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VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015

PERFORMANCE HIGHLIGHTS

- Group revenue rose by 3.0% to US\$928.1 million
- Profit attributable to shareholders of the Company decreased by 2.5% to US\$100.1 million
- Gross margin declined from 32.2% to 30.8%
- Interim dividend of US17.0 cents per ordinary share, the same as the dividend paid in the corresponding 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 2015 together with the comparative figures for the same period last year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2015

	Note	Six months ended 30 September 2015 (Unaudited) US\$ million	2014 (Unaudited) US\$ million	Year ended 31 March 2015 (Audited) US\$ million
Revenue	3	928.1	900.8	1,879.8
Cost of sales		(642.1)	(610.6)	(1,269.3)
Gross profit		286.0	290.2	610.5
Selling and distribution costs		(114.1)	(115.0)	(268.2)
Administrative and other operating expenses		(32.2)	(33.6)	(66.1)
Research and development expenses		(28.7)	(28.4)	(56.1)
Operating profit	3 & 4	111.0	113.2	220.1
Net finance income		0.5	1.2	1.6
Profit before taxation		111.5	114.4	221.7
Taxation	5	(11.4)	(11.7)	(23.6)
Profit for the period/year and attributable to shareholders of the Company		100.1	102.7	198.1
Earnings per share (US cents)	7			
- Basic		39.9	40.9	78.9
- Diluted		39.9	40.9	78.9

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2015

	Six months ended 30 September		Year ended 31 March
	2015	2014	2015
	(Unaudited)	(Unaudited)	(Audited)
	US\$ million	US\$ million	US\$ million
Profit for the period/year	100.1	102.7	198.1
Other comprehensive income 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	-	-	(0.6)
	-	-	(0.6)
Items that may be reclassified subsequently to profit or loss:			
Fair value (losses)/gains on hedging	(0.5)	12.1	5.0
Realisation of hedging reserve	(4.0)	0.8	4.4
Exchange translation differences	2.5	(8.1)	(28.0)
	(2.0)	4.8	(18.6)
Other comprehensive income for the period/year	(2.0)	4.8	(19.2)
Total comprehensive income for the period/year	98.1	107.5	178.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2015

		30 September		31 March
		2015	2014	2015
		(Unaudited)	(Unaudited)	(Audited)
	Note	US\$ million	US\$ million	US\$ million
Non-current assets				
Tangible assets		70.7	72.6	67.0
Leasehold land payments		5.0	5.1	5.0
Investments		0.1	0.1	0.1
Deferred tax assets		6.4	4.5	4.5
		82.2	82.3	76.6
Current assets				
Stocks		367.9	357.4	290.2
Debtors, deposits and prepayments	8	432.6	431.0	259.9
Taxation recoverable		2.6	1.4	-
Deposits and cash		104.9	106.4	294.2
		908.0	896.2	844.3
Current liabilities				
Creditors and accruals	9	(456.7)	(423.1)	(342.6)
Provisions		(29.2)	(29.1)	(27.3)
Taxation payable		(15.0)	(12.1)	(7.2)
		(500.9)	(464.3)	(377.1)
Net current assets		407.1	431.9	467.2
Total assets less current liabilities		489.3	514.2	543.8
Non-current liability				
Net obligations on defined benefit scheme		(3.2)	(2.1)	(3.0)
		(3.2)	(2.1)	(3.0)
Net assets		486.1	512.1	540.8
Capital and reserves				
Share capital		12.5	12.5	12.5
Reserves		473.6	499.6	528.3
Total equity		486.1	512.1	540.8

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. This 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 2015 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 International Standards on Auditing or International Standards on Review Engagements.

The financial information relating to the financial year ended 31 March 2015 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 2015 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 19 May 2015.

2. Changes in Accounting Policies

The IASB has issued the following amendments to International Financial Reporting Standards ("IFRSs") that are first effective for the current accounting period of the Group.

- ♦ Amendments to IAS 19, *Employee benefits – Defined benefit plans: Employee contributions*
- ♦ *Annual improvements to IFRSs 2010-2012 cycle*
- ♦ *Annual improvements to IFRSs 2011-2013 cycle*

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.

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 derives its revenue from the sale of telecommunication products, electronic learning products and products from contract manufacturing services to customers in the relevant geographical region.

