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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 2017

PERFORMANCE HIGHLIGHTS

- Group revenue increased 5.8% to US$1,039.7 million
- Profit attributable to shareholders of the Company rose 45.1% to US$103.6 million
- Gross margin improved from 31.9% to 32.3%
- Interim dividend of US17.0 cents per ordinary share, the same as the dividend paid in the corresponding period last year
- Well-positioned to achieve further growth

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 2017 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 2017

	Note	**Six months ended 30 September 2017 (Unaudited) US$ million**	Six months ended 30 September 2016 (Unaudited) US$ million	Year ended 31 March 2017 (Audited) US$ million
Revenue	3	**1,039.7**	982.9	2,079.3
Cost of sales		**(704.3)**	(669.1)	(1,389.9)
Gross profit		**335.4**	313.8	689.4
Selling and distribution costs		**(138.1)**	(145.2)	(319.0)
Administrative and other operating expenses		**(43.3)**	(50.7)	(93.2)
Research and development expenses		**(39.2)**	(38.6)	(77.2)
Operating profit	3 & 4	**114.8**	79.3	200.0
Net finance income		**-**	0.2	0.1
Profit before taxation		**114.8**	79.5	200.1
Taxation	5	**(11.2)**	(8.1)	(21.1)
Profit for the period/year and attributable to shareholders of the Company		**103.6**	71.4	179.0
Earnings per share (US cents)	7			
- Basic		**41.2**	28.4	71.3
- Diluted		**41.2**	28.4	71.3

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2017

	Six months ended 30 September 2017 (Unaudited) US$ million	Six months ended 30 September 2016 (Unaudited) US$ million	Year ended 31 March 2017 (Audited) US$ million
Profit for the period/year	**103.6**	71.4	179.0
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	**-**	-	2.7
	-	-	2.7
Items that may be reclassified subsequently to profit or loss:			
Fair value (losses)/gains on hedging, net of deferred tax	**(7.0)**	-	5.2
Realisation of hedging reserve	**(1.9)**	(2.5)	(4.8)
Exchange translation differences	**18.9**	(7.8)	(17.2)
	10.0	(10.3)	(16.8)
Other comprehensive income for the period/year	**10.0**	(10.3)	(14.1)
Total comprehensive income for the period/year	**113.6**	61.1	164.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

	Note	30 September 2017 (Unaudited) US$ million	30 September 2016 (Unaudited) US$ million	31 March 2017 (Audited) US$ million
Non-current assets				
Tangible assets		**79.6**	69.3	72.1
Leasehold land payments		**4.6**	4.6	4.5
Intangible assets		**19.9**	20.0	20.5
Deposits for acquisition of tangible assets		**-**	3.3	-
Investments		**3.1**	3.1	3.1
Goodwill		**31.1**	23.2	31.1
Deferred tax assets		**11.7**	9.4	7.0
		150.0	132.9	138.3
Current assets				
Stocks		**456.9**	390.5	324.9
Debtors, deposits and prepayments	8	**539.1**	467.8	325.6
Taxation recoverable		**2.8**	3.7	2.4
Deposits and cash		**91.3**	104.4	268.8
		1,090.1	966.4	921.7
Current liabilities				
Creditors and accruals	9	**(611.1)**	(513.3)	(422.2)
Provisions for defective goods returns and other liabilities		**(35.6)**	(44.3)	(34.9)
Taxation payable		**(20.4)**	(10.6)	(10.8)
Secured bank loans		**(1.1)**	-	(0.7)
		(668.2)	(568.2)	(468.6)
Net current assets		**421.9**	398.2	453.1
Total assets less current liabilities		**571.9**	531.1	591.4
Non-current liabilities				
Secured bank loans		**(0.5)**	-	(1.0)
Net obligations on defined benefit scheme		**(2.7)**	(5.3)	(2.5)
Deferred tax liabilities		**(2.9)**	(2.9)	(3.2)
		(6.1)	(8.2)	(6.7)
Net assets		**565.8**	522.9	584.7
Capital and reserves				
Share capital		**12.6**	12.5	12.5
Reserves		**553.2**	510.4	572.2
Total equity		**565.8**	522.9	584.7

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 2017 annual financial statements, except for the accounting policies changes that are expected to be reflected in the 2018 annual consolidated financial statements. Details of any changes in accounting policies are 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 2017 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 2017 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 16 May 2017.

