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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 2016

PERFORMANCE HIGHLIGHTS

- Group revenue increased by 5.9% to US$982.9 million
- Gross margin increased from 30.8% to 31.9%
- Profit attributable to shareholders of the Company decreased by 28.7% to US$71.4 million, mainly due to one-off LeapFrog integration costs
- Integration of LeapFrog largely complete
- Interim dividend of US17.0 cents per ordinary share, the same as the dividend paid in the same period last year

UNAUDITED INTERIM RESULTS

The directors (the "Directors") of VTech Holdings Limited (the "Company") announce the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2016 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 2016

	Note	**Six months ended 30 September 2016 (Unaudited) US$ million**	2015 (Unaudited) US$ million	Year ended 31 March 2016 (Audited) US$ million
Revenue	3	**982.9**	928.1	1,856.5
Cost of sales		**(669.1)**	(642.1)	(1,273.2)
Gross profit		**313.8**	286.0	583.3
Selling and distribution costs		**(145.2)**	(114.1)	(254.3)
Administrative and other operating expenses		**(50.7)**	(32.2)	(70.4)
Research and development expenses		**(38.6)**	(28.7)	(56.3)
Operating profit	3 & 4	**79.3**	111.0	202.3
Net finance income		**0.2**	0.5	0.8
Profit before taxation		**79.5**	111.5	203.1
Taxation	5	**(8.1)**	(11.4)	(21.7)
Profit for the period/year and attributable to shareholders of the Company		**71.4**	100.1	181.4
Earnings per share (US cents)	7			
- Basic		**28.4**	39.9	72.2
- Diluted		**28.4**	39.9	72.2

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2016

	Six months ended 30 September 2016 (Unaudited) US$ million	**Six months ended 30 September** 2015 (Unaudited) US$ million	Year ended 31 March 2016 (Audited) US$ million
Profit for the period/year	**71.4**	100.1	181.4
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	**-**	-	(1.5)
	-	-	(1.5)
Items that may be reclassified subsequently to profit or loss:			
Fair value (losses)/gains on hedging	**-**	(0.5)	4.8
Realisation of hedging reserve	**(2.5)**	(4.0)	(5.2)
Exchange translation differences	**(7.8)**	2.5	0.2
	(10.3)	(2.0)	(0.2)
Other comprehensive income for the period/year	**(10.3)**	(2.0)	(1.7)
Total comprehensive income for the period/year	**61.1**	98.1	179.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

	Note	30 September 2016 (Unaudited) US$ million	30 September 2015 (Unaudited) US$ million	31 March 2016 (Audited) US$ million
Non-current assets				
Tangible assets		**69.3**	70.7	68.4
Leasehold land payments		**4.6**	5.0	4.8
Intangible asset – Brand		**20.0**	-	-
Deposits for acquisition of tangible assets		**3.3**	-	3.3
Investments		**3.1**	0.1	3.1
Goodwill		**23.2**	-	-
Deferred tax assets		**9.4**	6.4	4.0
		132.9	82.2	83.6
Current assets				
Stocks		**390.5**	367.9	285.4
Debtors, deposits and prepayments	8	**467.8**	432.6	266.2
Taxation recoverable		**3.7**	2.6	2.3
Deposits and cash		**104.4**	104.9	273.0
		966.4	908.0	826.9
Current liabilities				
Creditors and accruals	9	**(513.3)**	(456.7)	(345.3)
Provisions for defective goods returns and other liabilities		**(44.3)**	(29.2)	(31.5)
Taxation payable		**(10.6)**	(15.0)	(3.6)
		(568.2)	(500.9)	(380.4)
Net current assets		**398.2**	407.1	446.5
Total assets less current liabilities		**531.1**	489.3	530.1
Non-current liabilities				
Net obligations on defined benefit scheme		**(5.3)**	(3.2)	(5.1)
Deferred tax liabilities		**(2.9)**	-	-
		(8.2)	(3.2)	(5.1)
Net assets		**522.9**	486.1	525.0
Capital and reserves				
Share capital		**12.5**	12.5	12.5
Reserves		**510.4**	473.6	512.5
Total equity		**522.9**	486.1	525.0

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 applicable disclosure provisions 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 2016 annual consolidated financial statements, except for the accounting policies changes that are expected to be reflected in the 2017 annual consolidated financial statements as set out in note 2(a) and the accounting policies adopted following the acquisition of subsidiaries as set out in note 2(b).

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 2016 that is included in the Interim Financial Report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. The annual consolidated financial statements for the year ended 31 March 2016 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 May 2016.

2. Accounting Policies

(a) 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.

