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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 2018

PERFORMANCE HIGHLIGHTS

- Group revenue decreased by 3.5% to US\$1,003.5 million
- Profit attributable to shareholders of the Company declined by 13.0% to US\$90.1 million
- Interim dividend of US17.0 cents per ordinary share, the same as the dividend paid in the corresponding period last year
- Gross margin decreased from 32.3% to 29.5%
- Completed acquisition of Pioneer Corporation's manufacturing facility in Malaysia

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 2018 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 2018

	Note	Six months ended 30 September		Year ended
		2018 (Unaudited) US\$ million	2017 (Unaudited) US\$ million	31 March 2018 (Audited) US\$ million
Revenue	3	1,003.5	1,039.7	2,130.1
Cost of sales		(707.0)	(704.3)	(1,428.1)
Gross profit		296.5	335.4	702.0
Other income	4	5.9	-	4.2
Selling and distribution costs		(124.7)	(138.1)	(318.9)
Administrative and other operating expenses		(39.1)	(43.3)	(78.4)
Research and development expenses		(38.3)	(39.2)	(77.6)
Operating profit	3 & 4	100.3	114.8	231.3
Net finance income/(expense)		0.1	-	(0.3)
Profit before taxation		100.4	114.8	231.0
Taxation	5	(10.3)	(11.2)	(24.7)
Profit for the period/year and attributable to shareholders of the Company		90.1	103.6	206.3
Earnings per share (US cents)	7			
- Basic		35.8	41.2	82.1
- Diluted		35.8	41.2	82.1

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	Six months ended 30 September		Year ended 31 March
	2018 (Unaudited) US\$ million	2017 (Unaudited) US\$ million	2018 (Audited) US\$ million
Profit for the period/year	90.1	103.6	206.3
Other comprehensive income for the period/year			
Item that will not be reclassified to profit or loss:			
Effect of remeasurement of net assets/obligations of defined benefit scheme, net of deferred tax	-	-	5.0
	-	-	5.0
Items that may be reclassified subsequently to profit or loss:			
Fair value losses on hedging, net of deferred tax	(1.4)	(7.0)	(4.5)
Realisation of hedging reserve	1.9	(1.9)	(4.7)
Exchange translation differences	(20.3)	18.9	32.7
	(19.8)	10.0	23.5
Other comprehensive income for the period/year	(19.8)	10.0	28.5
Total comprehensive income for the period/year	70.3	113.6	234.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	Note	30 September		31 March
		2018 (Unaudited) US\$ million	2017 (Unaudited) US\$ million	2018 (Audited) US\$ million
Non-current assets				
Tangible assets		88.2	79.6	76.2
Leasehold land payments		4.4	4.6	4.8
Intangible assets		19.1	19.9	19.6
Investments		5.4	3.1	5.4
Goodwill		35.6	31.1	31.1
Net assets on defined benefit scheme		2.6	-	2.7
Deferred tax assets		8.1	11.7	6.3
		163.4	150.0	146.1
Current assets				
Stocks		492.6	456.9	349.9
Debtors, deposits and prepayments	8	521.7	539.1	348.0
Taxation recoverable		1.6	2.8	1.6
Deposits and cash		74.3	91.3	254.4
		1,090.2	1,090.1	953.9
Non-current asset held for sale		-	-	2.7
		1,090.2	1,090.1	956.6
Current liabilities				
Creditors and accruals	9	(651.6)	(611.1)	(416.7)
Provisions for defective goods returns and other liabilities		(27.2)	(35.6)	(28.4)
Taxation payable		(12.4)	(20.4)	(8.0)
Secured bank loans		-	(1.1)	-
		(691.2)	(668.2)	(453.1)
Net current assets		399.0	421.9	503.5
Total assets less current liabilities		562.4	571.9	649.6
Non-current liabilities				
Secured bank loans		-	(0.5)	-
Net obligations on defined benefit scheme		-	(2.7)	-
Deferred tax liabilities		(3.0)	(2.9)	(3.0)
		(3.0)	(6.1)	(3.0)
Net assets		559.4	565.8	646.6
Capital and reserves				
Share capital		12.6	12.6	12.6
Reserves		546.8	553.2	634.0
Total equity		559.4	565.8	646.6

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. Basis of Preparation

The interim results set out in this announcement do not constitute the Group's Interim Financial Report for the six months ended 30 September 2018 but are extracted from that Interim Financial Report.

The 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"). It was authorised for issue on 12 November 2018.

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2018 annual consolidated financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 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 2018 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 2018 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 2018.