2. Changes in Accounting Policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

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 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 assets, goodwill and investments.

Segment liabilities include creditors and accruals, provisions for defective goods returns and other liabilities, secured bank loans 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**	
	2017 (Unaudited) US$ million	2016 (Unaudited) US$ million	**2017 (Unaudited) US$ million**	2016 (Unaudited) US$ million
North America	**499.7**	474.4	**53.9**	30.0
Europe	**413.7**	412.6	**37.3**	35.3
Asia Pacific	**100.6**	69.9	**18.6**	9.5
Others	**25.7**	26.0	**5.0**	4.5
	1,039.7	982.9	**114.8**	79.3

	Reportable segment assets		**Reportable segment liabilities**	
	30 September 2017 (Unaudited) US$ million	31 March 2017 (Audited) US$ million	**30 September 2017 (Unaudited) US$ million**	31 March 2017 (Audited) US$ million
North America	**267.2**	175.2	**(87.1)**	(71.6)
Europe	**249.6**	119.2	**(47.6)**	(32.9)
Asia Pacific	**654.7**	701.5	**(516.2)**	(356.7)
Others	**-**	-	**(0.1)**	(0.1)
	1,171.5	995.9	**(651.0)**	(461.3)

3. Segment Information *(continued)*

(c) Reconciliation of reportable segment assets and liabilities

	30 September 2017 (Unaudited) US$ million	31 March 2017 (Audited) US$ million
Assets		
Reportable segment assets	**1,171.5**	995.9
Intangible assets	**19.9**	20.5
Investments	**3.1**	3.1
Goodwill	**31.1**	31.1
Taxation recoverable	**2.8**	2.4
Deferred tax assets	**11.7**	7.0
Consolidated total assets	**1,240.1**	1,060.0
Liabilities		
Reportable segment liabilities	**(651.0)**	(461.3)
Taxation payable	**(20.4)**	(10.8)
Deferred tax liabilities	**(2.9)**	(3.2)
Consolidated total liabilities	**(674.3)**	(475.3)

4. Operating Profit

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

	Six months ended 30 September	
	2017 (Unaudited) US$ million	2016 (Unaudited) US$ million
Cost of inventories	**704.3**	669.1
Depreciation of tangible assets	**18.0**	16.8
Amortisation of intangible assets	**0.6**	-
Write-down of inventories, net of reversals	**5.0**	4.3
Impairment loss of trade debtors, net of reversals	**1.4**	0.2
Interest income from bank deposits	**-**	(0.2)
Net foreign exchange loss / (gain)	**0.2**	(0.1)

5. Taxation

	Six months ended 30 September	
	2017 (Unaudited) US$ million	2016 (Unaudited) US$ million
Current tax		
- Hong Kong	**11.8**	10.7
- Overseas	**3.6**	2.2
Deferred tax		
- Origination and reversal of temporary differences	**(4.2)**	(4.8)
	11.2	8.1
Current tax	**15.4**	12.9
Deferred tax	**(4.2)**	(4.8)
	11.2	8.1

5. Taxation *(continued)*

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

6. Dividends

(a) Dividend attributable to the period:

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	US$ million	US$ million
Interim dividend of US17.0 cents (2016: 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 16 May 2017, the Directors proposed a final dividend of US53.0 cents (2016: US25.0 cents) per ordinary share for the year ended 31 March 2017, which was estimated to be US$133.1 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2017. The final dividend was approved by shareholders at the annual general meeting on 24 July 2017. The final dividend paid in respect of the year ended 31 March 2017 totaled US$133.2 million (2016: US$62.8 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$103.6 million (2016: US$71.4 million).