- *Annual improvements to IFRSs 2012-2014 cycle*
- Amendments to IAS 16, *Property, plant and equipment*, and IAS 38, *Intangible assets, Clarification of acceptable methods of depreciation and amortisation*

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.

(b) Accounting policies adopted following the acquisition of subsidiaries (note 10)

(i) Goodwill

Goodwill represents the excess of

(a) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
(b) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (b) is greater than (a), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

2. Accounting Policies *(continued)*

(b) Accounting policies adopted following the acquisition of subsidiaries (note 10) *(continued)*

(i) Goodwill *(continued)*

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment.

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(ii) Intangible asset – Brand

Brand acquired in a business combination is recognised at fair value at the acquisition date.

Brand with finite useful life is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated to write off the cost of brand on a straight-line basis over its estimated useful life of 30 years.

Both the period and method of amortisation are reviewed annually.

(iii) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

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.

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.

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 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 and depreciation and amortisation.

(b) Segment assets and liabilities

Segment assets include all non-current and current assets with the exception of deferred tax assets, taxation recoverable and other corporate assets including intangible asset – brand, goodwill and investments.

Segment liabilities include creditors and accruals, provisions for defective goods returns and other liabilities and net obligations on defined benefit scheme with the exception of taxation payable and deferred tax liabilities.

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**	
	2016 (Unaudited) US$ million	2015 (Unaudited) US$ million	**2016 (Unaudited) US$ million**	2015 (Unaudited) US$ million
North America	**474.4**	461.6	**30.0**	56.2
Europe	**412.6**	373.7	**35.3**	40.0
Asia Pacific	**69.9**	59.7	**9.5**	9.6
Others	**26.0**	33.1	**4.5**	5.2
	982.9	928.1	**79.3**	111.0

	Reportable segment assets		**Reportable segment liabilities**	
	30 September 2016 (Unaudited) US$ million	31 March 2016 (Audited) US$ million	**30 September 2016 (Unaudited) US$ million**	31 March 2016 (Audited) US$ million
North America	**249.3**	141.6	**(94.4)**	(46.3)
Europe	**207.5**	81.3	**(53.2)**	(24.0)
Asia Pacific	**583.1**	678.1	**(415.2)**	(311.5)
Others	**-**	0.1	**(0.1)**	(0.1)
	1,039.9	901.1	**(562.9)**	(381.9)

3. Segment Information *(continued)*

(c) Reconciliation of reportable segment assets and liabilities

	30 September 2016 (Unaudited) US$ million	31 March 2016 (Audited) US$ million
Assets		
Reportable segment assets	**1,039.9**	901.1
Intangible asset - Brand	**20.0**	-
Investments	**3.1**	3.1
Goodwill	**23.2**	-
Taxation recoverable	**3.7**	2.3
Deferred tax assets	**9.4**	4.0
Consolidated total assets	**1,099.3**	910.5
Liabilities		
Reportable segment liabilities	**(562.9)**	(381.9)
Deferred tax liabilities	**(2.9)**	-
Taxation payable	**(10.6)**	(3.6)
Consolidated total liabilities	**(576.4)**	(385.5)

4. Operating Profit

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

	Six months ended 30 September 2016 (Unaudited) US$ million	2015 (Unaudited) US$ million
Cost of inventories	**669.1**	642.1
Depreciation of tangible assets	**16.8**	17.6
Write-down of inventories, net of reversals	**4.3**	1.4
Impairment loss of trade debtors, net of reversals	**0.2**	0.4
Interest income from bank deposits	**(0.2)**	(0.5)
Net foreign exchange (gain) / loss	**(0.1)**	0.2

5. Taxation

	Six months ended 30 September 2016 (Unaudited) US$ million	2015 (Unaudited) US$ million
Current tax		
- Hong Kong	**10.7**	11.0
- Overseas	**2.2**	2.2
Deferred tax		
- Origination and reversal of temporary differences	**(4.8)**	(1.8)
	8.1	11.4
Current tax	**12.9**	13.2
Deferred tax	**(4.8)**	(1.8)
	8.1	11.4

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

6. Dividends

(a) Dividend attributable to the period:

	Six months ended 30 September	
	2016	2015
	(Unaudited)	(Unaudited)
	US$ million	US$ million
Interim dividend of US17.0 cents (2015: 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 17 May 2016, the Directors proposed a final dividend of US25.0 cents (2015: US61.0 cents) per ordinary share for the year ended 31 March 2016, which was estimated to be US$62.8 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2016. The final dividend was approved by shareholders at the annual general meeting on 15 July 2016. The final dividend paid in respect of the year ended 31 March 2016 totaled US$62.8 million (2015: US$153.2 million).