3. Segment Information (continued)

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

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

(a) Segment revenues and results

Revenue is allocated to the reportable segments based on the location of 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		Reportable segment profit	
	Six months ended		Six months ended	
	30 September		30 September	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	US\$ million	US\$ million	US\$ million	US\$ million
North America	461.6	450.6	56.2	51.2
Europe	373.7	359.9	40.0	47.8
Asia Pacific	59.7	61.6	9.6	9.1
Others	33.1	28.7	5.2	5.1
	928.1	900.8	111.0	113.2

	Reportable segment assets		Reportable segment liabilities	
	30 September	31 March	30 September	31 March
	2015	2015	2015	2015
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	US\$ million	US\$ million	US\$ million	US\$ million
North America	213.3	162.2	(55.7)	(41.7)
Europe	171.3	67.6	(40.2)	(21.8)
Asia Pacific	596.4	686.4	(392.9)	(309.1)
Others	0.1	0.1	(0.3)	(0.3)
	981.1	916.3	(489.1)	(372.9)

3. Segment Information (continued)

(c) Reconciliation of reportable segment assets and liabilities

	30 September 2015 (Unaudited) US\$ million	31 March 2015 (Audited) US\$ million
Assets		
Reportable segment assets	981.1	916.3
Investments	0.1	0.1
Taxation recoverable	2.6	-
Deferred tax assets	6.4	4.5
Consolidated total assets	990.2	920.9
Liabilities		
Reportable segment liabilities	(489.1)	(372.9)
Taxation payable	(15.0)	(7.2)
Consolidated total liabilities	(504.1)	(380.1)

4. Operating Profit

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

	Six months ended 30 September 2015 (Unaudited) US\$ million	2014 (Unaudited) US\$ million
Cost of inventories	642.1	610.6
Depreciation of tangible assets	17.6	15.6
Write-down of inventories, net of reversals	1.4	1.9
Impairment loss of trade debtors, net of reversals	0.4	0.6
Interest income from bank deposits	(0.5)	(1.2)
Net foreign exchange loss	0.2	0.2

5. Taxation

	Six months ended 30 September 2015 (Unaudited) US\$ million	2014 (Unaudited) US\$ million
Current tax		
- Hong Kong	11.0	10.4
- Overseas	2.2	3.3
Deferred tax		
- Origination and reversal of temporary differences	(1.8)	(2.0)
	11.4	11.7
Current tax	13.2	13.7
Deferred tax	(1.8)	(2.0)
	11.4	11.7

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) Dividend attributable to the period:

	Six months ended 30 September	
	2015 (Unaudited) US\$ million	2014 (Unaudited) US\$ million
Interim dividend of US17.0 cents (2014: US17.0 cents) per share declared	42.7	42.7

The interim dividend was proposed after the end of the relevant financial period and has not been recognised as liabilities at the end of the relevant financial period.

(b) At a meeting held on 19 May 2015, the Directors proposed a final dividend of US61.0 cents (2014: US64.0 cents) per ordinary share for the year ended 31 March 2015, which was estimated to be US\$153.2 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2015. The final dividend was approved by shareholders at the annual general meeting on 15 July 2015. The final dividend paid in respect of the year ended 31 March 2015 totaled US\$153.2 million (2014: US\$160.8 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\$100.1 million (2014: US\$102.7 million).

The calculation of basic earnings per share is based on the weighted average of 251.1 million (2014: 251.1 million) ordinary shares in issue during the period after adjusting for shares held for Share Purchase Scheme.

The calculation of diluted earnings per share for the period ended 30 September 2014 was based on 251.1 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. No adjustment has been made to the basic earnings per share presented for the period ended 30 September 2015 as the Company did not have any significant dilutive potential ordinary shares during the period.

	Six months ended 30 September 2014 (Unaudited)
Profit attributable to shareholders (US\$ million)	102.7
Weighted average number of ordinary shares in issue less shares held for Share Purchase Scheme (in million)	251.1
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (in million)	-
Weighted average number of ordinary shares (diluted) (in million)	251.1
Diluted earnings per share (US cents)	40.9

8. Debtors, Deposits and Prepayments

Debtors, deposits and prepayments of US\$432.6 million (31 March 2015: US\$259.9 million, 30 September 2014: US\$431.0 million) include trade debtors of US\$395.5 million (31 March 2015: US\$221.9 million, 30 September 2014: US\$387.4 million).