The calculation of basic earnings per share is based on the weighted average of 251.2 million (2016: 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 periods ended 30 September 2016 and 30 September 2017 as the Company did not have any significant dilutive potential ordinary shares during the periods.

8. Debtors, Deposits and Prepayments

Debtors, deposits and prepayments of US$539.1 million (31 March 2017: US$325.6 million, 30 September 2016: US$467.8 million) include trade debtors of US$462.9 million (31 March 2017: US$275.4 million, 30 September 2016: US$423.1 million).

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

	30 September 2017 (Unaudited) US$ million	31 March 2017 (Audited) US$ million
0-30 days	**279.2**	144.7
31-60 days	**133.3**	92.0
61-90 days	**46.5**	30.6
>90 days	**3.9**	8.1
Total	**462.9**	275.4

The majority of the Group's sales are on letters 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$611.1 million (31 March 2017: US$422.2 million, 30 September 2016: US$513.3 million) include trade creditors of US$356.6 million (31 March 2017: US$227.2 million, 30 September 2016: US$279.2 million).

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

	30 September 2017 (Unaudited) US$ million	31 March 2017 (Audited) US$ million
0-30 days	**98.1**	81.7
31-60 days	**108.8**	59.8
61-90 days	**84.7**	44.7
>90 days	**65.0**	41.0
Total	**356.6**	227.2

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 2017, payable on 15 December 2017 to shareholders whose names appear on the register of members of the Company as at the close of business on 6 December 2017.

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 6 December 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 6 December 2017, 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, 5 December 2017.

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 2018 saw further progress at VTech. Revenue and profit increased as the Group reaped the benefit of its successful consolidation of the operations of LeapFrog Enterprises, Inc. (LeapFrog) and Snom Technology GmbH (Snom). The growth of electronic learning products, however, was impacted by Toys"R"Us, which filed for bankruptcy protection in the US and Canada on 18 September 2017.

Results and Dividend

Group revenue for the six months ended 30 September 2017 increased by 5.8% to US$1,039.7 million, supported by higher sales in North America, Europe and Asia Pacific.

Profit attributable to shareholders of the Company increased by 45.1% to US$103.6 million. The rise in profit was due to higher revenue, product mix improvement, the absence of the one-off costs associated with the integration of LeapFrog and the contribution from the Snom business.

Basic earnings per share rose by 45.1% to US41.2 cents, compared to US28.4 cents in the first six months of the previous financial year.

The Board of Directors has declared an interim dividend of US17.0 cents per ordinary share, unchanged from the interim dividend declared in the corresponding period last year.

Costs and Operations

The Group's gross profit margin in the first six months of the financial year 2018 rose from 31.9% to 32.3%. The improvement was mainly due to a more favourable product mix, a positive currency impact and productivity gains, despite an increase in materials prices. During the period, the Group has successfully brought most of the LeapFrog and Snom products in-house for manufacture.

Segment Results

North America

Group revenue in North America increased by 5.3% to US$499.7 million in the first six months of the financial year 2018. Sales of electronic learning products (ELPs) and contract manufacturing services (CMS) were higher, offsetting lower sales from telecommunication (TEL) products. North America was VTech's largest market, accounting for 48.0% of Group revenue.

ELPs revenue in North America rose by 2.6% to US$192.4 million, driven by higher sales of both standalone and platform products. For the first nine months of the calendar year 2017, the Group maintained its position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US[1].

Revenue growth was negatively impacted by the filing for bankruptcy protection by Toys"R"Us. VTech's sales to the retailer up to the date of the filing were covered by credit insurance. After the filing, shipments were no longer covered, and hence were temporarily suspended, pending negotiation of new terms. The Group makes every effort to support its long-term business partners and has worked closely with Toys"R"Us to ensure the right products are delivered to consumers in the run-up to the holiday season.