7. Earnings per Share

The calculations of basic and diluted earnings per share are based on the Group’s profit attributable to shareholders of the Company of US$71.4 million (2015: US$100.1 million).

The calculation of basic earnings per share is based on the weighted average of 251.1 million (2015: 251.1 million) ordinary shares in issue during the period after adjusting for shares held for Share Purchase Scheme.

No adjustment has been made to the basic earnings per share presented for the period ended 30 September 2015 and 30 September 2016 as the Company did not have any significant dilutive potential ordinary shares during the period.

8. Debtors, Deposits and Prepayments

Debtors, deposits and prepayments of US$467.8 million (31 March 2016: US$266.2 million, 30 September 2015: US$432.6 million) include trade debtors of US$423.1 million (31 March 2016: US$230.3 million, 30 September 2015: US$395.5 million).

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

	30 September 2016 (Unaudited) US$ million	31 March 2016 (Audited) US$ million
0-30 days	**253.5**	130.0
31-60 days	**127.7**	59.4
61-90 days	**32.7**	35.2
>90 days	**9.2**	5.7
Total	**423.1**	230.3

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$513.3 million (31 March 2016: US$345.3 million, 30 September 2015: US$456.7 million) include trade creditors of US$279.2 million (31 March 2016: US$188.4 million, 30 September 2015: US$260.5 million).

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

	30 September 2016 (Unaudited) US$ million	31 March 2016 (Audited) US$ million
0-30 days	**100.6**	71.8
31-60 days	**100.1**	36.9
61-90 days	**60.6**	52.7
>90 days	**17.9**	27.0
Total	**279.2**	188.4

10. Acquisition of subsidiaries

On 5 February 2016, Bonita Merger Sub, L.L.C., an indirect wholly-owned subsidiary of the Company, entered into a merger agreement with LeapFrog Enterprises, Inc. ("LeapFrog"), a developer of educational entertainment for children, to acquire LeapFrog by way of merger. Under the terms of the merger agreement, the Group agreed to acquire 100% of the outstanding common stock of LeapFrog at US$1.00 per share through an all cash tender offer followed by a second-step merger. The tender offer commenced on 3 March 2016 and expired on 1 April 2016.

The transaction was completed on 4 April 2016 with total consideration of approximately US$71.2 million, upon which LeapFrog has become an indirect wholly-owned subsidiary of the Company.

The acquisition will bring synergistic benefits to the Group and will enhance the electronic learning products business worldwide. The goodwill of US$23.2 million arising from the acquisition is attributable to acquired economies of scale expected from combining the operations of the Group and LeapFrog. None of the goodwill recognised is expected to be deductible for income tax purpose.

Acquisition-related costs of US$1.4 million and US$0.5 million have been charged to administrative and other operating expenses in the consolidated statement of profit or loss for the year ended 31 March 2016 and the period ended 30 September 2016 respectively.

(a) Details of net assets acquired and goodwill in respect of the acquisition of LeapFrog at the acquisition date were as follows:

	Net assets acquired and goodwill (Unaudited) US$ million
Aggregate consideration	**71.2**
Less: Estimated fair value of net assets acquired	**(48.0)**
Goodwill on acquisition	**23.2**

10. Acquisition of subsidiaries *(continued)*

(a) Details of net assets acquired and goodwill in respect of the acquisition of LeapFrog at the acquisition date were as follows: *(continued)*

	Estimated fair value (Unaudited) US$ million
Tangible assets	**0.3**
Intangible asset – Brand	**20.0**
Deferred tax assets	**0.6**
Stocks	**18.3**
Debtors, deposits and prepayments	**36.1**
Taxation recoverable	**0.2**
Deposits and cash	**54.8**
Creditors and accruals	**(68.9)**
Provisions for defective goods return and other liabilities	**(10.5)**
Deferred tax liabilities	**(2.9)**
Net identifiable assets and liabilities	**48.0**

	Net cash outflow (Unaudited) US$ million
Purchase consideration settled in cash	**71.2**
Deposits and cash of LeapFrog acquired	**(54.8)**
	16.4

The fair value of debtors, deposits and prepayments is US$36.1 million and includes trade debtors with a fair value of US$26.4 million. The gross contractual amount for trade debtors due is US$27.4 million, of which US$1.0 million is expected to be uncollectible.

(b) Revenue and profit contribution

Following the acquisition, LeapFrog contributed revenue and net loss of US$64.9 million and US$25.3 million respectively for the period ended 30 September 2016.

The effect to the Group's revenue and net loss for the period ended 30 September 2016 would not have been materially different from US$64.9 million and US$25.3 million respectively as if the above acquisition had taken place on 1 April 2016.