2. Changes in Accounting Policies

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

- ♦ IFRS 9, *Financial instruments*
- ♦ IFRS 15, *Revenue from contracts with customers*

The adoption of these new IFRSs does not have a significant impact on the financial results and the financial position of the Group. Details of the changes in accounting policies are discussed in note 2(a) for IFRS 9 and note 2(b) for IFRS 15.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(a) IFRS 9, *Financial instruments*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

2 Changes in Accounting Policies (*continued*)

(a) IFRS 9, *Financial instruments (continued)*

(i) *Classification of financial assets and financial liabilities*

IFRS 9 categorises financial assets into three principal classification categories: measured at (a) amortised cost, (b) fair value through other comprehensive income (“FVOCI”) and (c) fair value through profit or loss (“FVPL”). These supersede IAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
- FVOCI - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer’s perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to revenue reserve. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The measurement categories for all financial liabilities remain the same.

The adoption of IFRS 9 does not affect the measurement basis, and hence the carrying amounts, of the Group’s financial assets and financial liabilities as at 1 April 2018.

(ii) *Credit losses*

IFRS 9 replaces the “incurred loss” model in IAS 39 with the Expected Credit Losses (ECLs) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in IAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including deposits and cash, debtors and deposits).

2 Changes in Accounting Policies (continued)

(a) IFRS 9, Financial instruments (continued)

(ii) Credit losses (continued)

Financial assets measured at fair value, including equity securities measured at FVPL and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade debtors are always measured at an amount equal to lifetime ECLs. ECLs on trade debtors are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2 Changes in Accounting Policies (continued)

(a) IFRS 9, Financial instruments (continued)

(ii) Credit losses (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account. The adoption of the ECLs model under IFRS 9 has no material impact to the Group.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(iii) Hedge accounting

The Group has elected to adopt the new general hedge accounting model in IFRS 9. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to IAS 39 to be applied, and the assessment is always forward-looking. The adoption of IFRS 9 has not had a significant impact on the Group's financial statements in this regard.

(b) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

Previously, revenue from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

2 Changes in Accounting Policies (continued)

(b) IFRS 15, Revenue from contracts with customers (continued)

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue.

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
- ♦ Other Regions, 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.

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.

All revenue from contracts with customers are sales of electronic products and are recognised at a point of time.

3. Segment Information (continued)

(a) Segment revenues and results (continued)

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		Reportable segment profit	
	Six months ended		Six months ended	
	30 September		30 September	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	US\$ million	US\$ million	US\$ million	US\$ million
North America	470.1	499.7	51.3	53.9
Europe	400.4	413.7	27.5	37.3
Asia Pacific	112.1	100.6	17.7	18.6
Other Regions	20.9	25.7	3.8	5.0
	1,003.5	1,039.7	100.3	114.8

	Reportable segment assets		Reportable segment liabilities	
	30 September		30 September	
	31 March		31 March	
	2018	2018	2018	2018
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	US\$ million	US\$ million	US\$ million	US\$ million
North America	233.5	161.5	(87.6)	(71.9)
Europe	210.7	133.6	(48.7)	(32.2)
Asia Pacific	739.6	743.6	(542.4)	(340.9)
Other Regions	-	-	(0.1)	(0.1)
	1,183.8	1,038.7	(678.8)	(445.1)

3. Segment Information *(continued)*

(c) Reconciliation of reportable segment assets and liabilities

	30 September 2018 (Unaudited) US\$ million	31 March 2018 (Audited) US\$ million
Assets		
Reportable segment assets	1,183.8	1,038.7
Intangible assets	19.1	19.6
Investments	5.4	5.4
Goodwill	35.6	31.1
Taxation recoverable	1.6	1.6
Deferred tax assets	8.1	6.3
Consolidated total assets	1,253.6	1,102.7
Liabilities		
Reportable segment liabilities	(678.8)	(445.1)
Taxation payable	(12.4)	(8.0)
Deferred tax liabilities	(3.0)	(3.0)
Consolidated total liabilities	(694.2)	(456.1)

4. Operating Profit

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

	Six months ended 30 September	
	2018 (Unaudited) US\$ million	2017 (Unaudited) US\$ million
Cost of inventories	707.0	704.3
Gain on disposal of tangible assets <i>(Note (i))</i>	(5.9)	-
Depreciation of tangible assets	17.9	18.0
Amortisation of intangible assets	0.5	0.6
Write-down of inventories, net of reversals	4.8	5.0
Impairment loss of trade debtors	0.4	3.3
Reversal of impairment loss of trade debtors	(1.4)	(1.9)
Interest income from bank deposits	(0.1)	-
Net foreign exchange (gain)/loss	(0.2)	0.2

Note:

(i) Included in other income in the Consolidated Statement of Profit or Loss.