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

	30 September 2015 (Unaudited) US\$ million	31 March 2015 (Audited) US\$ million
0-30 days	239.9	127.9
31-60 days	109.7	71.6
61-90 days	41.9	21.2
>90 days	4.0	1.2
Total	395.5	221.9

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\$456.7 million (31 March 2015: US\$342.6 million, 30 September 2014: US\$423.1 million) include trade creditors of US\$260.5 million (31 March 2015: US\$186.1 million, 30 September 2014: US\$235.1 million).

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

	30 September 2015 (Unaudited) US\$ million	31 March 2015 (Audited) US\$ million
0-30 days	82.0	60.7
31-60 days	89.1	46.5
61-90 days	71.2	56.4
>90 days	18.2	22.5
Total	260.5	186.1

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 2015, payable on 21 December 2015 to shareholders whose names appear on the register of members of the Company as at the close of business on 9 December 2015.

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 2015.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 9 December 2015, 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 Tuesday, 8 December 2015.

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

In the first six months of the financial year 2016, VTech continued to make progress in its core businesses, despite strong foreign exchange headwinds. In electronic learning products (ELPs), the business in North America returned to growth while sales in the Asia Pacific region rose sharply. Telecommunication (TEL) products continued to achieve expansion in commercial phones and other telecommunication products. Contract manufacturing services (CMS) turned in a good performance, with growth that continues to outpace the global electronic manufacturing services industry¹.

Results and Dividend

Group revenue for the six months ended 30 September 2015 rose by 3.0% over the same period of the previous financial year to US\$928.1 million. This was primarily due to higher revenue in North America, Europe and Other Regions, offsetting lower revenue in Asia Pacific. Despite the increase, the strong US dollar depressed the Group's reported revenue during the period.

Profit attributable to shareholders of the Company decreased by 2.5% to US\$100.1 million. The fall in profit was mainly attributable to the decline in gross margin, which resulted from unfavourable currency movements and a change in product mix. Basic earnings per share decreased by 2.4% to US39.9 cents, compared to US40.9 cents in the corresponding period last year.

The Board has declared an interim dividend of US17.0 cents per ordinary share, which is the same as the dividend paid in the corresponding period last year.

Costs and Operations

Although material prices decreased slightly over the same period last year, cost of materials rose owing to a change in product mix. Manufacturing overhead also increased, as wages in mainland China continued to rise and the Group added manufacturing capacity. Despite the strong headwinds from foreign exchange movements and wage inflation, VTech was able to reduce the workforce through automation and process improvement, resulting in a stable direct labour cost. Gross margin declined over the same period last year. This was mainly due to the depreciation of currencies against the US dollar, the change in product mix and the higher manufacturing overhead.

Segment Results

North America

Group revenue in North America in the first six months of the financial year 2016 grew by 2.4% to US\$461.6 million, supported by higher sales of ELPs and CMS. North America is the Group's largest market, accounting for 49.7% of Group revenue.

¹ Source: *Manufacturing Market Insider*, September 2015

ELPs revenue in North America rose by 5.3% to US\$148.7 million, as higher sales of standalone products offset lower sales of platform products. VTech retained its position as the number one manufacturer in the Infant and Preschool Electronic Learning category in the US².

The growth of standalone products was driven by sales increases in infant products, Go! Go! Smart Wheels[®] and Go! Go! Smart Animals[®], which offset lower sales of Switch & Go Dinosaurs[®] and preschool products. The launch of new products also supported growth, including Kidizoom[®] Action Cam, Go! Go! Smart Friends[®], Baby Amaze[™] and Flipsies[™]. Flipsies is a brand new product range of transformable dolls and playsets that feature VTech's proprietary MagicPoint[™] and MagicChat[™] technologies. It began to sell in the US in August and has allowed the Group to expand into a new category.

Sales of platform products, in contrast, decreased. In August, the second generation of VTech's smartwatch, Kidizoom Smartwatch DX, hit the shelves in the US and was well received. However, higher sales of the Kidizoom Smartwatch line were unable to compensate for lower sales of InnoTab[®] educational tablets, which were affected by the continued contraction of the highly competitive children's tablet market.