11. Non-Adjusting Events After the Reporting Period

On 21 October 2016, the Group announced that it had entered into a binding definitive agreement with Snom Technology AG ("Snom"), the pioneer and a leading brand of professional and enterprise Voice over Internet Protocol ("VoIP") telephones. Under the terms of the agreement, the Group will acquire 100% share capital of Snom for approximately US$15.0 million. The acquisition will be financed through internal resources.

The main synergies of the acquisition will be in hardware and software development, expanded markets channels in VoIP telephony, and improvement in operational efficiency.

The transaction is subject to the approval of the relevant regulatory authorities.

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 2016, payable on 19 December 2016 to shareholders whose names appear on the register of members of the Company as at the close of business on 7 December 2016.

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 7 December 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 7 December 2016, 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, 6 December 2016.

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

The first six months of the financial year 2017 saw an increase in Group revenue. The increase was driven by the sales consolidation from recently acquired LeapFrog Enterprises, Inc. (LeapFrog) and growth in contract manufacturing services (CMS). This offset lower sales of telecommunication (TEL) products. Profitability was lower largely because of one-off costs associated with the integration of LeapFrog.

Results and Dividend

Group revenue for the six months ended 30 September 2016 rose by 5.9% over the same period of the previous financial year to US$982.9 million, with growth in North America, Europe and Asia Pacific.

Profit attributable to shareholders of the Company declined by 28.7% to US$71.4 million. The fall in profit was mainly attributable to a lower operating profit resulting from the one-off costs associated with the integration of LeapFrog, the majority of which have been taken in the first half. Basic earnings per share decreased by 28.8% to US28.4 cents, compared to US39.9 cents in the corresponding period last year.

The Board of Directors 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

Gross margin increased over the same period last year. Cost of materials as a percentage of Group revenue was largely unchanged. Direct labour costs and manufacturing overhead declined, as wages in the Group's factories in China held steady and the Renminbi depreciated against the US dollar. VTech again increased efficiency by reducing the workforce through automation and process improvement.

Segment Results

North America

Group revenue in North America in the first six months of the financial year 2017 increased by 2.8% to US$474.4 million, as higher sales of electronic learning products (ELPs) offset lower sales of TEL products and CMS. North America remains the Group's largest market, accounting for 48.3% of Group revenue.

ELPs revenue in North America rose by 26.2% to US$187.6 million, as sales of LeapFrog products were consolidated into VTech following completion of the acquisition on 4 April 2016. Overall, sales of both standalone and platform products increased and VTech maintained its position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US[1].

In standalone products, growth was driven by the core infant and toddler products. This was augmented by the launch of new Go! Go! Smart family products, which were well received by the market. In particular, the new Go! Go! Smart Wheels® Treasure Mountain Train Adventure™ playset was named to Walmart's "Chosen by Kids" Top 25 Holiday List. This is the third year in a row that a Go! Go! Smart Wheels product has made the list. The playset also won recognition at the prestigious National Parenting Product Awards (NAPPA), alongside eight more VTech ELPs. Another major success was the new Go! Go! Smart Friends® Enchanted Princess Palace™, featuring the Group's proprietary MagicPoint® technology. It was included in *The Toy Insider's* "Hot 20" list as well as the TTPM "Most Wanted" holiday list.

The sales growth in platform products was driven by the launch of new products and the combined VTech and LeapFrog educational tablet offerings. The Touch & Learn Activity Desk™ Deluxe hit the shelves of US retailers in August 2016. It features an interactive desktop and activity cards filled with engaging content including letters, numbers, music and colours. Very positively received, this product has made all of the major holiday toy lists, including the TTPM "Most Wanted" list and the NAPPA awards. The LeapFrog brand introduced to the market a new interactive learning system, LeapStart™. Helping children acquire a range of school and life skills, LeapStart has also been included in the TTPM "Most Wanted" list. In contrast, sales of Kidizoom® Smartwatch declined during the period as the product family entered its third year of sales.

Revenue from TEL products in North America decreased by 9.0% to US$182.1 million. Although sales of commercial phones and other telecommunication products were on an upward trend, this was offset by lower sales of residential phones.

Sales of residential phones continue to be impacted by the decline in the fixed-line telephone market and orders were affected as some major retailers tightened inventory management. VTech nonetheless further increased its market share and maintained its number one position in the US residential phone market[2].