5. Taxation

	Six months ended 30 September	
	2018 (Unaudited) US\$ million	2017 (Unaudited) US\$ million
Current tax		
- Hong Kong	8.9	11.8
- Overseas	3.2	3.6
Deferred tax		
- Origination and reversal of temporary differences	(1.8)	(4.2)
	10.3	11.2
Current tax	12.1	15.4
Deferred tax	(1.8)	(4.2)
	10.3	11.2

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	
	2018 (Unaudited) US\$ million	2017 (Unaudited) US\$ million
Interim dividend of US17.0 cents (2017: US17.0 cents) per share declared	42.8	42.8

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 2018, the Directors proposed a final dividend of US63.0 cents (2017: US53.0 cents) per ordinary share for the year ended 31 March 2018, which was estimated to be US\$158.4 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2018. The final dividend was approved by shareholders at the annual general meeting on 11 July 2018. The final dividend paid in respect of the year ended 31 March 2018 totaled US\$158.5 million (2017: US\$133.2 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\$90.1 million (2017: US\$103.6 million).

The calculation of basic earnings per share is based on the weighted average of 251.4 million (2017: 251.2 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 2017 and 30 September 2018 as the Company did not have any significant dilutive potential Awarded Shares during the periods.

8. Debtors, Deposits and Prepayments

Debtors, deposits and prepayments of US\$521.7 million (31 March 2018: US\$348.0 million, 30 September 2017: US\$539.1 million) include trade debtors of US\$471.1 million (31 March 2018: US\$264.9 million, 30 September 2017: US\$462.9 million).

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

	30 September 2018 (Unaudited) US\$ million	31 March 2018 (Audited) US\$ million
0-30 days	272.3	145.6
31-60 days	143.1	77.1
61-90 days	47.7	30.9
>90 days	8.0	11.3
Total	471.1	264.9

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\$651.6 million (31 March 2018: US\$416.7 million, 30 September 2017: US\$611.1 million) include trade creditors of US\$402.9 million (31 March 2018: US\$209.4 million, 30 September 2017: US\$356.6 million).

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

	30 September 2018 (Unaudited) US\$ million	31 March 2018 (Audited) US\$ million
0-30 days	102.9	74.6
31-60 days	116.6	39.9
61-90 days	98.2	57.0
>90 days	85.2	37.9
Total	402.9	209.4

10. Acquisition of a subsidiary

On 4 May 2018, the Group announced that it has signed an agreement with Pioneer Corporation under which the Group will acquire a manufacturing facility in Malaysia owned by Pioneer Technology (Malaysia) Sdn. Bhd., a subsidiary of Pioneer Corporation.

The transaction was completed on 20 August 2018 with total consideration of approximately US\$19.9 million, upon which VTech Communications (Malaysia) Sdn. Bhd. (formerly known as Pioneer DJ Malaysia Sdn. Bhd.) ("VT Malaysia") has become an indirect wholly-owned subsidiary of the Company. The consideration of US\$19.9 million is subject to closing audit adjustments to net assets value.

The acquisition is expected to bring synergistic benefits to the Group. It strengthens the Group's contract manufacturing service position as a leading professional audio equipment manufacturer. The goodwill of US\$4.5 million arising from the acquisition is attributable to acquired economies of scale expected from combining the operations of the Group and VT Malaysia. None of the goodwill recognised is expected to be deductible for income tax purpose.

10. Acquisition of a subsidiary (continued)

Acquisition-related costs of US\$0.2 million have been charged to administrative and other operating expenses in the consolidated statement of profit or loss for the period ended 30 September 2018.

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

	Net assets acquired and goodwill (Unaudited) US\$ million
Aggregate consideration	19.9
Less: Estimated fair value of net assets acquired	(15.4)
Goodwill on acquisition	4.5

	Estimated fair value (Unaudited) US\$ million
Tangible assets	13.0
Stocks	2.9
Deposits and prepayments	0.2
Deposits and cash	1.7
Accruals and provisions	(2.4)
Net identifiable assets and liabilities	15.4

	Net cash outflow (Unaudited) US\$ million
Purchase consideration settled in cash	19.9
Less: Deposits and cash of VT Malaysia acquired	(1.7)
	18.2

(b) Revenue and profit contribution

Following the acquisition, VT Malaysia contributed revenue and profit after taxation of US\$8.9 million and US\$0.4 million respectively for the period ended 30 September 2018.