[1] Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales of VTech and LeapFrog products in the combined toy categories of early electronic learning, other infant toys, bath toys, electronic entertainment (excluding tablets) and preschool electronic learning for the calendar year ending September 2017

One of the Group's strategies in the financial year 2018 has been to grow the LeapFrog standalone toy business. By launching more learning toys under the LeapFrog brand, this strategy has seen initial success in the first half, with rising sales of the brand's standalone products. A number of the infant and preschool products performed particularly well, including both new and classic items, namely 2-in-1 LeapTop Touch™, Mr Pencil's Scribble & Write™, Scoop & Learn Ice Cream Cart™, as well as My Pal Scout and Violet. Scoop & Learn Ice Cream Cart was featured in *The Toy Insider's* "Hot 20" list of the hottest toys of the season.

In VTech standalone products, there were higher sales of preschool products and the Kidizoom® Camera range, which offset declines in the infant category and the Go! Go! Smart family of products. Among the successes, Pop-a-Balls™ Drop & Pop Ball Pit™ was included in Walmart's "Chosen by Kids" Top Toys List. The all-weather Kidizoom Action Cam 180 was named in *The Toy Insider*'s 12th annual Holiday Gift Guide, alongside the new GearZooz™ Roll & Roar Animal Train™. Despite a decline in overall Go! Go! Smart sales, several new products were well received by the market, with Go! Go! Smart Wheels® Race & Play Adventure Park™ making the elite "Hot 20" list at *The Toy Insider*. During the period, the Group also brought its product innovation to the outdoor tricycle category, with the "grow-with-me" 4-in-1 Stroll & Grow Tek Trike™.

Among platform products, the Kidizoom Smartwatch range remains a growth driver. The older models continued to sell well, while the launch of the third generation Kidizoom Smartwatch DX2 featuring dual cameras, and a new Star Wars™ themed version, added to the momentum. Touch and Learn Activity Desk™ Deluxe and the LeapStart™ Interactive Learning System, which were both launched in August last year, continued to perform well. In August 2017, the Group introduced an updated LeapStart system, with an enhanced stylus and additional titles, including licensed books. This product was included in *The Toy Insider's* 12th annual Holiday Gift Guide. A new children's communication device called KidiBuzz™ also hit the US shelves. During the period, the Group launched LeapPad™ Ultimate to replace LeapPad Platinum, while LeapFrog Epic™ was updated with the new Academy Edition. Despite these new launches, sales of children's educational tablets decreased in line with the overall market decline.

Adding a new dimension to the Group's offerings, the LeapFrog Academy™ was launched in major English-speaking countries in August 2017. This is a subscription-based guided learning system for children aged 3 to 6 years. Designed by educational experts, it currently offers over 1,000 curriculum based activities.

TEL products revenue in North America decreased by 8.5% to US$166.6 million, as continued growth in commercial phones and other telecommunication products was unable to offset a further sales decline in residential phones, which reflected the ongoing contraction of the fixed-line telephone market. Nonetheless, VTech maintained its leadership position in the US residential phones market[2].

Commercial phones and other telecommunication products posted growth, driven by higher sales of headsets, small to medium sized business (SMB) phones, VoIP (Voice over Internet Protocol) phones and conference phones. Sales of headsets rose on the popularity of the Bluetooth models specially designed for the professional trucker market. The growth of VoIP phones was attributable to the contribution of Snom, the German company acquired in November last year. The VTech branded ErisStation®, a conference phone with wireless microphones, achieved a sales increase as new channels were developed. Hotel phones sales were stable, while baby monitors saw a slight sales decline as customers delayed project launches to the second half of the financial year. Despite this, the market continued to respond well to the Group's two new baby monitor products, one featuring a video camera with interchangeable standard and wide-angle lenses, the other a Wi-Fi remote access high definition camera with local viewer.