Commercial phones and other telecommunication products posted good growth. Baby monitors had the strongest performance, driven by new product launches, strong sell-through and increased product placements. ErisTerminal™, VTech's SIP (Session Initiation Protocol) based business phone system saw sales increase as distribution channels were expanded. Sales of hotel phones rose as VTech's reputation in the hospitality sector continues to grow, enabling it to increase market share and secure new projects. New Bluetooth headsets specially designed for the professional trucker market boosted sales of cordless headsets, while ErisStation™, the Group's conference phone with wireless microphones, saw steady growth.

CMS revenue in North America decreased by 7.1% to US$104.7 million. The decline was the result of lower sales of professional audio equipment and communication products, which offset higher sales of solid state lighting and home appliances. Professional audio equipment experienced lower orders because of an excess inventory issue and the delay of new projects by a customer, while sales of communication products declined because of lower orders for a home security system from an existing customer. In contrast, solid state lighting

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[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, bath toys, electronic entertainment (excluding tablets) and preschool electronic learning for the calendar year ending September 2016

[2] Source: MarketWise Consumer Insights, LLC

recorded a sales increase as there was the sales contribution from a new customer. An existing customer transferring the production of a new series of products to VTech also supported growth. Sales of home appliances rose as there was increased demand from existing customers. The industrial products business was stable during the period.

Europe

Group revenue in Europe in the first six months of the financial year 2017 was up 10.4% to US$412.6 million, as higher ELPs and CMS sales offset a decline in TEL products. Europe is the second largest market of the Group, representing 42.0% of Group revenue.

ELPs revenue in Europe increased by 11.8% to US$144.5 million. Growth was recorded in all the Group's key European markets, namely the UK, France, Germany, the Netherlands and Spain. During the first nine months of the calendar year 2016, VTech further strengthened its position as the number one infant and toddler toy manufacturer in France, the UK, Germany, Belgium[3] and the Netherlands.

Sales of standalone products in Europe grew, led by the core infant, toddler and preschool products. There were higher sales of Kidizoom camera and the Kidi line, while sales of the Toot-Toot family of products were stable and Kidizoom Action Cam saw sales decline.

Platform products also recorded growth. Sales of children's educational tablets increased with the addition of LeapFrog branded tablets, while the introduction of DigiGo® in late September 2015 added incremental sales. During the first six months of the financial year 2017, VTech started rolling out the second generation of Kidizoom Smartwatch to all its major Western European markets. The LeapFrog branded LeapStart also hit shelves in the UK in July 2016.

VTech's ELPs continued to gain wide recognition across Europe. In the UK, Toot-Toot Drivers® Gold Mine Train Set was named to the "Top Toy Predictions for Christmas 2016" by Argos. In France, the singalong microphone set Kidi Super Star, the interactive doll Little Love® Cuddle and Care, as well as DigiArt Creative Easel™ all won "2016 Grand Prix du Jouet" awards presented by *La Revue du Jouet* magazine.

TEL products revenue in Europe decreased by 15.3% to US$63.0 million on lower sales of residential phones, commercial phones and other telecommunication products.

Sales of residential phones declined as the fixed-line telephone market contracted further and the weak Euro reduced the purchasing power of the Group's customers.

In commercial phones and other telecommunication products, sales of CAT-iq (Cordless Advanced Technology—internet and quality) handsets were lower as a key customer changed its sales and marketing strategy on product bundling, while sales of SIP phones, baby monitors and IADs (integrated access devices) were affected by the delayed launch of new products by customers. During the first half of this financial year, VTech started shipping fixed-line telephones specially designed for the hearing impaired to several European customers, tapping the demand of this unfulfilled market.

CMS revenue in Europe rose 20.6% to US$205.1 million on broad based growth, offsetting slightly lower sales of home appliances and communication products. Significant sales growth of hearables was mainly due to the successful launch of the world's first wireless smart earphones by a new customer. Sales also benefited as customers' products were well received by the market. In professional audio equipment, more orders were secured for USB audio interface products, offsetting a reduction in demand for mixers. Switching mode power supplies saw a temporary boost in sales despite the customer's change of ownership. Industrial products were supported by higher sales of smart meters in the UK market as utility suppliers, backed by Government regulation, began to encourage households to install the units to track their consumption patterns. During the first six months, the Group started shipping hearing aids products to a European customer, driving growth in medical and health products.

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[3] Source: Ranking for France, the UK, Germany and Belgium are based on total retail sales (NPD Group, Retail Tracking Service) of infant and toddler toys for the calendar year ending September 2016

Asia Pacific

Group revenue in Asia Pacific increased by 17.1% to US$69.9 million in the first six months of the financial year 2017 as sales of all product lines rose. The region accounted for 7.1% of Group revenue.