The effect to the Group's revenue and profit for the period ended 30 September 2018 would not have been materially different from US\$33.6 million and US\$0.8 million respectively as if the above acquisition had taken place on 1 April 2018.

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 2018, payable on 17 December 2018 to shareholders whose names appear on the register of members of the Company as at the close of business on 6 December 2018.

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 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 6 December 2018, 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 Wednesday, 5 December 2018.

The principal registrar is MUFG Fund Services (Bermuda) Limited, The Belvedere Building, 69 Pitts Bay Road, Pembroke HM08, Bermuda and the branch registrar in Hong Kong is Computershare Hong Kong Investor Services Limited, Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

CHAIRMAN'S STATEMENT

In the first six months of the financial year 2019 the Group's revenue and profit decreased. The lower-than-expected results were due to the overall weak performance of the Group's telecommunication (TEL) products and the logistics issues in continental Europe for electronic learning products (ELPs). There was, however, good progress in Asia Pacific, where VTech continues to expand its presence. The Group also maintained market leadership in its core product areas.

Results and Dividend

Group revenue for the six months ended 30 September 2018 decreased by 3.5% to US\$1,003.5 million, owing to lower sales in North America, Europe and Other Regions, which offset growth in Asia Pacific.

Profit attributable to shareholders of the Company declined by 13.0% to US\$90.1 million, attributable to lower revenue and higher costs.

Basic earnings per share were 13.1% lower at US35.8 cents, compared to US41.2 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

The Group's gross profit margin in the first six months of the financial year 2019 decreased to 29.5%, from 32.3% in the corresponding period last year. The decline was mainly due to product mix, higher materials prices, as well as an increase in direct labour costs and manufacturing overheads, which offset the positive impact of further productivity gains.

US-China Trade Tensions

During the first half of the financial year 2019, the US Government imposed three rounds of tariffs on Chinese imports amounting to US\$250 billion of goods. Neither VTech's ELPs nor its TEL products are included in the list of items targeted. However, the tariffs affect some of the Group's contract manufacturing services (CMS) customers in cases where they export products manufactured in VTech's facilities in mainland China to the US. As a contingency, the Group is offering such customers the alternative use of its recently acquired production facilities in Malaysia, should they wish to take advantage of the different location.

Segment Results

North America

Group revenue in North America fell by 5.9% to US\$470.1 million in the first six months of the financial year 2019. Lower sales of TEL products and CMS offset higher sales of ELPs during the period. North America remained VTech's largest market, accounting for 46.8% of Group revenue.

ELPs revenue in North America rose by 9.6% to US\$210.9 million, with growth in both standalone and platform products. The increase resulted from strong sales in Canada and good growth in the US. This was achieved despite the closure of Toys“R”Us in the US, as the Group’s existing customers expanded their shelf space and assortment of toys to capture the business previously conducted by the retailer. Furthermore, the positive reception of new VTech and LeapFrog® branded products allowed the Group to consolidate its market leadership. During the first nine months of the calendar year 2018, the Group maintained its position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US and Canada¹.

Growth in standalone products was led by sales increases of both VTech and LeapFrog branded products. For the VTech lines, higher sales of infant and preschool products, the Kidi line and Kidizoom® Camera offset lower sales of the Go! Go! Smart family of products. Among the new standalone products launched, Chase Me Casey™ and Stroll & Discover Activity Walker™ sold particularly well. Strong growth of LeapFrog products also reflected higher sales of infant and preschool products. This follows efforts by the Group to support the LeapFrog brand through the launch of new learning toys such as Learning Friends 100 Words Book™ and Go-with-Me ABC Backpack™.

Platform products also registered higher sales during the period, with growth across both brands. VTech saw higher sales of Kidizoom Smartwatch DX2 and KidiBuzz™, while in August 2018, the new Explore and Write Activity Desk™ hit the market, an update of the popular Touch and Learn Activity Desk™. Growth in the LeapFrog brand was driven by higher sales of both reading systems, including the newly launched LeapStart® 3D, and children’s educational tablets. There was also a sales contribution from LeapFrog Academy™, which was introduced to the major English-speaking countries in August 2017.

During the six months, the Group’s ELPs received more than 70 awards from toy and parenting industry experts, key retailers and toy advisory boards in the US. Among the major awards, Kidi Star Karaoke Machine™ was included in Amazon.com’s “Top 100 Holiday Toys 2018”, while Explore and Write Activity Desk made Walmart’s “Top Rated Toys by Kids” list. In another important award, Learning Friends 100 Words Book and LeapStart 3D were both winners of National Parenting Product Awards (NAPPA). They were also named to the “TTPM Most Wanted List” of hot holiday toys.