VTech ELPs continued to garner prestigious awards in the US during the period. Go! Go! Smart Wheels Ultimate RC Speedway was included in the Toys "R" Us "Hot Toy" list, Walmart's "Chosen by Kids" list, TTPM's "Most Wanted" holiday list, as well as *The Toy Insider* "Hot 20" list of toys. Kidizoom Smartwatch DX made the "Top Tech 12" list of the most forward-thinking and impressive tech-based toys on the market. Kidizoom Action Cam made "Target's Top Toy List" and "Kmart's Fab 15", while Flipsies Sandy's House & Ocean Cruiser was selected for *The Toy Insider's* 10th annual holiday gift guide.

Revenue from TEL products in North America decreased by 7.0% to US\$200.2 million. Sales of residential phones were lower, as the fixed-line telephone market has continued to contract. Nonetheless, VTech strengthened its number one position in the US residential phone market³.

Sales of commercial phones and other telecommunication products, in contrast, continued to rise. Baby monitors led the growth on a strong sell-through and additional product placements. Sales of VTech's four-line small business phone system also increased, as the new series was well received by the market. The VTech branded ErisStation[™], a conference phone with wireless microphones, and ErisTerminal[™], a SIP (Session Initiation Protocol) based business phone system, saw steady growth in sales, as the product ranges were completed with the addition of new models.

CMS revenue in North America rose by 19.8% to US\$112.7 million. The growth was driven by higher sales of professional audio equipment and industrial products, which offset lower sales of solid-state lighting. Professional audio equipment posted good growth as a major client increased orders after resolving excess inventory issues, while several other customers saw higher demand for their products. Growth in this category also benefited from the addition of new customers. Industrial products recorded higher sales as VTech gained more business following a customer's decision to consolidate suppliers. Sales of solid-state lighting, however, trended lower as the demand for the customers' products decreased.

Europe

Group revenue in Europe in the first six months of the financial year 2016 was up 3.8% to US\$373.7 million, mainly due to higher CMS sales. Europe is the second largest market of the Group, representing 40.3% of Group revenue.

ELPs revenue in Europe decreased by 8.7% to US\$129.2 million, a decline that was primarily due to the depreciation of the European currencies against the US dollar and lower sales of platform products. Among VTech's key Western European markets, sales in the UK increased, while those in France, Germany and Spain declined. During the first nine months of the calendar year 2015, VTech continued to gain market share and

² Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the combined toy categories of infant electronic learning, other infant toys, bath toys, electronic entertainment (excluding tablets) and preschool electronic learning for the calendar year ending September 2015

³ Source: MarketWise Consumer Insights, LLC

strengthened its position as the number one infant toy manufacturer in France, the UK, Germany and Belgium⁴.

In platform products, as in North America the children's educational tablet market remained challenging. The contraction of the market and tough competition led to lower sales of InnoTab/Storio[®], which offset higher sales of Kidizoom Smartwatch.

Sales of standalone products in Europe were flat during the period. Toot-Toot Drivers[®], Toot-Toot Animals[®] and Little Love[®] recorded growth, offsetting the declines in Switch & Go Dinos, infant and preschool products. Kidizoom Action Cam and Flipsies were rolled out to the Group's major European markets during the period, generating incremental sales.

VTech ELPs won acclaim in Europe during the first six months of the financial year 2016. In France, recognition included four "2015 Grand Prix du Jouet" awards presented by *La Revue du Jouet* magazine. This was the most awards granted to any manufacturer, with Toot-Toot Drivers Super RC Raceway gaining the top "Toy of the Year 2015" award. Toot-Toot Drivers Garage won a gold medal in the UK's prestigious "Independent Toy Awards", while Kidizoom Action Cam was the Belgian Federation of Toys' "Toy of the Year 2015".

TEL products revenue in Europe decreased by 4.1% to US\$74.4 million. Sales of residential phones were lower as the fixed-line telephone market has continued to contract. Despite the weak Euro which impacted the Group's customers, sales of commercial phones and other telecommunication products rose significantly.