ELPs revenue in Asia Pacific was up 17.9% to US$24.4 million, driven by sales increases in Australia and Korea, which offset declines in China and Japan. Australia posted significant growth on stronger sales and marketing efforts following the establishment of VTech's own sales office in the country, while LeapFrog products also made a contribution. Sales in the Korean market benefited from more product launches and an increased sales effort. In China, sales in local currency terms showed modest growth but retreated slightly in US dollar terms due to the depreciation of the Renminbi. Sales to Japan were affected by excess inventory at one customer.

TEL products revenue in Asia Pacific increased by 0.6% to US$16.6 million as higher sales in China and India offset lower sales in Australia, while those to Japan were stable. In China, VTech began shipping its hotel phones to one of the top luxury hotel chains, while in India the Group won more orders for cordless phones from a key customer. Sales declined in Australia due to the contraction of the market for fixed-line telephones, but VTech continued to gain market share.

CMS revenue in Asia Pacific grew by 28.4% to US$28.9 million. Higher sales were recorded for home appliances, medical and health products, solid state lighting and professional audio equipment, whereas sales of hearables and communication products registered a decline. Home appliances benefited from the good sell-through of a customer's products, while the medical and health products business was boosted by higher sales of parts for ultrasound machines. The sales growth of solid state lighting was driven by increased demand in China. Professional audio equipment saw increased orders from existing customers.

Other Regions

Group revenue from Other Regions in the first half of the financial year 2017 fell by 21.5% to US$26.0 million, as higher sales of ELPs were insufficient to offset the declines in TEL products and CMS. Other Regions, which include Latin America, the Middle East and Africa, represented 2.6% of Group revenue.

ELPs revenue in Other Regions rose by 6.8% to US$9.4 million. Higher sales were achieved in the Middle East and Africa, offsetting a sales decline in Latin America.

TEL products revenue in Other Regions declined by 31.6% to US$16.2 million, led by lower sales in Latin America, the Middle East and Africa.

CMS revenue in Other Regions was US$0.4 million, as compared to US$0.6 million in the same period last year.

Snom Acquisition

On 21 October 2016, VTech announced that it had entered into a binding definitive agreement to acquire 100% of the share capital of Germany's Snom for approximately US$15 million. Snom is the pioneer and a leading brand of professional and enterprise VoIP telephones. The main synergies of the acquisition are in hardware and software development, expanded sales channels in VoIP telephony and improvements in operational efficiency. The transaction will be financed through internal resources and is subject to the approval of the relevant regulatory authorities.

Outlook

With the good momentum behind ELPs and CMS, and sales of TEL products anticipated to pick up in the second half, management is expecting Group revenue for the full year to increase. Profitability is expected to improve in the second half as Group revenue will be higher, while the majority of the LeapFrog integration costs has already been incurred in the first half results.

ELPs revenue is forecast to be higher year-on-year as sales of both standalone and platform products are expected to grow.

Supplemented by contributions from LeapFrog branded products, the positive trend of infant, toddler and preschool standalone products will continue. Growth will also be supported by VTech's award-winning Go! Go! Smart family of products, especially from the expanded Go! Go! Smart Friends line and the newly launched Go! Go! Smart Sea World line. New products for the Kidi and Little Love lines will also provide additional growth.

Sales of platform products will be supported by a broadened portfolio of VTech and LeapFrog branded products, including educational tablets from both brands. VTech branded platform sales will be driven by Touch & Learn Activity Desk Deluxe, the launch of Kidizoom Smartwatch DX in the Group's key European markets, as well as DigiGo. For the LeapFrog brand, the newly launched LeapStart is expected to make a good contribution, augmented by LeapReader™.

Sales of TEL products are expected to pick up in the second half as the growth in commercial phones and other telecommunication products accelerates.

In commercial phones, the acquisition of Snom will boost sales worldwide by bringing an immediate sales contribution, strengthening the product portfolio, expanding VTech's global sales channels and adding new interoperability and technology partners. This will be augmented by the shipment of SIP terminals to a major Korean customer in the fourth quarter of the financial year 2017. Sales of CAT-iq handsets will also increase as VTech will start shipping the handsets to one of the largest US wireless communication service providers. Sales of hotel phones are on track to rise, with the Group gaining further market share and winning new projects.

Sales of other telecommunication products are expected to increase due to a number of factors. Sales of baby monitors in the US will grow further, driven by increased product placements and new products, including the launch of a model featuring cutting-edge video technology that will hit the shelves in March 2017. The Group will also introduce VTech branded baby monitors to the Eastern European markets, while more units will be shipped to Western Europe. Wireless monitoring system sales will benefit from the expansion of the product range, as VTech introduces its first remote access IP camera to the US market in the fourth quarter of this financial year. Furthermore, shipment of IADs in Europe will resume growth.