TEL products revenue in North America decreased by 21.2% to US\$131.3 million. Residential phones, commercial phones and other telecommunication products registered lower sales. During the period, VTech continued to maintain its leadership position in the US residential phones market².

Sales of residential phones were lower during the period, as the fixed-line telephone market in the US continued to contract. Loss of shelf space in the club channels also contributed to the sales decline.

Sales of commercial phones and other telecommunication products were lower, as higher sales of hotel phones and wireless monitoring systems were unable to compensate for lower sales of baby monitors and VoIP (Voice over Internet Protocol) phones. Sales of hotel phones rose as VTech continued to win more new hotel projects, while wireless monitoring systems benefited from the launch of new Wi-Fi cameras. Sales of baby monitors decreased due to inventory adjustment by a major customer. Sales of VoIP phones remained low primarily due to delay of the new VoIP phone series, which began shipping in September. The first in the series is a high-end model featuring a large, high-resolution colour display, with a second display to support paperless programmable function keys. Sales of headsets held steady during the period.

CMS revenue in North America declined by 9.1% to US\$127.9 million. This was mainly due to lower sales of solid-state lighting, communication products and professional audio equipment. Solid-state lighting was affected by less favourable business conditions at the Group’s customers, while communication products registered a further sales decline as a client’s product line reached the end of its life cycle. Professional audio equipment saw a reduction in orders from a major customer as it worked through excess inventory. In

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, toddler figure and playset, walker, electronic entertainment (excluding tablets) and preschool electronic learning for the calendar year ending September 2018

² Source: MarketWise Consumer Insights, LLC

contrast to the declines, sales of industrial products increased owing to good orders for items including printed circuit board assembly for industrial printers and note counting devices.

Europe

Group revenue in Europe decreased by 3.2% to US\$400.4 million in the first six months of the financial year 2019, as lower sales of ELPs and TEL products offset an increase at CMS. Europe remained VTech's second largest market, accounting for 39.9% of Group revenue.

ELPs revenue in Europe declined by 17.1% to US\$129.1 million, with lower sales of both standalone and platform products. Geographically, sales in the UK were stable despite the closure of Toys“R”Us in the country, while France, Germany, the Netherlands and Spain all recorded sales decreases. During the period, the Group engaged a new third-party logistics vendor for continental Europe who relocated to a new warehouse. The transition resulted in reduced shipment of VTech branded products in the region, significantly impacting sales. LeapFrog branded products were unaffected, as these are marketed primarily in the UK. In the first nine months of the calendar year 2018 VTech maintained its position as the number one infant and toddler toy manufacturer in France, the UK and Germany³.

Standalone products saw lower sales in Europe in the first six months. Sales of VTech standalone products were lower. However, good growth was achieved in LeapFrog standalone products, as new product introductions drove sales higher in the infant and preschool categories.

Platform product sales in Europe decreased during the period. Among VTech platform products, higher sales of KidiCom MAX™ were offset by lower sales of Kidizoom Smartwatches and children's educational tablets. Sales of LeapFrog platform products posted growth, however, as continued growth in LeapStart/MagiBook™⁴ and the introduction of LeapStart 3D in the UK offset a decline in children's educational tablets.

During the first six months of the financial year 2019, VTech ELPs won numerous awards in Europe. In the UK, Argos listed Myla the Magical Make-Up Unicorn in its “Top Toys for Christmas 2018”. In France, VTech won three “Grand Prix du Jouet” awards from *La Revue du Jouet* magazine, for Toot-Toot Friends™ Kingdom Pirate Ship, Myla the Magical Make-Up Unicorn and Little Love® Léa découvre le pot. In Spain, Toot-Toot Friends Kingdom Pirate Ship was named “Best Toy 2018” from the Spanish Association of Toy Manufacturers.

Revenue from TEL products in Europe decreased by 10.2% to US\$62.4 million in the first six months of the financial year 2019. Residential phones and other telecommunication products saw sales declines, while VoIP phones posted a slight growth.

Sales of residential phones were lower as the fixed line telephone market continued to contract.

In commercial phones and other telecommunication products, VoIP phones saw continued growth, supported by a positive reception from customers for the new colour display VoIP phone under the Snom brand. Sales of baby monitors declined, however, as orders from a major customer reduced. Another customer's project delays led to lower sales of CAT-iq (Cordless Advanced Technology – internet and quality) handsets. IADs (Integrated Access Devices) sales also registered declines due to a reduction in orders by a telephone company customer.

