sales of solid-state lighting, marine radio and medical and health products. The robust growth in solid-state lighting was driven by additional orders arising from the Youth Olympic Games in Nanjing, China. Higher sales of marine radios were due to good sell-through of a customer's products. Increased sales of medical and health products were supported by a customer's new product launch.

Other Regions

Other Regions include Latin America, the Middle East and Africa. Group revenue from Other Regions was down 8.0% to US$28.7 million, representing 3.2% of Group revenue.

ELPs revenue in Other Regions declined by 5.7% to US$10.0 million, as growth in Africa was offset by lower sales in the Middle East and Latin America.

TEL products revenue in Other Regions fell by 8.9% to US$18.4 million. Higher sales in the Middle East were offset by lower sales in Latin America and Africa.

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

Outlook

Economic recovery in the US is expected to continue, while the economies of Western Europe will remain weak. In this environment, the Group is targeting a modest revenue growth for the full financial year 2015, with a stable gross margin.

We are expecting a slight decline in ELPs sales in the full financial year. Sales of platform products will continue to be challenging in light of the keen competition in the children's tablet market. InnoTab MAX, the Group's new Android-based flagship educational tablet that is now on the shelves in the US, Canada, the UK and France, aims to recapture some of the market share lost to the commoditised consumer electronics tablets. A strong performance from Kidizoom Smartwatch is expected for the remainder of the financial year.

Standalone products will continue to perform well, with the momentum behind infant products, the Go! Go! Smart Wheels and Go! Go! Smart Animals lines carrying into the second half of the financial year. In addition, a strong line-up of new standalone products will start to reach the markets in Spring 2015. This includes Go! Go! Smart Friends™, a range of colourful playsets and characters that infuse traditional role-play with MagicPoint™ technology.

The positive momentum in TEL products is expected to carry into the second half of the financial year, driven by higher shipment of commercial phones and other telecommunication products. The Group's baby monitors have achieved strong growth since VTech entered the field and new models will be introduced during the second half of the financial year. New connected home™ devices based on the DECT ULE (Ultra Low Energy) standard will join the Group's growing range of other telecommunication products, alongside new CAT-iq handsets. In the fourth quarter of the financial year, a high-end integrated access device will be shipped to a new customer. This product supports VDSL vectoring and dual band 802.11ac. Sales of residential phones are forecast to hold steady despite a declining market, as VTech continues to gain market share and expand geographically.

CMS is also expected to achieve growth for the full financial year 2015. In the category of professional audio equipment, the reduction in orders from one customer will be partially offset by higher orders from others in this category. Sales to existing customers in switching mode power supplies, wireless headsets and solid-state lighting will increase, while new customers will add stimulus to growth. The new CMS factory building, which will raise manufacturing capacity by 25%, is making good progress and will commence operation as planned in the middle of the calendar year 2015.

It has been a solid start to the financial year. Looking ahead, the Group will continue to focus on the development of innovative products, gains in market share, expanding our presence geographically and achieving operational excellence to generate sustainable returns for shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

For the six months ended 30 September 2014	**Six months ended 30 September 2014** US$ million	2013 (Restated) US$ million	Change US$ million
Revenue	**900.8**	892.4	8.4
Gross profit	**290.2**	282.5	7.7
Gross profit margin	**32.2%**	31.7%	
Total operating expenses	**(177.0)**	(177.2)*	0.2
Total operating expenses as a percentage of revenue	**19.6%**	19.9%	
Operating profit	**113.2**	105.3*	7.9
Operating profit margin	**12.6%**	11.8%	
Net finance income	**1.2**	0.8	0.4
Profit before taxation	**114.4**	106.1*	8.3
Taxation	**(11.7)**	(10.6)	(1.1)
Effective tax rate	**10.2%**	10.0%	
Profit for the period and attributable to shareholders of the Company	**102.7**	95.5*	7.2

** Restated upon the change of accounting policy as described in note 2 to the interim financial report.*

Revenue

Group revenue for the six months ended 30 September 2014 rose by 0.9% over the same period of the previous financial year to US$900.8 million. The increase in revenue was largely driven by higher sales in Europe and Asia Pacific, which offset the decrease in revenue in North America and other regions.

	Six months ended 30 September 2014		Six months ended 30 September 2013		Increase / (decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**450.6**	**50.0%**	455.8	51.1%	(5.2)	-1.1%
Europe	**359.9**	**40.0%**	352.7	39.5%	7.2	2.0%
Asia Pacific	**61.6**	**6.8%**	52.7	5.9%	8.9	16.9%
Other regions	**28.7**	**3.2%**	31.2	3.5%	(2.5)	-8.0%
	900.8	**100.0%**	892.4	100.0%	8.4	0.9%

Gross Profit/Margin

Gross profit for the six months ended 30 September 2014 was US$290.2 million, an increase of US$7.7 million or 2.7% compared to the US$282.5 million recorded in the same period last year. Gross profit margin for the period rose from 31.7% to 32.2%. The improvement in gross profit margin was mainly due to the decline in material costs, while the labour costs and manufacturing overheads also remained largely stable. Efficiency gains through automation, process improvements and product optimisation continued to offset the higher wages in China during the period.