In commercial phones, sales of CAT-iq (Cordless Advanced Technology—internet and quality) handsets saw robust growth, as network operators continued to encourage the replacement of traditional PSTN (Public Switched Telephone Network) services with VoIP (Voice over Internet Protocol) services. Sales of ErisStation and ErisTerminal also increased and in September, the Group launched the VTech branded ErisTerminal in the UK market. In other telecommunication products, baby monitors registered respectable growth as VTech increased sales to existing customers and boosted market share. The Group also started selling VTech branded baby monitors in the UK, with the Full Colour Video and Audio model winning a "Silver" award from *Right Start* magazine. Growth in IADs (Integrated Access Devices) was also strong, as the Group began shipping a high-end device that supports VDSL and dual band 802.11ac to several customers.

CMS revenue in Europe was up 20.8% to US\$170.1 million. Sales of hearables, professional audio equipment and home appliances grew, while those of power supplies were stable. Hearables recorded higher sales as VTech increased its revenue share with a major customer, alongside strong market demand for the customer's products. In professional audio, the Group secured more projects from existing customers and there was a sales contribution from new customers. In home appliances, sales to existing customers also recorded an increase.

Asia Pacific

Group revenue in Asia Pacific decreased by 3.1% to US\$59.7 million in the first six months of the financial year 2016. Lower sales of TEL products and CMS offset growth in ELPs. The region accounted for 6.4% of Group revenue.

ELPs revenue in Asia Pacific was up 63.0% to US\$20.7 million, driven by sales increases in mainland China, Japan and Australia. Mainland China saw strong demand for infant products, Switch & Go Dinos, Go! Go! Smart Wheels and Kidizoom Smartwatch. Increased marketing efforts, expansion of the distribution base and higher online sales accelerated growth. Sales in Japan were buoyed by the launch of Kidizoom Smartwatch. In Australia, sales returned to a growth path following the establishment of the Group's own sales office in the country.

TEL product revenue in Asia Pacific decreased by 26.0% to US\$16.5 million as sales weakened in Australia, Japan and mainland China, offsetting growth in Taiwan, India and Hong Kong. In Australia, the Group

⁴ Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales of infant toys for the calendar year ending September 2015

successfully replaced all Telstra-branded phones with its own brand across all channels during the period. In Japan, sales were lower due to delays in new product launches by customers. In mainland China, demand for residential phones was weak.

CMS revenue in Asia Pacific declined by 15.4% to US\$22.5 million. Sales of testing and measurement equipment fell, as the weaker Japanese Yen led the customer to move production back to Japan. The keen competition from mainland Chinese brands faced by customers resulted in lower orders for solid-state lighting, while sales of medical and health equipment trended lower on weakening demand for the customer's products. Sales of home appliances and hearables, however, saw an increase during the period.

Other Regions

Group revenue from Other Regions in the first half of the financial year 2016 grew by 15.3% to US\$33.1 million, as higher sales of TEL products and CMS offset lower sales of ELPs. Other Regions, which include Latin America, the Middle East and Africa, represented 3.6% of Group revenue.

ELPs revenue in Other Regions fell by 12.0% to US\$8.8 million. Higher sales in the Middle East were offset by lower sales in Africa and Latin America.

TEL products revenue in Other Regions posted 28.8% growth to US\$23.7 million, driven by higher sales in the Middle East and Africa.

CMS revenue in Other Regions was US\$0.6 million, as compared to US\$0.3 million in the same period last year.

Outlook

Given the Group's year-to-date financial results and the continued strong headwinds from currency movements, management expects stable revenue and lower gross margin year-on-year.

ELPs revenue is forecast to be slightly lower year-on-year. Sales of platform products are anticipated to decline, as the business will continue to be affected by declining sales of children's educational tablets. To stabilise the platform business, VTech is introducing a range of innovative platform products in different form factors that aim to capture demand in different market segments. Following Kidizoom Smartwatch DX, a new multi-function handheld device called DigiGo™ hit the shelves in the Group's major European markets in late September. It gives children a handy gadget for text messaging, pictures, videos and music. Furthermore, the Group has launched InnoTV™, an educational TV gaming system designed for preschoolers, which was rolled out in the US and the Group's major European markets in October.

Sales of standalone products, in contrast, are forecast to grow further. The good sell-through of infant products and Go! Go! Smart Family is expected to continue, while Kidizoom Action Cam, Flipsies and Baby Amaze will add incremental sales.