CMS revenue in Europe rose by 10.8% to US\$208.9 million. The increase was mainly due to higher sales of hearables, professional audio equipment and communication products. This offset lower sales of medical and health products, while sales of industrial products and switching mode power supplies held steady. In hearables, market share gains and new product launches by the Group's existing customers led to growth. Orders for professional audio equipment increased as customers launched new products that were well-received by the market. Communication products benefited from increased orders for Wi-Fi routers and VoIP phones. Medical and health products, however, were negatively impacted by lower orders for hair removal devices and hearing aids.

³ Source: NPD Group, Retail Tracking Service

⁴ LeapStart is sold in the UK under the LeapFrog brand but in the rest of Europe is sold under the VTech brand as MagiBook

Asia Pacific

Group revenue in Asia Pacific increased by 11.4% to US\$112.1 million in the first six months of the financial year 2019, as higher sales of ELPs and CMS offset lower sales of TEL products. The Asia Pacific region rose to 11.2% of Group revenue.

Revenue from ELPs in Asia Pacific increased by 16.3% to US\$40.7 million, led by growth in mainland China and Australia. In mainland China, growth was driven by new product launches and channel expansion. Infant products and the Switch & Go Dinos™ range posted higher sales, while increased penetration of specialty maternity and childcare chains, as well as supermarkets and e-commerce channels, also contributed to growth. In Australia, the Group again performed well despite the closure of Toy“R”Us in the country, as broader listings and the Group’s focus on channel management drove sales increases in both VTech and LeapFrog products. The VTech branded First Steps™ Baby Walker was named “Infant/Preschool Toy of the Year 2018” by the Australian Toy Association.

TEL product revenue in Asia Pacific declined by 17.5% to US\$17.9 million. The decrease was mainly due to lower sales in Japan, Australia and Hong Kong. In Japan, the decline was the result of an order reduction by a customer. In Australia the continued contraction of the fixed-line telephone market led to sales declines, while Hong Kong was affected by lower sales of cordless phones and IADs. During the period, the Group increased its sales in Malaysia and the Philippines.

CMS revenue in Asia Pacific increased by 21.9% to US\$53.5 million. Professional audio equipment and medical and health products posted higher sales, offsetting the sales decline of hearables. The performances of the high precision metal parts business, home appliances and communications products were stable. Orders for professional audio equipment increased as VTech was appointed to design and manufacture professional audio interface products for a new Japanese customer. A new DJ equipment business that was part of the acquisition of the Malaysian manufacturing facilities, also contributed to the growth in this product segment. Medical and health products benefited from more orders for diagnostic ultrasound systems. In contrast to the overall growth, keen competition in the wireless headsets market resulted in lower orders of hearables from existing customers.

On 21 August 2018, VTech announced it had completed the acquisition of a manufacturing facility in Malaysia owned by Pioneer Technology (Malaysia) Sdn. Bhd., a subsidiary of Pioneer Corporation. The acquisition, for a consideration of approximately US\$19.9 million, includes a business manufacturing high performance audio equipment for DJs, producers and artists. In addition to strengthening CMS’s position as a leading global manufacturer of professional audio equipment, the new facility expands VTech’s global footprint, allowing the Group to serve its customers better.

Other Regions

Other Regions, comprising Latin America, the Middle East and Africa, saw revenue decline by 18.7% to US\$20.9 million in the first six months of the financial year 2019. ELPs, TEL products and CMS all posted sales declines. Other Regions accounted for 2.1% of Group revenue.

ELPs revenue in Other Regions declined by 13.2% to US\$9.2 million for the period, with sales lower in all three regions.

TEL products revenue in Other Regions decreased by 21.4% to US\$11.4 million. The decline was attributable to sales decreases in Latin America and the Middle East.

CMS revenue in Other Regions was US\$0.3 million in the first six months of the financial year 2019, as compared to US\$0.6 million in the corresponding period of the previous financial year.

Outlook

Group revenue for the full financial year 2019 is difficult to gauge. CMS revenue for the full financial year is expected to grow, while revenue of TEL products is anticipated to be lower year-on-year. ELPs performance is hard to predict, as sales in the second half may be affected by the lingering effects of the Toys“R”Us closure and the logistics issues in continental Europe. The continuous trade tension between the US and China adds to the level of uncertainty over the Group’s prospects, especially as tariffs may be applied to more Chinese imports.

Given the anticipated lower revenue of TEL products, the logistics issues of ELPs in continental Europe as well as the pressures on labour and materials costs, gross margin is projected to decline year-on-year.