Operating Profit/Margin

Operating profit for the six months ended 30 September 2014 was US$113.2 million, an increase of US$7.9 million or 7.5% compared with the same period of the previous financial year. Operating profit margin also rose from 11.8% to 12.6%. The improvement in both operating profit and operating profit margin was primarily due to the increase in gross profit and gross profit margin.

Total operating expenses reduced from US$177.2 million to US$177.0 million compared with the same period last year. Total operating expenses as a percentage of Group revenue also dropped from 19.9% to 19.6%.

Selling and distribution costs declined from US$115.6 million to US$115.0 million, a decrease of 0.5% compared with the same period last year. It was mainly attributable to the reduced 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 also decreased from 13.0% to 12.8%.

Administrative and other operating expenses rose from US$31.1 million to US$33.6 million over the same period last year. It was mainly due to the increase in employee related costs, which was partially offset by a lower exchange loss of US$0.2 million arising from the Group's global operations in the ordinary course of business, compared with an exchange loss of US$0.5 million in the same period last year. Administrative and other operating expenses as a percentage of Group revenue increased from 3.5% to 3.7%.

During the first half of the financial year 2015, the research and development expense was US$28.4 million, a decrease of 6.9% compared with the same period last year. Research and development expense as a percentage of Group revenue also reduced from 3.4% to 3.2%.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the six months ended 30 September 2014 was US$102.7 million, an increase of US$7.2 million or 7.5% compared with the same period last year. Net profit margin also increased from 10.7% to 11.4%.

Basic earnings per share for the six months ended 30 September 2014 were US40.9 cents as compared to US38.1 cents in the first half of the previous financial year.

Dividends

Since the balance sheet date, the Directors have declared an Interim Dividend of US17.0 cents per share, which is estimated to be US$42.7 million.

Liquidity and Financial Resources

The Group's financial resources remain strong and was debt-free. As of 30 September 2014, deposits and cash increased from US$94.7 million to US$106.4 million, an increase of 12.4% compared with the corresponding period of last financial year. It was mainly due to the lower working capital investment compared with the same period last year. The Group has adequate liquidity to meet its current and future working capital requirements.

Stocks as of 30 September 2014 were US$357.4 million, increased from US$265.9 million as of 31 March 2014. 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 decreased by US$41.9 million or 10.5%, and turnover days also reduced from 126 days to 114 days.

Trade debtors as of 30 September 2014 were US$387.4 million, increased from US$208.6 million as of 31 March 2014. 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$7.2 million or 1.9%, and turnover days remained at 59 days.

Trade creditors as of 30 September 2014 were US$235.1 million, increased from US$140.8 million as of 31 March 2014. As compared to the corresponding period of last financial year, trade creditors decreased by US$24.2 million or 9.3%, and turnover days also reduced from 85 days to 70 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 currency 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 2014, the Group invested US$19.7 million in the purchase of tangible assets including machinery and equipment, leasehold improvements, 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 2014, the Group had no material contingencies.

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") set out in Appendix 14 to the Listing Rules. Throughout the six months ended 30 September 2014, 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 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 2014 are in line and consistent with those practices set out in the Company's 2014 Annual Report.

AUDIT COMMITTEE

The Audit Committee is chaired by Mr. WONG Kai Man 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 the 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. In addition to the Audit Committee members, the meetings were attended by the Group Chief Executive Officer, the Chief Compliance Officer, the Chief Financial Officer and the external auditor. In addition, the chairman of the 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 2014;
- report from the external auditor for the year ended 31 March 2014;
- unaudited Group Interim Financial Report for the six months ended 30 September 2014;
- 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 2014;
- accounting principles and practices adopted by the Group;
- implementation of applicable International Financial Reporting Standards;
- appointment of the external auditor and its remuneration;
- significant findings by the Internal Audit Department and recommendations for corrective actions;
- reports made under Whistleblowing Policy;
- respective audit plans of the internal and external auditors;
- revised Audit Committee Charter;
- Audit Committee self-assessment results; and
- training and continuous professional development of Directors and senior management.

In addition to the above, the Audit Committee assists the Board in meeting its responsibilities for maintaining an effective system of internal control during the financial period. It 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") 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 2014.

REVIEW OF INTERIM RESULTS

The Group's unaudited interim results for the six months ended 30 September 2014 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 2014. 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 130,200 Company's shares at a consideration of US$1.7 million.

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

Hong Kong, 11 November 2014

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 of the Company 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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