The residential phones business will remain slow worldwide, but VTech will continue to increase its market share in North America and Australia.

The good performance of CMS will continue, although growth in the second half is expected to moderate slightly. The professional audio business should stabilise as the customer's excess inventory issue has been resolved. Hearables, industrial products, solid state lighting and medical and health equipment will all achieve growth. Hearables will sustain their positive trend as customers' products continue to perform well in the market, while industrial products will benefit from the policy to install smart meters in UK households. Solid state lighting will be supported by orders from the new customer and the transfer of the production of the new product series by an existing customer. In addition, VTech will move from the manufacturing of parts to producing entire ultrasound machines for a customer in Japan, which will boost growth in medical and health products. However, the switching mode power supplies business faces uncertainty due to the change of ownership of a customer.

With VTech CMS manufacturing more hearing aids products, as well as other medical and health products, new strategic business units have been set up to manage the expected growth.

In the last annual results, the Group announced that CMS had acquired the fixed assets of a company that manufactures high precision metal tooling and parts. Contribution from this acquisition will start in the fourth quarter of this financial year.

In conclusion, the financial year 2017 has got off to a solid start. With the integration of LeapFrog now largely completed and Group revenue expected to rise, the second half will see an improvement in profitability. Moving forward, VTech will continue to strive for product innovation, gains in market share, geographic expansion and operational excellence to enhance shareholder value.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

For the six months ended 30 September 2016	Six months ended 30 September **2016** **US$ million**	2015 US$ million	Change US$ million
Revenue	**982.9**	928.1	54.8
Gross profit	**313.8**	286.0	27.8
Gross profit margin	**31.9%**	30.8%	
Total operating expenses	**(234.5)**	(175.0)	(59.5)
Total operating expenses as a percentage of revenue	**23.8%**	18.8%	
Operating profit	**79.3**	111.0	(31.7)
Operating profit margin	**8.1%**	12.0%	
Net finance income	**0.2**	0.5	(0.3)
Profit before taxation	**79.5**	111.5	(32.0)
Taxation	**(8.1)**	(11.4)	3.3
Effective tax rate	**10.2%**	10.2%	
Profit for the period and attributable to shareholders of the Company	**71.4**	100.1	(28.7)

Revenue

Group revenue for the six months ended 30 September 2016 rose by 5.9% over the same period of the previous financial year to US$982.9 million. The increase in revenue was largely driven by the higher sales in North America, Europe and Asia Pacific, which offset the decrease in revenue in other regions. The acquisition of LeapFrog on 4 April 2016 also contributed to the sales growth compared with the same period last year.

	Six months ended 30 September 2016		Six months ended 30 September 2015		Increase / (decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**474.4**	**48.3%**	461.6	49.7%	12.8	2.8%
Europe	**412.6**	**42.0%**	373.7	40.3%	38.9	10.4%
Asia Pacific	**69.9**	**7.1%**	59.7	6.4%	10.2	17.1%
Other regions	**26.0**	**2.6%**	33.1	3.6%	(7.1)	-21.5%
	982.9	**100.0%**	928.1	100.0%	54.8	5.9%

Gross Profit/Margin

Gross profit for the six months ended 30 September 2016 was US$313.8 million, an increase of US$27.8 million or 9.7% compared with the same period last year. Gross profit margin for the period also increased from 30.8% to 31.9%. The increase in gross profit and gross profit margin was mainly attributable to the gross profit contribution from LeapFrog. Cost of materials as percentage of Group revenue remained largely stable compared with the same period last year. As for the direct labour costs and manufacturing overheads, they were lower than the same period last year as the Group continued to reduce workforce through automation and process improvement, and the Renminbi also depreciated against the US dollar during the period.

Operating Profit/Margin

Operating profit for the six months ended 30 September 2016 was US$79.3 million, a decrease of US$31.7 million or 28.6% compared with the same period of the previous financial year. Operating profit margin also reduced from 12.0% to 8.1%. The reduction in both operating profit and operating profit margin was mainly due to the integration of LeapFrog and the related restructuring costs incurred during the first half of the financial year.

Total operating expenses increased from US$175.0 million to US$234.5 million compared with the same period last year. Total operating expenses as a percentage of Group revenue also increased from 18.8% to 23.8%.

Selling and distribution costs increased from US$114.1 million to US$145.2 million, an increase of 27.3% compared with the same period last year. It was mainly attributable to the consolidation of LeapFrog's business and operation. As a percentage of Group revenue, selling and distribution costs also increased from 12.3% to 14.7%.