ELPs revenue for the full financial year 2019 is difficult to gauge. The challenges that the Group has experienced recently will carry over into the second half. In North America, sales during the upcoming holiday seasons may be affected by the lingering effect of the Toys“R”Us closure in the US, despite the good growth achieved in the first half. In Europe, sales in the second half will be higher than the first six months, as the logistics issues in continental Europe are being resolved. In Asia Pacific, continued good performances are expected from Australia and mainland China.

Despite these challenges, the longer term prospects for the Group’s ELPs remain positive. A brand new range of interactive building sets called LeapBuilders/BlaBla Blocks⁵ has been launched in its major European markets. Designed for children aged 12 months and upwards, it marks VTech’s expansion into the building sets category, opening up an entirely new avenue of growth. In addition, the new line-up of VTech and LeapFrog products for the calendar year 2019 has been unveiled to key customers and the reception is good, which positions the business well for a solid performance in the coming financial year.

TEL products sales are expected to pick up in the second half, although full year revenue is projected to be lower than the previous financial year. Full year sales of commercial phones and other telecommunication products are expected to show an increase year-on-year. The VoIP phones business is anticipated to grow in the second half as compared with the first half of the financial year 2019, supported by an aggressive promotional programme and the introduction of additional VoIP phone models. New product launches and increasing orders from a major customer in the second half will lead to a resumption of growth in baby monitors, while sales of CAT-iq handsets will pick up. The headsets business will grow further, as the Group is shipping new models, including the world’s first 100% voice-controlled headset. Sales of IADs in the second half will improve.

CMS is expected to achieve growth for the financial year 2019. The increase in revenue will be across the board, driven by higher sales of professional audio equipment, wearables, industrial products, home appliances as well as medical and health products. Existing customers in these segments are expanding their business through new product launches, while new customers are being added. Further growth opportunities will come from IoT (Internet of Things) products, a new category for which the Group is well positioned. VTech CMS is now manufacturing IoT products for existing and new customers, including internet connected smart thermostats and smart air-conditioning controls that help users to save energy costs.

As a result of acquiring the manufacturing facility from Pioneer Corporation in Malaysia, CMS will benefit from the sales contribution from manufacturing high performance DJ equipment. Given the current trade tensions between the US and China, additional business is expected from new customers demanding an alternative manufacturing site outside mainland China.

It has been a challenging first half of the financial year. With our strong and dedicated team, VTech will continue to maintain its market leadership and deliver sustainable value to shareholders.

⁵ LeapBuilders is sold in North America and the UK under the LeapFrog brand but in the rest of Europe is sold under the VTech brand as BlaBla Blocks
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MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

	Six months ended 30 September		Change US\$ million
	2018 US\$ million	2017 US\$ million	
Revenue	1,003.5	1,039.7	(36.2)
Gross profit	296.5	335.4	(38.9)
Gross profit margin	29.5%	32.3%	
Gain on disposal of tangible assets	5.9	-	5.9
Total operating expenses	(202.1)	(220.6)	18.5
Total operating expenses as a percentage of revenue	20.1%	21.3%	
Operating profit	100.3	114.8	(14.5)
Operating profit margin	10.0%	11.0%	
Net finance income	0.1	-	0.1
Profit before taxation	100.4	114.8	(14.4)
Taxation	(10.3)	(11.2)	0.9
Effective tax rate	10.3%	9.8%	
Profit for the period and attributable to shareholders of the Company	90.1	103.6	(13.5)

Revenue

Group revenue for the six months ended 30 September 2018 decreased by 3.5% over the same period of the previous financial year to US\$1,003.5 million. The decrease in revenue was largely driven by the lower sales in North America, Europe and Other Regions, which offset the increase in revenue in Asia Pacific.

	Six months ended 30 September 2018		Six months ended 30 September 2017		Increase / (decrease)	
	US\$ million	%	US\$ million	%	US\$ million	%
North America	470.1	46.8%	499.7	48.0%	(29.6)	(5.9%)
Europe	400.4	39.9%	413.7	39.8%	(13.3)	(3.2%)
Asia Pacific	112.1	11.2%	100.6	9.7%	11.5	11.4%
Other Regions	20.9	2.1%	25.7	2.5%	(4.8)	(18.7%)
	1,003.5	100.0%	1,039.7	100.0%	(36.2)	(3.5%)

Gross Profit/Margin

Gross profit for the six months ended 30 September 2018 was US\$296.5 million, a decrease of US\$38.9 million or 11.6% compared with the same period last year. Gross profit margin for the period also reduced from 32.3% to 29.5%. It was mainly attributable to the product mix and higher material prices. As for the direct labour costs and manufacturing overheads as percentage of Group revenue, they were also higher than the same period last year due to the higher wages in China, which offset the positive impact of further productivity gains.