[2] Source: MarketWise Consumer Insights, LLC

CMS revenue in North America increased sharply by 34.4% to US$140.7 million, as higher sales of professional audio equipment, solid-state lighting and industrial products offset a decline in communication products. Sales of professional audio equipment recorded significant growth. The growth was mainly driven by higher demand of new active speakers launched by an existing customer. A recovery of orders from another existing customer as it worked through an excess inventory issue that had impacted orders in the previous financial year also contributed to the growth. Sales of solid-state lighting grew as an existing customer transferred production of a product line to VTech. Industrial products also posted solid growth, as we gained orders for printed circuit board assembly for industrial printers and note counting devices. Sales of communication products, however, registered a decline as a client's product line reached the end of its life cycle. Sales of home appliances were stable during the period.

Europe

Group revenue in Europe increased by 0.3% to US$413.7 million in the first six months of the financial year 2018, as higher sales of ELPs and TEL products offset a decline at CMS. Europe remained VTech's second largest market, accounting for 39.8% of Group revenue.

ELPs revenue in Europe rose by 7.8% to US$155.7 million, with growth in both standalone and platform products. Geographically, all the Group's key Western European markets, namely France, UK, Germany, the Benelux and Spain recorded sales increases. In the first nine months of the calendar year 2017, VTech strengthened its position as the number one infant and toddler toy manufacturer in France, UK, Germany, Spain and Belgium[3].

Growth in standalone products was driven by higher sales of both VTech and LeapFrog infant and preschool products, the Kidizoom Camera range, as well as the Kidi and Little Love® lines. These offset lower sales of the Toot-Toot family of products. During the first six months of the financial year 2018, VTech ELPs garnered many awards in Europe. Kidizoom Flix was included in the "Top 10 Toys for Christmas 2017" at Amazon in the UK. In France, VTech won four "2017 Grand Prix du Jouet" awards presented by *La Revue du Jouet* magazine. Little Love Puppy Pal was named "Toy of the Year 2017" and "Best Special Feature Doll", while GearZooz Roll & Roar Animal Train was named "Best Educational Toddler Toy".

Platform products sales in Europe increased during the first half of the financial year 2018, driven by Kidizoom Smartwatch, DigiGo® and LeapStart. The second generation Kidizoom Smartwatch DX, which was launched in all key Western European markets in the second half of the previous financial year, continued to perform well. Growth was supported by the new Star Wars themed Kidizoom Smartwatches and KidiCom™ MAX, the new version of DigiGo. Sales of children's educational tablets recorded a decline.

Revenue from TEL products in Europe increased by 10.3% to US$69.5 million. Higher sales of commercial phones and other telecommunication products offset lower sales of residential phones.

Growth in VoIP phones was the main reason for the sales increase as the Group consolidated the first full six months sales of the Snom business. Baby monitors were another factor behind the growth, due to good sell-through and increased orders from existing and new customers. Sales of CAT-iq (Cordless Advanced Technology – internet and quality) handsets also rose as the Group secured more orders from an existing customer and began to sell VTech branded CAT-iq handsets into the Swiss market. Integrated access devices (IADs) saw sales increase to existing and new customers, while hotel phones achieved good growth. Sales of residential phones continued to decline as the fixed-line telephone market contracted further.

[3] Source: NPD Group, Retail Tracking Service

CMS revenue in Europe decreased by 8.1% to US$188.5 million. The decrease was mainly due to a fall in sales of switching mode power supplies, as a change in ownership led a customer to begin moving production back in-house. Sales of professional audio equipment and hearables retreated slightly. The decline in sales of professional audio equipment was due to a product being phased out by an existing customer. Keen competition in the wireless headset market explained lower sales of hearables. Despite this, sales of industrial products and medical and health products saw increases. Growth of industrial products was led by smart meters for the UK market. Utility suppliers are encouraging households to install the devices to track their energy consumption, supported by Government policy. Meanwhile, the Group ramped up orders of hearing aids to a European customer, driving growth in medical and health products.

Asia Pacific

Group revenue in Asia Pacific rose by 43.9% to US$100.6 million in the first six months of the financial year 2018, with higher sales in all three product lines. Asia Pacific represented 9.7% of Group revenue.