Administrative and other operating expenses increased from US$32.2 million to US$50.7 million compared with the same period last year. These included the consolidation of LeapFrog and the associated restructuring costs, the expenses related to the cyber-attack happened in November 2015 as well as the investigation conducted by United Kingdom Competition & Markets Authority since April 2016. The net exchange gain arising from the Group's global operations in the ordinary course of business was US$0.1 million, as compared with an exchange loss of US$0.2 million in the corresponding period of last year. Administrative and other operating expenses as a percentage of Group revenue also increased from 3.4% to 5.2%.

During the first half of the financial year 2017, the research and development expenses were US$38.6 million, an increase of 34.5% compared with the same period last year. It was mainly attributable to the acquisition of LeapFrog and the related restructuring costs. Research and development expenses as a percentage of Group revenue increased from 3.1% to 3.9%.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the six months ended 30 September 2016 was US$71.4 million, a decrease of US$28.7 million or 28.7% compared with the same period last year. Net profit margin also decreased from 10.8% to 7.3%.

Basic earnings per share for the six months ended 30 September 2016 were US28.4 cents as compared to US39.9 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 2016, the Group had deposits and cash of US$104.4 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 2016 were US$390.5 million, increased from US$285.4 million as of 31 March 2016. 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$22.6 million or 6.1%, while turnover days decreased from 115 days to 110 days.

Trade debtors as of 30 September 2016 were US$423.1 million, increased from US$230.3 million as of 31 March 2016. 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$27.6 million or 7.0%, while turnover days decreased from 61 days to 60 days.

Trade creditors as of 30 September 2016 were US$279.2 million, increased from US$188.4 million as of 31 March 2016. As compared to the corresponding period of last financial year, trade creditors increased by US$18.7 million or 7.2%, while turnover days decreased from 83 days to 79 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. The Group 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 2016, the Group invested US$19.1 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 2016, 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 2016, 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 deviations 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 half of the Board members are 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. Mr. Michael TIEN Puk Sun was unable to attend the 2016 annual general meeting of the Company held on 15 July 2016 ("2016 AGM") due to his other engagement. However, the Board believes that the presence of the other independent non-executive Directors at such general meeting 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, each 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 2016 are in line and consistent with those practices set out in the Company's 2016 Annual Report.

Mr. Michael TIEN Puk Sun retired as an independent non-executive Director with effect from the conclusion of the 2016 AGM. Upon the retirement of Mr. Michael TIEN Puk Sun, he also ceased to be the chairman of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee, and Dr. Patrick WANG Shui Chung was appointed as the chairman of the Remuneration Committee and a member of the Audit Committee in place of Mr. Michael TIEN Puk Sun with effect from the conclusion of the 2016 AGM.

AUDIT COMMITTEE

The Audit Committee is chaired by Mr. WONG Kai Man with Dr. William FUNG Kwok Lun, Mr. Michael TIEN Puk Sun (retired with effect from the conclusion of the 2016 AGM) and Dr. Patrick WANG Shui Chung (appointed with effect from the conclusion of the 2016 AGM) 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 control 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 Announcement. In addition to the Audit Committee members, the meetings were attended by the Group Chief Executive Officer, the Company Secretary and Group Chief Compliance Officer, the Group 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 Announcement included, but not limited to, reviewing the following:

- audited Group’s consolidated financial statements and reports for the year ended 31 March 2016;
- report from the external auditor for the year ended 31 March 2016;
- corporate governance report in the 2016 Annual Report;
- unaudited Group Interim Financial Report for the six months ended 30 September 2016;
- 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 2016;
- corporate governance section in the 2016/2017 Interim Report;
- 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;
- training and continuous professional development of the Directors and senior management;
- 2016 Sustainability Report;
- adequacy of resources, staff qualifications and experience, training programmes and budget of the Group’s accounting, financial reporting and internal audit functions;
- cyber attack incident happened in November 2015 and the subsequent responses and implementation of data security measures; and
- mechanism for pre-approval of non-audit services provided by the external auditor.

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.

It should be noted that a system of internal control, no matter how well it is designed and operated, can only provide reasonable but not absolute assurance that the objectives of the system of internal control, such as safeguarding assets from inappropriate use or ensuring compliance with regulations, are met. As a result, it should not be expected that a system of internal control will prevent or detect all errors and frauds.

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 of the Group continued 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 2016.

REVIEW OF INTERIM RESULTS

The Group's unaudited interim results for the six months ended 30 September 2016 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 2016. 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 157,800 Company's shares at a consideration of approximately US$1.8 million.

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

Hong Kong, 10 November 2016

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, Dr. Patrick WANG Shui Chung and Mr. WONG Kai Man.

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