Revenue from TEL products is expected to improve over the first half. Sales of residential phones worldwide are expected to remain slow, but commercial phones and other telecommunication products will continue to grow.

Sales of ErisStation are forecast to accelerate in the second half. The full range reached US shelves in July. The product has been very well received by customers and the Group is recruiting more resellers. ErisTerminal, meanwhile, is expected to grow steadily. Following the UK launch in September, the Group started shipping the VTech branded ErisTerminal to markets in the Middle East. The product will also be rolled out to Eastern Europe later in the second half. In North America, the customer base for ErisTerminal will expand steadily, while the good momentum of the four-line small business phone system will continue. In addition, CAT-iq handsets will maintain their good performance.

In other telecommunication products, the strong momentum in baby monitors will carry into the second half, supported by a new range to be rolled out in both the US and Europe. One of these new models works with

ULE (Ultra Low Energy) sensors, enabling users to monitor their children via sound, video and motion. This product will be unique to the market and is expected to stimulate growth further. IADs are forecast to remain on a positive trend, while a new wireless monitoring system will be shipped to US and some Asian Pacific markets in the second half of the financial year.

The good momentum in CMS is anticipated to continue. Sales of professional audio equipment, hearables and home appliances will increase as business with existing customers expands, while new customers add to demand. The switching mode power supplies business is expected to remain stable. Sales of solid-state lighting are expected to decline, as the customers face strong competition. To cater for further expansion, a new manufacturing building for CMS commenced operations in July, adding 25% to production capacity.

It has been a steady start to the financial year 2016. Going forward, VTech will continue to focus on product innovation, increasing market share, expanding geographically and pursuing operational excellence to enhance shareholder value.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

For the six months ended 30 September 2015	Six months ended 30 September		Change US\$ million
	2015 US\$ million	2014 US\$ million	
Revenue	928.1	900.8	27.3
Gross profit	286.0	290.2	(4.2)
Gross profit margin	30.8%	32.2%	
Total operating expenses	(175.0)	(177.0)	2.0
Total operating expenses as a percentage of revenue	18.8%	19.6%	
Operating profit	111.0	113.2	(2.2)
Operating profit margin	12.0%	12.6%	
Net finance income	0.5	1.2	(0.7)
Profit before taxation	111.5	114.4	(2.9)
Taxation	(11.4)	(11.7)	0.3
Effective tax rate	10.2%	10.2%	
Profit for the period and attributable to shareholders of the Company	100.1	102.7	(2.6)

Revenue

Group revenue for the six months ended 30 September 2015 rose by 3.0% over the same period of the previous financial year to US\$928.1 million. The increase in revenue was largely driven by higher sales in North America, Europe and other regions, which offset the decrease in revenue in Asia Pacific.

	Six months ended 30 September 2015		Six months ended 30 September 2014		Increase / (decrease)	
	US\$ million	%	US\$ million	%	US\$ million	%
North America	461.6	49.7%	450.6	50.0%	11.0	2.4%
Europe	373.7	40.3%	359.9	40.0%	13.8	3.8%
Asia Pacific	59.7	6.4%	61.6	6.8%	(1.9)	-3.1%
Other regions	33.1	3.6%	28.7	3.2%	4.4	15.3%
	928.1	100.0%	900.8	100.0%	27.3	3.0%

Gross Profit/Margin

Gross profit for the six months ended 30 September 2015 was US\$286.0 million, a decrease of US\$4.2 million or 1.4% compared with the same period last year. Gross profit margin for the period also reduced from 32.2% to 30.8%. It was mainly attributable to the depreciation of foreign currencies against United States Dollar, change in product mix, and the higher manufacturing overheads arising from the increase in wages and production capacity compared with the same period last year. Despite the higher wages in China during the period, the Group was able to reduce the workforce through automation and process improvement to maintain a stable direct labour cost. Cost of materials was higher mainly due to the change in product mix although material prices decreased slightly over the same period last year.

Operating Profit/Margin

Operating profit for the six months ended 30 September 2015 was US\$111.0 million, a decrease of US\$2.2 million or 1.9% compared with the same period of the previous financial year. Operating profit margin also reduced from 12.6% to 12.0%. The reduction in both operating profit and operating profit margin was primarily due to the decrease in gross profit and gross profit margin, which offset the decrease in total operating expenses.