Revenue from ELPs in Asia Pacific rose by 43.4% to US$35.0 million, led by growth in mainland China, Australia, Hong Kong and South Korea. In mainland China, the Group benefited from new product launches, channel expansion and increased marketing efforts. In Australia and South Korea, the Group's products achieved broader listings, while more promotions drove sales higher in Hong Kong. Increased sales of LeapFrog branded products in other Asia Pacific markets also contributed to overall growth.

TEL products revenue in Asia Pacific rose by 30.7% to US$21.7 million, driven by higher sales in Japan and Hong Kong. In Japan, the Group secured more projects and orders from an existing customer. In Hong Kong, VTech supplied telecommunication devices to a leading local broadband service provider, driving sales of IADs and CAT-iq handsets. Sales in Australia saw a decline despite increased sales of baby monitors, which were insufficient to offset lower sales of residential phones.

CMS revenue in Asia Pacific increased by 51.9% to US$43.9 million. Higher sales of medical and health products, professional audio equipment, hearables and communication products offset lower sales of solid-state lighting and home appliances. The sales contribution from the newly acquired high precision metal parts business added to growth.

Medical and health products gained momentum as the Group ramped up shipments of diagnostic ultrasound systems to its Japanese customer. Professional audio equipment posted higher sales as the Group's existing customers sold more products to mainland China. Sales growth in hearables was driven by orders from a new customer. Communication products performed well as VTech started producing the digital version of a marine radio for an existing customer. Sales of solid-state lighting and home appliances, however, recorded declines as customers faced keen competition.

Other Regions

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, decreased by 1.2% to US$25.7 million in the first six months of the financial year 2018. Lower sales of TEL products in Other Regions offset higher sales of ELPs and CMS. Other Regions accounted for 2.5% of Group revenue.

ELPs revenue in Other Regions rose by 12.8% to US$10.6 million for the period, as higher sales in the Middle East compensated for lower sales in Latin America and Africa.

TEL products revenue in Other Regions decreased by 10.5% to US$14.5 million. The decline was attributable to lower sales in Latin America, offsetting growth in the Middle East and Africa.

CMS revenue in Other Regions was US$0.6 million in the first six months of the financial year 2018, as compared to US$0.4 million in the corresponding period of the last financial year.

Outlook

Group revenue for the financial year 2018 is expected to increase. Sales of TEL products are anticipated to pick up in the second half, while the good momentum behind CMS is forecast to continue. For ELPs, sales for the full financial year are difficult to gauge, as there is uncertainty regarding the level of shipments in the second half to Toys"R"Us, one of the Group's top five customers. Consequently, the trend in gross margin is also difficult to predict.

Despite the near-term uncertainty, the Group is experiencing good demand for its ELPs. In standalone products, the LeapFrog portfolio is being strengthened by the introduction of more new learning toys, while VTech infant and toddler products, as well as the Kidizoom Camera range, are gaining market share. Platform products will benefit from the strong sell-through of Kidizoom Smartwatch, LeapStart and the newly introduced children's communication devices KidiBuzz and KidiCom MAX. Subscriptions to the LeapFrog Academy are expected to grow in the second half as more marketing efforts come on stream and more LeapFrog Epic Academy Editions are sold through during the holiday seasons. Geographically, Asia Pacific will continue to outperform. The relaxation of the one child policy in mainland China is increasing the size of the Group's target market for baby and infant products. In Australia and South Korea, broader listings will continue to drive sales growth in these two key regional markets.

Sales of TEL products are expected to recover in the second half resulting in full-year growth, as sales of commercial phones and other telecommunication products continue to improve, offsetting a further decline in sales of residential phones. Two key new VoIP phones have been introduced by Snom, one features a large, full-colour LCD screen and the other has a high resolution second screen for programmable function keys. Conference phones will also benefit from new Snom models and the development of additional sales channels. Hotel phones will grow as previously delayed projects come on-stream and a new Boutique range catering to the demand for smaller handsets is launched. The strong momentum in headsets for the professional trucker market is expected to continue. Additionally, VTech will launch two new headset models for the business market later in the financial year. The popular VTech baby monitors will see growth due to increased retail shelf placement. Sales of CAT-iq handsets and IADs will grow as a result of increasing orders from both existing and new customers.