Operating Profit/Margin

Operating profit for the six months ended 30 September 2018 was US\$100.3 million, a decrease of US\$14.5 million or 12.6% compared with the same period of the previous financial year. Operating profit margin also reduced from 11.0% to 10.0%. The reduction in operating profit and operating profit margin was primarily due to the decrease in gross profit and gross profit margin, which offset the decrease in total operating expenses. Operating profit for the six months ended 30 September 2018 also included the gain on disposal of tangible assets.

Total operating expenses reduced from US\$220.6 million to US\$202.1 million compared with the same period last year. Total operating expenses as a percentage of Group revenue also dropped from 21.3% to 20.1%.

Selling and distribution costs decreased from US\$138.1 million to US\$124.7 million, a decrease of 9.7% compared with the same period last year. It was mainly attributable to the reduced spending on advertising and promotional activities and the reduction of distribution costs. As a percentage of Group revenue, selling and distribution costs also decreased from 13.3% to 12.4%.

Administrative and other operating expenses decreased from US\$43.3 million to US\$39.1 million compared with the same period last year. It was mainly due to the decrease in employee related costs and lower legal and professional fees. The net exchange gain arising from the Group's global operations in the ordinary course of business was US\$0.2 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 decreased from 4.2% to 3.9%.

During the first half of the financial year 2019, the research and development expenses were US\$38.3 million, a decrease of 2.3% compared with the same period last year. Research and development expenses as a percentage of Group revenue was 3.8%, same as the corresponding period last year.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the six months ended 30 September 2018 was US\$90.1 million, a decrease of US\$13.5 million or 13.0% compared with the same period last year. Net profit margin also decreased from 10.0% to 9.0%.

Basic earnings per share for the six months ended 30 September 2018 were US35.8 cents as compared to US41.2 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\$42.8 million.

Liquidity and Financial Resources

The Group's financial resources remain strong. As of 30 September 2018, the Group had deposits and cash of US\$74.3 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 2018 were US\$492.6 million, increased from US\$349.9 million as of 31 March 2018 with turnover days of 102 days. The higher stock level was primarily due to 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\$35.7 million or 7.8%, and turnover days also increased from 128 days to 138 days. The higher stock level compared with the same period last year was mainly due to the increased demand for the Group's products in the second half of the financial year 2019 and the increase in in-house production of Snom products.

Trade debtors as of 30 September 2018 were US\$471.1 million, increased from US\$264.9 million as of 31 March 2018 with turnover days of 65 days. This was mainly due to the seasonal nature of most of the Group's businesses. As compared to the corresponding period of last financial year, trade debtors increased by US\$8.2 million or 1.8%, while turnover days decreased from 64 days to 63 days.

Trade creditors as of 30 September 2018 were US\$402.9 million, increased from US\$209.4 million as of 31 March 2018 with turnover days of 91 days. As compared to the corresponding period of last financial year, trade creditors increased by US\$46.3 million or 13.0%, and turnover days also increased from 94 days to 103 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 2018, the Group invested US\$22.3 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 2018, 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 2018, the Company has complied with all the code provisions of the Code and to a large extent the recommended best practices in the Code, except for the deviation from code provisions A.2.1 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 the majority 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.

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 2018 are in line and consistent with those practices set out in the Company's 2018 Annual Report.

AUDIT COMMITTEE

The Audit Committee is chaired by Mr. WONG Kai Man with Dr. William FUNG Kwok Lun, Professor KO Ping Keung 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 2018;
- report from the external auditor for the year ended 31 March 2018;
- corporate governance report in the 2018 Annual Report in compliance with the Code;
- unaudited Group Interim Financial Report for the six months ended 30 September 2018;
- 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 2018;
- corporate governance section in the 2018/2019 Interim Report in compliance with the Code;
- accounting principles and practices adopted by the Group;
- appointment of the external auditor and its remuneration;
- fee level and nature of non-audit work performed by the 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;
- 2018 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 having made specific enquiries, 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 2018.

REVIEW OF INTERIM RESULTS

The Group's unaudited interim results for the six months ended 30 September 2018 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 2018. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the financial period, except that the trustee of the Share Purchase Scheme, pursuant to the rules and trust deed of the Share Purchase Scheme, purchased on the Stock Exchange a total of 130,600 Company's shares at a consideration of approximately US\$1.5 million.

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

Hong Kong, 12 November 2018

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, Professor KO Ping Keung, Dr. Patrick WANG Shui Chung and Mr. WONG Kai Man.

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