Total operating expenses reduced from US\$177.0 million to US\$175.0 million compared with the same period last year. Total operating expenses as a percentage of Group revenue also dropped from 19.6% to 18.8%.

Selling and distribution costs declined from US\$115.0 million to US\$114.1 million, a decrease of 0.8% compared with the same period last year. It was mainly attributable to the reduced spending on advertising and promotional activities and the lower royalty payments for the licensed products during the first half of the financial year. As a percentage of Group revenue, selling and distribution costs also decreased from 12.8% to 12.3%.

Administrative and other operating expenses reduced from US\$33.6 million to US\$32.2 million compared with the same period last year. It was mainly due to the decrease in employee related costs and the lower legal and professional fees. The net exchange loss arising from the Group's global operations in the ordinary course of business was US\$0.2 million, same as the corresponding period of last year. Administrative and other operating expenses as a percentage of Group revenue also decreased from 3.7% to 3.5%.

During the first half of the financial year 2016, the research and development expenses were US\$28.7 million, an increase of 1.1% compared with the same period last year. Research and development expenses as a percentage of Group revenue reduced from 3.2% to 3.1%.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the six months ended 30 September 2015 was US\$100.1 million, a decrease of US\$2.6 million or 2.5% compared with the same period last year. Net profit margin also decreased from 11.4% to 10.8%.

Basic earnings per share for the six months ended 30 September 2015 were US39.9 cents as compared to US40.9 cents in the first half of the previous financial year.

Dividends

Since the end of the relevant financial period, 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. As of 30 September 2015, the Group had deposits and cash of US\$104.9 million and was debt-free. The Group also has adequate liquidity to meet its current and future working capital requirements.

Stocks as of 30 September 2015 were US\$367.9 million, increased from US\$290.2 million as of 31 March 2015. The higher stock level was primarily to cater for the higher 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\$10.5 million or 2.9%, and turnover days also increased from 114 days to 115 days.

Trade debtors as of 30 September 2015 were US\$395.5 million, increased from US\$221.9 million as of 31 March 2015. 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\$8.1 million or 2.1%, and turnover days also increased from 59 days to 61 days.

Trade creditors as of 30 September 2015 were US\$260.5 million, increased from US\$186.1 million as of 31 March 2015. As compared to the corresponding period of last financial year, trade creditors increased by US\$25.4 million or 10.8%, and turnover days also increased from 70 days to 83 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. We principally use forward foreign exchange contracts as appropriate to hedge the foreign exchange risks in the ordinary course of business. 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 2015, the Group invested US\$22.2 million in the purchase of tangible assets including machinery and equipment, leasehold improvements, office equipment, as well as the improvement of manufacturing working environment. All of these capital expenditures were financed from internal resources.

As of 30 September 2015, 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 2015, 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 provisions A.2.1 and A.6.7 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 combined role of Chairman and Group Chief Executive Officer is beneficial to the Group as he has considerable industry experience.

Under code provision A.6.7 of the Code, independent non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Dr. Patrick WANG Shui Chung was unable to attend the annual general meeting of the Company held on 15 July 2015 due to his other prior business engagement. However, the Board believes that the presence of other independent non-executive Directors at such general meetings has allowed the Board to develop a balanced understanding of the views of shareholders.

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 2015 are in line and consistent with those practices set out in the Company's 2015 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 has held two meetings during the financial period and up to the date of this Interim Report. 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. The work performed by the Audit Committee during the financial period and up to the date of this Interim Report included, but not limited to, reviewing the following:

- audited Group's consolidated financial statements and reports for the year ended 31 March 2015;
- report from the external auditor for the year ended 31 March 2015;
- unaudited Group Interim Financial Report for the six months ended 30 September 2015;
- 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 2015;
- accounting principles and practices adopted by the Group;
- appointment of the external auditor and its remuneration;
- significant findings by the Internal Audit Department and recommendations for corrective actions;
- reports made under the Whistleblowing Policy;
- respective audit plans of the internal and external auditors;
- revised Audit Committee Charter; 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 2015.

REVIEW OF INTERIM RESULTS

The Group's unaudited interim results for the six months ended 30 September 2015 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 2015. 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 77,000 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, 12 November 2015

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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