VTech CMS is forecast to achieve solid growth for the full year, despite a slow EMS market in the first six months of the calendar year 2017[4]. Sales are expected to rise on the back of increasing orders from existing customers in professional audio, hearables, industrial products, solid-state lighting as well as medical and health products, offsetting a further decline in switching mode power supplies. There will also be a full-year sales contribution from the high precision metal parts business. To position CMS for further growth, the Group plans to migrate towards "Industry 4.0", in which machines are augmented with web connectivity and connected to a system that can visualise the entire production chain and make autonomous decisions. VTech believes that by embracing this concept it will continue to achieve excellence in manufacturing, thereby lowering costs, increasing productivity and improving time to market for its customers.

VTech has had a solid first half despite near-term uncertainties. With strength in product innovation, market leadership and operational excellence, we are confident in the Group's long-term outlook. VTech is well-positioned to achieve further growth and deliver sustainable returns to shareholders.

[4] Source: *Manufacturing Market Insider*, August 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

For the six months ended 30 September 2017	**Six months ended 30 September 2017 US$ million**	2016 US$ million	Change US$ million
Revenue	**1,039.7**	982.9	56.8
Gross profit	**335.4**	313.8	21.6
Gross profit margin	**32.3%**	31.9%	
Total operating expenses	**(220.6)**	(234.5)	13.9
Total operating expenses as a percentage of revenue	**21.3%**	23.8%	
Operating profit	**114.8**	79.3	35.5
Operating profit margin	**11.0%**	8.1%	
Net finance income	**-**	0.2	(0.2)
Profit before taxation	**114.8**	79.5	35.3
Taxation	**(11.2)**	(8.1)	(3.1)
Effective tax rate	**9.8%**	10.2%	
Profit for the period and attributable to shareholders of the Company	**103.6**	71.4	32.2

Revenue

Group revenue for the six months ended 30 September 2017 rose by 5.8% over the same period of the previous financial year to US$1,039.7 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.

	Six months ended 30 September 2017		Six months ended 30 September 2016		Increase / (decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**499.7**	**48.0%**	474.4	48.3%	25.3	5.3%
Europe	**413.7**	**39.8%**	412.6	42.0%	1.1	0.3%
Asia Pacific	**100.6**	**9.7%**	69.9	7.1%	30.7	43.9%
Other regions	**25.7**	**2.5%**	26.0	2.6%	(0.3)	-1.2%
	1,039.7	**100.0%**	982.9	100.0%	56.8	5.8%

Gross Profit/Margin

Gross profit for the six months ended 30 September 2017 was US$335.4 million, an increase of US$21.6 million or 6.9% compared with the same period last year. Gross profit margin for the period also increased from 31.9% to 32.3%. The increase in gross profit and gross profit margin was mainly attributable to the gross profit contribution from LeapFrog and Snom, and the depreciation of Renminbi against the US dollar during the period. Cost of materials as percentage of Group revenue was also lower than the same period last year, which was mainly due to the change in product mix offsetting the higher material prices. As for the direct labour costs and manufacturing overheads as percentage of Group revenue, they were also lower than the same period last year as the Group continued to reduce workforce through automation and process improvement.

Operating Profit/Margin

Operating profit for the six months ended 30 September 2017 was US$114.8 million, an increase of US$35.5 million or 44.8% compared with the same period of the previous financial year. Operating profit margin also increased from 8.1% to 11.0%. The improvement in operating profit and operating profit margin was primarily due to the increase in gross profit and gross profit margin, and the reduction in operating expenses as the restructuring costs arising from the integration of LeapFrog were incurred in the same period last year.

Total operating expenses decreased from US$234.5 million to US$220.6 million compared with the same period last year. Total operating expenses as a percentage of Group revenue also decreased from 23.8% to 21.3%.

Selling and distribution costs decreased from US$145.2 million to US$138.1 million, a decrease of 4.9% compared with the same period last year. It was mainly attributable to the reduced spending on advertising and promotional activities. As a percentage of Group revenue, selling and distribution costs also decreased from 14.7% to 13.3%.

Administrative and other operating expenses decreased from US$50.7 million to US$43.3 million compared with the same period last year. It was mainly due to the decrease in employee related costs as the restructuring costs associated with the consolidation of LeapFrog were incurred in the same period last year. The net exchange loss arising from the Group's global operations in the ordinary course of business was US$0.2 million, as compared with an exchange gain of US$0.1 million in the corresponding period of last year. Administrative and other operating expenses as a percentage of Group revenue also decreased from 5.2% to 4.2%.

During the first half of the financial year 2018, the research and development expenses were US$39.2 million, an increase of 1.6% compared with the same period last year. Research and development expenses as a percentage of Group revenue reduced from 3.9% to 3.8%.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the six months ended 30 September 2017 was US$103.6 million, an increase of US$32.2 million or 45.1% compared with the same period last year. Net profit margin also increased from 7.3% to 10.0%.

Basic earnings per share for the six months ended 30 September 2017 were US41.2 cents as compared to US28.4 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 2017, the Group had net cash of US$89.7 million which included a bank loan of US$1.6 million acquired from Snom. The Group also has adequate liquidity to meet its current and future working capital requirements.

Stocks as of 30 September 2017 were US$456.9 million, increased from US$324.9 million as of 31 March 2017 with turnover days of 96 days. The higher stock level was primarily due to 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$66.4 million or 17.0%, and turnover days also increased from 110 days to 128 days. The higher stock level compared with the same period last year was mainly due to the higher demand of the Group's products in the second half of the financial year, increase in in-house production after the acquisition of LeapFrog and Snom, and the temporary suspension of shipments to Toys"R"Us after its bankruptcy protection filing in the US and Canada.

Trade debtors as of 30 September 2017 were US$462.9 million, increased from US$275.4 million as of 31 March 2017 with turnover days of 64 days. 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$39.8 million or 9.4%, and turnover days also increased from 60 days to 64 days. The increase in trade debtors was mainly due to the increase in sales in the first half of the financial year compared with the same period last year.

Trade creditors as of 30 September 2017 were US$356.6 million, increased from US$227.2 million as of 31 March 2017 with turnover days of 93 days. As compared to the corresponding period of last financial year, trade creditors increased by US$77.4 million or 27.7%, and turnover days also increased from 79 days to 94 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 2017, the Group invested US$23.6 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 2017, 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 2017, 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. WONG Kai Man was unable to attend the 2017 annual general meeting of the Company held on 24 July 2017 due to his other prior business 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 2017 are in line and consistent with those practices set out in the Company's 2017 Annual Report.

AUDIT COMMITTEE

The Audit Committee is chaired by Mr. WONG Kai Man with Dr. William FUNG Kwok Lun and Dr. Patrick WANG Shui Chung 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 is not limited to, reviewing the following:

- audited Group's consolidated financial statements and reports for the year ended 31 March 2017;
- report from the external auditor for the year ended 31 March 2017;
- corporate governance report in the 2017 Annual Report;
- unaudited Group Interim Financial Report for the six months ended 30 September 2017;
- 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 2017;
- corporate governance section in the 2017/2018 Interim Report;
- accounting principles and practices adopted by the Group;
- appointment of the external auditor and its remuneration;
- the fee level and nature of non-audit work performed by external auditor;
- 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;
- 2017 Sustainability Report; and
- adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, financial reporting and internal audit functions.

In addition to the above, the Audit Committee assisted the Board in meeting its responsibilities for maintaining an effective system of internal control during the financial period. It reviewed 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 on a regular basis.

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, and the internal audit function 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 FOR 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 2017.

REVIEW OF INTERIM RESULTS

The Group's unaudited interim results for the six months ended 30 September 2017 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 2017. 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 129,200 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, 9 November 2017

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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